UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 40-F

£ REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

S ANNUAL REPORT PURSUANT TO SECTION 13(A) OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011 **Commission File Number 000-53543**

Ballard Power Systems Inc.

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name in English (if applicable))

CANADA
(Province or other jurisdiction of incorporation or organization)

3620
(Primary Standard Industrial Classification Code Number (if applicable))

Not applicable
(I.R.S. Employer Identification Number (if applicable))

9000 Glenlyon Parkway
Burnaby, British Columbia V5J 5J8
(604) 454-0900
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System
111 8th Avenue
New York, New York 10011
(212) 894-8940
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	**NASDAQ Global Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable

For annual reports, indicate by check mark the information filed with this Form:

S Annual information form S Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

84,550,524 Common Shares

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files.)

Yes £ No £

The Annual Report on Form 40-F shall be incorporated by reference into or as an exhibit to, as applicable, the Registrant's Registration Statement under the Securities Act of 1933: Form S-8 (File No. 333-156553 and 333-161807).

Principal Documents

The following documents that are filed as exhibits to this annual report are incorporated by reference herein:

- the Company's Annual Information Form for the year ended December 31, 2011;
- the Company's Audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010; and
- the Company's Management Discussion and Analysis for the year ended December 31, 2011.

Disclosure Controls and Procedures

The required disclosure is included in "Management's Discussion and Analysis," which is incorporated herein by reference to Exhibit 99.2.

Management's Annual Report on Internal Control Over Financial Reporting

The required disclosure is included in "Management's Discussion and Analysis," which is incorporated herein by reference to Exhibit 99.2.

The Registrant's independent registered public accounting firm, KPMG LLP, independently assessed the effectiveness of the Registrant's internal control over financial reporting. KPMG LLP's attestation is located in the Report of Independent Registered Public Accounting Firm, which is incorporated herein by reference to Exhibit 99.1.

Audit Committee and Audit Committee Financial Expert

The required disclosure is included in the Annual Information Form, under the heading "Board Committees - Audit Committee," which is incorporated herein by reference to Exhibit 99.3.

Code of Ethics

The Registrant has adopted a code of ethics that applies to all members of its Board of Directors, as well as its officers and employees. A copy of the code of ethics was previously filed with the Securities and Exchange Commission, is posted on the Registrant's Internet website at www.ballard.com, and is available in print to any person without charge, upon written request to the corporate secretary of the Registrant. No waivers of the code of ethics have been granted to any principal officer of the Registrant or any person performing similar functions.

Principal Accountant Fees and Services

The required disclosure is included in the Annual Information Form, under the heading "Board Committees - Audit Committee," which is incorporated herein by reference to Exhibit 99.3

Off-Balance Sheet Arrangements

The required disclosure is included in “Management’s Discussion and Analysis,” which is incorporated herein by reference to Exhibit 99.2.

Tabular Disclosure of Contractual Obligations

The required disclosure is included in “Management’s Discussion and Analysis,” which is incorporated herein by reference to Exhibit 99.2.

NASDAQ Corporate Governance

Pursuant to Rule 5615(a)(3) of the Nasdaq Stock Market, Inc. Marketplace Rules, the Registrant relies on an exemption from Rule 5620(c) of the Marketplace Rules, requiring that each Nasdaq-quoted company have in place a minimum quorum requirement for shareholder meetings of 33 1/3% of the outstanding shares of the company's voting common stock. The Company's by-laws currently provide that a quorum is met if holders of at least 5% of the votes eligible to be cast at a meeting are present or represented by proxy at a shareholder meeting. At the Company's 2011 Annual General Meeting of Shareholders, holders of 39.73% of the common shares were present or represented by proxy at the meeting.

Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

Consent to Service of Process

The Registrant has previously filed with the Commission an Appointment of Agent for Service of Process and Undertaking on Form F-X.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant: **Ballard Power Systems Inc.**

By (Signature and Title) /s/ John W. Sheridan

John W. Sheridan
President and Chief Executive Officer

Date: February 23, 2012

EXHIBIT LIST

Exhibit	Description
99.1	Ballard Power Systems Inc. Consolidated Financial Statements for the years ended December 31, 2011 and 2010
99.2	Ballard Power Systems Inc. Management's Discussion and Analysis for the year ended December 31, 2011
99.3	Annual Information Form for Ballard Power Systems Inc. dated as of February 23, 2012
99.4	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.5	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.6	Consent of KPMG LLP

Consolidated Financial Statements
(Expressed in U.S. dollars)

BALLARD POWER SYSTEMS INC.

Years ended December 31, 2011, and 2010

MANAGEMENT'S REPORT

Management's Responsibility for the Financial Statements and Report on Internal Control over Financial Reporting

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS. Internal control over financial reporting may not prevent or detect fraud or misstatements because of limitations inherent in any system of internal control. Management has assessed the effectiveness of the Corporation's internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2011. In addition, management maintains disclosure controls and procedures to provide reasonable assurance that material information is communicated to management and appropriately disclosed. Some of the assets and liabilities include amounts, which are based on estimates and judgments, as their final determination is dependent on future events.

The Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee, which consists of four directors who are independent and not involved in the daily operations of the Corporation. The Audit Committee meets on a regular basis with management and the external and internal auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is responsible for appointing the external auditors (subject to shareholder approval), and reviewing and approving all financial disclosure contained in our public documents and related party transactions.

The external auditors, KPMG LLP, have audited the financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of the internal controls over financial reporting as of December 31, 2011. The external auditors have full access to management and the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

"JOHN SHERIDAN"

JOHN SHERIDAN
President and
Chief Executive Officer
February 22, 2012

"TONY GUGLIELMIN"

TONY GUGLIELMIN
Vice President and
Chief Financial Officer
February 22, 2012

KPMG LLP
Chartered Accountants
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Canada

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ballard Power Systems Inc.

We have audited the accompanying consolidated statements of financial position of Ballard Power Systems Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and the related consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 22, 2012

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ballard Power Systems Inc.

We have audited Ballard Power Systems Inc's ("the Company") internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the section entitled "Management's Report on Disclosure Controls and Procedures and Internal Controls over Financial Reporting" under the heading "Internal control over financial reporting" included in Management Discussion and Analysis. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

February 22, 2012

We also have audited, in accordance with the Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Company as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and our report dated February 22, 2012 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 22, 2012

BALLARD POWER SYSTEMS INC.
Consolidated Statement of Financial Position
(Expressed in thousands of U.S. dollars)

	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets				
Current assets:				
Cash and cash equivalents		**$ 20,316**	$ 51,937	$ 43,299
Short-term investments		**25,878**	22,508	38,932
Trade and other receivables	6	**17,164**	11,614	12,903
Inventories	7	**13,614**	12,382	9,168
Prepaid expenses and other current assets		**934**	957	2,114
Total current assets		**77,906**	99,398	106,416
Property, plant and equipment	8	**35,085**	36,945	39,517
Intangible assets	9	**2,249**	2,975	824
Goodwill	10	**48,106**	48,106	48,106
Investments	11	**635**	673	632
Long-term trade receivables	6	**1,126**	1,596	-
Other long-term assets		**183**	334	50
Total assets		**$ 165,290**	$ 190,027	$ 195,545
Liabilities				
Current liabilities:				
Bank operating line	12	**$ 4,587**	$ -	$ -
Trade and other payables	13	**22,834**	21,885	16,509
Deferred revenue		**3,560**	2,506	1,607
Provisions	14	**9,573**	10,019	11,625
Finance lease liability	12 &15	**978**	681	316
Total current liabilities		**41,532**	35,091	30,057
Finance lease liability	12 & 15	**13,749**	13,354	1,739
Deferred gain		**5,653**	5,947	-
Provisions	14	**4,733**	3,102	2,848
Convertible debenture	16	**1,592**	-	-
Employee future benefits	17	**5,686**	2,950	3,311
Total liabilities		**72,945**	60,444	37,955
Equity:				
Share capital	18	**837,686**	836,245	835,565
Treasury shares	18	**(515)**	(670)	(207)
Contributed surplus	18	**289,219**	289,444	285,814
Accumulated deficit		**(1,031,279)**	(995,023)	(963,582)
Foreign currency reserve		**209**	-	-
Total equity attributable to equity holders		**95,320**	129,996	157,590
Dantherm Power A/S non-controlling interests		**(2,975)**	(413)	-
Total equity		**92,345**	129,583	157,590
Total liabilities and equity		**$ 165,290**	$ 190,027	$ 195,545

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Ed Kilroy" "Ian Bourne"
Director Director

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Comprehensive Loss
For the year ended December 31
(Expressed in thousands of U.S. dollars, except per share amounts and number of shares)

	Note	2011	2010
Revenues:			
Product and service revenues		**$ 76,009**	$ 65,019
Cost of product and service revenues		**62,124**	54,887
Gross margin		**13,885**	10,132
Operating expenses:			
Research and product development		**25,480**	28,749
General and administrative		**12,500**	14,777
Sales and marketing		**9,488**	9,113
Total operating expenses		**47,468**	52,639
Results from operating activities		**(33,583)**	(42,507)
Finance income (loss) and other	26	**195**	(104)
Finance expense	26	**(1,392)**	(861)
Net finance expense		**(1,197)**	(965)
Gain on sale of property, plant and equipment	8	**734**	4
Gain on sale of assets		**-**	8,032
Impairment loss on property, plant and equipment	8	**(1,727)**	-
Loss before income taxes		**(35,773)**	(35,436)
Income tax expense	22	**(383)**	(3)
Net loss		**(36,156)**	(35,439)
Foreign currency translation differences		**363**	-
Defined benefit plan actuarial gains (losses)	17	**(2,905)**	112
Net gain on hedge of forward contracts		**20**	-
Comprehensive loss		**$ (38,678)**	$ (35,327)
Net loss attributable to:			
Ballard Power Systems Inc.		**$ (33,420)**	$ (31,532)
Dantherm Power A/S non-controlling interest		**(2,736)**	(3,907)
Net loss		**$ (36,156)**	$ (35,439)
Comprehensive loss attributable to:			
Ballard Power Systems Inc.		**$ (36,116)**	$ (31,420)
Dantherm Power A/S non-controlling interest		**(2,562)**	(3,907)
Comprehensive loss		**$ (38,678)**	$ (35,327)
Basic and diluted loss per share attributable to Ballard Power Systems Inc.		**$ (0.40)**	$ (0.37)
Weighted average number of common shares outstanding		**84,440,970**	84,102,315

See accompanying notes to consolidated financial statements.

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Changes in Equity

(Expressed in thousands of U.S. dollars except per share amounts and number of shares)

	Ballard Power Systems Inc. Equity						Dantherm Power A/S	
	Number of shares	Share capital	Treasury shares	Contributed surplus	Accumulated deficit	Foreign currency reserve	Non-controlling interests	Total equity
Balance, January 1, 2010	83,973,988	$ 835,565	$ (207)	$ 285,814	$ (963,582)	$ -	$ -	$ 157,590
Acquisition of Dantherm Power A/S	-	-	-	-	-	-	3,543	3,543
Additional investment in Dantherm Power A/S	-	-	-	915	-	-	(49)	866
Net loss	-	-	-	-	(31,532)	-	(3,907)	(35,439)
Defined benefit plan actuarial gain	-	-	-	-	112	-	-	112
Non-dilutive financing	-	-	-	(22)	-	-	-	(22)
Purchase of treasury shares	-	-	(559)	-	-	-	-	(559)
RSUs and DSUs redeemed	101,986	542	96	(800)	(21)	-	-	(183)
Options exercised	72,491	138	-	(47)	-	-	-	91
Share distribution plan	-	-	-	3,584	-	-	-	3,584
Balance, December 31, 2010	84,148,465	836,245	(670)	289,444	(995,023)	-	(413)	129,583
Net loss	**-**	**-**	**-**	**-**	**(33,420)**	**-**	**(2,736)**	**(36,156)**
Foreign currency translation for foreign operations	**-**	**-**	**-**	**-**	**-**	**189**	**174**	**363**
Defined benefit plan actuarial loss	**-**	**-**	**-**	**-**	**(2,905)**	**-**	**-**	**(2,905)**
Net gain on hedge of forward contracts	**-**	**-**	**-**	**-**	**-**	**20**	**-**	**20**
Non-dilutive financing	**-**	**-**	**-**	**(60)**	**-**	**-**	**-**	**(60)**
Purchase of treasury shares	**-**	**-**	**(327)**	**-**	**-**	**-**	**-**	**(327)**
RSUs redeemed	**376,225**	**1,393**	**482**	**(2,769)**	**69**	**-**	**-**	**(825)**
Options exercised	**25,834**	**48**	**-**	**(8)**	**-**	**-**	**-**	**40**
Share distribution plan	**-**	**-**	**-**	**2,612**	**-**	**-**	**-**	**2,612**
Balance, December 31, 2011	**84,550,524**	**$ 837,686**	**$ (515)**	**$ 289,219**	**$ (1,031,279)**	**$ 209**	**$ (2,975)**	**$ 92,345**

See accompanying notes to consolidated financial statements.

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Cash Flows
For the year ended December 31
(Expressed in thousands of U.S. dollars)

	Note	2011	2010
Cash provided by (used for):			
Operating activities:			
Net loss for the year		**$ (36,156)**	$ (35,439)
Adjustments for:			
Compensatory shares		**2,646**	3,579
Employee future benefits		**(172)**	(246)
Depreciation and amortization		**5,906**	8,615
Gain (loss) on sale of property, plant and equipment	8	**(734)**	16
Gain on sale of assets		**-**	(7,921)
Impairment loss on property, plant and equipment		**1,727**	-
Unrealized loss/(gain) on forward contracts		**285**	(1,404)
		(26,498)	(32,800)
Changes in non-cash working capital:			
Trade and other receivables		**(4,317)**	(65)
Inventories		**(1,293)**	(2,350)
Prepaid expenses and other current assets		**42**	1,276
Trade and other payables		**(1,691)**	2,915
Deferred revenue		**1,052**	965
Accrued warranty liabilities		**(516)**	747
		(6,723)	3,488
Cash used by operating activities		**(33,221)**	(29,312)
Investing activities:			
Net decrease (increase) in short-term investments		**(3,370)**	17,738
Additions to property, plant and equipment		**(4,107)**	(3,453)
Net proceeds on sale of property, plant and equipment and other		**3,666**	20,012
Net proceeds on monetization of other long-term assets		**-**	3,355
Net investments in associated companies	11	**36**	(33)
Other investment activities		**-**	(152)
Business acquisition including cash acquired		**-**	877
		(3,775)	38,344
Financing activities:			
Non-dilutive financing		**(60)**	(22)
Purchase of treasury shares		**(327)**	(559)
Payment of finance lease liabilities		**(830)**	(770)
Net proceeds from bank operating line	12	**4,587**	-
Net proceeds on issuance of share capital		**40**	91
Proceeds on issuance of convertible debenture from Dantherm Power A/S non-controlling interests	16	**1,718**	-
Contribution from Dantherm Power A/S non-controlling interests		**-**	866
		5,128	(394)
Effect of exchange rate fluctuations on cash and cash equivalents held		**247**	-
Increase (decrease) in cash and cash equivalents		**(31,621)**	8,638
Cash and cash equivalents, beginning of period		**51,937**	43,299
Cash and cash equivalents, end of period		**$ 20,316**	$ 51,937

Supplemental disclosure of cash flow information (note 24).
See accompanying notes to consolidated financial statements.

1. Reporting entity:

The principal business of Ballard Power Systems Inc. (the "Corporation") is the design, development, manufacture, sale and service of fuel cell products for a variety of applications, focusing on motive power (material handling and buses) and stationary power (back-up power and distributed generation) markets; and engineering services for a variety of fuel cell applications. A fuel cell is an environmentally clean electrochemical device that combines hydrogen fuel with oxygen (from the air) to produce electricity. The Corporation's technology is based on proton exchange membrane ("PEM") fuel cells.

The Corporation is a company domiciled in Canada and its registered office is located at 9000 Glenlyon Parkway, Burnaby, British Columbia, Canada, V5J 5J8. The consolidated financial statements of the Corporation as at and for the year ended December 31, 2011 comprise the Corporation and its subsidiaries (note 3(a)).

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Corporation's first consolidated annual financial statements prepared in accordance with IFRS, and IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 27.

The consolidated financial statements were authorized for issue by the Board of Directors on February 22, 2012.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial instruments classified as fair value through profit or loss and available-for-sale are measured at fair value;
- Derivative financial instruments are measured at fair value; and
- Employee future benefit plan assets are measured at fair value, determined directly by reference to quoted market prices.

2. Basis of preparation (cont'd):

(c) Functional and presentation currency:

These consolidated financial statements are presented in U.S. dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires the Corporation's management to make judgments, estimates and assumptions that affect the amounts reported in these consolidated financial statements and notes. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring management to make estimates include revenue recognition, product warranty provision, the net realizable value of inventory, recoverability of intangibles and goodwill, and employee future benefits. These estimates and judgments are further discussed in note 4.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Corporation and its principal subsidiaries as follows:

	Percentage ownership		
			January
	2011	2010	20
Ballard Material Products Inc.	100%	100%	100
Ballard Power Corporation	100%	100%	100
Dantherm Power A/S	52%	45% - 52%	

3. Significant accounting policies (cont'd):

(a) Basis of consolidation (cont'd):

Subsidiaries are entities over which the Corporation exercises control, where control is defined as the power to govern financial and operating policies, generally owning greater than 50% of the voting rights. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated in the consolidated financial statements.

The Corporation acquired a 45% interest in Dantherm Power A/S on January 18, 2010. In August 2010, the Corporation acquired an additional 7% interest in Dantherm Power A/S. As the Corporation obtained control over Dantherm Power A/S as of the date of acquisition of the 45% interest, Dantherm Power A/S has been consolidated since January 18, 2010.

Acquisitions of non-controlling interest are accounted as transactions with equity holders in their capacity as equity holders; therefore no goodwill is recognized as a result of such transactions.

(b) Foreign currency:

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation and its subsidiaries at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in earnings. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

3. Significant accounting policies (cont'd):

(c) Financial instruments:

(i) Financial assets

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated and all other financial assets on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers substantially all the risks and rewards of ownership of the financial asset.

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held for trading or if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net loss.

The Corporation's short-term investments, consisting of highly liquid interest bearing securities with maturities at the date of purchase between three months and three years, are classified as held for trading.

The Corporation also periodically enters into platinum futures and foreign exchange forward contracts to limit its exposure to platinum price and foreign currency rate fluctuations. These derivatives are recognized initially at fair value and are recorded as either assets or liabilities based on their fair value. Subsequent to initial recognition, these derivatives are measured at fair value and changes to their value are recorded through net loss, unless these financial instruments are designated as hedges (note 3 (c)(iv)).

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of the Corporation's trade and other receivables.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

(i) Financial assets (cont'd)

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Corporation's investment in Chrysalix Energy Limited Partnership ("Chrysalix") is classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Determination of fair value

The fair value of financial assets at fair value through profit or loss and available-for-sale are determined by reference to their quoted closing bid price at the reporting date if they are traded in an active market. For derivative instruments (foreign exchange forward contracts, platinum futures contracts), fair value is estimated by Management based on their listed market price or broker quotes that include adjustments to take account of the credit risk of the Corporation and the counterparty when appropriate. The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(ii) Financial liabilities

Financial liabilities comprise the Corporation's trade and other payables. The financial liabilities are initially recognized on the date they are originated and are derecognized when the contractual obligations are discharged or cancelled or expire. These financial liabilities are recognized initially at fair value and subsequently are measured at amortized costs using the effective interest method, when materially different from the initial amount. Fair value is determined based on the present value of future cash flows, discounted at the market rate of interest.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

(iii) Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of shares and share options are recognized as a deduction from equity. When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from equity. When treasury shares are subsequently reissued, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

(iv) Derivative financial instruments, including hedge accounting

The Corporation holds derivative financial instruments to hedge its foreign currency risk exposures that are designated as the hedging instrument in a hedge relationship.

On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

(iv) Derivative financial instruments, including hedge accounting (cont'd)

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity remains there until the forecast transaction affects profit or loss.

If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

3. Significant accounting policies (cont'd):

(d) Inventories:

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes materials, labor and appropriate share of production overhead based on normal operating capacity. Costs of materials are determined on an average per unit basis.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In establishing any impairment of inventory, management estimates the likelihood that inventory carrying values will be affected by changes in market demand, technology and design, which would impair the value of inventory on hand.

(e) Property, plant and equipment:

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Property, plant and equipment are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use, using the straight-line method less its residual value over the estimated useful lives of the assets as follows:

Building	20 yea
Building under finance lease	15 yea
Computer equipment	3 to 7 yea
Furniture and fixtures	5 to 14 yea
Furniture and fixtures under finance lease	5 yea
Leasehold improvements	The shorter of initial term of the respective lease ar
	estimated useful l
Production and test equipment	4 to 15 yea
Production and test equipment under finance lease	5 yea

3. Significant accounting policies (cont'd):

(e) Property, plant and equipment (cont'd):

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(f) Leases:

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and not recognized in the statement of financial position.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the lease expense over the term of the lease.

(g) Goodwill and intangible assets:

Goodwill is recognized as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the fair value of the net identifiable assets acquired and liabilities assumed, as of the acquisition date. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

Intangible assets consist of fuel cell technology acquired from third parties and are recorded at cost less accumulated amortization and impairment losses. Intangible assets less their residual values are amortized over their estimated useful lives of 5 years using the straight-line method from the date that they are available for use. Amortization methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

3. Significant accounting policies (cont'd):

(g) Goodwill and intangible assets (cont'd):

Costs incurred in establishing and maintaining patents and license agreements are expensed in the period incurred.

Research costs are expensed as they are incurred. Product development costs are expensed as incurred except when they meet specific criteria for capitalization. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Corporation intends to and has sufficient resources to complete development to use or sell the asset. Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Capitalized development costs, if any, are amortized when commercial production begins, using the straight-line method over a period of 5 years.

(h) Impairment:

(i) Financial assets

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in accumulated other comprehensive loss in equity, to net loss. The cumulative loss that is removed from other comprehensive income and recognized in net loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value less any impairment loss previously recognized in net loss. If subsequently the fair value of an impaired available-for-sale security increases, then the impairment loss is reversed, with the amount of the reversal recognized in net loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

3. Significant accounting policies (cont'd):

(h) Impairment (cont'd):

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets. Cash-generating units to which goodwill has been allocated reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in respect of the cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. Significant accounting policies (cont'd):

(i) Provisions (cont'd):

Warranty provision

A provision for warranty costs is recorded on product sales at the time the sale is recognized. In establishing the warranty provision, management estimates the likelihood that products sold will experience warranty claims and the estimated cost to resolve claims received, taking into account the nature of the contract and past and projected experience with the products.

Decommissioning liabilities

Legal obligations to retire tangible long-lived assets are recorded at fair value at acquisition with a corresponding increase in asset value. These include assets leased under operating leases. The liability is accreted over the life of the asset to fair value and the increase in asset value is depreciated over the remaining useful life of the asset.

(j) Revenue recognition:

The Corporation generates revenues primarily from product sales and services. Product revenues are derived primarily from standard equipment and material sales contracts and from long-term fixed price contracts. Service revenues are derived primarily from cost-plus reimbursable contracts.

On standard equipment and material sales contracts, revenues are recognized when (i) significant risks and rewards of ownership of the goods has been transferred to the buyer; (ii) the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable that the economic benefits associated with the sale will accrue to the Corporation; and (v) the costs incurred, or to be incurred, in respect of the transaction can be measured reliably. Provisions are made at the time of sale for warranties.

On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided.

On long-term fixed price service contracts, revenues are recognized on the percentage-of-completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred and anticipated costs for completing a contract.

3. Significant accounting policies (cont'd):

(j) Revenue recognition (cont'd):

The cumulative effect of changes to anticipated revenues and anticipated costs for completing a contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

Deferred revenue represents cash received from customers in excess of revenue recognized on uncompleted contracts.

(k) Finance income and costs:

Finance income comprises of interest income on funds invested, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in income, using the effective interest method.

Finance costs comprise interest expense on capital leases, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets.

Foreign currency gains and losses are reported on a net basis.

(l) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences) and for loss carry-forwards. The resulting changes in the net deferred tax asset or liability are included in income.

Deferred tax assets and liabilities are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities, of a change in tax rates, is included in income in the period that includes the substantive enactment date. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (cont'd):

(m) Employee benefits:

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Corporation's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Corporation. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

As a result of the curtailment of the pension plan in 2009, there is no current service cost associated with the plan.

The Corporation recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in retained earnings.

3. Significant accounting policies (cont'd):

(m) Employee benefits (cont'd):

Other long-term employee benefits

The Corporation's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in other comprehensive income or loss in the period in which they arise.

Termination benefits

Termination benefits are recognized as an expense when the Corporation is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Corporation has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3. Significant accounting policies (cont'd):

(n) Share-based compensation plans:

The Corporation uses the fair-value based method of accounting for share-based compensation for all awards of shares and share options granted. The resulting compensation expense, based on the fair value of the awards granted, excluding the impact of any non-market service and performance vesting conditions, is charged to income over the period that the employees unconditionally become entitled to the award, with a corresponding increase to contributed surplus. Fair values of share options are calculated using the Black-Scholes valuation method as of the grant date and adjusted for estimated forfeitures. For awards with graded vesting, the fair value of each tranche is calculated separately and recognized over its respective vesting period. Non-market vesting conditions are considered in making assumptions about the number of awards that are expected to vest. At each reporting date, the Corporation reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the income statement with a corresponding adjustment to contributed surplus.

The Corporation issues shares and share options under its share-based compensation plans as described in note 18. Any consideration paid by employees on exercise of share options or purchase of shares, together with the amount initially recorded in contributed surplus, is credited to share capital.

(o) Earnings (loss) per share:

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period, adjusted for treasury shares. Diluted earnings per share is calculated using the treasury stock method.

Under the treasury stock method, the dilution is calculated based upon the number of common shares issued should deferred share units ("DSUs"), restricted share units ("RSUs"), and "in the money" options, if any, be exercised. When the effects of outstanding stock-based compensation arrangements would be anti-dilutive, diluted loss per share is not calculated.

(p) Government assistance and investment tax credits:

Government assistance and investment tax credits are recorded as either a reduction of the cost of the applicable assets, or credited against the related expense incurred in the statement of comprehensive loss, as determined by the terms and conditions of the agreements under which the assistance is provided to the Corporation or the nature of the expenditures which gave rise to the credits. Government assistance and investment tax credit receivables are recorded when their receipt is reasonably assured.

3. Significant accounting policies (cont'd):

(q) Segment reporting:

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

4. Critical accounting estimates and judgments:

The preparation of the consolidated financial statements requires the Corporation's management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results may differ from those estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions critical to the determination of carrying value of assets and liabilities are discussed below:

(a) Revenue:

Revenues under certain contracts for product and engineering development services, provide for receipt of payment based on achieving defined milestones or on the performance of work under product development programs. Revenues are recognized under these contracts based on management's estimate of progress achieved against these milestones or on the proportionate performance method of accounting. Changes in management's estimated costs to complete a contract may result in an adjustment to previously recognized revenues.

(b) Warranty Provision:

In establishing the warranty provision, management estimates the likelihood that products sold will experience warranty claims and the cost to resolve claims received. In making such determinations, the Corporation uses estimates based on the nature of the contract and past and projected experience with the products. Should these estimates prove to be incorrect, the Corporation may incur costs different from those provided for in the warranty provision. Management reviews warranty assumptions and makes adjustments to the provision at each reporting date based on the latest information available, including the expiry of contractual obligations. Adjustments to the warranty provision are recorded in cost of product and service revenues.

4. Critical accounting estimates and judgments (cont'd):

(c) Inventory:

In determining the lower of cost and net realizable value of inventory and in establishing the appropriate impairment amount for inventory obsolescence, management estimates the likelihood that inventory carrying values will be affected by changes in market pricing or demand for the products and by changes in technology or design which could make inventory on hand obsolete or recoverable at less than the recorded value. Management performs regular reviews to assess the impact of changes in technology and design, sales trends and other changes on the carrying value of inventory. Where it is determined that such changes have occurred and will have an impact on the value of inventory on hand, appropriate adjustments are made. If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions, being required.

(d) Goodwill:

The values associated with goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, asset lives and determination of cash generating units. At least annually, the carrying value of goodwill is reviewed for potential impairment. Among other things, this review considers the fair value of the cash-generating units based on discounted estimated future cash flows. These significant estimates require considerable judgment, which could affect the Corporation's future results if the current estimates of future performance and fair values change.

(e) Employee future benefits:

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected plan investment performance, expected healthcare cost trend rate, and retirement ages of employees. Actual results will differ from the recorded amounts based on these estimates and assumptions.

5. Recent accounting pronouncements:

The following is an overview of accounting standard changes that the Corporation will be required to adopt in future years. Except as otherwise noted below for IFRS 9, IAS 32 and amendments to IFRS 7, the standards are effective for the annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation does not expect to adopt any of these standards before their effective dates. The Corporation continues to evaluate the impacts of these standards on its financial statements.

(a) IFRS 9 – *Financial Instruments:*

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39 *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(b) IFRS 10 – *Consolidated Financial Statements:*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

(c) IFRS 11 – *Joint Arrangements:*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

5. Recent accounting pronouncements (cont'd):

(d) IFRS 12 – *Disclosure of Interests in Other Entities:*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

(e) IFRS 13 – *Fair Value Measurement:*

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements. IFRS 13 is a more comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

(f) Amendments to IAS 19 – *Employee Benefits:*

The amendments to IAS 19 make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed "remeasurements" and will be recognized immediately in other comprehensive income ("OCI"). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

A number of other amendments have been made to recognition, measurement and classification, including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

The Corporation's current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard.

5. Recent accounting pronouncements (cont'd):

(g) Amendments to IAS 1 – *Financial Statement Presentation:*

The amendments to IAS 1 require entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled, such as remeasurements resulting from the amendments to IAS 19, will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

(h) Amendments to other standards *:*

In addition, there have been amendments to existing standards, including IFRS 7 *Financial Instruments: Disclosure*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures* , and IAS 32 *Financial Instruments: Presentation*. IFRS 7 amendments require disclosure about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13. IAS 32 addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

6. Trade and other receivables:

	December 31, 2011	December 31, 2010	January 20
Trade receivables	$ 16,343	$ 12,584	$ 12,8
Other	1,947	626	
	18,290	13,210	12,9
Less: Non-current trade receivables	(1,126)	(1,596)	
	$ 17,164	$ 11,614	$ 12,9

7. Inventories:

	December 31, 2011	December 31, 2010	January 20
Raw materials and consumables	$ 8,353	$ 6,962	$ 5,9
Work-in-progress	1,820	2,951	2,0
Finished goods	3,441	2,469	1,2
	$ 13,614	$ 12,382	$ 9,1

In 2011, changes in raw materials and consumables, finished goods and work-in-progress recognized as cost of product and service revenues amounted to $37,227,000 (2010 - $33,522,000).

7. Inventories (cont'd):

In 2011, the write-down of inventories to net realizable value amounted to $486,000 (2010 - $604,000). There were no reversals of previously recorded write-downs in 2011 or 2010. Write-downs and reversals are included in either cost of product and service revenues, or research and product development expense, depending on the nature of inventory.

8. Property, plant and equipment:

Cost	Balance at December 31, 2010	Additions	Disposals	Balance at December 31, 2011
Land	$ 1,220	$ -	$ -	$ 1,220
Building	3,666	-	-	3,666
Building under finance lease	12,180	-	-	12,180
Computer equipment	6,339	403	(319)	6,423
Furniture and fixtures	741	93	-	834
Furniture and fixtures under finance lease	-	317	-	317
Leasehold improvements	7,518	2,568	-	10,086
Production and test equipment	45,382	2,785	(3,076)	45,091
Production and test equipment under finance lease	2,078	1,589	-	3,667
Total	$ 79,124	$ 7,755	$ (3,395)	$ 83,484

Depreciation and impairment loss	Balance at December 31, 2010	Depreciation	Impairment loss	Disposals	Balance at December 31, 2011
Land	$ -	$ -	$ -	$ -	$ -
Building	2,044	155	-	-	2,199
Building under finance lease	652	836	-	-	1,488
Computer equipment	5,347	345	-	(16)	5,676
Furniture and fixtures	682	106	-	-	788
Furniture and fixtures under finance lease	-	37	-	-	37
Leasehold improvements	4,442	521	-	-	4,963
Production and test equipment	28,889	3,292	1,727	(1,102)	32,806
Production and test equipment under finance lease	123	319	-	-	442
Total	$ 42,179	$ 5,611	$ 1,727	$ (1,118)	$ 48,399

8. Property, plant and equipment (cont'd):

Cost	Balance at January 1, 2010	Acquisitions through business combination	Other additions	Disposals	Asset de-recognition and reclassification	Balance at December 31, 2010
Land	$ 4,803	$ -	$ -	$ (3,583)	$ -	$ 1,220
Building	13,596	-	-	(10,357)	427	3,666
Building under finance lease	-	-	12,180	-	-	12,180
Computer equipment	11,421	113	366	-	(5,561)	6,339
Furniture and fixtures	4,692	58	48	(479)	(3,578)	741
Leasehold improvements	9,201	376	78	(1,745)	(392)	7,518
Production and test equipment	67,651	136	3,163	(662)	(24,906)	45,382
Production and test equipment under finance lease	2,078	-	-	-	-	2,078
Total	$ 113,442	$ 683	$ 15,835	$(16,826)	$ (34,010)	$ 79,124

Depreciation and impairment loss	Balance at January 1, 2010	Acquisitions through business combination	Depreciation	Disposals	Asset de-recognition and reclassification	Balance at December 31, 2010
Land	$ -	$ -	$ -	$ -	$ -	$ -
Building	5,661	-	216	(3,979)	146	2,044
Building under finance lease	-	-	652	-	-	652
Computer equipment	10,319	47	905	-	(5,924)	5,347
Furniture and fixtures	4,629	20	30	(378)	(3,619)	682
Leasehold improvements	5,824	60	578	(626)	(1,394)	4,442
Production and test equipment	47,492	20	3,946	(517)	(22,052)	28,889
Production and test equipment under finance lease	-	-	123	-	-	123
Total	$ 73,925	$ 147	$ 6,450	$ (5,500)	$ (32,843)	$ 42,179

Carrying amounts	Balance at December 31, 2011	Balance at December 31, 2010	Balance at January 1, 2010
Land	$ 1,220	$ 1,220	$ 4,803
Building	1,467	1,622	7,935
Building under finance lease	10,692	11,528	-
Computer equipment	747	992	1,102
Furniture and fixtures	46	59	63
Furniture and fixtures under finance lease	280	-	-
Leasehold improvements	5,123	3,076	3,377
Production and test equipment	12,285	16,493	20,159
Production and test equipment under finance lease	3,225	1,955	2,078
Total	$ 35,085	$ 36,945	$ 39,517

8. Property, plant and equipment (cont'd):

Leased assets

The Corporation leases certain assets under finance lease agreements including the Corporation's head office building in Burnaby, British Columbia and certain production and test equipment.

In June 2011, the Corporation completed a sale and leaseback agreement whereby the Corporation sold certain property, plant and equipment in return for gross cash proceeds of $1,922,000. The Corporation then leased the assets back for a term of 5 years. On the closing of the transaction, the Corporation recorded a deferred gain of $150,000, which is recognized to income on a straight-line basis over the term of the 5-year lease. The lease transaction qualifies as a finance lease (note 15). As a result, on the closing of the transaction, the Corporation recorded assets under finance lease and a corresponding obligation under finance lease of $1,906,000.

Disposals

In March 2011, the Corporation completed a sub-lease agreement with Mercedes-Benz Canada Inc. ("MBC") for the rental of 21,000 square feet of surplus production space in the Corporation's specialized fuel cell manufacturing facility. As part of the sub-lease agreement, certain production and test equipment with a net book value of $471,000 were sold to MBC in advance of the sub-lease for cash proceeds of $1,639,000. At December 31, 2011, selling costs of $479,000 were incurred to-date and estimated additional costs of $25,000 were accrued against the disposition. As a result, a total gain on sale of assets of $663,000 was recognized from the transaction. The remaining $71,000 gain on sale of property, plant and equipment recognized during the year relates to other miscellaneous asset dispositions.

Impairment loss

During the year ended December 31, 2011, impairment losses of $1,727,000 (2010 - $nil) were recognized with respect to obsolescence of production and test equipment. No impairment losses were reversed in 2011 or 2010.

9. Intangible assets:

Fuel cell technology Balance	Cost	Accumulated amortization	Net carrying amoun
At January 1, 2010	$ 40,567	$ 39,743	$ 824
Acquisition through business combination	2,876	-	2,876
Amortization	-	725	(725
At December 31, 2010	43,443	40,468	2,975
Amortization	-	726	(726
At December 31, 2011	$43,443	$ 41,194	$ 2,249

During 2010, the Corporation acquired $2,876,000 in fuel cell technology as part of the acquisition of Dantherm Power A/S.

Amortization and impairment losses of fuel cell technology and development costs are allocated to research and product development expense. There were no impairment losses recorded in 2011 and 2010.

10. Goodwill:

For the purpose of impairment testing, goodwill is allocated to the Corporation's cash-generating units which represent the lowest level within the Corporation at which the goodwill is monitored for internal management purposes, which is not higher than the Corporation's operating segments (note 25).

The aggregate carrying amount of goodwill allocated to each cash-generating unit is as follows:

	December 31, 2011	December 31, 2010	January 20
Fuel cell products	$ 46,291	$ 46,291	$ 46,2
Contract automotive	-	-	
Material products	1,815	1,815	1,8
	$ 48,106	$ 48,106	$ 48,1

The impairment testing for the above cash-generating units requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state.

The Corporation's fair value test is in effect a modified market capitalization assessment, whereby the fair value of the Fuel Cell Products segment is calculated by first calculating the value of the Corporation at December 31, 2011 based on the average closing share price in the month of December, adding a reasonable estimated control premium of 25% to 30% to determine the Corporation's enterprise value on a controlling basis, and deducting the fair value of the Materials Product and Contract Automotive segments from this enterprise value, arriving at the fair value of the Fuel Cell Products segment.

10. Goodwill (cont'd):

Based on the fair value test, the Corporation has determined that the fair value of the Fuel Cell Products segment exceeds it carrying value by approximately 15% to 20% as of December 31, 2011. The fair value of the Material Products segment, determined using an estimated market value as a multiple of revenues, is substantially in excess of its carrying value of December 31, 2011.

In addition to the fair value test, the Corporation also performed a value in use test on the Fuel Cell Products segment, comparing the carrying value of the segment to the present value of future cash flows expected to be derived from the segment. The principal factors used in the discounted cash flow analysis requiring judgment are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions for each reporting unit. The Corporation's value in use test was based on a WACC of 17.5% to 20%; an average estimated compound annual growth rate of approximately 40% from 2011 to 2016; and a terminal year earnings before interest, taxes, depreciation and amortization ("EBITDA") multiplied by a terminal value multiplier of 4.0. The value in use assessment resulted in a significantly higher value than as determined under the fair value, less costs to sell, assessment.

As the recoverable amount of each cash-generating unit was determined to be greater than its carrying amount, no impairment loss was recorded.

11. Investments:

Investments are comprised of the following:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Amount	Percentage ownership	Amount	Percentage ownership	Amount	Percenta ownersh
Chrysalix Energy Limited Partnership	$ 627	15.0%	$ 663	15.0%	$ 632	15.(
Other	8		10		-	
	$ 635		$ 673		$ 632	

Chrysalix Energy Limited Partnership ("Chrysalix") is accounted for as an available-for-sale financial asset and recorded at fair value.

During 2011, the Corporation made additional capital contributions of $103,000 (2010 - $67,000) in Chrysalix, which was offset by cash distributions received from Chrysalix of $139,000 (2010 - $36,000).

The Corporation maintains a 19.9% interest in AFCC Automotive Fuel Cell Cooperation Corp. ("AFCC"), which is accounted for as an available-for-sale financial asset and recorded at fair value of $1. The Corporation has no obligation to fund any of AFCC's operating expenses.

12. Bank facilities:

In June 2011, the Corporation entered into a demand revolving facility ("Bank Operating Line") in which an operating line of credit of up to CDN $10,000,000 was made available to be drawn upon by the Corporation. The Bank Operating Line is utilized to assist in financing the day-to-day operating activities and short-term working capital requirements of the business. Outstanding amounts are charged interest at the bank's prime rate minus 0.50% per annum and are repayable on demand by the bank. During 2011, the Corporation was advanced $14,265,000 under the bank operating line of which $9,678,000 was repaid during the year. At December 31, 2011, $4,587,000 was outstanding on the Bank Operating Line.

The Corporation also has a CDN $3,323,000 capital leasing facility ("Leasing Facility") which can be utilized to finance the acquisition and lease of operating equipment (notes 8 & 15). Interest is charged on outstanding amounts at the bank's prime rate per annum and is repayable on demand by the bank.

Both the Bank Operating Line and Leasing Facility are secured by a hypothecation of the Corporation's cash, cash equivalents and short-term investments.

13. Trade and other payables:

	December 31, 2011	December 31, 2010	January 20
Trade accounts payable	$ 10,195	$ 8,453	$ 6,6
Compensation payable	6,615	9,159	5,2
Other liabilities	5,568	3,919	2,8
Taxes payable	456	354	3
Accrued monetization costs	-	-	1,4
	$ 22,834	$ 21,885	$ 16,5

14. Provisions:

Balance	Legal	Restructuring	Warranty provision	Decommissioning liabilities	Tota
At January 1, 2010	$ 1,675	$ 2,137	$ 7,813	$ 2,848	$ 14,47
Assumed through business combination	-	-	10	-	1
Provisions made during the year	52	305	2,410	84	2,85
Provisions used during the year	(401)	(2,380)	(614)	-	(3,39
Provisions reversed during the year	(38)	(10)	(1,504)	-	(1,55
Effect of movements in exchange rates	83	26	455	170	73
At December 31, 2010	$ 1,371	$ 78	$ 8,570	$ 3,102	$ 13,12
Provisions made during the year	50	1,356	2,097	1,706	5,20
Provisions used during the year	(897)	(401)	(716)	-	(2,01
Provisions reversed during the year	-	-	(1,721)	-	(1,72
Effect of movements in exchange rates	(4)	(29)	(181)	(75)	(28
At December 31, 2011	$ 520	$ 1,004	$ 8,049	$ 4,733	$ 14,30
Current	$ 520	$ 1,004	$ 8,049	$ -	$ 9,57
Non-current	-	-	-	4,733	4,73
	$ 520	$ 1,004	$ 8,049	$ 4,733	$ 14,30

Restructuring

The restructuring provision of $2,137,000 as at January 1, 2010, relates to the remaining restructuring and related charges from the organizational restructuring and the elimination of 117 positions in 2009. In 2010, the Corporation completed an organizational restructuring at Dantherm Power A/S resulting in restructuring and related charges of $285,000 primarily for severance expense on elimination of 8 positions. In 2011, a leadership restructuring, which reduced the number of executive officers at both the Corporation and at Dantherm Power A/S resulted in the recognition of $1,356,000 of restructuring charges. The estimated restructuring costs primarily include employee termination benefits and are expected to be finalized and paid in 2012. Restructuring charges are recognized in general and administrative expenses.

Warranty provision

During the year the warranty provision decreased by $521,000. A portion of the provision, $1,721,000, was reversed during the year due primarily to contractual expirations, reductions in estimated costs to repair, and improved lifetimes, and reliability of the Corporation's fuel cell products. Warranty expenditures during the year of $716,000 also decreased the warranty provision.

14. Provisions (cont'd):

Decommissioning liabilities

Provisions for decommissioning liabilities have been recorded for the Corporation's two leased locations, the head office building and manufacturing facility, and are related to site restoration obligations at the end of the lease terms. Due to the long-term nature of the liability, the most significant uncertainty in estimating the provision is the costs that will be incurred.

The Corporation has determined a range of reasonable possible outcomes of the total costs for the manufacturing facility. In determining the fair value of the decommissioning liabilities, the estimated future cash flows have been discounted at 3% per annum. The total undiscounted amount of the estimated cash flows required to settle this obligation is $3,912,000. The obligation will be settled at the end of the term of the operating lease, which extends to 2019. The provision has increased during the period due to accretion costs.

At December 31, 2011, the Corporation assessed that a fair value of $1,615,000 of decommissioning liabilities, discounted at 2% per annum was appropriate to record for the Corporation's head office building. The total undiscounted amount of the estimated cash flows required to settle this obligation is $2,233,000. The obligation will be settled at the end of the lease term, which extends to 2025.

15. Finance lease liability

The Corporation leases certain assets under finance lease agreements (note 8). The finance leases have imputed interest rates ranging between 2.25% to 7.35% per annum and expire between December 2014 and February 2025.

The future minimum lease payments for the Corporation's finance leases are as follows:

Year ending December 31	
2012	$ 1,88
2013	1,88
2014	2,27
2015	1,69
2016	1,87
Thereafter	12,26
Total minimum lease payments	21,87
Less imputed interest	(7,15
Total finance lease liability	14,72
Current portion of finance lease liability	97
Non-current portion of finance lease liability	$ 13,74

At December 31, 2011, $3,113,000 was outstanding on the Leasing Facility which is included in the finance lease liability. The remaining $11,614,000 finance lease liability relates to the lease of the Corporation's head office building.

16. Convertible debenture

The convertible debenture relates to financing to Dantherm Power A/S by the non-controlling partners and is redeemable at the option of Danther Power A/S subject to approval by all convertible debenture holders on or after January 1, 2013 including interest which is accrued at 12%. Prior December 31, 2013 (the "Maturity Date"), the convertible debenture holders may elect to convert all or part of the debenture into shares of Danther Power A/S at a conversion price equal to DKK 3.40 per share. This conversion feature was determined to have a nominal value. The Maturity Da may be extended to December 31, 2014 with approval of the subscribers.

17. Employee future benefits:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Othe benefit pla
Plan assets	$ 8,223	$ -	$ 8,360	$
Plan obligations	(13,329)	(580)	(10,819)	(49
Employee future benefit plans deficit	$ (5,106)	$ (580)	$ (2,459)	$ (49

The Corporation maintains a defined benefit pension plan covering employees in the United States. The benefits under the pension plan are based o years of service and salary levels accrued as of December 31, 2009. In 2009, amendments were made to the defined benefit pension plan to free benefits accruing to employees at their respective years of service and salary levels obtained as of December 31, 2009. Certain employees in th United States are also eligible for post-retirement healthcare, life insurance and other benefits.

The Corporation accrues the present value of its obligations under employee future benefit plans and the related costs, net of the present value plan assets.

The measurement date used to determine pension and other post-retirement benefit obligations and expense is December 31 of each year. The mo recent actuarial valuation of the employee future benefit plans for funding purposes was as of January 1, 2011. The next actuarial valuation of th employee future benefit plans for funding purposes is expected to be as of January 1, 2012.

17. Employee future benefits (cont'd):

The Corporation expects contributions of approximately $600,000 to be paid to its defined benefit plans in 2012. Information about the Corporation's employee future benefit plans, in aggregate, is as follows:

Movement in the present value of the defined benefit plan obligations:

	2011		2010	
	Pension Plan	Other benefit plan	Pension plan	Other benefit plan
Defined benefit plan obligations at January 1	$ 10,819	$ 491	$ 9,800	$ 61
Current service cost	-	6	-	
Interest cost	587	25	579	3
Benefits paid	(251)	(44)	(217)	(3
Benefits payable	48	-	36	
Actuarial (gains) losses in other comprehensive income	2,126	102	621	(13
Defined benefit plan obligations at December 31	$ 13,329	$ 580	$ 10,819	$ 49

Movement in the present value of plan assets:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Fair value of plan assets at January 1	$ 8,360	$ -	$ 7,105	$
Expected return on plan assets	582	-	502	
Employer's contributions	210	44	370	2
Benefits paid	(252)	(44)	(218)	(2
Actuarial (losses) gains in other comprehensive income	(677)	-	601	
Fair value of plan assets at December 31	$ 8,223	$ -	$ 8,360	$

Pension plan assets comprise:

	2011	20
Cash and cash equivalents	3%	2
Equity securities	70%	71
Debt securities	27%	27
Total	100%	100

17. Employee future benefits (cont'd):

Expense recognized in net income:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Othe benefit plan
Current service cost	$ -	$ 6	$ -	$
Interest on obligations	587	25	579	3
Expected (return) on plan assets	(582)	-	(502)	
Benefits payable	48	-	36	
Expense recognized in net income	53	31	113	3
Actuarial (gain) loss on plan assets and plan obligations recognized in other comprehensive income	2,803	102	20	(13
Total expense (income) recognized in net income and other comprehensive income	$ 2,856	$ 133	$ 133	$ (9

The expense recognized in net income is recorded in Finance expense.

Expense (income) recognized in other comprehensive income:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Othe benefit plan
Actuarial (gain) loss on defined benefit plan obligations	$ 2,126	$ 102	$ 621	$ (13
Expected return on plan assets	582	-	502	
Actual (return) loss on plan assets	68	-	(1,137)	
Plan expenses	27	-	34	
Actuarial (gain) loss recognized in other comprehensive income	$ 2,803	$ 102	$ 20	$ (13

Cumulative actuarial gains and losses recognized in other comprehensive income:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Othe benefit plan
Cumulative amount at January 1	$ 20	$ (132)	$ -	$
Recognized during the period	2,803	102	20	(13
Cumulative amount at December 31	$ 2,823	$ (30)	$ 20	$ (13

17. Employee future benefits (cont'd):

The significant actuarial assumptions adopted in measuring the fair value of benefit obligations at December 31, 2011 and 2010 were as follows:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Oth benefit pl
Discount rate	4.3%	4.3%	5.5%	5.5
Rate of compensation increase	n/a	n/a	n/a	n

The significant actuarial assumptions adopted in determining net expense for the years ended December 31, 2010 and 2009 were as follows:

	2011		2010	
	Pension plan	Other benefit plan	Pension plan	Oth benefit pl
Discount rate	5.5%	5.5%	6.0%	6.0
Expected return on plan assets	7.0%	7.0%	7.0%	n
Rate of compensation increase	n/a	n/a	n/a	n

The assumed health care cost trend rates applicable to the other benefit plans at December 31, 2010 and 2009 were as follows:

	2011	20
Initial medical health care cost trend rate	8.0%	8.5
Initial dental health care cost trend rate	5.0%	5.0
Cost trend rate declines to medical and dental	5.0%	5.0
Year that the medical rate reaches the rate it is assumed to remain at	2017	20
Year that the dental rate reaches the rate it is assumed to remain at	2009	20

A one-percentage-point change in assumed health care cost trend rates would not have a material impact on the Corporation's financial statements.

18. Equity:

(a) Authorized and issued:

Unlimited number of common shares, voting, without par value.

Unlimited number of preferred shares, issuable in series.

At December 31, 2011, 84,550,524 (2010 – 84,148,465) common shares are issued and outstanding.

(b) Share option plan:

The Corporation has options outstanding under a consolidated share option plan. All directors, officers and employees of the Corporation, and its subsidiaries, are eligible to participate in the share option plans although as a matter of policy, options are currently not issued to directors. Option exercise prices are denominated in both Canadian and U.S. dollars, depending on the residency of the recipient. Canadian dollar denominated options have been converted to U.S. dollars using the year-end exchange rate for presentation purposes.

All options have a term of seven to ten years from the date of grant unless otherwise determined by the board of directors. One-third of the options vest and may be exercised, at the beginning of each of the second, third and fourth years after granting.

As at December 31, 2011, options outstanding from the consolidated share option plan was as follows:

Balance	Options for common shares	Weighted avera exercise pri
At January 1, 2010	5,867,851	$ 19.
Options granted	1,709,737	2.
Options exercised	(72,491)	1.
Options forfeited	(589,408)	9.
Options expired	(233,100)	190.
At December 31, 2010	6,682,589	10.
Options granted	1,874,369	1.
Options exercised	(25,834)	1.
Options forfeited	(260,016)	7.
Options expired	(655,139)	46.
At December 31, 2011	7,615,969	$ 5.

18. Equity (cont'd):

(b) Share option plan (cont'd):

The following table summarizes information about the Corporation's share options outstanding as at December 31, 2011:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weight avera exerci pri
$1.01 – $1.92	1,794,152	4.9	$ 1.54	965,601	$ 1.
$2.06 – $2.36	3,104,218	5.7	2.21	540,950	2.
$3.05 – $5.00	569,034	3.2	4.74	569,034	4.
$5.69 – $7.82	1,405,766	3.3	7.19	1,405,766	7.
$10.00 – $14.43	292,955	1.5	13.57	292,955	13.
$17.99 – $38.10	449,844	0.4	35.12	449,844	35.
	7,615,969	4.4	$ 5.54	4,224,150	$ 8.

The Corporation uses the fair-value method for recording employee and director share option grants. During 2011, compensation expense $1,743,000 (2010 - $1,634,000) was recorded in net income as a result of fair value accounting for share options granted. The share options grante during the year had a weighted average fair value of $1.14 (2010 - $1.23) and vesting periods of three years.

The fair values of the options granted were determined using the Black-Scholes valuation model under the following weighted average assumptions:

	2011	20
Expected life	5 years	5 yea
Expected dividends	Nil	
Expected volatility	63%	6
Risk-free interest rate	3%	

(c) Share distribution plan:

The Corporation has a consolidated share distribution plan that permits the issuance of common shares for no cash consideration to employees of th Corporation to recognize their past contribution and to encourage future contribution to the Corporation. At December 31, 2011, there were 440,26 (2010 – 1,089,491) shares available to be issued under this plan.

No compensation expense was recorded against income during the years ended December 31, 2011 and 2010 for shares distributed, and to b distributed, under the plan.

18. Equity (cont'd):

(d) Deferred Share Units:

Deferred share units ("DSUs") are granted to the board of directors and executives. Eligible directors may elect to receive all or part of their annu retainers and executives may elect to receive all or part of their annual bonuses in DSUs. Each DSU is redeemable for one common share in th capital of the Corporation after the director or executive ceases to provide services to the Corporation. Shares will be issued from the Corporation share distribution plan.

Balance	DSUs for common shares
At January 1, 2010	316,152
DSUs exercised	(25,355
At December 31, 2010 and 2011	290,797

No compensation expense was recorded against income during the years ended December 31, 2011 and 2010.

(e) Restricted Share Units:

Restricted share units ("RSUs") are granted to employees and executives. Each RSU is convertible into one common share. The RSUs vest after specified number of years from the date of issuance, and under certain circumstances, are contingent on achieving specified performance criteria.

The Corporation has two plans under which RSUs may be granted, the consolidated share distribution plan and the market purchase RSU pla Awards under the consolidated share distribution plan (note 18 (c)) are satisfied by the issuance of treasury shares on maturity. Awards granted und the market purchase RSU Plan are satisfied by shares purchased on the open market by a trust established for that purpose. During 2011, th Corporation repurchased 230,211 (2010 – 269,877) common shares through the trust for cash consideration of $327,000 (2010 – $559,000) for th purpose of funding future grants under the Market Purchase RSU Plan. As at December 31, 2011 the Corporation held 309,089 shares as treasu shares.

18. Equity (cont'd):

(e) Restricted Share Units (cont'd):

	RSUs for common shares		
	Share	Market	
Balance	Distribution Plan	Purchase Plan	Total RSU
At January 1, 2010	1,241,016	380,733	1,621,74
RSUs granted	-	893,370	893,37
RSUs exercised	(154,006)	(38,990)	(192,99
RSUs forfeited	(235,040)	(176,015)	(411,05
At December 31, 2010	851,970	1,059,098	1,911,06
RSUs granted	-	1,351,516	1,351,51
RSUs exercised	(660,522)	(371,626)	(1,032,14
RSUs forfeited	(4,975)	(52,084)	(57,05
At December 31, 2011	186,473	1,986,904	2,173,37

The fair value of RSU grants is measured based on the stock price of the shares underlying the RSU on the date of grant. During 2011, compensatio expense of $870,000 (2010 - $1,944,000) was recorded against income.

19. Operating leases:

The Corporation leases a facility at its Burnaby, Canada location, which has been assessed as an operating lease. The facility has a lease ter expiring in 2019, with renewal options after that date.

At December 31, 2011, the Corporation is committed to payments under operating leases as follows:

Less than 1 year	$ 2,4
1-3 years	4,9
4-5 years	5,3
Thereafter	10,7
Total minimum lease payments	$ 23,5

20. Commitments and contingencies:

The Corporation has agreed to pay royalties in respect of sales of certain fuel cell-based stationary power products under two development progran with Canadian government agencies. The total combined royalty is limited in any year to 4% of revenue from such products. Under the terms of th Utilities Development Program (Phase 1) with the Governments of Canada and British Columbia, total royalties are payable to a maximum equal to th original amount of the government contributions of CDN$10,702,000. During 2009, a Canadian government agency agreed to terminate potenti royalties payable of CDN $5,351,000 in respect of future sales of fuel cell based stationary power products under the Utilities Development Progra (Phase 1). As at December 31, 2011, no royalties have been incurred for Phase 1.

20. Commitments and contingencies (cont'd):

Under the terms of the Utilities Development Program (Phase 2) with Technology Partnerships Canada ("TPC") total royalties are payable to maximum of CDN$38,329,000. As at December 31, 2011, a total of CDN $5,320,000 in royalty repayments have been incurred for Phase 2. Th Corporation has made no Phase 2 royalty repayments in 2011 and 2010.

Original maximum payable amount under Phase 1 and 2	CDN$	49,03
Termination of potential royalties payable		(5,35
Prior year payments applied		(5,32
Maximum payable amount, December 31, 2011	CDN$	38,36
Maximum payable amount, December 31, 2011	US$	37,71

At December 31, 2011, the Corporation has outstanding commitments aggregating up to a maximum of $867,000 (2010 - $1,156,000) relati primarily to purchases of property, plant and equipment.

The Corporation is also committed to make future investments totaling $98,000 in Chrysalix (note 11).

The Corporation has agreed to pay royalties in respect of sales of Ballard fuel cells or fuel cell systems under a July 31, 1996 Fuel Cell Bus Progra Agreement ("FC Bus Agreement"), with Province of British Columbia, BC Transit, and BC Transportation Financing Authority ("BCTFA"). Under th terms of FC Bus Agreement, the royalty payable is at a rate of 2% on deferred sales of such products for commercial transit application to a maximu of $2,163,000 (CDN$ 2,200,000). No royalties have been paid to date.

On December 31, 2008, the Corporation completed a restructuring transaction with Superior Plus Income Fund ("Superior Plus"), which included a indemnification agreement (the "Indemnity Agreement"), which sets out the parties' continuing obligations to the other. The Indemnity Agreeme provides for the indemnification by each of the parties to the other for breaches of representations and warranties or covenants, as well as, in th Corporation's case, any liability relating to the business which is suffered by Superior Plus. The Corporation's indemnity to Superior Plus with respe to representation relating to the existence of the Corporation's tax pools immediately prior to the completion of the Arrangement is limited to a aggregate of $7,227,000 (CDN $7,350,000) with a threshold amount of $492,000 (CDN $500,000) before there is an obligation to make a paymer The Indemnity Agreement also provides for adjustments to be paid by the Corporation, or to the Corporation, depending on the final determination the amount of 2008 Canadian non-capital losses, scientific research and development expenditures and investment tax credits, to the extent that su amounts are more or less than the amounts estimated at the time the Arrangement was executed.

At December 31, 2011, no amount payable or receivable has been accrued as a result of the Indemnity Agreement.

21. Personnel expenses:

Personnel expenses are included in cost of product and services revenues, research and product development expense, general and administrati expense, and sales and marketing expense.

	December 31, 2011	December 3 20
Salaries and employee benefits	$ 55,362	$ 53,0
Share-based compensation (note 18)	2,646	3,5
	$ 58,008	$ 56,5

22. Income taxes:

(a) Current tax expense:

The components of income tax benefit / (expense) included in the determination of the profit (loss) comprise of:

	2011	201
Current tax expense		
Current period income tax	$ 102	$
Withholding tax	135	
Adjustment for prior periods	146	
Total current tax expense	$ 383	$
Deferred tax expense		
Origination and reversal of temporary differences	$ 8,907	$ 61,85
Adjustments for prior periods	(907)	(20,70
Change in unrecognized deductible temporary differences	(8,000)	(41,15
Total deferred tax expense	$ -	$
Total income tax expense	$ 383	$

The Corporation's effective income tax rate differs from the combined Canadian federal and provincial statutory income tax rate for companies. Th principal factors causing the difference are as follows:

	2011	201
Net loss before income taxes	$ (36,156)	$ (35,43
Expected tax expense (recovery) at 26.5% (2010–28.5%)	$ (9,581)	$ (10,10
Increase (reduction) in income taxes resulting from:		
Non-deductible portion of capital gain (loss)	2,838	(1,28
Non-deductible expenses (non-taxable income)	700	1,11
Investment tax credits earned	(4,352)	(4,55
Foreign tax rate differences	349	65
Losses and other deductions for which no benefit has been recorded	10,429	14,18
Income taxes	$ 383	$

22. Income taxes (cont'd):

(b) Recognized deferred tax:

At December 31, 2011, the Corporation did not have any deferred tax liabilities resulting from temporary differences recognized for financial statement and income tax purposes.

(c) Unrecognized deferred tax:

At December 31, 2011, the Corporation did not have any deferred tax liabilities resulting from temporary differences for financial statement and income tax purposes.

	2011	20
Deferred tax assets		
Scientific research expenditures	$ 11,647	$ 9,3
Investment in associated companies	2,246	2,2
Accrued warranty liabilities	8,454	7,9
Losses from operations carried forward	17,373	14,6
Capital losses carried forward	30,681	30,6
US investment tax credits	827	7
Investment tax credits	15,188	12,0
Property, plant and equipment and intangible assets	48,465	49,1
Deferred tax assets offset against deferred tax liabilities	-	
Deferred tax asset not recognized	$ 134,881	$ 126,8

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

The Corporation has available to carry forward the following as at December 31:

	2011	20
Canadian scientific research expenditures	$ 46,587	$ 37,3
Canadian losses from operations	23,075	19,6
Canadian investment tax credits	17,984	13,9
German losses from operations for corporate tax purposes	227	2
U.S. federal losses from operations	13,287	14,7
U.S. state losses from operations	1,972	1,7
U.S. research and development and investment tax credits	825	7
U.S. capital losses	90,237	90,2
Denmark losses from operations	27,534	18,3

The Canadian scientific research expenditures may be carried forward indefinitely. The Canadian loses from operations may be used to offset future Canadian taxable income and expire over the period from 2028 to 2031.

22. Income taxes (cont'd):

(c) Unrecognized deferred tax (cont'd):

The German and Denmark losses from operations may be used to offset future taxable income in Germany and Denmark for corporate tax and trade tax purposes and may be carried forward indefinitely.

The U.S. federal losses from operations may be used to offset future U.S. taxable income and expire over the period from 2012 to 2030. The U.S. states losses from operations arising in California may be used to offset future state taxable income and may be carried forward for ten years. The U.S. federal and state research and development and investment tax credits are available to reduce future U.S. taxable income and expire over the period from 2012 to 2030. The U.S. capital losses are available to reduce U.S. capital gains and expire over the period from 2012 to 2013.

The Canadian investment tax credits may be used to offset future Canadian income taxes otherwise payable and expire as follows:

2012	$
2013	1
2014	1
2015	
2016	
2017	1
2029	7,2
2030	5,0
2031	5,1
	$ 17,9

23. Related party transactions:

Related parties include shareholders with a significant ownership interest in the Corporation, together with its subsidiaries and affiliates. The revenue and costs recognized from transactions with such parties reflect the prices and terms of sales and purchase transactions with related parties, which are in accordance with normal trade practices. Transactions between the Corporation and its subsidiaries are eliminated on consolidation.

Balances with related parties:	2011	20
Trade receivables	$ -	$ 1
Trade payables	$ 260	$ 5

Transactions during the year with related parties:	2011	20
Revenues	$ -	$ 1
Purchases	$ 744	$ 1,3

23. Related party transactions (cont'd):

The Corporation provides key management personnel, being board directors and executive officers, certain benefits, in addition to their salaries. Key management personnel also participate in the Corporation's share-based compensation plans (note 18).

In addition to cash and equity compensation, the Corporation provides the executive officers with certain personal benefits, including car allowance, medical benefit program, long and short-term disability coverage, life insurance and an annual medical and financial planning allowance.

In accordance with the employment agreements of the executive officers, the Corporation is required to provide notice of 12 months plus one month for every year of employment completed with the Corporation, to a maximum of 24 months, or payment in lieu of such notice, consisting of the salary, bonus and other benefits that would have been earned during such notice period. If there is a change of control, and if the executive officer's employment is terminated, including a constructive dismissal, within 2 years following the date of a change of control, the executive officer is entitled to a payment equivalent to payment in lieu of a 24 month notice period.

Key management personnel compensation is comprised of:

	2011	20
Salaries and employee benefits	$ 3,744	$ 4,3
Post-employment retirement benefits	79	
Termination benefits	425	
Share-based compensation (note 18)	1,136	1,6
	$ 5,384	$ 6,1

24. Supplemental disclosure of cash flow information:

Non-cash financing and investing activities:	2011	20
Compensatory shares	$ 2,046	$ 5
Assets acquired under finance lease (note 8)	$ 1,906	$ 12,1

25. Operating segments:

The Corporation's business operates in three market segments:

- **Fuel Cell Products**: fuel cell products and services for motive power (material handling and bus markets) and stationary power (backup power and distributed generation markets) applications; and engineering services for a variety of fuel cell applications;
- **Contract Automotive**: contract manufacturing services provided primarily for Daimler AG;
- **Material Products**: carbon fiber products primarily for automotive transmissions and gas diffusion layers ("GDL") for fuel cells.

In 2011, the Corporation completed its manufacturing services contract for the supply of automotive fuel cell modules to Daimler AG. As a result, the Contract Automotive segment will cease to be an operating segment as of December 31, 2011. The Corporation has restated its comparative operating segment information to align to its current composition of operating segments. Revenues relating to engineering services previously recorded in the Contract Automotive segment of $1,460,000 for the year ended December 31, 2010, have been reallocated to the Fuel Cell Products segment.

Segment revenues and segment income (loss) represent the primary financial measures used by senior management in assessing performance and allocating resources, and include the revenues, cost of product and service revenues and expenses for which management is held accountable. Segment expenses include research and product development costs directly attributable to individual segments.

Costs associated with shared services and other shared costs are allocated based on headcount and square footage. Corporate amounts include expenses for research and product development that are not attributable to individual segments, sales and marketing, and general and administrative, which apply generally across all segments and are reviewed separately by senior management.

A significant portion of the Corporation's production, testing and lab equipment, and facilities, as well as intellectual property, are common across the segments. Therefore, management does not classify asset information on a segmented basis. Instead, performance assessments of these assets and related resource allocations are done on a company-wide basis.

25. Operating segments (cont'd):

	2011	2010
Total revenues		
Fuel Cell Products	$ 46,468	$ 34,244
Contract Automotive	9,305	9,81
Material Products	20,236	20,964
	$ 76,009	$ 65,019
Segment income (loss) for the year [(1)]		
Fuel Cell Products	$ (1,305)	$ (8,762
Contract Automotive	1,803	1,755
Material Products	5,852	7,689
Total	6,350	682
Corporate amounts		
Research and product development	(17,945)	(19,299
General and administrative	(12,500)	(14,777
Sales and marketing	(9,488)	(9,113
Net finance loss	(1,197)	(965
Gain on sale of property, plant and equipment	734	4
Gain on sale of assets	-	8,032
Impairment loss on property, plant and equipment	(1,727)	
Loss before income tax	$ (35,773)	$ (35,436

(1) Research and product development costs directly related to segments are included in segment income (loss) for the year.

In 2011, sales to a single customer of $18,119,000 exceeded 10% of total revenue, of which $7,264,000 were included in revenues from the Fuel Cell Products segment and $10,855,000 were included in revenues from the Contract Automotive segment. In addition, sales to a single customer group of $11,518,000 in the Material Products segment exceeded 10% of total revenue.

In 2010, sales to a single customer of $16,359,000 exceeded 10% of total revenue, of which $8,107,000 were included in revenues from the Fuel Cell Products segment and $8,252,000 were included in revenues from the Contract Automotive segment. In addition, sales to a single customer group of $13,586,000 in the Material Products segment exceeded 10% of total revenue.

Revenues by geographic area, which are attributed to countries based on customer location for the years ended December 31, is as follows:

Revenues	2011	20
Canada	$ 9,320	$ 5,0
U.S.	27,842	31,1
Germany	19,771	17,4
United Kingdom	3,868	5,7
Denmark	2,631	1,0
Belgium	4,992	5
Brazil	2,810	
Other countries	4,775	4,0
	$ 76,009	$ 65,0

25. Operating segments (cont'd):

Non-current assets by geographic area is as follows:

Non-current assets	December 31, 2011	December 31, 2010	January 20
Canada	$ 76,728	$ 78,180	$ 78,4
U.S.	8,635	9,698	10,6
Germany	59	59	
Denmark	1,962	2,692	
	$ 87,384	$ 90,629	$ 89,1

26. Financial instruments:

(a) Fair value:

The Corporation's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivables, long-term investments, accounts payable and accrued liabilities, and obligations under capital lease. The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments. The Corporation's long-term investments are not actively traded, therefore management estimates fair value using valuation techniques that require inputs that are unobservable, including inputs made available by its investees (i.e. Level 3 of the fair value hierarchy). The interest rates applied to the obligations under capital lease are not considered to be materially different from market rates, thus the carrying value of obligations under capital lease approximate fair value. The carrying value of cash equivalents and short-term investments equal their fair values as they are classified as held for trading.

Fair value measurements recognized in the balance sheet must be categorized in accordance with the following levels:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) o indirectly (i.e., derived from prices);

(iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation categorized the fair value measurement of its cash, cash equivalents and short-term investments in Level 1 as they are primarily derived directly from reference to quoted (unadjusted) prices in active markets.

26. Financial instruments (cont'd):

(b) Financial risk management:

The Corporation primarily has exposure to currency exchange rate risk, interest rate risk and credit risk. These risks arise primarily from the Corporation's holdings of U.S. and Canadian dollar denominated cash and cash equivalents and short-term investments.

	2011				2010			
	Canadian dollar portfolio[1]	U.S. dollar portfolio	Other [1]	Total	Canadian dollar portfolio[1]	U.S. dollar portfolio	Other [1]	To
Cash and cash equivalents	$ 9,421	$ 10,284	$ 611	$ 20,316	$ 16,759	$ 33,947	$ 1,231	$ 51,9
Short-term investments	25,878	-	-	25,878	9,492	13,016	-	22,5
Total cash, cash equivalents and short-term investments	$ 35,299	$ 10,284	$ 611	$ 46,194	$ 26,251	$ 46,963	$ 1,231	$ 74,4

(1) U.S. dollar equivalent

Changes arising from these risks could impact the Corporation's reported investment and other income through either changes to investment income or foreign exchange gains or losses. Reported finance income and expenses and other income are as follows:

	2011	201
Investment income	$ 303	$ 32
Other income	-	22
Pension costs	(37)	(12
Foreign exchange loss	(71)	(52
Finance income (loss) and other	$ 195	$ (10
Finance expense	$ (1,392)	$ (86

The Corporation did not realize any material gains or losses on its accounts receivable or its financial liabilities measured at amortized cost.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is exposed to currency risks primarily due to its holdings of Canadian dollar denominated cash equivalents and short-term investments and its Canadian dollar denominated purchases and accounts payable. Substantially all receivables are denominated in U.S. dollars.

26. Financial instruments (cont'd):

(b) Financial risk management (cont'd):

Foreign currency exchange rate risk (cont'd)

The Corporation limits its exposure to foreign currency risk by holding Canadian denominated cash, cash equivalents and short-term investments in amounts up to 100% of forecasted twelve month Canadian dollar net expenditures and up to 50% of the following twelve months of forecasted Canadian dollar net expenditures, thereby creating a natural hedge. Periodically, the Corporation also enters into forward foreign exchange contracts to further limit its exposure. At December 31, 2011, the Corporation had Canadian dollar cash, cash equivalents and short-term investments of CDN $35,899,000, and outstanding forward foreign exchange contracts outstanding to sell a total of CDN $7,000,000 in 2012 at an average rate of CDN $1.02 to US $1.00.

The following exchange rates applied during the year ended December 31, 2011:

	$U.S. to $1.00 CDN	$CDN to $1.00 $U
January 1, 2011 Opening rate	$ 1.005	$ 0.9
December 31, 2011 Closing rate	0.983	1.0
Fiscal 2011 Average rate	1.011	0.9

Based on cash, cash equivalents and short-term investments held at December 31, 2011, a 10% increase in the Canadian dollar against the U.S. dollar, with all other variables held constant, would result in an increase in foreign exchange gains of approximately $3,530,000 recorded against net income.

If the Canadian dollar weakened 10% against the U.S. dollar, there would be an equal, and opposite impact, on net income. This sensitivity analysis includes foreign currency denominated monetary items, and adjusts their translation at year-end, for a 10% change in foreign currency rates.

Interest rate risk

Interest rate risk is the risk that the fair value of deferred cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk arising primarily from fluctuations in interest rates on its cash, cash equivalents and short-term investments. The Corporation limits its exposure to interest rate risk by continually monitoring and adjusting portfolio duration to align to forecasted cash requirements and anticipated changes in interest rates.

Based on cash, cash equivalents and short-term investments at December 31, 2011, a 0.25% decline in interest rates, with all other variables held constant, would result in a decrease in investment income $115,000, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as held-for-trading. If interest rates had been 0.25% higher, there would be an equal and opposite impact on net income.

26. Financial instruments (cont'd):

(b) Financial risk management (cont'd):

Credit risk

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's cash, cash equivalents, short-term investments and accounts receivable. The Corporation limits its exposure to credit risk on cash, cash equivalents and short-term investments by only investing in liquid, investment grade securities. The Corporation manages its exposure to credit risk on accounts receivable by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continuously monitors these exposures.

27. Transition to IFRS:

As stated in note 2(a), these are the Corporation's first consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Corporation's "Transition Date").

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The following is an explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows.

(i) IFRS 1*, First-Time Adoption of International Financial Reporting Standards*:

IFRS 1, *First-Time Adoption of International Financial Reporting Standard*, permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS at the time of transition. The following are the initial IFRS 1 mandatory elections and optional exemptions applied by the Corporation upon initial adoption of IFRS from Canadian GAAP:

Estimates:

Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

27. Transition to IFRS (cont'd):

(i) IFRS 1*, First-Time Adoption of International Financial Reporting Standards* (cont'd):

Share-based payments:

The Corporation has elected to apply IFRS 2, *Share-based Payments*, to all equity instruments granted after November 7, 2002 that had not vested as of the Transition Date and elected not to apply the standard to any equity instruments issued prior to this date.

Business combinations:

The Corporation has elected to prospectively apply IFRS 3, *Business Combinations*, from the Transition Date, rather than retrospectively restating all business combinations that have occurred prior to the Transition Date. As such, any goodwill arising from past business combinations have not been adjusted from the carrying value previously determined under Canadian GAAP.

Currency translation differences:

The Corporation has elected to reset its historical cumulative translation gains and losses to nil at the Transition Date, rather than to retrospectively apply IAS 21, *The Effects of Changes in Foreign Exchange Rates*. Historical cumulative translation adjustments arose prior to 2001 and totaled $236,000. These were a result of the consolidation method applied at the time to the Corporation's German subsidiary.

Employee benefits:

The Corporation has elected to disclose comparative information with regards to the defined benefit pension plan and other benefit plans for the current and previous period, rather than the previous four periods as required under IAS 19, *Employee Benefits*.

In addition, the Corporation has elected to apply the optional election in IFRS 1 and recognize all cumulative unrecognized actuarial gains and losses through retained earnings as at the Transition Date.

Decommissioning liabilities:

The Corporation has elected not to retrospectively restate its decommissioning liabilities. The Corporation elected rather to calculate the provision per IFRS 37, *Provisions, Contingent Liabilities and Contingent Assets*, at the Transition Date, as if the obligation arose at that date. The calculated value was then discounted to the date the obligation first arose and then the provision was accreted up to the Transition Date.

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS:

Reconciliation of equity from Canadian GAAP to IFRS as at:

		January 1, 2010	December 31 201
Shareholders' equity under Canadian GAAP		$ 158,920	$ 127,87
Differences:			
Decommissioning liabilities	a	(1,330)	(1,38
Sale and leaseback gain on operating lease	d	-	3,08
Total equity under IFRS		$ 157,590	$ 129,58

Reconciliation of comprehensive loss from Canadian GAAP to IFRS for the year ended:

		December 31 201
Net loss and comprehensive loss under Canadian GAAP		$ (38,84
Differences:		
Decommissioning liabilities	a	(5
Share-based payments	b	47
Sale and leaseback gain on operating lease	d	3,08
Defined benefit plan actuarial gain	e	(11
Total net loss under IFRS		(35,43
Defined benefit plan actuarial gain	e	11
Total comprehensive loss under IFRS		$ (35,32

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

Reconciliation of the Canadian GAAP consolidated statement of financial position as at January 1, 2010 to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS *Adjustments*	Effect of transition to IFRS *Reclassifications*	IFRS
Assets					
Current assets:					
Cash and cash equivalents		$ 43,299	$ -	$ -	$ 43,29
Short-term investments		38,932	-	-	38,93
Trade and other receivables		12,903	-	-	12,90
Inventories		9,168	-	-	9,16
Prepaid expenses and other current assets		2,114	-	-	2,11
Total current assets		106,416	-	-	106,41
Property, plant and equipment	a	39,320	197	-	39,51
Intangible assets		824	-	-	82
Goodwill		48,106	-	-	48,10
Investments		632	-	-	63
Other long-term assets		50	-	-	5
Total assets		$ 195,348	$ 197	$ -	$ 195,54
Liabilities and Equity					
Current liabilities:					
Trade and other payables	i	$ 20,321	$ -	$ (3,812)	$ 16,50
Deferred revenue		1,607	-	-	1,60
Current portion of finance lease liability		316	-	-	31
Provisions	i	7,813	-	3,812	11,62
Total current liabilities		30,057	-	-	30,05
Finance lease liability		1,739	-	-	1,73
Provisions	a	1,321	1,527	-	2,84
Employee future benefits		3,311	-	-	3,31
Total liabilities		36,428	1,527	-	37,95
Equity:					
Share capital		835,565	-	-	835,56
Treasury shares		(207)	-	-	(20
Contributed surplus	b	284,510	1,304	-	285,81
Accumulated deficit	a, b, c	(960,712)	(2,870)	-	(963,58
Accumulated other comprehensive loss	c	(236)	236	-	
Total equity		158,920	(1,330)	-	157,59
Total liabilities and equity		$ 195,348	$ 197	$ -	$ 195,54

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

Reconciliation of the Canadian GAAP consolidated statement of financial position as at December 31, 2010 to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS *Adjustments*	Effect of transition to IFRS *Reclassifications*	IFRS
Assets					
Current assets:					
Cash and cash equivalents		$ 51,937	$ -	$ -	$ 51,93
Short-term investments		22,508	-	-	22,50
Trade and other receivables		11,614	-	-	11,61
Inventories		12,382	-	-	12,38
Prepaid expenses and other current assets		957	-	-	95
Total current assets		99,398	-	-	99,39
Property, plant and equipment	a	36,706	239	-	36,94
Intangible assets		2,975	-	-	2,97
Goodwill		48,106	-	-	48,10
Investments		673	-	-	67
Long-term trade receivables		1,596	-	-	1,59
Other long-term assets		334	-	-	33
Total assets		$ 189,788	$ 239	$ -	$ 190,02
Liabilities and Equity					
Current liabilities:					
Trade and other payables	i	$ 23,334	$ -	$ (1,449)	$ 21,88
Deferred revenue		2,506	-	-	2,50
Current portion of finance lease liability		681	-	-	68
Provisions	i	8,570	-	1,449	10,01
Total current liabilities		35,091	-	-	35,09
Finance lease liability		13,354	-	-	13,35
Deferred gain	d	9,036	(3,089)	-	5,94
Provisions	a	1,482	1,620	-	3,10
Employee future benefits		2,950	-	-	2,95
Total liabilities		61,913	(1,469)	-	60,44
Equity:					
Share capital		836,245	-	-	836,24
Treasury shares		(670)	-	-	(67
Contributed surplus	b	288,618	826	-	289,44
Accumulated deficit	a, b, c, d	(995,669)	646	-	(995,02
Accumulated other comprehensive loss	c	(236)	236	-	
Total equity attributable to equity holders		128,288	1,708	-	129,99
Dantherm Power A/S non-controlling interests		(413)	-	-	(41
Total equity		127,875	1,708	-	129,58
Total liabilities and equity		$ 189,788	$ 239	$ -	$ 190,02

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

Reconciliation of the Canadian GAAP consolidated statement of comprehensive loss for the year-ended December 31, 2010 to IFRS:

	Note	Canadian GAAP	Effect of transition to IFRS *Adjustments*	Effect of transition to IFRS *Reclassifications*	IFRS
Revenues:					
Product and service revenues		$ 65,019	$ -	$ -	$ 65,019
Cost of product and service revenues	a, b	54,808	79	-	54,887
Gross margin		10,211	(79)	-	10,132
Operating expenses:					
Research and product development	b, d, j	23,812	(46)	4,983	28,749
General and administrative	b, j	13,315	(271)	1,733	14,777
Sales and marketing	b, j	8,861	(14)	266	9,113
Restructuring and related costs	j	285	-	(285)	
Acquisition charges	j	243	-	(243)	
Depreciation and amortization	j	6,454	-	(6,454)	
Total operating expenses		52,970	(331)	-	52,639
Operating loss		(42,759)	252	-	(42,507
Finance income	a, e	128	(232)	-	(104
Finance expense	a	(974)	113	-	(861
Net finance income (loss)		(846)	(119)	-	(965
Gain on sale of assets	d	4,765	3,271	-	8,036
Loss before income taxes		(38,840)	3,404	-	(35,436
Income tax (recovery)		3	-	-	3
Net loss		(38,843)	3,404	-	(35,439
Defined benefit plan actuarial gain	e	-	112	-	112
Comprehensive loss		$ (38,843)	$ 3,516	$ -	$ (35,327
Net loss attributable to:					
Ballard Power Systems Inc.		$ (34,936)	$ 3,404	$ -	$ (31,532
Dantherm Power A/S non-controlling interest		(3,907)	-	-	(3,907
Net loss		$ (38,843)	$ 3,404	$ -	$ (35,439
Comprehensive loss attributable to:					
Ballard Power Systems Inc.		$ (34,936)	$ 3,516	$ -	$ (31,420
Dantherm Power A/S non-controlling interest		(3,907)	-	-	(3,907
Comprehensive loss		$ (38,843)	$ 3,516	$ -	$ (35,327
Basic and diluted loss per share attributable to Ballard Power Systems Inc.		$ (0.42)	$ 0.05	$ -	$ (0.37
Weighted average number of common shares outstanding		84,102,315	84,102,315	84,102,315	84,102,315

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

The following is a summary of the effects of the differences between IFRS and Canadian GAAP on the Corporation's accounting policies, statement of financial position, and statement of comprehensive income for periods previously reported under Canadian GAAP subsequent to the Transition Date to IFRS. The adoption of IFRS did not change the Corporation's actual cash flows, but has resulted in changes to the Corporation's statements of financial position and comprehensive loss.

(a) Decommissioning liabilities

Under both Canadian GAAP and IFRS, the Corporation is required to determine a best estimate of asset retirement obligations (termed decommissioning liabilities under IFRS) for all of the Corporation's facilities. Under IFRS, the liability is measured by applying the risk-free discount rate to the estimated total cost of decommissioning each reporting period whereas under Canadian GAAP the liability was measured using a company-specific discount rate. As a result of the application of a lower discount rate under IFRS, adjustments to increase provisions and other long-term liabilities and property, plant and equipment were recorded by the Corporation. The impact arising from the change is summarized as follows:

	January 1,	Decembe
Consolidated statement of financial position	2010	
Increase to property, plant and equipment	$ 197	$
Increase to provisions and other long-term liabilities	(1,527)	(
Increase to accumulated deficit	$ (1,330)	$ (

	Year e
	Decembe
Consolidated statement of comprehensive income	
Increase to cost of product and service revenues	$
Decrease to finance income and other	
Decrease to finance expense	
Increase to net loss and comprehensive loss	$

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

(b) Share-based payments

Under Canadian GAAP, the Corporation valued stock-based compensation that vests in tranches as a single grant. IFRS requires that each vesting tranche be valued individually as a separate grant. Therefore under IFRS, the fair value of each share-based compensation tranche will be amortized over each tranche's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant.

As a result of this difference, the Corporation has recorded a charge to contributed surplus for vested stock-based compensation awards. The impact arising from the change is summarized as follows:

	January 1,	Decembe
Consolidated statement of financial position	2010	
Increase to contributed surplus	$ (1,304)	$
Increase to accumulated deficit	$ (1,304)	$

	Year e
	Decembe
Consolidated statement of comprehensive income	
Increase to cost of product and service revenues	$
Decrease to research and product development	
Decrease to general and administrative	
Decrease to sales and marketing	
Decrease to net loss and comprehensive loss	$

(c) Accumulated other comprehensive loss

As stated in note 27(i), the Corporation has elected to reset its historical cumulative translation loss to nil at the Transition Date and therefore the Corporation has recorded a charge to accumulated deficit in the IFRS opening statement of financial position. The impact arising from the change is summarized as follows:

	January 1,	Decembe
Consolidated statement of financial position	2010	
Decrease to accumulated other comprehensive loss	$ (236)	$
Increase to accumulated deficit	$ (236)	$

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

(d) Accelerated recognition of sale and leaseback gains

Under Canadian GAAP, sale and leaseback gains are deferred and amortized over the term of the lease when the leaseback is classified as an operating lease. Under IFRS, such gains may be recognized upfront if the sale and leaseback transaction results in an operating lease, and is undertaken at fair value.

As a result of this difference, the land component of the March 2010 sale and leaseback of the Corporation's head office building has been determined to meet the IFRS criteria to be treated as an operating lease. The unamortized portion of the deferred gain attributed to the land leaseback has been recognized in 2010 net income and the related deferred gain derecognized in 2010. The impact arising from the change is summarized as follows:

Consolidated statement of financial position	January 1, 2010	Decembe
Decrease to deferred gain	$ -	$
Decrease to accumulated deficit	$ -	$

Consolidated statement of comprehensive income	Year e Decembe
Increase to research and product development	$
Increase to gain on sale of assets	
Decrease to net loss and comprehensive loss	$

(e) Employee future benefits

Under IFRS, actuarial gains and losses arising from defined benefit plans and post-retirement benefit plans may be recorded immediately in either net income or other comprehensive income. Under Canadian GAAP, the Corporation's accounting policy was to recognize actuarial gains and losses in net income. On adoption of IFRS, the Corporation has elected to recognize actuarial gains and losses in other comprehensive income. This is an accounting policy change made by the Corporation subsequent to the release of its first consolidated interim financial statements under IFRS. The impact arising from the change from prior Canadian GAAP is summarized as follows:

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

(e) Employee future benefits (cont'd)

	Year e Decembe
Consolidated statement of comprehensive income	
Decrease to finance income and other	$
Increase to net loss	
Increase to defined benefit plan actuarial gain	
Comprehensive loss	$

(f) Foreign currency translation of subsidiary (Dantherm Power A/S)

Under IFRS, the functional currency of the subsidiary determines the translation methodology. As Dantherm Power's functional currency has been assessed as the Danish Kroner under IFRS, Dantherm Power will be consolidated under IFRS using the current rate method. Under Canadian GAAP, Dantherm Power was translated using the temporal method. The impact arising from the change is not considered to be material.

(g) Property, plant and equipment

Under IFRS, property, plant and equipment may be accounted for using either a cost or revaluation model. The Corporation has elected to use the cost model for all classes of property, plant and equipment. This is consistent with the Corporation's accounting policy under Canadian GAAP and hence has no impact on the Corporation's property, plant and equipment balances.

(h) Impairment of assets

If there is an indication that an asset may be impaired, an impairment test must be performed. Under Canadian GAAP, this is a two-step impairment test in which (i) undiscounted future cash flows are compared to the carrying value; and (ii) if those undiscounted cash flows are less than the carrying value, the asset is written down to fair value.

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

(h) Impairment of assets (cont'd)

Under IFRS, an entity is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If such a condition exists, the entity shall estimate the recoverable amount of an asset by performing a one-step impairment test, which requires a comparison of the carrying value of an asset to the higher of (1) value in use; and (ii) fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. In addition, IFRS requires property, plant and equipment, goodwill and intangible assets to be assessed for impairment at the cash-generating unit ("CGU") level, rather than the reporting unit level considered by Canadian GAAP. As a result of this difference, in principle, impairment write downs may be more likely under IFRS than under Canadian GAAP.

Also under IFRS, when circumstances have changed such that impairments have been reduced, any previous impairment losses on assets other than goodwill and indefinite-lived intangible assets should be reversed while Canadian GAAP prohibits the reversal of impairment losses.

The Corporation has concluded that the adoption of these standards does not result in a change to the carrying value of the Corporation's property, plant and equipment, goodwill, and intangible assets on transition to IFRS.

(i) Provisions

Under Canadian GAAP, a provision is required to be recorded in the financial statements when required payment is considered "likely" and can be reasonably estimated. The threshold for recognition of provisions under IFRS is lower than that under Canadian GAAP as provisions must be recognized if required payment is "probable". Therefore, in principle, it is possible that there may be provisions which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

There are also differences in the measurement of provisions under IFRS and Canadian GAAP, including the requirement under IFRS for provisions to be discounted where material and the methodology for determining the best estimate where there is a range of equally possible outcomes. Under IFRS, the mid-point of the range us used, whereas Canadian GAAP applies the low end of the range.

27. Transition to IFRS (cont'd):

(ii) Reconciliations of Canadian GAAP to IFRS (cont'd):

(i) Provisions (cont'd)

The Corporation has concluded that there is no adjustment to the Corporation's consolidated financial statements on transition to IFRS for the measurement of provisions; however, certain reclassifications have been made in the statement of financial position in classifying provisions.

(j) Functional presentation

Under IFRS, the income statement must be presented on a basis either by function or by nature. Under Canadian GAAP, the income statement could be presented using a mix of both function and nature of expenditure. The Corporation has elected to use the functional classification basis for the presentation of its income statement.

As a result, the operating expenses of depreciation and amortization, restructuring charges, and acquisition costs, which are individually presented under Canadian GAAP, have been reallocated to research and product development, general and administrative, and sales and marketing expense under IFRS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of financial condition and results of operations of Ballard Power Systems Inc. ("Ballard", "the Company", "we", "us" or "our") is prepared as at February 22, 2012 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2011. The results reported herein are presented in U.S. dollars unless otherwise stated and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information relating to the Company, including our Annual Information Form, are filed with Canadian (www.sedar.com) and U.S. securities regulatory authorities (www.sec.gov) and are also available on our website at www.ballard.com.

BUSINESS OVERVIEW

At Ballard, we are building a clean energy growth company. We are recognized as a world leader in proton exchange membrane ("PEM") fuel cell development and commercialization. Our principal business is the design, development, manufacture, sale and service of fuel cell products for a variety of applications, focusing on motive power (material handling and buses) and stationary power (backup power and distributed generation) markets. We also provide engineering services for a variety of fuel cell applications.

A fuel cell is an environmentally clean electrochemical device that combines hydrogen fuel with oxygen (from the air) to produce electricity. The hydrogen fuel can be obtained from natural gas, kerosene, methanol or other hydrocarbon fuels, or from water through electrolysis. Ballard fuel cell products feature high fuel efficiency, low operating temperature, low noise and vibration, compact size, quick response to changes in electrical demand, modular design and environmental cleanliness. Embedded in each Ballard PEM fuel cell product lies a stack of unit cells designed with our proprietary esencia™ technology which draws on intellectual property from our patent portfolio together with our extensive experience in key areas of fuel cell stack operation, system integration, and fuel processing.

We provide our customers with the positive economic and environmental benefits unique to fuel cell power. We plan to build value for our shareholders by developing, manufacturing, selling and servicing industry-leading fuel cell products to meet the needs of our customers in select target markets. We are focused on our core competencies of PEM fuel cell design, development, manufacture, sales and service.

Over the past five years, we have refined the Company's business strategy to establish a sharp focus on what we believe to be key growth opportunities with near-term commercial prospects in our core fuel cell markets. To support this strategy, we have focused on bolstering our cash reserves to strengthen our capability to execute on our clean energy growth priorities.

In March 2010, we completed a sale and leaseback agreement whereby we sold our head office building in Burnaby, British Columbia in return for gross cash proceeds of $20.4 million and then leased this property back for an initial 15-year term plus two renewal options. In December 2009 and July 2010, we completed agreements with a financial institution to monetize our rights under a Share Purchase Agreement with Ford Motor Company ("Ford") relating to our 19.9% equity investment in AFCC Automotive Fuel Cell Cooperation Corp. ("AFCC") for an initial cash payment in 2009 of $37.0 million and a subsequent cash payment in 2010 of $5.0 million.

In March 2011, we completed a sub-lease agreement with Mercedes-Benz Canada Inc. (“MBC”) for the rental of 21,000 square feet of surplus production space in our specialized fuel cell manufacturing facility located in Burnaby, British Columbia. This sub-lease is effective from August 1, 2011 until July 31, 2019 and is expected to result in annual savings of approximately $1 million in real estate and related overhead costs.

In June 2011, we obtained a $7.0 million Canadian award agreement from Sustainable Development Technology Canada (“SDTC”) for the period from 2011 to 2013 to be used to extend the operating life and lower the product cost of FCgen™-1300, the fuel cell product that powers Ballard’s CLEARgen™ distributed generation system. This award is in addition to a $4.8 million Canadian award agreement from SDTC announced in 2010 for the period from 2010 to 2012 to be used to further develop fuel cell power module technology for the transit bus market. These awards are recorded primarily as a cost offset against our research and product development expenses as the expenses are incurred on these programs.

We are based in Canada, with head office, research and development, testing and manufacturing facilities in Burnaby, British Columbia. In addition, we have sales, research and development and manufacturing facilities in Lowell, Massachusetts and Hobro, Denmark.

In 2011, we reported our results in the following operating segments:

1. *Fuel Cell Products*: fuel cell products and services for motive power (material handling and bus markets) and stationary power (backup power and distributed generation markets) applications; and engineering services for a variety of fuel cell applications;

2. *Contract Automotive*: contract manufacturing services provided primarily for Daimler AG (“Daimler”);

3. *Material Products*: carbon fiber products primarily for automotive transmissions and gas diffusion layers (“GDLs”) for fuel cells.

During the last half of 2011, we refined the Company’s business strategy and established a new engineering services operating unit in order to leverage our expertise in fuel cell design, prototyping, manufacturing and servicing. This new operating unit offers a full suite of fuel cell engineering solutions for a variety of fuel cell applications and is recorded in our core Fuel Cell Products segment. As a result of this increased management focus on engineering services, and the completion of our Contract Automotive manufacturing supply agreement with Daimler in October 2011, we have made changes to the composition of our operating segments to align to our current reporting structure. As a result, revenues of $2.1 million for the first three quarters of 2011, and revenues of $1.5 million for 2010, previously recorded in our Contract Automotive segment relating to engineering services have been retroactively restated to the Fuel Cell Products segment. While the Contract Automotive segment will continue to be reported on in 2012 from a comparative perspective, it will cease to be an active operating unit as of the end of 2011.

SELECTED ANNUAL FINANCIAL INFORMATION

Years ended December 31 (Expressed in thousands of U.S. dollars, except per share amounts)

	2011	2010	2009
Revenues	$ 76,009	$ 65,019	$ 46,722
Net income (loss) attributable to Ballard	$ (33,420)	$ (31,532)	$ (3,258)
Net income (loss) per share attributable to Ballard	$ (0.40)	$ (0.37)	$ (0.04)
Adjusted EBITDA (1)	$ (22,295)	$ (26,163)	$ (38,974)
Cash, cash equivalents and short-term investments	$ 46,194	$ 74,445	$ 82,231
Total assets	$ 165,290	$ 190,027	$ 195,348

1 Adjusted EBITDA is a non-GAAP measure. We use certain Non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See reconciliation to GAAP in the Supplemental Non-GAAP Measures section.

RESULTS OF OPERATIONS – Fourth Quarter of 2011

Revenue and gross margin

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2011	**2010**	$ Change	% Change
Fuel Cell Products	**$ 16,871**	$ 13,723	$ 3,148	23%
Contract Automotive	**101**	3,014	(2,913)	(97%)
Material Products	**4,024**	4,346	(322)	(7%)
Revenues	**20,996**	21,083	(87)	-%
Cost of goods sold	**16,854**	15,987	867	5%
Gross Margin	**$ 4,142**	$ 5,096	$ (954)	(19%)
Gross Margin %	**20%**	24%	n/a	n/a

Our revenues for the fourth quarter of 2011 of $21.0 million were flat compared to the fourth quarter of 2010 as increases in our core Fuel Cell Products segment of $3.1 million were offset by declines in Contract Automotive revenues of $2.9 million and declines in Material Products revenues of $0.3 million.

In our core Fuel Cell Products segment, fourth quarter of 2011 revenues increased 23%, or $3.1 million, to $16.9 million compared to the fourth quarter of 2010, primarily as a result of our increased focus on building our engineering services business. This increase in engineering services revenues, combined with relatively stable Stationary power revenues, was partially offset by lower Motive power market revenues. In our Motive power market, higher material handling revenues as a result of increased shipments to support Plug Power Inc.'s GenDrive™ systems were more than offset by lower fuel cell bus revenues. Fuel cell bus revenues in the fourth quarter of 2011 were lower than anticipated (see 2011 Revenue section) as new fourth quarter of 2011 shipments to Van Hool NV and UNDP-EMTU Brazil, were lower than fuel cell bus revenues in the fourth quarter of 2010 arising from shipments to Daimler and to the Transport for London fuel cell bus program. Stationary power revenues were relatively stable quarter over quarter as increased shipments of Dantherm Power backup power system products including a 150kW fuel cell system supplied to Anglo American Platinum Limited, were offset by a decline in shipments of hydrogen-based backup power units.

The following table provides a summary of our fourth quarter fuel cell stack shipments):

	Three months ended December 31,		
	2011	2010	% Change
Material handling	**799**	345	132%
Backup power	**124**	654	(81%)
Distributed generation	**7**	52	(87%)
Other	**12**	68	(82%)
Fuel Cell Stack Shipments	**942**	1,119	(16%)

In our Contract Automotive and Material Products segments, fourth quarter of 2011 revenues declined 44%, or $3.2 million, to $4.1 million compared to the fourth quarter of 2010. Contract Automotive segment revenues were down significantly as we completed our supply agreement with Daimler and made the final shipments of FCvelocity 1100 fuel cell products for Daimler's Hyway 2/3 programs in October 2011. Material Products segment revenues were down slightly as increased volumes of carbon friction material products were offset by lower fuel cell GDL shipments.

Gross margins declined to $4.1 million, or 20% of revenues, for the fourth quarter of 2011, compared to $5.1 million, or 24% of revenues, for the fourth quarter of 2010. The decline in gross margin is primarily as a result of lower shipments of higher margin fuel cell bus units combined with lower platinum prices in December 2011 which negatively impacted our fourth quarter platinum recycling efforts and the mark to market value of our 2012 platinum purchase contracts. These gross margin declines were partially offset by our ongoing product cost reduction efforts across all of our platforms.

Cash Operating Costs

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2011	**2010**	**$ Change**	**% Change**
Research and Product Development	**$ 4,169**	$ 4,353	$ (184)	(4%)
General and Administration	**2,308**	3,866	(1,558)	(40%)
Sales and Marketing	**1,892**	2,550	(658)	(26%)
Operating costs	**8,369**	10,769	(2,400)	(22%)
Less: Stock-based compensation (expense) recovery	**257**	(1,114)	1,371	123%
Cash Operating Costs	**$ 8,626**	$ 9,655	$ (1,029)	(11%)

Cash Operating Costs is a non-GAAP measure. We use certain Non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See reconciliation to GAAP in the Supplemental Non-GAAP Measures section. Cash Operating Costs adjusts operating expenses for stock-based compensation expense, depreciation and amortization, restructuring charges and acquisition costs.

Cash Operating Costs (see Supplemental Non-GAAP Measures) for the fourth quarter of 2011 were $8.6 million, a decline of $1.0 million, or 11%, compared to the fourth quarter of 2010. The 11% reduction in the fourth quarter of 2011 was driven by lower general and administrative and sales and marketing expenses primarily as a result of a downward adjustment to accrued compensation expense as a result of not achieving our corporate performance targets relating to revenue and Adjusted EBITDA for the year.

While excluded from Cash Operating Costs, stock-based compensation expense declined significantly in the fourth quarter of 2011 to a recovery position, as a result of a downward adjustment to accrued share-based compensation expense as certain outstanding restricted share units failed to meet the vesting criteria and were cancelled.

Adjusted EBITDA

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2011	2010	$ Change	% Change
Adjusted EBITDA	$ **(3,765)**	$ (3,588)	$ (177)	(5%)

EBITDA and Adjusted EBITDA are non-GAAP measures. We use certain Non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See reconciliation to GAAP in the Supplemental Non-GAAP Measures section. Adjusted EBITDA adjusts EBITDA for stock-based compensation expense, transactional gains and losses, finance and other income, and acquisition costs.

Adjusted EBITDA (see Supplemental Non-GAAP Measures) for the fourth quarter of 2011 was ($3.7) million, flat compared to the fourth quarter of 2010. Gross margin declines of $1.0 million in the fourth quarter of 2011 were primarily a result of lower shipments of higher margin fuel cell bus units, combined with lower platinum prices in December 2011 which negatively impacted our fourth quarter platinum recycling proceeds, and the mark to market value of our 2012 platinum purchase contracts. This decline in gross margin was offset by lower Cash Operating Costs of $1.0 million primarily as a result of a downward adjustment to accrued compensation expense as a result of not achieving our corporate performance targets relating to revenue and Adjusted EBITDA for the year.

Net loss attributable to Ballard

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2011	2010	$ Change	% Change
Net loss attributable to Ballard	$ **(7,289)**	$ (8,998)	$ 1,709	19%

Net loss attributable to Ballard for the fourth quarter of 2011 was ($7.3) million, or ($0.09) per share, compared to net loss of ($9.0) million, or ($0.11) per share, in the fourth quarter of 2010. The $1.7 million reduction in net loss for the fourth quarter of 2011 was driven by lower stock-based compensation expense of $1.4 million.

Net loss in the fourth quarter of 2011 includes a $1.7 million impairment charge related to the write-down of manufacturing equipment whereas net loss in the fourth quarter of 2010 includes an acceleration of depreciation expense of $2.3 million.

Cash provided by operating activities

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2011	2010	$ Change	% Change
Cash provided by operating activities	**$ 3,876**	$ 1,794	$ 2,082	116%

Cash provided by operating activities in the fourth quarter of 2011 was $3.9 million, an increase of $2.1 million compared to cash provided by operating activities of $1.8 million in the fourth quarter of 2010. The $2.1 million increase was driven by improvements in changes of working capital of $1.7 million combined with reductions in cash operating losses of $0.4 million.

RESULTS OF OPERATIONS – 2011

Revenue and gross margin

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2011	**2010**	$ Change	% Change
Fuel Cell Products	**$ 46,468**	$ 34,244	$ 12,224	36%
Contract Automotive	**9,305**	9,811	(506)	(5%)
Material Products	**20,236**	20,964	(728)	(3%)
Revenues	**76,009**	65,019	10,990	17%
Cost of goods sold	**62,124**	54,887	7,237	13%
Gross Margin	**$ 13,885**	$ 10,132	$ 3,753	37%
Gross Margin %	**18%**	16%	n/a	n/a

Our revenues in 2011 increased 17%, or $11.0 million, to $76.0 million, compared to $65.0 million for 2010. The 17% increase was driven by increases in our core Fuel Cell Products segment of 36%, or $12.2 million, which more than offset minor declines in our Contract Automotive and Material Products revenues.

While revenue growth for the year of 17% was less than expected, and less than our original 2011 full year guidance for growth in excess of 30%, the negative variance was largely attributable to delays in the timing of module shipments (particularly fuel cell bus modules to Brazil) initially planned in 2011 that are now expected in 2012. While we achieved significant revenue growth in 2011, the heightened risk factors to our original 2011 revenue guidance that were identified in our third quarter of 2011 Outlook update, ultimately ended up materializing. In particular, delays in the timing of completion of negotiations with Sao Paulo Transit Agency in Brazil for a 10 to 30 fuel cell bus RFP, resulted in the deferral of approximately $5 million of expected 2011 fuel cell bus module shipments. In addition, unexpected delays in the closing of fuel cell bus contracts in the United States and Europe, and planned backup power system contracts in Dantherm Power, resulted in an additional deferral of approximately $3.5 million from 2011. While delays in the timing of planned shipments negatively impacted 2011 results, these delays had a positive impact on our year-end 12-month order book which increased to $45.3 million, an improvement of 29% over 2010.

In our core Fuel Cell Products segment, 2011 revenues improved 36%, or $12.2 million, to $46.5 million compared to 2010, due to improvements in both our Motive power and Stationary power markets, combined with our increased focus on building our engineering services business. Motive power market increases were driven by higher fuel cell bus revenues as a result of new shipments in 2011 to Tuttotrasporti, Van Hool NV, UNDP, Daimler and FTA National Fuel Cell Bus Programs, partially offset by slightly lower material handling market revenues. Material handling revenues were down slightly due to a decline in service revenues and a change in sales mix to lower power units, which offset the overall impact of the increase in volume in support of Plug Power Inc.'s GenDrive™ systems. Stationary power revenues increased as a result of a change in sales mix to larger scale hydrogen-based backup power units which offset the overall impact of the decline in volume, increased shipments of distributed generation units, increased shipments of Dantherm Power backup power systems, and work performed on the K2 Pure Solutions and Toyota distributed power CLEARgen™ fuel cell system projects.

The following table provides a summary of our fuel cell stack shipments for the year:

	Years ended December 31,		
	2011	2010	% Change
Material handling	**1,422**	1,100	29%
Backup power	**1,447**	1,664	(13%)
Distributed generation	**176**	52	238%
Other	**220**	198	11%
Fuel Cell Stack Shipments	**3,265**	3,014	8%

In our Contract Automotive and Material Products segments, 2011 revenues declined 4%, or $1.2 million, to $29.5 million, compared to 2010. Contract Automotive segment revenues of $9.3 million were down 5%, or $0.5 million, due to slightly lower shipments of FCvelocity 1100 fuel cell products to Daimler. As we have now completed all FCvelocity 1100 shipments to Daimler under our initial supply agreement, this segment will cease to be an operating unit as of the end of 2011. Material Products segment revenues of $20.2 million were down 3%, or $0.7 million, as increased shipments of fuel cell GDL products were offset by lower carbon friction material product revenues.

Gross margins increased to $13.9 million, or 18% of revenues, for 2011, compared to $10.1 million, or 16% of revenues, for 2010. The increase in gross margin is primarily as a result of increased revenues in all of our Fuel Cell Products markets (except material handling) including increased shipments of higher margin fuel cell bus modules, combined with our ongoing product cost reduction efforts across all of our platforms, lower unabsorbed manufacturing overhead as a result of the higher overall volume, and improved warranty performance on our material handling and backup power products. These gross margin improvements were partially offset by lower margins in our Material Products segment.

Cash Operating Costs

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2011	**2010**	**$ Change**	**% Change**
Research and Product Development	**$ 21,623**	$ 23,766	$ (2,143)	(9%)
General and Administration	**10,838**	13,044	(2,206)	(17%)
Sales and Marketing	**9,487**	8,847	640	7%
Operating costs	**41,948**	45,657	(3,709)	(8%)
Less: Stock-based compensation	**(2,646)**	(3,579)	933	26%
Cash Operating Costs	**$ 39,302**	$ 42,078	$ (2,776)	(7%)

Cash Operating Costs is a non-GAAP measure. We use certain Non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See reconciliation to GAAP in the Supplemental Non-GAAP Measures section. Cash Operating Costs adjusts operating expenses for stock-based compensation expense, depreciation and amortization, restructuring charges and acquisition costs.

Cash Operating Costs (see Supplemental Non-GAAP Measures) for 2011 were $39.3 million, a decline of $2.8 million, or 7%, compared to 2010. The 7% reduction in 2011 was primarily as a result of operational efficiencies, the aggressive pursuit of government funding for our research and product development efforts, the redirection of engineering resources to revenue bearing engineering service projects, lower accrued compensation expense as a result of not achieving our corporate performance targets relating to revenue and Adjusted EBITDA for the year, and by lower operating costs in Dantherm Power as a result of our cost reduction efforts in the third quarter of 2010 which included a 25% workforce reduction. These expense reductions in 2011 were partially offset by increased investment in sales and marketing capacity in support of commercial efforts, and by the negative effects (approximately $2.0 million) of a 4% stronger Canadian dollar relative to the U.S. dollar on our Canadian operating cost base.

While excluded from Cash Operating Costs, stock-based compensation expense declined 26% in 2011, as compared to 2010, as a result of lower accrued share-based compensation expense as certain outstanding restricted share units failed to meet the vesting criteria and were cancelled.

Adjusted EBITDA

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2011	2010	$ Change	% Change
Adjusted EBITDA	$ **(22,295)**	$ (26,163)	$ 3,868	15%

EBITDA and Adjusted EBITDA are non-GAAP measures. We use certain Non-GAAP measures to assist in assessing our financial performance. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. See reconciliation to GAAP in the Supplemental Non-GAAP Measures section. Adjusted EBITDA adjusts EBITDA for stock-based compensation expense, transactional gains and losses, finance and other income, and acquisition costs.

Adjusted EBITDA (see Supplemental Non-GAAP Measures) for 2011 was ($22.3) million, an improvement of $3.9 million, or 15%, compared to 2010. The 15% reduction in Adjusted EBITDA loss in 2011 was driven by gross margin improvements of $3.8 million primarily as a result of the 17% increase in revenues, and by lower Cash Operating Costs of $2.8 million primarily as a result of our continued cost optimization efforts, which more than offset the negative impacts (approximately $2.0 million) of a 4% stronger Canadian dollar relative to the U.S. dollar on our Canadian operating cost base. A 1% increase in the Canadian dollar, relative to the U.S. dollar, negatively impacts annual Cash Operating Costs and Adjusted EBITDA by approximately $0.4 million to $0.5 million. These improvements in Adjusted EBITDA were partially offset by restructuring charges of $1.4 million in 2011, relating to a corporate leadership restructuring initiated in September 2011 and a Dantherm Power leadership restructuring initiated in March 2011, and by a decline in the net loss attributable to Dantherm Power's non-controlling interests of $1.2 million.

As part of our focus on profitability, we have taken steps to reduce our cost base in 2011. In addition to the measures taken earlier in the year at Dantherm Power to streamline its organization with the reduction in the number of executive officers, a similar action was taken at corporate headquarters in September of 2011, with a reduction in the number of executive officers from six to five. These actions have resulted in the above noted restructuring charge of $1.4 million for the year.

While improvement in Adjusted EBITDA of 15% for the year was less than expected and less than our original 2011 full year guidance for improvement in excess of 40%, the negative variance was largely attributable to the above noted delays in the timing of fuel cell bus shipments, combined with the above noted negative foreign exchange impacts of approximately $2.0 million and restructuring charges of $1.4 million that we were unable to offset. The heightened risk factors to our original 2011 Adjusted EBITDA guidance that were identified in our third quarter of 2011 Outlook update ultimately ended up materializing.

Net loss attributable to Ballard

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2011	2010	$ Change	% Change
Net loss attributable to Ballard	$ **(33,420)**	$ (31,532)	$ (1,888)	(6%)

Net loss attributable to Ballard for 2011 was ($33.4) million, or ($0.40) per share, compared to net loss of ($31.5) million, or ($0.37) per share, in 2010. Net loss in 2010 includes a $4.8 million transactional gain related to the monetization of the Share Purchase Agreement with Ford, as well as a gain on sale of property, plant and equipment of $3.3 million related to the land portion of the sale and leaseback of our head office building. Net loss in 2011 includes a $1.7 million impairment charge related to a write-down of manufacturing equipment.

Excluding the impact of these transactional gains of $8.1 million in 2010 and impairment charges of $1.7 million in 2011, Normalized Net Loss (see Supplemental Non-GAAP Measures) in 2011 would have improved by $7.9 million, or 20%, as compared to 2010.

Cash used by operating activities

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2011	2010	$ Change	% Change
Cash used by operating activities	**$ (33,221)**	$ (29,312)	$ (3,909)	(13%)

Cash used by operating activities in 2011 increased by ($3.9) million to ($33.2) million, compared to ($29.3) million for 2010. The increase in cash used by operating activities of ($3.9) million was driven by increased working capital requirements of ($10.2) million, which more than offset reductions in cash operating losses of $6.3 million.

Total working capital requirements of ($6.7) million in 2011 were driven by higher accounts receivable of $4.3 million as a result of the timing of revenues and the related customer collections, combined with increased inventory levels of $1.3 million to support future growth. This compares to total working capital sources of $3.5 million in 2010.

OPERATING EXPENSES AND OTHER ITEMS

Research and product development expenses

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
Research and product development	**2011**	2010	$ Change	% Change
Research and product development expense	**$ 5,125**	$ 6,887	$ (1,762)	(26%)
Less: depreciation and amortization expense	**$ (956)**	$ (2,534)	$ 1,578	62%
Research and product development	**$ 4,169**	$ 4,353	$ (184)	(4%)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
Research and product development	**2011**	2010	$ Change	% Change
Research and product development expense	**$ 25,480**	$ 28,749	$ (3,269)	(11%)
Less: depreciation and amortization expense	**$ (3,857)**	$ (4,983)	$ 1,126	23%
Research and product development	**$ 21,623**	$ 23,766	$ (2,143)	(9%)

Research and product development expenses for the three months ended December 31, 2011 were $5.1 million, a decrease of $1.8 million, or 26%, compared to the corresponding period of 2010. Excluding depreciation and amortization expense of $1.0 million and $2.5 million, respectively, research and product development expense declined $0.2 million, or 4%, compared to 2010. Depreciation and amortization expense of $2.5 million in the fourth quarter of 2010 includes a charge related to the acceleration of depreciation expense of $1.5 million for research and product development assets that were considered no longer in use or impaired.

Research and product development expenses for the year ended December 31, 2011 were $25.5 million, a decrease of $3.3 million, or 11%, compared to 2010. Excluding depreciation and amortization expense of $3.9 million and $5.0 million, respectively, research and product development expense declined $2.1 million, or 9%, compared to 2010.

The respective 4% and 9% reductions in 2011 were primarily as a result of the aggressive pursuit of government funding for our research and product development efforts, the redirection of engineering resources to revenue bearing engineering service projects, lower operating costs in Dantherm Power as a result of our cost reduction efforts in the third quarter of 2010 which included a 25% workforce reduction, and downward adjustments to accrued share-based and cash-based compensation expense in 2011 as a result of not achieving our corporate performance targets relating to revenue and Adjusted EBITDA for the year.

Government research funding is reflected as a cost offset to research and product development expenses. These expense reductions and improved cost recoveries in 2011 were partially offset by the negative effects of a 4% stronger Canadian dollar relative to the U.S. dollar on our Canadian operating cost base.

General and administrative expenses

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
General and administrative	**2011**	2010	$ Change	% Change
General and administrative expense	**$ 2,464**	$ 5,026	$ (2,562)	(51%)
Less: Depreciation and amortization expense	**$ (77)**	$ (1,160)	$ 1,083	93%
Less: Restructuring expense	**$ (79)**	$ -	$ (79)	n/a
General and administrative	**$ 2,308**	$ 3,866	$ (1,558)	(40%)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
General and administrative	**2011**	2010	$ Change	% Change
General and administrative expense	**$ 12,500**	$ 14,777	$ (2,277)	(15%)
Less: Depreciation and amortization expense	**$ (306)**	$ (1,448)	$ 1,142	79%
Less: Restructuring expense	**$ (1,356)**	$ (285)	$ (1,071)	376%
General and administrative	**$ 10,838**	$ 13,044	$ (2,206)	(17%)

General and administrative expenses for the three months ended December 31, 2011 were $2.5 million, a decrease of $2.6 million, or 51%, compared to the corresponding period of 2010. Excluding depreciation and amortization expense and restructuring charges, general and administrative expense declined $1.6 million, or 40%, compared to 2010. The 40% reduction in the fourth quarter of 2011 was driven by downward adjustments to accrued share-based and cash-based compensation expense in 2011 as a result of not achieving our corporate performance targets relating to revenue and Adjusted EBITDA for the year, combined with lower impairment losses on trade receivables. General and administrative expense includes impairment losses on trade receivables of $0.3 million and $0.7 million, respectively, in the fourth quarters of 2011 and 2010. Depreciation and amortization expense of $1.2 million in the fourth quarter of 2010 includes a charge related to the acceleration of depreciation expense of $0.8 million for information technology assets that were considered no longer in use or impaired.

General and administrative expenses for the year ended December 31, 2011 were $12.5 million, a decrease of $2.3 million, or 15%, compared to 2010. Excluding depreciation and amortization expense and restructuring charges, general and administrative expense declined $2.2 million, or 17%, compared to 2010. The 17% expense reduction in 2011 was driven by lower accrued compensation expense combined with lower impairment losses on trade receivables and the continued cost optimization efforts across the company. General and administrative expense includes impairment losses on trade receivables of $0.1 million and $0.7 million, respectively, in 2011 and 2010. These expense reductions were partially offset by the negative effects of a 4% stronger Canadian dollar relative to the U.S. dollar on our Canadian operating cost base.

Restructuring charges of $1.4 million in 2011 relate to a Dantherm Power leadership restructuring initiated in March 2011 and a corporate leadership restructuring initiated in September 2011, whereas the restructuring charge of $0.3 million in 2010 relates to a 25% workforce reduction initiated at Dantherm Power in August 2010.

Sales and marketing expenses

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
Sales and marketing	**2011**	2010	$ Change	% Change
Sales and marketing expense	**$ 1,892**	$ 2,734	$ (842)	(31%)
Less: acquisition costs	**$ -**	$ (184)	$ 184	100%
Sales and marketing	**$ 1,892**	$ 2,550	$ (658)	(26%)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
Sales and marketing	**2011**	2010	$ Change	% Change
Sales and marketing expense	**$ 9,487**	$ 9,113	$ 374	4%
Less: acquisition costs	**$ -**	$ (266)	$ (266)	100%
Sales and marketing	**$ 9,487**	$ 8,847	$ 640	7%

Sales and marketing expenses for the three months ended December 31, 2011 were $1.9 million, a decrease of $0.8 million, or 31% compared to the corresponding period of 2010. The 31% reduction in the fourth quarter of 2011 was driven by downward adjustments to accrued share-based and cash-based compensation expense as a result of not achieving our corporate performance targets relating to revenue and Adjusted EBITDA for the year.

Sales and marketing expenses for 2011 were $9.5 million, an increase of $0.4 million, or 4% compared to 2010. The 4% increase in 2011 was primarily as a result of increased investment in sales and marketing capacity in support of commercial efforts, combined with the negative effects of a 4% stronger Canadian dollar relative to the U.S. dollar on our Canadian operating cost base. This increase was partially offset by lower accrued compensation expenses and acquisition costs of $0.3 million in 2010 related to costs incurred for the acquisition of Dantherm Power.

Finance and other income (loss) for the three months ended December, 2011 were $0.1 million, a decrease of $0.5 million, compared to the corresponding period of 2010. Finance and other income (loss) for the year ended December 31, 2011 were $0.2 million, an increase of $0.3 million, compared to 2010. The following table provides a breakdown of our finance and other income (loss) for the reported periods:

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2011	2010	$ Change	% Change
Employee future benefit plan expense	**$ (37)**	$ (124)	$ 87	70%
Investment income	**77**	155	(78)	(50%)
Foreign exchange gain (loss)	**38**	484	(446)	(92%)
Other income	**-**	46	(46)	(100%)
Finance and other income (loss)	**$ 78**	$ 561	$ (483)	(86%)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2011	2010	$ Change	% Change
Employee future benefit plan expense	**$ (37)**	$ (124)	$ 87	70%
Investment income	**303**	323	(20)	(6%)
Foreign exchange gain (loss)	**(71)**	(527)	456	86%
Other income	**-**	224	(224)	(100%)
Finance and other income (loss)	**$ 195**	$ (104)	$ 299	288%

Employee future benefit plan expense for the three months and year ended December 31, 2011 were $0.1 million, respectively, compared to an expense of and $0.1 million, respectively, for the corresponding periods of 2010. Employee future benefit plan expense primarily represents the excess of interest cost over the expected return on plan assets on a curtailed defined benefit pension plan for our current and former United States employees.

Investment income approximated between $0.1 million and $0.3 million, respectively, for the three months and years ended December 31, 2011 and 2010 and was earned on our cash, cash equivalents and short-term investments.

Foreign exchange gains and losses are attributable to the effect of the changes in the value of the Canadian dollar, relative to the U.S. dollar, on our Canadian dollar-denominated net monetary position. At December 31, 2011, our Canadian dollar-denominated assets (cash, cash equivalents and short-term investments approximated our Canadian dollar-denominated liabilities (capital lease obligations, warranty obligations and accounts payable and accrued liabilities), resulting in an insignificant foreign exchange loss in 2011. During 2011, we increased our Canadian dollar denominated cash reserves to better balance our overall balance sheet exposure to currency fluctuations. The foreign exchange loss in 2010 of $0.5 million resulted primarily from the impact of a strengthening Canadian dollar on our Canadian dollar-denominated net liability position at that time. At December 31, 2010, our Canadian dollar-denominated liabilities (capital lease obligations, warranty obligations and accounts payable and accrued liabilities) exceeded our Canadian dollar-denominated assets (cash and short-term investments).

Finance expense for the three months and year ended December 31, 2011 was $0.5 million and $1.4 million, respectively, compared to $0.3 million and $0.9 million, respectively, for the corresponding periods of 2010. Finance expense relates primarily to the sale and leaseback of our head office building in Burnaby, British Columbia which was completed on March 9, 2010. Due to the long term nature of the lease, the leaseback of the building qualifies as a finance (or capital) lease.

Gain on sale of property, plant and equipment for the year ended December 31, 2011 was $0.7 million and relates primarily to a gain on sale of property, plant and equipment to Mercedes-Benz Canada Inc. in conjunction with the sub-lease of 21,000 square feet of surplus production space in Burnaby, B.C, effective in August 2011.

Gain on sale of assets for the year ended December 31, 2010 was $8.1 million, and consists of a gain of $4.8 million related to the monetization of the Share Purchase Agreement with Ford, and a gain of $3.3 million on the land component of the sale and leaseback of our head office building in Burnaby, B.C. in March, 2010.

The $4.8 million gain resulted from the extinguishment of the contingent payment related to the 2009 monetization of our rights under the Share Purchase Agreement with Ford relating to our 19.9% equity investment in AFCC. This Share Purchase Agreement has been fully monetized for $42.0 million, comprising an initial cash payment of $37.0 million received in 2009 and a subsequent contingent cash payment of $5.0 million received in 2010.

The $3.3 million gain on the land component of the sale and leaseback of our head office building in 2010 was retroactively recorded on our conversion to IFRS. Under former Canadian GAAP, sale and leaseback gains are deferred and amortized over the term of the lease when the leaseback is classified as an operating lease. Under IFRS, such gains are recognized immediately if the sale and leaseback transaction results in an operating lease, and is undertaken at fair value. As the land component of our March 2010 sale and leaseback of our head office building was determined to be an operating lease and therefore met this IFRS criteria for immediate gain recognition, the unamortized portion of the deferred gain of $3.3 million attributed to the land leaseback has been recognized in 2010 net income on application of IFRS, and the related deferred gain of $3.3 million previously recorded under Canadian GAAP has been derecognized in the presented 2010 comparative financial information. The $6.2 million remaining balance of the $9.5 million deferred gain initially recorded under former Canadian GAAP on the closing of this transaction in 2010 relates solely to the building component of the sale and leaseback transaction. This $6.2 million building component did not meet the above operating lease criteria as it was determined to be a Finance (or “capital”) lease under IFRS and therefore remains recorded as a deferred gain ($5.7 million deferred gain as of December 31, 2011) which is being recognized to income under IFRS on a straight-line basis over the term of the 15-year lease.

Impairment loss on property, plant and equipment for the three months and year ended December 31, 2011 was $1.7 million and consists primarily of an impairment charge related to a write-down of manufacturing equipment.

Net loss attributed to non-controlling interests for the three months and year ended December 31, 2011 was $0.3 million and $2.7 million, respectively, compared to $0.3 million and $3.9 million, respectively, for the corresponding periods of 2010. Amounts represent the non-controlling interest of Dantherm A/S and Danfoss A/S in the losses of Dantherm Power as a result of their 48% total equity interest. The improved performance in 2011 at Dantherm Power is primarily a result of lower operating costs in 2011 as a result of our continued cost reduction efforts which included a leadership restructuring in the first quarter of 2011 and a 25% workforce reduction initiated in the third quarter of 2010. These benefits were partially offset by a restructuring charge recorded in the first quarter of 2011 related to the above noted Dantherm Power leadership restructuring.

SUMMARY OF QUARTERLY RESULTS

The following table provides summary financial data for our last eight quarters:

(Expressed in thousands of U.S. dollars, except per share amounts which are expressed in thousands)	Quarter ended,			
	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011
Revenues	$ 20,996	$ 20,602	$ 19,112	$ 15,299
Net income (loss) attributable to Ballard	$ (7,289)	$ (6,991)	$ (8,630)	$ (10,511)
Net income (loss) per share attributable to Ballard, basic and diluted	$ (0.09)	$ (0.08)	$ (0.10)	$ (0.12)
Weighted average common shares outstanding	84,549	84,548	84,456	84,205

	Dec 31, 2010	Sep 30, 2010	June 30, 2010	Mar 31, 2010
Revenues	$ 21,083	$ 16,528	$ 15,526	$ 11,882
Net income (loss) attributable to Ballard	$ (8,998)	$ (5,559)	$ (10,411)	$ (6,564)
Net income (loss) per share attributable to Ballard, basic and diluted	$ (0.11)	$ (0.07)	$ (0.12)	$ (0.08)
Weighted average common shares outstanding	84,140	84,128	84,127	84,012

Summary of Quarterly Results: There were no significant seasonal variations in our quarterly results. Variations in our net income (loss) for the above periods were affected primarily by the following factors:

- **Revenues**: Variations in fuel cell revenues reflect the timing of our customers' fuel cell vehicle, bus and fuel cell product deployments. Variations in fuel cell revenues also reflect the timing of work performed and the achievements of milestones under long-term fixed price contracts.

- **Operating expenditures**: Operating expenses were negatively impacted by restructuring charges of $0.4 million in the third quarter of 2011 as a result of a corporate leadership restructuring, restructuring charges of $1.0 million in the first quarter of 2011 as a result of a leadership restructuring in Dantherm Power, and by restructuring charges of $0.3 million in the third quarter of 2010 as a result of a 25% workforce reduction at Dantherm Power. Restructuring charges are recognized in general and administrative expense.

Operating expenses were negatively impacted in the fourth quarter of 2010 due an acceleration of depreciation expense of $2.3 million for equipment that was considered no longer in use or impaired. The $2.3 million depreciation charge was recognized in product development expense ($1.5 million) and general and administrative expense ($0.8 million).

Operating expenses also include the impact of changes in the value of the Canadian dollar, versus the U.S. dollar, on our Canadian dollar denominated expenditures.

- **Gain on sale of assets:** The net loss for the first quarter of 2010 was positively impacted by a gain on the sale of the land component of the sale and leaseback of our head office building of $3.3 million. The net loss for the third quarter of 2010 was positively impacted by a gain on the stub period monetization of the Share Purchase Agreement with Ford of $4.8 million.

- **Impairment loss on property, plant and equipment** : The net loss for the fourth quarter of 2011 was negatively impacted by an impairment charge of $1.7 million related to the write-down of manufacturing equipment never put into use.

CASH FLOWS

Cash, cash equivalents and short-term investments were $46.2 million (or $41.6 million net of Operating Facility draws of $4.6 million) at December 31, 2011, compared to $74.4 million at the end of 2010. The decrease of ($28.2) million in 2011 was driven by a net loss (excluding non-cash items) of ($26.5) million, working capital requirements of ($6.7) million and capital expenditures (net of proceeds on sale and leaseback of capital equipment) of ($2.2) million. These outflows were partially offset by cash proceeds of $1.7 million from the sale of property, plant and equipment to MBC in advance of the sub-lease of 21,000 square feet of surplus production space in Burnaby, B.C., by convertible debt financing of $1.7 million to Dantherm Power by the non-controlling partners, and by the above noted net cash advances on our Operating Facility of $4.6 million.

For the three months ended December 31, 2011 and 2010, working capital requirements resulted in cash inflows of $8.7 million and $7.0 million, respectively. In the fourth quarter of 2011, net cash inflows of $8.7 million were driven by lower accounts receivable of $3.3 million due primarily to the timing of collections of our fuel cell product and service revenues, lower inventory of $1.9 million as we consumed previously built-up inventory in order to fulfill the higher product shipments in the fourth quarter, and higher deferred revenue and cost recovery of $2.0 million as we received the next tranches of SDTC government funding for our distributed generation and bus projects in advance of incurring the related research and product development expenditures. Working capital inflows in the fourth quarter of 2010 of $7.0 million were driven by lower inventory of $4.0 million as we consumed previously built-up inventory in order to fulfill the higher product shipments in the fourth quarter, and higher deferred revenue and cost recovery of $2.1 million as a result of the receipt of customer payments and government funding awards in advance of work performed.

For the year ended December 31, 2011, working capital requirements resulted in cash outflows of ($6.7) million, compared to inflows of $3.5 million for 2010. In 2011, net cash outflows of ($6.7) million were driven by higher accounts receivable of ($4.3) million due primarily to the timing of collections of our fuel cell product and service revenues, higher inventory of ($1.3) million due primarily to the buildup of inventory to support expected higher product shipments 2012, and by lower accounts payable and accrued liabilities of ($1.7) million due primarily to the timing of supplier payments. In 2010, net cash inflows of $3.5 million were driven by increased accounts payable and accrued liabilities of $2.9 million due primarily to higher 2010 accrued annual employee bonuses as compared to 2009, combined with higher payables to suppliers as a result of our increased inventory and production levels. In addition, net cash inflows in 2010 benefited from lower prepaid expenses of $1.3 million as a result of lower insurance and information technology license renewal costs and higher deferred revenue and cost recovery of $1.0 million as a result of the receipt of customer payments and government funding awards in advance of work performed. These 2010 inflows were partially offset by cash outflows as a result of increased inventory of ($2.4) million due to the buildup of inventory to support expected future fuel cell shipments in 2011.

Investing activities resulted in cash outflows of ($15.5) million and ($3.8) million, respectively, for the three months and year ended December 31, 2011, compared to cash inflows of $9.8 million and $38.3 million, respectively, for the corresponding periods in 2010. Changes in short-term investments resulted in cash outflows of ($15.6) million and ($3.4) million, respectively, for the three months and year ended December 31, 2011, compared to cash inflows of $10.7 million and $17.7 million, respectively, for the corresponding periods of 2010. Balances changed between cash equivalents and short-term investments as we make investment decisions with regards to the term of investments and our future cash requirements.

Other Investing activities in 2011 also include proceeds of $1.7 million received from MBC on the closing of the facilities sub-lease agreement, proceeds on sale and leaseback of capital equipment of $1.9 million, and capital expenditures of ($4.1) million primarily for manufacturing equipment in order to build production capacity. Other investing activities in 2010 include net proceeds received on the closing of the head office building sale and leaseback transaction of $19.9 million, net proceeds of $4.8 million on the extinguishment of the contingent payment related to the 2009 monetization of the Share Purchase Agreement with Ford less the payment of accrued costs of ($1.4) million related to the initial monetization which closed in December 2009, and net cash received of $0.9 million on the acquisition of Dantherm Power, partially offset by capital expenditures of ($3.5) million.

Financing activities resulted in cash outflows of ($3.1) million and cash inflows of $5.1 million, respectively, for the three months and year ended December 31, 2011, compared to cash outflows of ($0.6) million and ($0.4) million, respectively, for the corresponding periods of 2010. Financing activities in the fourth quarter of 2011 primarily represent net repayments against our Operating Facility of ($2.7) million, whereas financing activities in 2011 primarily represent total advances, net of repayments, of $4.6 million on our Operating Facility. The Operating Facility is used to assist with the financing of working capital requirements. Financing activities in 2011 also include proceeds on convertible debenture financing from the Dantherm Power non-controlling interests to Dantherm Power of $1.7 million for the year. These financing inflows in 2011 were partially offset by finance lease payments of ($0.8) million and treasury stock purchases of ($0.3) million under our market purchase restricted share unit plan. Financing activities in 2010 primarily represent the minority partner cash contribution to Dantherm Power for the second tranche investment of 5.0 million Danish Kroner, or $0.9 million in August 2010, less capital lease payments of ($0.8) million and treasury stock purchases of ($0.6) million.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011, we had total Liquidity of $41.6 million. We measure Liquidity as our net cash reserves, consisting of the sum of our cash, cash equivalents and short-term investments of $46.2 million, net of amounts drawn on our $10 million Canadian demand revolving facility (“Operating Facility”) of $4.6 million. The Operating Facility is used to assist in financing our short term working capital requirements and is secured by a hypothecation of our cash, cash equivalents and short-term investments.

We also have a $3.3 million Canadian capital leasing facility ("Leasing Facility") which is used to finance the acquisition and / or lease of operating equipment and is secured by a hypothecation of our cash, cash equivalents and short-term investments. At December 31, 2011, $3.2 million was outstanding on the Leasing Facility.

We will use our funds to meet net funding requirements for the development and commercialization of products in our target markets. This includes research and product development for fuel cells and material products, the purchase of equipment for our manufacturing and testing facilities, the further development of business systems and low-cost manufacturing processes, the further development of our sales and marketing, product distribution and service capabilities, and working capital requirements to grow our business.

At this stage of our development, we may record net cash losses for at least the next few years as we continue to make significant investments in research and product and market development activities necessary to commercialize our products, combined with increased investments in working capital as we grow our business. Our actual funding requirements will vary based on the factors noted above, our relationships with our lead customers and strategic partners, our success in developing new channels to market and relationships with customers, our success in generating revenue growth from near-term product opportunities, our success in managing our working capital requirements, foreign exchange fluctuations, and the progress and results of our research, development and demonstration programs.

Our financial strategy is to manage our cash resources with strong fiscal discipline, focus on markets with high product and service revenue growth potential, license technology in cases where it is advantageous to us, and access available government funding for research and development projects. Our current financing principle is to maintain cash balances sufficient to fund at least six quarters of forecasted cash used by operating activities at all times.

2012 BUSINESS OUTLOOK

As a result of the increase in our year-end 12-month order book to $45.3 million, the continued improvements in our financial results over the past two years combined with signs of increasing overall market momentum, we have a strong outlook for 2012, with expectations for:

- Revenue of approximately $100 million; and

- Adjusted EBITDA of approximately breakeven.

Consistent with the past couple of years, we expect a majority of our 2012 revenue to be realized in the second half of the year. Our business revenue outlook for 2012 is based on our internal revenue forecast which reflects an assessment of overall business conditions and takes into account actual sales in the first two months of 2012, sales orders received for units and services to be delivered in 2012, and an estimate with respect to the generation of new sales in each of our markets. Our 2012 business revenue outlook is also supported by our 12-month order book of $45.3 million at December 31, 2011 ($35.0 million at December 31, 2010). The primary risk factor that could cause us to miss our target revenue guidance for 2012 are delays from forecast in terms of closing and shipping expected sales orders, primarily in our Brazilian and European bus markets and in our backup power markets.

The key drivers for this expected improvement in Adjusted EBITDA for 2012 are expected increases in gross margins driven primarily by aggressive product cost reduction efforts combined with the above noted overall increase in expected revenues and a shift in product mix to higher margin fuel cell buses, supported by continued operating expense optimization and a resulting reduction in Cash Operating Costs (see Supplemental Non-GAAP Measures section) from 2011. Consistent with the expectation that a majority of our 2012 revenue will fall in the last half of the year, Adjusted EBITDA is expected to be materially improved in the last half of 2012, as compared to the first half of 2012. Our Adjusted EBITDA outlook for 2012 is based on our internal Adjusted EBITDA forecast and takes into account our forecasted gross margin related to the above revenue forecast, the costs of our current and forecasted Cash Operating Costs, and assumes an average U.S. dollar exchange rate of 1.00 in relation to the Canadian dollar. The primary risk factor that could cause us to miss our target Adjusted EBITDA outlook for 2012 are lower than expected gross margins due to (i) lower revenues from forecast due to unexpected delays in terms of closing and shipping expected sales orders; (ii) shifts in product sales mix negatively impacting projected gross margin as a percentage of revenues; or (iii) delays in the timing of our projected product cost reductions. In addition, Adjusted EBITDA could also be negatively impacted by increases in Cash Operating Costs as a result of (i) increased product development costs due to unexpected delays in new product introductions or by lower than anticipated government cost recoveries; or (ii) negative foreign exchange impacts as a result of a higher than expected Canadian dollar. A 1% increase in the Canadian dollar, relative to the U.S. dollar, negatively impacts Adjusted EBITDA and Cash Operating Costs by approximately $0.4 million to $0.5 million.

Similar to prior years and consistent with our revenue and Adjusted EBITDA performance expectations for the year and the resulting impacts on gross margin and working capital, we expect cash used in operating activities in 2012 to be materially higher in the first and second quarters of 2012, as compared to the third and fourth quarters of 2012. Cash used in operating activities in the first two quarters of 2012 is expected to be negatively impacted by the buildup of inventory to support higher product shipments in the third and fourth quarters, the payment of accrued 2011 annual employee bonuses, and by the timing of revenues and the related customer collections which are also skewed towards the last half of the year.

Finally, we will continue our focus on maintaining a strong liquidity position. We ended 2011 with cash, cash equivalents and short-term investments of $46.2 million (or $41.6 million net of Operating Facility draws of $4.6 million). We believe that with continued focus on improving gross margin performance, managing our Cash Operating Costs and our working capital requirements, we have sufficient liquidity to reach profitability without the need for additional public market financing. However, we may choose to access additional capital under circumstances advantageous to the Company.

OFF-BALANCE SHEET ARRANGEMENTS & CONTRACTUAL OBLIGATIONS

Periodically, we use forward foreign exchange and forward platinum purchase contracts to manage our exposure to currency rate fluctuations and platinum price fluctuations. We record these contracts at their fair value as either assets or liabilities on our balance sheet. Any changes in fair value are either (i) recorded in our statement of comprehensive income if formally designated and qualified under hedge accounting criteria; or (ii) recorded in our statement of operations if either not designated, or not qualified, under hedge accounting criteria.

At December 31, 2011, we had outstanding foreign exchange currency contracts (qualified under hedge accounting criteria) to purchase a total of Canadian $7.0 million at an average rate of $1.02 Canadian per $1.00 United States, resulting in an unrealized gain of $0.1 million recorded in other comprehensive income. In addition, we had outstanding platinum forward purchase contracts (not qualified under hedge accounting criteria) to purchase 1,750 troy ounces of platinum at an average rate of $1,550 per troy ounce, resulting in an unrealized loss of $0.3 million recorded in cost of product and service revenues.

At December 31, 2010, we did not have any other material obligations under guarantee contracts, retained or contingent interests in transferred assets, outstanding derivative instruments or non-consolidated variable interests.

We have committed to make future capital contributions of $0.1 million in Chrysalix, in which we have a limited partnership interest.

At December 31, 2011 we had the following contractual obligations and commercial commitments:

(Expressed in thousands of U.S. dollars)		Payments due by period,			
Contractual Obligations	**Total**	Less than one year	1-3 years	3-5 years	After 5 years
Operating leases	**$ 23,570**	$ 2,465	$ 4,987	$ 5,379	$ 10,739
Capital leases	**21,875**	1,882	4,161	3,569	12,263
Asset retirement obligations	**6,144**	-	-	-	6,144
Total contractual obligations	**$ 51,589**	$ 4,347	$ 9,148	$ 8,948	$ 29,146

In addition to the contractual purchase obligations above, we have outstanding commitments $0.9 million related primarily to purchases of capital assets as at December 31, 2011. Capital expenditures pertain to our regular operations and are expected to be funded through cash on hand.

The Arrangement with Superior Plus includes an indemnification agreement dated December 31, 2008 (the "Indemnity Agreement"), which sets out the parties' continuing obligations to the other. The Indemnity Agreement has two basic elements: it provides for the indemnification by each of the parties to the other for breaches of representations and warranties or covenants as well as, in our case, any liability relating to our business which is suffered by Superior Plus. Our indemnity to Superior Plus with respect to our representation relating to the existence of our tax pools immediately prior to the completion of the Arrangement is limited to an aggregate of $7.4 million (Canadian $7.4 million) with a threshold amount of $0.5 million (Canadian $0.5 million) before there is an obligation to make a payment. Second, the Indemnity Agreement provides for adjustments to be paid by us, or to us, depending on the final determination of the amount of our Canadian non-capital losses, scientific research and development expenditures and investment tax credits generated to December 31, 2008, to the extent that such amounts are more or less than the amounts estimated at the time the Arrangement was executed. At December 31, 2011, we have not accrued any amount owing, or receivable, as a result of the Indemnity Agreement.

RELATED PARTY TRANSACTIONS

Related parties include shareholders with a significant ownership interest in us, together with their subsidiaries and affiliates, our key management personnel, and our minority interest partners in Dantherm Power. Revenues and costs recognized from such transactions reflect the prices and terms of sale and purchase transactions with related parties, which are in accordance with normal trade practices at fair value. Related party transactions and balances are as follows:

(Expressed in thousands of U.S. dollars)	Years Ended December 31,	
Transactions with related parties	**2011**	2010
Revenues	**$ -**	$ 134
Purchases	**744**	1,301
Key management personnel compensation	**5,384**	6,103

(Expressed in thousands of U.S. dollars)	As at December 31,	
Balances with related parties	**2011**	2010
Accounts payable and accrued liabilities	**$ 260**	$ 517
Convertible debenture payable	**$ 1,592**	$ -

OUTSTANDING SHARE DATA

As at February 21, 2012	
Common share outstanding	84,550,524
Options outstanding	7,594,801

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Effective January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information in accordance with IFRS, the effective transition date is January 1, 2010. The year ended December 31, 2011 is our first reporting period under IFRS.

Our consolidated financial statements for the year ended December 31, 2011 are our first annual financial statements that comply with IFRS. As 2011 is our first year of reporting under IFRS, *IFRS 1 First-time Adoption of IFRS* is applicable. In accordance with IFRS 1, we have applied IFRS retrospectively as of January 1, 2010, for comparative purposes as if IFRS had always been in effect, subject to certain mandatory exceptions and optional exemptions applicable to us, discussed below.

Senior management and the Audit Committee have approved the Company's IFRS accounting policies which were initially presented in our unaudited interim consolidated condensed financial statements for the three months ended March 31, 2011. Our final IFRS accounting policies are detailed in note 3 to our annual consolidated financial statements. Our final IFRS accounting policies include a change in accounting policy (see below) from what was initially disclosed in our first quarter of 2011 MD&A relating to a change in how we will account for employee future benefit expenses.

TRANSITIONAL ELECTIONS (under IFRS 1 First Time Adoption)

The following summary provides details of the opening statement of financial position transitional provisions which were adopted effective January 1, 2010.

- *Share Based Payments*: *IFRS 2, Share Based Payment*: As allowed, we did not restate share-based payment balances in relation to fully vested awards of share-based payments prior to January 1, 2010.

- *Property, plant and equipment ("PP&E")* : No transitional elections were taken. The Company has elected to retain assets at historical cost upon transition rather than taking the allowed election to recognize assets at fair value.

- *Business Combinations*: The Company did not retrospectively restate any business combinations; IFRS 3 has been applied prospectively to acquisitions after January 1, 2010.

- *Cumulative Translation Adjustments*: All cumulative translation adjustments and associated gains and losses have been "reset" to zero as at the date of transition, with all historic amounts transferred from accumulated other comprehensive loss to retained earnings.

- *Employee Future Benefits (additional Transitional Election from those disclosed in our first quarter of 2011 MD&A*): We elected to apply the optional election in IFRS 1 and recognized all cumulative unrecognized actuarial gains and losses through retained earnings as at the date of transition.

IFRS OPENING STATEMENT OF FINANCIAL POSITION

Note 27 to our consolidated financial statements summarize the quantitative impact on the consolidated statement of financial position of our transition to IFRS at January 1, 2010.

ADDITIONAL IMPACTS ON OUR IFRS 2010 FINANCIAL STATEMENTS

In addition to the above noted impacts on our consolidated statement of financial position at January 1, 2010, the following matters have impacted our 2010 consolidated financial statements as a result of our conversion to IFRS:

- *Accelerated recognition of sale and leaseback gains* : Under former Canadian GAAP, sale and leaseback gains were deferred and amortized over the term of the lease when the leaseback was classified as an operating lease. Under IFRS, such gains may be recognized upfront if the sale and leaseback transaction results in an operating lease, and is undertaken at fair value. As the land component of our March 2010 sale and leaseback of our head office building met this criteria, the unamortized portion of the deferred gain under former Canadian GAAP of $3.3 million attributed to the land leaseback has been fully recognized in our net income for the year ended December 31, 2010 under IFRS.

- *Foreign Currency Translation of Subsidiary (Dantherm Power)* : Under IFRS, the functional currency of the subsidiary determines the translation methodology. As Dantherm Power's functional currency has been assessed as the Danish Kroner under IFRS, Dantherm Power is consolidated under IFRS using the current rate method. Under former Canadian GAAP, Dantherm Power was translated using the temporal method.

- *Actuarial gains and losses on Employee Future Benefit Plans (additional impact from those disclosed in our first quarter of 2011 MD&A):* Under IFRS, actuarial gains and losses arising from defined benefit plans and post-retirement benefit plans may be recorded immediately in either net income or other comprehensive income. Under former Canadian GAAP, our accounting policy was to recognize actuarial gains and losses in net income. On adoption of IFRS, we have elected to recognize actuarial gains and losses in other comprehensive income. As a result, net actuarial gains expensed under former Canadian GAAP in Finance and Other Income of $0.1 million for the year ended December 31, 2010 has been reclassified to other comprehensive income under IFRS.

IFRS ACCOUNTING POLICY IMPACTS

In addition to the transitional and other impacts described above, there are several accounting policy selections that have impacted the Company on a go-forward basis. This is not an exhaustive list, but it provides an indication of the main accounting policy choices which applied to the Company under IFRS effective January 1, 2011, with comparatives presented for 2010:

- Share-based payments: All share-based payments are valued at fair value under IFRS using an option pricing model. The Company has selected the Black Scholes option pricing model. This is consistent with the Company's historic accounting policy under former Canadian GAAP. However, under IFRS, the valuation of stock options and restricted share unit ("RSU") awards requires individual "tranche based" valuations for those option and RSU plans with graded vesting, while former Canadian GAAP allows a single valuation for all tranches. Therefore, under IFRS each installment of option and RSU award will be treated as a separate option or RSU grant, and the fair value of each installment will be amortized over each installment's vesting period instead of recognizing the entire award on a straight-line basis over the term of the grant. The impact of this change on net income for the periods presented has not been significant.

- *Property, Plant and Equipment ("PP&E")* : Under IFRS, PP&E may be accounted for using either a cost or revaluation model. We have elected to use the cost model under IFRS for all classes of property, plant and equipment. As this is consistent with our historic accounting policy under former Canadian GAAP, this election has not impacted our PP&E balances.

- *Impairment of Assets*: If there is an indication that an asset may be impaired, an impairment test must be performed. Under former Canadian GAAP, this is a two-step impairment test in which (i) undiscounted future cash flows are compared to the carrying value; and (ii) if those undiscounted cash flows are less than the carrying value, the asset is written down to fair value. Under IFRS, an entity is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If indicators of impairment exist, the entity shall estimate the recoverable amount of the asset by performing a onestep impairment test, which requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell**.** Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. Fair value less costs to sell, is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants, calculated at the measurement date. In addition, IFRS requires PP&E, goodwill and intangibles to be assessed for impairment at the cash-generating unit ("CGU") level, rather than the reporting unit level considered by former Canadian GAAP.

As a result of this difference, in principle, impairment write downs may be more likely under IFRS than are currently identified and recorded under former Canadian GAAP. The extent of any new write downs, however, may be partially offset by the requirement under *IAS 36 Impairment of Assets,* to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. We have concluded that the adoption of these standards has not resulted in a change to the carrying value of our PP&E, Goodwill and Intangible Assets on transition to IFRS being January 1, 2010.

- *Business Combinations:* Under IFRS, we account for all business combinations from January 1, 2010 onwards in accordance with *IFRS 3 Business Combinations*. Given that we adopted former Canadian CICA Handbook Section 1582 as of January 1, 2010 which is substantially converged with IFRS 3, we do not have any GAAP difference relating to the acquisition of Dantherm Power.

- *Provisions:* Under former Canadian GAAP, a provision is required to be recorded in the financial statements when required payment is considered "likely' and can be reasonably estimated. The threshold for recognition of provisions under IFRS is lower than that under former Canadian GAAP as provisions must be recognized if required payment is "probable". Therefore, in principle, it is possible that there may be some provisions which would meet the recognition criteria under IFRS that were not recognized under former Canadian GAAP. Other differences between IFRS and former Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP use the low end of the range), and the requirement under IFRS for provisions to be discounted where material. We have reviewed our positions and have concluded that there is no adjustment to our financial statements on transition to IFRS arising from the application of IFRS provisions recognition and measurement guidance.

- *Functional Presentation:* Under IFRS, operating expenses must be presented on either a functional or nature of expenditure basis. Under former Canadian GAAP, operating expenses could be presented using a mix of both function and nature of expenditure basis. We have elected to use the functional classification basis for the presentation of operating expenses. As a result, depreciation and amortization expense, restructuring expense, and acquisition costs, which were individually presented in the Statement of Operations under former Canadian GAAP, have been reallocated to research and product development, sales and marketing, and general and administrative expense under IFRS.

- *Employee Future Benefits (additional accounting policy impact from those disclosed in our first quarter of 2011 MD&A):* Under IFRS, actuarial gains and losses arising from defined benefit plans and post-retirement benefit plans may be recorded in either net income or other comprehensive income. Under former Canadian GAAP, our accounting policy was to recognize actuarial gains and losses in net income. On adoption of IFRS, we have elected to recognize actuarial gains and losses in other comprehensive income. The effect of actuarial gains and losses arising from defined benefit plans and post-retirement benefit plans will no longer affect net income under our IFRS accounting policy choice. The effects of actuarial gains and losses will instead be recognized immediately in equity, rather than being recognized immediately in net income.

IFRS OTHER IMPACTS

In addition to the above noted impacts to our financial statements and accounting policies, we have also reviewed the impact of our conversion to IFRS on our information technology and data systems, internal controls over financial reporting, business processes, contractual arrangements and compensation arrangements and have made the appropriate adjustments to transition from former Canadian GAAP to IFRS.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENT APPLIED

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which require us to apply judgment when making estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses of the reporting period, as well as disclosures made in the accompanying notes to the financial statements. The estimates and associated assumptions are based on past experience and other factors that are considered relevant. Actual results could differ from these estimates. The following are our most critical accounting estimates, which are those that require management's most challenging, subjective and complex judgments, requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The application of these and other accounting policies are described more fully in note 3 to the annual consolidated financial statements.

REVENUE RECOGNITION

Revenues are generated primarily from product sales and services in our Fuel Cell Products, Contract Automotive and Material Products segments. Product revenues are derived primarily from standard equipment and material sales contracts and from long-term fixed price contracts. Service revenues are derived primarily from cost-plus reimbursable contracts. Engineering development revenues are derived primarily from long-term fixed price contracts.

On standard equipment and material sales contracts, revenues are recognized when (i) significant risks and rewards of ownership of the goods has been transferred to the buyer; (ii) we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (iii) the amount of revenue can be measured reliably; (iv) it is probable that the economic benefits associated with the sale will accrue to us; and (v) the costs incurred, or to be incurred, in respect of the transaction can be measured reliably. Provisions are made at the time of sale for warranties. Revenue recognition for standard equipment and material sales contracts does not usually involve significant estimates.

On cost-plus reimbursable contracts, revenues are recognized as costs are incurred, and include applicable fees earned as services are provided. Revenue recognition for cost-plus reimbursable contracts does not usually involve significant estimates.

On long-term fixed price contracts, revenues are recorded on the percentage-of-completion basis over the duration of the contract, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred and anticipated costs for completing a contract.

- The determination of anticipated costs for completing a contract is based on estimates that can be affected by a variety of factors such as variances in the timeline to completion, the cost of materials, the availability and cost of labour, as well as productivity.

- The determination of potential revenues includes the contractually agreed amount and may be adjusted based on the estimate of our attainment on achieving certain defined contractual milestones. Management’s judgment is required in determining the probability that the revenue will be received and in determining the measurement of that amount.

Estimates used to determine revenues and costs of long-term fixed price contracts involve uncertainties that ultimately depend on the outcome of future events and are periodically revised as projects progress. There is a risk that a customer may ultimately disagree with our assessment of the progress achieved against milestones or that our estimates of the work required to complete a contract may change. The cumulative effect of changes to anticipated revenues and anticipated costs for completing a contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

During the three months and year ended December 31, 2011 and 2010, there were no material adjustments to revenues relating to revenue recognized in a prior period.

ASSET IMPAIRMENT

The carrying amounts of our non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing fair value less costs to sell, the price that would be received on the sale of an asset in an orderly transaction between market participants at the measurement date is estimated. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets. Cash-generating units to which goodwill has been allocated reflects the lowest level at which goodwill is monitored for internal reporting purposes. Many of the factors used in assessing fair value are outside the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments. For example, our revenue growth rate could be lower than projected due to economic, industry or competitive factors, or the discount rate used in our value in use model could increase due to a change in market interest rates. In addition, future goodwill impairment charges may be necessary if our market capitalization decreased due to a decline in the trading price of our common stock, which could negatively impact the fair value of our operating segments.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in respect of the cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

We perform the annual review of goodwill as at December 31 of each year, more often if events or changes in circumstances indicate that it might be impaired. Under IFRS, the annual review of goodwill requires a comparison of the carrying value of the asset to the higher of (i) value in use; and (ii) fair value less costs to sell**.** Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state. As of December 31, 2011, of our consolidated goodwill balance of $48.1 million, we had allocated $46.3 million to our core Fuel Cell Products segment, and $1.8 million to our Material Products segment. Based on the impairment test performed as at December 31, 2011, we have concluded that no goodwill impairment charge was required on any of our segments for the year ended December 31, 2011. Details of our goodwill impairment tests are as follows:

- One of the methods used to assess the recoverable amount of the goodwill in our core Fuel Cells Products segment is a fair value, less costs to sale, test. Our fair value test is in effect a modified market capitalization assessment, whereby we calculate the fair value of the Fuel Cell Products segment by first calculating the value of the Company at December 31, 2011 based on the average closing share price in the month of December, add a reasonable estimated control premium of 25% to 30% to determine the Company's enterprise value on a controlling basis, and then deduct the fair value of our Materials Product and Contract Automotive segments from this enterprise value, to arrive at the fair value of the Fuel Cell Products segment. As a result of this assessment, we have determined that the fair value of the Fuel Cell Products segment (with goodwill of $46.3 million) exceeds its carrying value by approximately 15% to 20% as of December 31, 2011.

- In addition to this fair value test, we also performed a value in use test on our Fuel Cell Products segment that compared the carrying value of the segment to the present value of future cash flows expected to be derived from the segment. The principal factors used in this discounted cash flow analysis requiring judgment are the projected results of operations, the discount rate based on the weighted average cost of capital ("WACC"), and terminal value assumptions for each reporting unit. Our value in use test was based on a WACC of 17.5% to 20%; an average estimated compound annual growth rate of approximately 40% from 2011 to 2016; and a terminal year EBITDA multiplied by a terminal value multiplier of 4.0. Our value in use assessment resulted in a significantly higher value than as determined under the fair value, less costs to sell, assessment.

- The fair value of our Material Products segment (with goodwill of $1.8 million), determined using an estimated market value as a multiple of revenues, is substantially in excess of its carrying value as of December 31, 2011.

As a result of our quarterly review of the carrying amounts of our non-financial assets (other than inventories) to determine whether there is any indication of impairment, we recorded an impairment charge of $1.7 million for the three months and year ended December 31, 2011 related to a write-down of manufacturing equipment.

WARRANTY PROVISION

A provision for warranty costs is recorded on product sales at the time of shipment. In establishing the accrued warranty liabilities, we estimate the likelihood that products sold will experience warranty claims and the cost to resolve claims received. In making such determinations, we use estimates based on the nature of the contract and past and projected experience with the products. Should these estimates prove to be incorrect, we may incur costs different from those provided for in our warranty provisions. During the three months and year ended December 31, 2011, we recorded provisions to accrued warranty liabilities of $1.0 million and $1.9 million, respectively, for new product sales, compared to $0.8 million and $2.4 million, respectively, for the three months and year ended December 31, 2010.

We review our warranty assumptions and make adjustments to accrued warranty liabilities quarterly based on the latest information available and to reflect the expiry of contractual obligations. Adjustments to accrued warranty liabilities are recorded in cost of product and service revenues. As a result of these reviews and the resulting adjustments, our warranty provision and cost of revenues for the three months and year ended December 31, 2011 were adjusted downwards by a net amount of $0.5 million and $1.7 million, respectively, compared to a net adjustment downwards of $1.5 million and $1.6 million, respectively for the three months and year ended December 31, 2010. The adjustments to reduce accrued warranty liabilities were primarily due to contractual expirations, reductions in estimated costs to repair, and improved lifetimes and reliability of our fuel cell products.

INVENTORY PROVISION

In determining the lower of cost and net realizable value of our inventory and establishing the appropriate provision for inventory obsolescence, we estimate the likelihood that inventory carrying values will be affected by changes in market pricing or demand for our products and by changes in technology or design which could make inventory on hand obsolete or recoverable at less than cost. We perform regular reviews to assess the impact of changes in technology and design, sales trends and other changes on the carrying value of inventory. Where we determine that such changes have occurred and will have a negative impact on the value of inventory on hand, appropriate provisions are made. If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions, being required. During the three months and year ended December 31, 2011, inventory provisions (recoveries) of $0.3 million and $0.6 million, respectively, were recorded as a charge to cost of product and service revenues, compared to ($0.2) million and $0.5 million, respectively, for the three months and year ended December 31, 2010.

EMPLOYEE FUTURE BENEFITS

The present value of our defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected plan investment performance, expected healthcare cost trend rate, and retirement ages of employees. Actual results will differ from the recorded amounts based on these estimates and assumptions. During the years ended December 31, 2011 and 2010, actuarial gains (losses) of ($2.9) million and $0.1 million, respectively, were recognized in other comprehensive income (loss) as a result of differences between expected and actual expense.

INCOME TAXES

We use the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences) and for loss carry-forwards. The resulting changes in the net deferred tax asset or liability are included in income.

Deferred tax assets and liabilities are measured using enacted, or substantially enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities, of a change in tax rates, is included in income in the period that includes the substantive enactment date. Deferred income tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As of December 31, 2011 and 2010, we have not recorded any deferred income tax assets on our consolidated statement of financial position.

FUTURE IFRS ACCOUNTING STANDARDS

The following is an overview of accounting standard changes that we will be required to adopt in future years. Except as otherwise noted below for IFRS 9, IAS 32 and amendments to IFRS 7, the standards are effective for our annual periods beginning on or after January 1, 2013, with earlier application permitted. We do not expect to adopt any of these standards before their effective dates. We continue to evaluate the impact of these standards on our consolidated statement of operations and financial position.

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 – CONSOLIDATION

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 – JOINT ARRANGEMENTS

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 – FAIR VALUE MEASUREMENT

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements. IFRS 13 is a more comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

AMENDMENTS TO IAS 19 – EMPLOYEE BENEFITS

The amendments to IAS 19 make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to enhance the disclosures for all employee benefits. Actuarial gains and losses are renamed 'remeasurements' and will be recognized immediately in other comprehensive income ("OCI"). Remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. The amendments also accelerate the recognition of past service costs whereby they are recognized in the period of a plan amendment. The annual expense for a funded benefit plan will be computed based on the application of the discount rate to the net defined benefit asset or liability. The amendments to IAS 19 will also impact the presentation of pension expense as benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income.

A number of other amendments have been made to recognition, measurement and classification, including those re-defining short-term and other long-term benefits guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing factors and expanded disclosures.

Our current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in OCI is consistent with the requirements in the new standard, however, additional disclosures and the computation of annual expense based on the application of the discount rate to the net defined benefit asset or liability will be required in relation to the revised standard.

AMENDMENTS TO IAS 1 – FINANCIAL STATEMENT PRESENTATION

The amendments to IAS 1 require entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled, such as remeasurements resulting from the amendments to IAS 19, will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

AMENDMENTS TO OTHER STANDARDS

In addition, there have been amendments to existing standards, including IFRS 7 Financial Instruments: Disclosure, IAS 27, Separate Financial Statements, IAS 28, Investments in Associates and Joint Ventures, and IAS 32, Financial Instruments: Presentation. IFRS 7 amendments require disclosure about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. IAS 32 addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

SUPPLEMENTAL NON-GAAP MEASURES

In addition to providing measures prepared in accordance with GAAP, we present certain supplemental non-GAAP measures. These measures are Cash Operating Costs, EBITDA and Adjusted EBITDA, and Normalized Net Loss. These non-GAAP measures do not have any standardized meaning prescribed by GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. We believe these measures are useful in evaluating the operating performance and liquidity of the Company's ongoing business. These measures should be considered in addition to, and not as a substitute for, net income, cash flows and other measures of financial performance and liquidity reported in accordance with GAAP.

Cash Operating Costs

This supplemental non-GAAP measure is provided to assist readers in determining our operating costs on a cash basis. We believe this measure is useful in assessing performance and highlighting trends on an overall basis. We also believe Cash Operating Costs is frequently used by securities analysts and investors when comparing our results with those of other companies. Cash Operating Costs differs from the most comparable GAAP measure, operating expenses, primarily because it does not include stock-based compensation expense, depreciation and amortization, restructuring charges and acquisition costs.

The following table shows a reconciliation of operating expenses to Cash Operating Costs for the three months and years ended December 31, 2011 and 2010:

(Expressed in thousands of U.S. dollars)	Three months ended December 31,		
Cash Operating Costs	**2011**	2010	$ Change
Operating Expense	**$ 9,481**	$ 14,647	**$** (5,166)
Stock-based compensation (expense) recovery	**257**	(1,114)	1,371
Acquisition costs	**-**	(175)	175
Restructuring charges	**(79)**	-	(79)
Depreciation and amortization	**(1,033)**	(3,703)	2,670
Cash Operating Costs	**$ 8,626**	$ 9,655	$ (1,029)

(Expressed in thousands of U.S. dollars)	Years ended December 31,		
Cash Operating Costs	**2011**	2010	$ Change
Operating Expense	**$ 47,468**	$ 52,639	$ (5,171)
Stock-based compensation expense	**(2,646)**	(3,579)	933
Acquisition costs	**-**	(243)	243
Restructuring charges	**(1,356)**	(285)	(1,071)
Depreciation and amortization	**(4,164)**	(6,454)	2,290
Cash Operating Costs	**$ 39,302**	$ 42,078	$ (2,776)

Adjusted EBITDA

These supplemental non-GAAP measures are provided to assist readers in determining our operating performance and ability to generate operating cash flow. We believe this measure is useful in assessing performance and highlighting trends on an overall basis. We also believe EBITDA and Adjusted EBITDA are frequently used by securities analysts and investors when comparing our results with those of other companies. EBITDA differs from the most comparable GAAP measure, net income attributable to Ballard, primarily because it does not include finance (or interest) expense, income tax expense or recovery, depreciation of property, plant and equipment, amortization of intangible assets, and goodwill impairment charges. Adjusted EBITDA adjusts EBITDA for stock-based compensation expense, transactional gains and losses, asset impairment charges, finance and other income, and acquisition costs.

The following table shows a reconciliation of net income attributable to Ballard to EBITDA and Adjusted EBITDA for the three months and years ended December 31, 2011 and 2010:

(Expressed in thousands of U.S. dollars)	Three months ended December 31,		
EBITDA and Adjusted EBITDA	**2011**	2010	$ Change
Net loss attributable to Ballard	**$ (7,289)**	$ (8,998)	**$** 1,709
Depreciation and amortization	**1,490**	4,323	(2,833)
Finance expense	**455**	309	146
Income taxes	**164**	-	164
EBITDA attributable to Ballard	**$ (5,180)**	$ (4,366)	$ (814)
Stock-based compensation	**(257)**	1,114	(1,371)
Acquisition costs	**-**	175	(175)
Finance and other (income) loss	**(78)**	(561)	483
Impairment loss on property, plant and equipment	**1,727**	-	1,727
Loss on sale of assets and property, plant and equipment	**23**	50	(27)
Adjusted EBITDA	**$ (3,765)**	$ (3,588)	$ (177)

(Expressed in thousands of U.S. dollars)	Years ended December 31,		
EBITDA and Adjusted EBITDA	**2011**	2010	$ Change
Net loss attributable to Ballard	**$ (33,420)**	$ (31,532)	**$** (1,888)
Depreciation and amortization	**5,906**	8,615	(2,709)
Finance expense	**1,392**	861	531
Income taxes	**383**	3	380
EBITDA attributable to Ballard	**$ (25,739)**	$ (22,053)	$ (3,686)
Stock-based compensation	**2,646**	3,579	(933)
Acquisition costs	**-**	243	(243)
Investment and other (income) loss	**(195)**	104	(299)
Impairment loss on property, plant and equipment	**1,727**	-	1,727
Gain on sale of property, plant and equipment	**(734)**	(4)	(730)
Gain on sale of assets	**-**	(8,032)	8,032
Adjusted EBITDA	**$ (22,295)**	$ (26,163)	$ 3,868

Normalized Net Loss

This supplemental non-GAAP measure is provided to assist readers in determining our financial performance. We believe this measure is useful in assessing our actual performance by adjusting our actual results for one-time transactional gains and losses and impairment losses. Normalized Net Loss differs from the most comparable GAAP measure, net income (loss) attributable to Ballard, primarily because it does not include transactional gains and losses and asset impairment charges.

The following table shows a reconciliation of net income (loss) attributable to Ballard to Normalized Net Loss for the three months and years ended December 31, 2011 and 2010.

(Expressed in thousands of U.S. dollars)	Three months ended December 31,		
Normalized Net Loss	**2011**	2010	$ Change
Net loss attributable to Ballard	**$ (7,289)**	$ (8,998)	$ 1,709
Impairment loss on property, plant and equipment	**1,727**	-	1,727
Normalized Net Loss	**$ (5,562)**	$ (8,998)	$ 3,436
Normalized Net Loss per share	**$ (0.07)**	$ (0.11)	$ 0.04

(Expressed in thousands of U.S. dollars)	Years ended December 31,		
Normalized Net Loss	**2011**	2010	$ Change
Net loss attributable to Ballard	**$ (33,420)**	$ (31,532)	$ (1,888)
Impairment loss on property, plant and equipment	**1,727**	-	1,727
Gain on sale of assets	**-**	(8,032)	8,032
Normalized Net Loss	**$ (31,693)**	$ (39,564)	$ 7,871
Normalized Net Loss per share	**$ (0.37)**	$ (0.47)	$ 0.10

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosures.

As of the end of the period covered by this report, we evaluated, under the supervision and with the participation of management, including the CEO and the CFO, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a–15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act"). The CEO and CFO have concluded that as of December 31, 2011, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified therein, and accumulated and reported to management to allow timely discussions regarding required disclosure.

Internal control over financial reporting

The CEO and CFO, together with other members of management, are responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Internal control over financial reporting is designed under our supervision, and effected by the Company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Management, including the CEO and CFO, have evaluated the effectiveness of internal control over financial reporting, as defined in Rules 13a–15(f) of the Exchange Act, in relation to criteria described in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, Management has determined that internal control over financial reporting was effective as of December 31, 2011.

KPMG LLP, our independent registered public accounting firm, has audited our consolidated financial statements and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2011.

Changes in internal control over financial reporting

During the year ended December 31, 2011, there were no material changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Our design of disclosure controls and procedures and internal controls over financial reporting includes controls, policies and procedures covering Dantherm Power.

RISKS & UNCERTAINTIES

An investment in our common shares involves risk. Investors should carefully consider the risks and uncertainties described below and in our Annual Information Form. The risks and uncertainties described below and in our Annual Information Form are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business. For a more complete discussion of the risks and uncertainties which apply to our business and our operating results (which are summarized below), please see our Annual Information Form and other filings with Canadian (www.sedar.com) and U.S. securities regulatory authorities (www.sec.gov).

Our business entails risks and uncertainties that affect our outlook and eventual results of our business and commercialization plans. The primary risks relate to meeting our product development and commercialization milestones, which require that our products exhibit the functionality, cost, durability and performance required in a commercial product and that we have sufficient access to capital to fund these activities. To be commercially useful, most of our products must be integrated into products manufactured by system integrators or OEMs. There is no guarantee that system integrators or OEMs will provide products that use our products as components. There is also a risk that mass markets for certain of our products may never develop, or that market acceptance might take longer to develop than anticipated.

A summary of our identified risks and uncertainties are as follows:

- We may not be able to achieve commercialization of our products on the timetable we anticipate, or at all;
- We expect our cash reserves will be reduced due to future operating losses and working capital requirements, and we cannot provide certainty as to how long our cash reserves will last or that we will be able to access additional capital when necessary;
- A mass market for our products may never develop or may take longer to develop than we anticipate;
- We may not be able to successfully execute our business plan;
- We have limited experience manufacturing fuel cell products on a commercial basis;
- Global economic conditions are beyond our control and may have an adverse impact on our business or on our key suppliers and / or customers;
- Potential fluctuations in our financial and business results make forecasting difficult and may restrict our access to funding for our commercialization plan;
- We could be adversely affected by risks associated with acquisitions;
- We are subject to risks inherent in international operations;
- Exchange rate fluctuations are beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability;
- Commodity price fluctuations are beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability;
- We are dependent upon Original Equipment Manufacturers and Systems Integrators to purchase certain of our products;
- We are dependent on third party suppliers for the supply of key materials and components for our products;
- We currently face and will continue to face significant competition;
- We could lose or fail to attract the personnel necessary to run our business;
- Public Policy and regulatory changes could hurt the market for our products;
- We depend on our intellectual property, and our failure to protect that intellectual property could adversely affect our future growth and success;
- We could be liable for environmental damages resulting from our research, development or manufacturing operations; and
- Our products use flammable fuels, which could subject our business to product liability claims.

FORWARD-LOOKING STATEMENTS DISCLAIMER

This document contains forward-looking statements that are based on the beliefs of management and reflect our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Exchange Act of 1934, as amended. Such statements include, but are not limited to, statements with respect to our objectives, goals and outlook including our estimated revenue and gross margins, cash flow from operations, Cash Operating Costs, EBITDA and Adjusted EBITDA (see Non-GAAP Measures) contained in our “Business Outlook”, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Words such as "estimate", "project", "believe", "anticipate", "intend", "expect", "plan", "predict", "may", "should", "will", the negatives of these words or other variations thereof and comparable terminology are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict.

In particular, these forward-looking statements are based on certain factors and assumptions disclosed in our “Outlook” as well as specific assumptions relating to our expectations with respect to the generation of new sales, producing, delivering and selling the expected product volumes at the expected prices, and controlling our costs. They are also based on a variety of general factors and assumptions including, but not limited to, our expectations regarding product development efforts, manufacturing capacity, product pricing, market demand, and the availability and prices of raw materials, labour and supplies. These assumptions have been derived from information available to the Company including information obtained by the Company from third parties. These assumptions may prove to be incorrect in whole or in part. In addition, actual results may differ materially from those expressed, implied, or forecasted in such forward-looking statements. Factors that could cause our actual results or outcomes to differ materially from the results expressed, implied or forecasted in such forward-looking statements include, but are not limited to: the condition of the global economy; the rate of mass adoption of our products; changes in product pricing; changes in our customers' requirements, the competitive environment and related market conditions; product development delays; changes in the availability or price of raw materials, labour and supplies; our ability to attract and retain business partners, suppliers, employees and customers; changing environmental regulations; our access to funding and our ability to provide the capital required for product development, operations and marketing efforts, and working capital requirements; our ability to protect our intellectual property; the magnitude of the rate of change of the Canadian dollar versus the U.S. dollar; and the general assumption that none of the risks identified in the Risks and Uncertainties section of this report or in our most recent Annual Information Form will materialize. Readers should not place undue reliance on Ballard's forward-looking statements.

The forward-looking statements contained in this document speak only as of the date of this Management Discussion and Analysis. Except as required by applicable legislation, Ballard does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Management Discussion and Analysis, including the occurrence of unanticipated events.



BALLARD POWER SYSTEMS INC.

ANNUAL INFORMATION FORM

FEBRUARY 23, 2012

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Committee Timetable 59

This Annual Information Form and the documents incorporated by reference herein contain forward-looking statements that are based on the beliefs of management and reflect our current expectations as contemplated under the safe harbor provisions of Section 21E of the United States Securities Exchange Act of 1934, as amended. When used in this Annual Information Form, the words "estimate", "project", "believe", "anticipate", "intend", "expect", "plan", "predict", "may", "should", "will", the negatives of these words or other variations thereof and comparable terminology are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in those forward-looking statements, including, without limitation the following risks and uncertainties which are discussed in the section of this Annual Information Form entitled "Risk Factors": we may not be able to achieve commercialization of our products on the timetable we anticipate, or at all; we expect our cash reserves will be reduced due to future operating losses and working capital requirements, and we cannot provide certainty as to how long our cash reserves will last or that we will be able to access additional capital when necessary; a mass market for our products may never develop or may take longer to develop than we anticipate; we may not be able to successfully execute our business plan; we have limited experience manufacturing fuel cell products on a commercial basis; global economic conditions are beyond our control and may have an adverse impact on our business or our key suppliers and/or customers; potential fluctuations in our financial and business results make forecasting difficult and may restrict our access to funding for our commercialization plan; we could be adversely affected by risks associated with acquisitions; we are subject to risks inherent in international operations; exchange rate fluctuations are beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability; commodity price fluctuations are beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability; we are dependent upon Original Equipment Manufacturers and Systems Integrators to purchase certain of our products; we are dependent on third party suppliers for the supply of key materials and components for our products; we currently face and will continue to face significant competition; we could lose or fail to attract the personnel necessary to run our business; public policy and regulatory changes could hurt the market for our products; we depend on our intellectual property, and our failure to protect that intellectual property could adversely affect our future growth and success; we could be liable for environmental damages resulting from our research, development or manufacturing operations; our products use flammable fuels, which could subject our business to product liability claims; and the other risks and uncertainties discussed elsewhere in this Annual Information Form.

The forward-looking statements contained in this Annual Information Form speak only as of the date of this Annual Information Form. Except as required by applicable legislation, Ballard does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Information Form, including the occurrence of unanticipated events.

CORPORATE STRUCTURE

Name, Address and Incorporation

Ballard was incorporated on November 12, 2008 under the *Canada Business Corporations Act*, under the name "7076991 Canada Inc.". Ballard changed its name to "Ballard Power Systems Inc." on December 31, 2008. Ballard's head office is located at 9000 Glenlyon Parkway, Burnaby, British Columbia, Canada V5J 5J8, and its registered office is located at Suite 1700, 666 Burrard Street, Vancouver, British Columbia, Canada V6C 2X8.

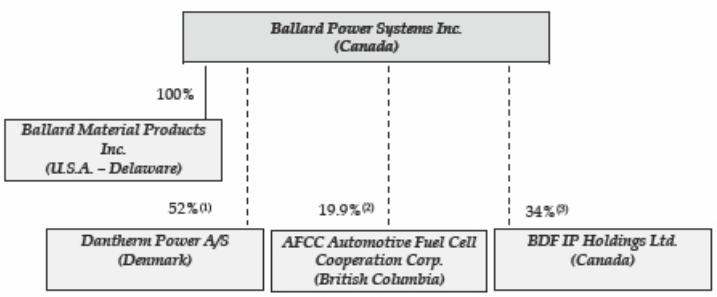
Previously, Ballard Power Systems Inc. was a British Columbia company incorporated on May 30, 1989. The original predecessor to Ballard was founded in 1979 under the name Ballard Research Inc. to conduct research and development on high-energy lithium batteries. In the course of investigating environmentally clean energy systems with commercial potential, we began to develop fuel cells and have been developing fuel cell products since 1983.

In this Annual Information Form, references to "Corporation", "Ballard", "BPS", "we", "us" and "our" refers to Ballard Power Systems Inc. and, as applicable, its subsidiaries. All dollar amounts are in United States dollars unless otherwise indicated.

Intercorporate Relationships

We have four principal subsidiaries and affiliates: Ballard Material Products Inc., a Delaware corporation that develops and manufactures carbon fiber products for use in the automotive and fuel cell markets; Dantherm Power A/S ("**Dantherm Power**"), a Denmark-based corporation jointly owned with Danfoss Ventures A/S and Dantherm A/S that develops clean energy backup power systems across Europe; AFCC Automotive Fuel Cell Cooperation Corp. ("**AFCC**"), a British Columbia corporation that develops fuel cell products for the automotive fuel cell market; and BDF IP Holdings Ltd. ("**IP Holdings**"), a Canadian corporation that holds intellectual property assets.

The following chart shows these principal subsidiaries and affiliates, their respective jurisdictions of incorporation and our percentage of share ownership in each of them, all as of February 23, 2012:



Notes

(1) The Corporation holds a 52% interest in Dantherm Power, with the remaining 48% held by Dantherm A/S and Danfoss Ventures A/S.

(2) The Corporation holds a 19.9% minority interest in AFCC with 50.1% held by Daimler AG and 30% held by Ford Motor Company. Ballard's minority interest in AFCC is the subject of a forward-sale arrangement with Ford Motor Company.

(3) The Corporation holds all of the non-voting, participating shares of IP Holdings and 34% of the voting, non-participating shares of IP Holdings, with each of Daimler AG and Ford Motor Company holding 33% of the voting, non-participating shares.

Recent History

Over the past three years, we have continued to focus on our core fuel cell business and on markets with near-term commercial prospects. In support of this strategy, we have focused on bolstering our cash reserves to strengthen our capability to execute on our growth priorities. On December 21, 2009, we closed an agreement with a financial institution to monetize our rights under the purchase agreement with Ford relating to our 19.9% equity interest in AFCC for initial net proceeds of approximately $34 million and a further contingent payment of $7.5 million due on or before January 31, 2013 (the contingent payment was subsequently monetized and extinguished for $5 million in July 2010). On January 18, 2010, we acquired a controlling interest in Dantherm Power, a Denmark-based corporation, which develops clean energy backup power through utilization of our hydrogen fuel cell technology.

Ebara Ballard Corporation Transaction

In May 2009, we decided to discontinue operations of Ebara Ballard Corporation, our joint venture company with Ebara Corporation, as it became evident that the timeframe to commercialization for the residential cogeneration market in Japan was longer than anticipated, and due to an increasing investment requirement for continued system development work. Ebara Ballard Corporation was dissolved in October 2009.

Sale and Lease-back of Head Office

In December 2009, we entered into a sale-and-leaseback agreement pursuant to which Ballard sold its head office building located in Burnaby, British Columbia in return for net cash proceeds of approximately $20 million. We also entered into an initial fifteen-year lease agreement for the same property. The transaction closed on March 9, 2010.

Dantherm Power Transaction

On January 18, 2010, we acquired a controlling interest in Denmark-based Dantherm Power, partnering with co-investors Danfoss Ventures A/S and Dantherm A/S. In exchange for an initial investment of DKK 30m (approximately $6m) funded in two tranches in January and August 2010, Ballard obtained a 52% interest in Dantherm Power. Dantherm Power develops clean energy backup power systems utilizing Ballard's hydrogen fuel cell technology, for telecom equipment suppliers.

OUR BUSINESS

At Ballard, we are building a clean energy growth company. We are recognized as a world leader in proton exchange membrane (" **PEM**") fuel cell development and commercialization. Our principal business is the design, development, manufacture, sale and service of fuel cell products for a variety of applications, focusing on motive power (material handling and buses) and stationary power (back-up power and distributed generation) markets. We also provide engineering services for a variety of fuel cell applications. A fuel cell is an environmentally clean electrochemical device that combines hydrogen fuel with oxygen (from the air) to produce electricity. The hydrogen fuel can be obtained from natural gas, kerosene, methanol or other hydrocarbon fuels, or from water through electrolysis. As long as fuel is supplied, the fuel cell produces electricity efficiently and continuously without combustion, with water and heat as the main by-products when hydrogen is used as the fuel source. Ballard® fuel cell products feature high fuel efficiency, low operating temperature, low noise and vibration, compact size, quick response to changes in electrical demand, modular design and environmental cleanliness.

Strategy

We provide our customers the positive economic and environmental benefits unique to fuel cell power. We plan to build value for our shareholders by developing, manufacturing, selling and servicing industry-leading fuel cell products to meet the needs of our customers in select target markets.

Our focus is on leveraging the inherent reliability and durability derived in our legacy automotive technology into non-automotive markets where demand is near term. Our target markets include: motive power (material handling and buses) and stationary power (back-up power and distributed generation). We also supply engineering services to a number of customers. We believe these markets represent a large global opportunity for fuel cell products. We are also actively considering other key markets for which our products are well suited and we are confident that there are opportunities for our products in additional geographic markets as well as product extension opportunities in different applications.

Revenues from Market Segments

In 2011, we operated in three market segments:

(a) Fuel Cell Products: fuel cell products and services for motive power (material handling and bus markets) and stationary power (back-up power and distributed generation markets) and engineering services for a variety of fuel cell applications;

(b) Contract Automotive: contract manufacturing services provided primarily for Daimler. With the completion of the Daimler manufacturing contract, this segment will cease to be an operating segment as of the end of 2011; and

(c) Material Products: carbon fiber products primarily for automotive transmissions and gas diffusion layers (" **GDLs**") for fuel cells.

The following chart shows the percentage of total revenues derived from each segment, and the portion of revenues from each segment which arises from sales to investees and sales of products and services to other customers, for the years 2011 and 2010:

	2011	2010[1]
Revenues from Fuel Cell Products		
Percentage of total revenues	61.1%	52.7%
Portion representing sales to investees[2]	3.2%	2.0%
Portion representing sales to customers other than investees	57.9%	50.7%
Revenues from Contract Automotive		
Percentage of total revenues	12.2%	15.1%
Portion representing sales to investees[2]	0.4%	1.9%
Portion representing sales to customers other than investees	11.8%	13.2%
Revenues from Material Products		
Percentage of total revenues	26.6%	32.2%
Portion representing sales to investees	Nil	Nil
Portion representing sales to customers other than investees	26.6%	32.2%

Our Markets and Products

Product & Service Overview

Ballard's product offering provides for a cost effective and flexible set of fuel cell power solutions. Ballard provided product in three distinct product classes:

(1) Fuel cell stacks: Ballard provides fuel cell stacks to original equipment manufacturer (" **OEM**") customers and system integrators that use the stacks to produce fuel cell systems for power solutions. As the stack provider, Ballard is the power inside the system.

(2) Fuel cell modules: Ballard builds the stacks into self-contained modules that are plug-and-play into a larger system. As a fuel cell module provider, we make it easier for OEMs and system integrators to create fuel cell system.

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(1) 2010 revenues restated to conform with the 2011 market segment reporting structure.

(2) In the table, "investees" means AFCC.

(3) Fuel cell systems: Ballard also builds complete fuel cell systems that are designed to solve certain energy needs of our customers.

(4) Material Products: We design, develop, manufacture, sell and service carbon fiber materials that can be used in a variety of fuel cell and non-fuel cell applications.

(5) Engineering Services: We provide engineering services for a variety of fuel cell applications.

The following table lists the key fuel cell and non-fuel cell products we currently produce, have under development or are testing.

Motive Power Product Family: FCvelocity® Fuel Cell Products		
Product Name	**Application**	**Status**
FCvelocity®-9SSL	Material handling	Sales to OEMs and system integrators
FCvelocity®-1020ACS	Material handling	Sales to OEMs and system integrators
FCvelocity®-HD6	Buses	Sales to OEMs and system integrators

Stationary Power Product Family: FCgen® Fuel Cell Products and System Products		
Product Name	**Application**	**Status**
FCgen®-9SSL	Back-up power	In development and testing
FCgen®-1020ACS	Back-up power	Sales to OEMs and system integrators
FCgen®-1300	Back-up power Distributed generation	Sales to OEMs and system integrators
CLEARgen™	Distributed generation power systems	Sales to customers
DBX 2000 / 5000	Back-up power systems (Dantherm Power)	Sales to customers

Product Family: Material Products		
Product Name	**Application**	**Status**
AvCarb™ gas diffusion layer fuel cell products	Fuel cells	Sales to fuel cell developers
Carbon friction materials	Mainly automobile automatic transmissions	Sales to OEMs or their suppliers.

Fuel Cell Products

Motive Power

Material Handling

The material handling market includes target industrial vehicles such as forklifts, automated guided vehicles (" **AGVs**") and ground support equipment. Our initial focus is on battery-powered Class 1 counter balance lift trucks, Class 2 reach trucks and Class 3 pallet forklifts and AGVs. Our primary product for the material handling market is the FCvelocity®-9SSL, which is applicable to Class 1, Class 2 and Class 3 forklift truck solutions. We supply the FCvelocity®-1020ACS, our second-generation air-cooled fuel cell product, for light-duty material handling applications.

Our principle customer in North America is Plug Power, a specialized system integrator achieving early market penetration deploying its GenDrive™ battery pack replacement fuel cell systems. In 2010, Plug Power began offering commercial GenDrive™ systems designed for Class 1, Class 2 and Class 3 trucks, all using Ballard fuel cells. The addition of the previously unavailable system for Class 2 lift trucks filled out Plug Power's product portfolio and enables full facility conversions, which will help advance market penetration.

In 2010, we extended our existing supply agreement with Plug Power through 2014. We are the exclusive supplier of fuel cell stacks for Plug Power's full suite of GenDrive™ power units and Plug Power is the exclusive systems integrator for Ballard's fuel cell stacks in the material handling market in North America. In July 2011, Ballard received a purchase order from Plug Power for a minimum purchase of 3,250 Ballard fuel cell stacks by the end of 2012, and which also included requirements for the air-cooled FCvelocity™-1020ACS product.

Material handling shipments to Plug Power in 2011 totalled 1,422 fuel cells which represents a 29% increase over 2010 shipment levels.

In order to support market growth, we continue to pursue cost reduction of our FCvelocity®-9SSL fuel cell product. To date we have reduced the cost of this fuel cell product by roughly 55% since its introduction in 2008. With the recent purchase order commitment from Plug Power, we anticipate that both the scale and cadence of associated product shipments will contribute to increased manufacturing efficiency and further reductions in fuel cell stack costs.

Competition

Class 2 and Class 3 forklift trucks are currently dominated by lead-acid battery-powered solutions, as are Class 1 forklift trucks intended for indoor applications. Internal combustion engine ("**ICE**") power is typically seen as the solution for forklift trucks in Class 1 for outdoor applications. Compared to batteries, fuel cell systems in Class 1, Class 2 and Class 3 forklift trucks can provide extended run time without frequent and lengthy battery replacement and recharging cycles. For high-throughput, multi-shift warehouse or manufacturing operations, fuel cell forklift trucks can provide a lower life cycle cost and total cost of ownership when compared with traditional lead-acid battery solutions.

Companies developing fuel cell systems for material handling applications include Hydrogenics and Nuvera. We seek to gain a competitive advantage through fuel cell designs that provide superior performance, efficiency, durability and cost.

Advanced battery technology continues to make progress in the material handling market. However, advanced battery technology still requires significant time for recharging and, in many cases, cannot meet desired run times without requiring spare batteries and substantial space for battery charging and storage.

Buses

We provide fuel cell modules for public transit buses. These fuel cell buses rely on centralized fuelling depots that simplify the hydrogen infrastructure requirements and are government-subsidized, thus enabling the purchase of pre-commercial fleets.

Ballard designs and manufactures the FCvelocity®-HD6 fuel cell module delivering 75 - 150 kW of power for use in the bus market. Ballard supplies the fuel cell modules to hybrid drive and coach manufacturer customers that deliver zero-emission fuel cell-powered buses to transit operators around the world.

At the end of 2011, there were 41 Ballard-powered fuel cell buses operating in nine cities worldwide: Whistler, BC (20) – the largest fuel cell bus fleet in the world; Palm Desert, California (2); London (5); Oslo (5); Amsterdam (2); Cologne (2); Shanghai (3); Mumbai (1); and São Paulo (1). To date, Ballard-powered fuel cell buses have accumulated more than 200,000 hours of operation, accumulated more than three million kilometres in service and transported more than seven million passengers.

In 2011, we signed a Letter of Intent with the City of São Paulo in support of a 10 to 30 fuel cell bus RFP for that city. This opportunity is subject to final agreements which are is now being negotiated. Also in 2011 we signed an equipment supply agreement with Van Hool NV for up to 21 fuel cell modules for several bus fleet opportunities in Europe: binding commitments are subject to Van Hool securing agreements relating to these opportunities.

Product cost reduction efforts for the FCvelocity®-HD6 fuel cell module in 2011 have focused on unit cell design enhancements, including extension of durability and lifetime. This ongoing effort has been partially funded by a $4.8 million award received in January 2010 from Sustainable Development Technology Canada ("**SDTC**") to further develop fuel cell power module technology for the transit bus market.

Competition

Diesel-powered buses currently dominate the market today. Compressed natural gas (" **CNG**") and diesel electric hybrid buses are lower-emission alternatives to diesel buses in limited service today. Other variants available today include gasoline hybrid buses and CNG hybrid buses. Electric trolley buses provide a zero-emission alternative, however, their purchase price is high and the overhead catenary power infrastructure is expensive to maintain and is considered aesthetically undesirable in many urban centres. Recently, hydrogen internal combustion engines have been demonstrated in transit buses with both conventional and hybrid drive systems. These have not been widely adopted primarily because of very low fuel efficiency, low power and low operational reliability.

We believe that fuel cells are the best zero-emission alternative for transit applications. They offer much greater fuel efficiency than conventional diesel buses, eliminate greenhouse gas emissions and eliminate the need for unsightly overhead catenary wires.

Companies developing fuel cell systems for transit bus applications include United Technologies, Hydrogenics and Nedstack. We have accumulated far more operating hours in real transit operations than any other fuel cell manufacturer. We believe this experience has enabled us to produce more reliable, more durable and easier to integrate products than our competitors.

Stationary Power

Back-up Power

Our focus in the back-up power market is on the telecommunications industry, which is currently dominated by batteries and diesel generators. The back-up power market is characterized by infrequent power demand, where outages typically occur monthly or less frequently and last less than eight hours; whereas the supplemental power market is characterized by often daily outages lasting 4-8 hours or more.

The FCgen®-1020ACS fuel cell product is our primary stack platform in the back-up power market. Shipment of fuel cell stacks to backup power market customer in 2011 totalled 1,447 units, down 16% from last year.

Dantherm Power develops clean energy fuel cell backup power systems for telecom equipment suppliers, for installation in either indoor or outdoor applications. Dantherm Power's system deployments include the largest European fuel cell installation for TETRA emergency networks. In 2010, Dantherm Power launched two new hydrogen-fuelled systems utilizing Ballard's FCgen®-1020ACS fuel cell product: the DBX 2000 (2kW) and DBX 5000 (5kW).

In 2011, Ballard supplied a 50 kW unit to GS Platech for demonstration of waste-to-energy power generation for the local South Korean electrical grid. Dantherm Power also provided a 150 kW system to Anglo American Platinum Limited. The demonstration fuel cell system supplied power to the local electricity grid during the 17th Conference of the Parties (COP17) to the United Nations Framework Convention on Climate Change, a high-level summit on climate change held in Durban, South Africa. Following COP17 Anglo American Platinum plans to redeploy the system to provide power at one of its mining operations in South Africa.

Our primary indirect channel partner is IdaTech, with whom we have a supply agreement through 2012. IdaTech supplies hydrogen and methanol systems to multiple markets. Recent installations have been in SE Asia, with more than 500 systems deployed by Hutchison in Indonesia, for example; with continued growth seen in other regions, including Central and Latin America. In October 2011, the Idatech board recommended delisting from AIM and privatizing the company to its shareholders, with the objective of greater flexibility in future financing and strategic partner relationships.

Although Ballard dissolved the Ebara joint venture company, it will continue to sell its FCgen ®-1030v3 fuel cell product for applications such as residential cogeneration, including supply of this product to Baxi Innotech GmbH ("**Baxi Innotech**") for the German Callux Project. On March 11, 2009, Ballard entered into a three-year supply agreement with Baxi Innotech, the leading European developer and manufacturer of fuel cell micro combined heat and power units. Under the agreement, Baxi Innotech will exclusively purchase Ballard fuel cells through to the end of Phase 2 of the German Callux Project, scheduled to conclude in 2012.

Competition

The back-up power market is currently dominated by ICEs (primarily diesel gensets) and batteries. Advanced battery technology continues to make modest progress in the back-up power generation market. However, advanced battery technologies still require lengthy recharging and, in many cases, cannot meet desired run times without requiring substantial space. We believe that PEM fuel cell products are superior to batteries in some applications, because of their ability to provide extended run time without frequent or lengthy recharging, as well as their ability to offer lower life cycle costs, given that batteries require periodic replacement.

Companies developing PEM fuel cell systems for back-up power applications include Hydrogenics, Distributed Energy Systems and ReliOn. We seek to gain competitive advantage through fuel cell designs that provide superior performance, efficiency, durability and cost.

Distributed Generation

Large scale distributed generation ("**DG**") is an exploratory new market for Ballard. We first entered into this space in 2009, with the announcement of the supply agreement to deliver a 1 MW solution utilizing our motive power fuel cells to FirstEnergy, an Ohio based energy company, for use in a utility load management demonstration project. The unit was shipped in the third quarter of 2010, and began operation on November 1, 2010. The unit will be operated for demonstration purposes for the next five years and will serve as an important reference site in this market.

The second generation DG product currently under development is the Ballard CLEARgen™ fuel cell system. The CLEARgen™ system is a complete turnkey for zero-emission power. The system can operate continuously for baseload power generation, or intermittently, providing peak power during times of high demand. The 1 MW modular units are scalable in 500 kW increments, enabling tailored solutions to meet each customer's needs.

In October 2011, we received a Frost & Sullivan award for new product innovation for the CLEARgen™ fuel cell system (North American Stationary PEM category). The system was praised for surpassing the competition in terms of fuel cell durability, product cost and load-following capability, all keys to commercially viable grid-scale solutions.

In 2010, Ballard entered into an agreement with K2 Pure Solutions ("**K2**") to deploy a 163 kW CLEARgen™ fuel cell system at a K2 bleach plant in Pittsburg, California. The agreement was subject to the receipt of a routine air permit exemption for the fuel cell system from the Bay Area Air Quality Management District and a final reservation notice letter for a grant from California's Self Generation Incentive Program, both of which were received by February 2011. Installation and commissioning of the generator is planned for completion in early–to-mid 2012.

Also in 2010, Ballard entered into a contract for the sale of 1.25 MW of our FCgen®-1300 product, together with engineering support services, to Real Time Engineering PTE Ltd. ("**RTE**"), a Singapore-based system integrator. In 2011, 150 FCgen®-1300 stacks were delivered to RTE, with commissioning of the 1 MW fuel cell generator targeted for 2012.

In April 2011, Ballard entered into an agreement with Toyota Motor Sales USA Inc. (" **Toyota**") to deploy a 1 MW CLEARgen™ fuel cell system to provide peak electrical power and heat at the Toyota facility in Torrance, California. The unit is scheduled to be operational in the first half of 2012.

In February 2011, Ballard was awarded up to C$7 million in funding by SDTC to extend the operating life and lower the product cost of FCgen®-1300, the fuel cell stack for the CLEARgen™ fuel cell system.

Competition

The distributed generation market is large and varied. As such, depending on the application, diesel gensets or natural gas gensets would be considered current technologies. Hydrogen fuelled IC engines, advanced battery technologies and other fuel cell systems are emerging as competitive technologies. Fuel cell systems offer significant efficiency and emissions improvements over gensets and hydrogen fuelled IC engines. Advanced battery technologies cannot meet desired run times without requiring substantial capital cost and installation space.

Companies developing PEM fuel cell systems for distributed generation market applications include Nedstack and Hydrogenics. Companies developing other fuel cell systems for this market are United Technologies Corporation (phosphoric acid fuel cells), Fuel Cell Energy (molten carbonate fuel cells) and Bloom Energy (solid oxide fuel cells).

Engineering Services

During the last half of 2011, we refined our business strategy and established a new engineering services operating unit in order to leverage our expertise in fuel cell design, prototyping, manufacturing and servicing. This new operating unit offers a full suite of fuel cell engineering solutions for a variety of fuel cell applications and is recorded in our core Fuel Cell Products segment.

Contract Automotive

In September 2011, the Daimler manufacturing contract came to completion with the successful delivery of the final FCvelocity ®-1100 units. As a result, Contract Automotive will cease to be a market segment as of December 2011.

Material Products

We develop, manufacture and sell carbon-based engineered material products into a variety of markets. These products are in the form of roll goods as either woven carbon fiber textile fabrics or as carbon fiber papers.

A major application for carbon fiber fabrics is the friction surface in torque converters for light vehicle automatic transmissions. We are a Tier 1 supplier with QS-9000 and TS-16949 quality certification. In 2010, we negotiated a six-year extension to our exclusive supply contract for this product by one of our automotive manufacturing customers, valued at more than $60 million. The use of our product is also expanding at a second automotive OEM and expanding globally with multiple new applications in Europe and Asia.

The fuel cell GDL supply business continues to steadily grow. Our AvCarb™ GDL materials are available in continuous rolls, and are designed to enable membrane electrode assemblies ("**MEAs**") to be manufactured using high-speed automated assembly techniques. The first two members of this family of products are the AvCarb™ P-50 and the AvCarb™ P-50T. We supply several key fuel cell industry participants (UTC Power, BASF, 3M and Johnson Matthey) with GDLs for both PEM and non-PEM platforms, and we use our GDLs in our own fuel cell products.

Ballard Material Products was awarded the US Department of Energy's 2011 Annual Merit Review Award, recognizing our success in reducing the manufacturing cost of the GDL material.

We also provide material supply chain management services to our customers, where we manage several subcontractor suppliers.

Competition

Ballard competes in a market where the friction characteristics and durability of carbon materials make them desirable for high performance applications in the automotive industry. Competitors for friction products include the SGL Group, Toray and Toho Tenax. Competitors for GDL products include the SGL Group, Mitsubishi and Toray.

Impact of Regulations and Public Policy

United States

At the federal level, the Emergency Economic Stabilization Act of 2008 includes tax incentives to help minimize the cost of hydrogen and fuel cell projects. It offers an investment tax credit of 30% for qualified fuel cell property or $3,000/kW of the fuel cell nameplate capacity (i.e., expected system output), whichever is less. The equipment must be installed by Dec. 31, 2016. In addition, it features a credit of 10% for combined-heat-and-power-system property.

The American Recovery and Reinvestment Act of 2009 expands incentives to encourage the installation of fuel cells and hydrogen fueling infrastructure. Incentives include:

- A fueling facility tax credit, which increases the dollar cap of the 30% hydrogen fueling infrastructure tax credit from $30,000 to $200,000.
- Grants for fuel cell power systems (in lieu of tax credits), which allow facilities with insufficient tax liabilities to apply for grants instead of claiming investment or production tax credits. Only entities that pay taxes are eligible. To be eligible, the fuel cell system must have been placed in service in 2009 – 2011, or placed in service after 2011 but only if construction began during 2009 – 2011.
- A manufacturing credit, which creates a 30% credit for investment in property used for manufacturing fuel cells and other technologies.
- A residential energy-efficiency credit, which raises the investment-tax-credit dollar cap for residential fuel cells in joint occupancy dwellings to $3,334/kW.

At the state level, the California Self-Generation Incentive Program, which is funded by ratepayers and administered by utilities, provides incentives for fuel cell generation. In 2011 the incentive was $2250/kW for power plants that operate on hydrogen from non-renewable resources and $4250/kW for those that operate on hydrogen from renewable resources. The program is funded annually and guidelines are published in a yearly handbook.

The availability of these incentives is expected to help drive demand for fuel cell products.

Other Jurisdictions

In Canada, SDTC operates the $590 million SD Tech Fund which supports projects that address climate change, air quality, clean water, and clean soil. The SD Tech Fund provides financial contributions to projects aimed at supporting the late-stage development and pre-commercial demonstration of clean technology solutions. SDTC does not require any repayments of the financial contributions it provides to funded projects through the SD Tech Fund. As noted elsewhere, SDTC agreed to provide Ballard with up to $11.8 million for funded projects that will extend through 2013.

As of 2011, feed-in tariff policies have been enacted in 87 jurisdictions around the world to encourage the adoption of renewable energy sources. Under a feed-in tariff, utilities are obligated to buy electricity from all eligible participants at rates based on the cost of renewable energy generation, which enables a diversity of projects to be developed at a reasonable return on investment. The rates are typically designed to ratchet downward over time to track technology improvements and overall cost reductions. Feed-in tariff programs also typically offer long-term (15–25 year) guaranteed purchase contracts for the electricity generated from such projects. Programs that support energy generation from hydrogen sources are expected to help drive demand for fuel cell products.

Another policy that is emerging in importance is the “quota” or “renewable portfolio standard” (“ **RPS**”). A quota/RPS is a government-mandated obligation on a utility company, group of companies, or consumers to provide or use a predetermined amount of renewable electricity. By early 2011, quota/RPS policies existed in 10 countries at the national level and in at least 50 other jurisdictions at the state, provincial, or regional level.

Beginning in 2012, the Ministry of Commerce, Industry and Energy (MOCIE) in Korea will introduce an RPS as an alternative plan to the FIT. The program will mandate that 14 utilities generate 4% of electricity from renewables in 2015, increasing to 10% by 2020. Fuel cell projects receive the highest level of support under the Korea RPS system and this is expected to help drive demand for our products.

In Europe, the Fuel Cells and Hydrogen Joint Undertaking (“ **FCH JU**”) – part of the Joint Technology Initiative - is a public private partnership supporting research, technological development and demonstration activities in fuel cell and hydrogen energy technologies that provides subsidies for eligible projects through a cost share mechanism. FCH JU has a total budget amounting to nearly 1bn EUR to be invested by 2013 for projects through 2017. The fifth annual call for proposals has been published with a due date of January 2012.

Research and Product Development

Ballard's research activities are primarily focused on the MEA and its sub-components, aimed at improving the overall cost, durability, and reliability of our products. Material development of other unit cell components, such as bipolar plates, frames, seals and adhesives, is another area of research focus. Product development activities have been primarily directed at cost reduction. Progress is driven by leveraging stack component designs, materials, and manufacturing processes across multiple product platforms. In addition, further cost reduction will be enabled through improved durability and reliability growth.

Intellectual Property

Ballard's technical strengths lay in our proprietary MEA design, combined with our extensive stack and system integration capabilities, which enables development of complete end-user systems that meet or exceed customer specifications, across a wide range of market applications.

Our intellectual property covers multiple aspects of our technology, including: materials and components; cell, stack and systems architecture; stack/system operation and control; and manufacturing processes. Our intellectual property portfolio is not limited to our patents and patent applications; it also includes know-how and trade secrets developed over more than 25 years of research and product development.

As of January 31, 2012, Ballard owns or controls through IP Holdings, patents approximately as follows: 79 United States granted patents, 69 non-United States granted patents, 8 United States published patent applications and 51 published non-United States patent applications. Our patents will expire between 2012 and 2031.

We hold licence rights to additional intellectual property from a number of third parties. These licences include non-exclusive, royalty-free access to all of the intellectual property rights held by NuCellSys GmbH ("**NuCellSys**"), a Daimler subsidiary, and to all of the intellectual property rights relating to fuel cells developed by Daimler, Ford and their subsidiaries (either directly or through AFCC), including any intellectual property rights developed by them while we continue to be a shareholder of AFCC. As of January 31, 2012, of the approximately 2,000 patents and patent applications that were included in these licenses, approximately 700 of them are currently granted or pending.

Manufacturing

Our fuel cell manufacturing facility is located in Burnaby, British Columbia and is designed to provide the manufacturing capacity necessary to meet expected product demand through the initial market introduction and early adoption phase. As product demand grows, we will increase capacity either by further investment in automation to improve throughput, while decreasing both costs and footprint, or, in outsourcing selective manufacturing processes.

Many of the components and materials we use to manufacture our fuel cell products are unique and have been developed in conjunction with suppliers and our R&D and Engineering Teams. Strategic relationships have been developed with these key suppliers to ensure security of supply, protection of our intellectual property, and adherence to our strict quality and reliability standards.

In Burnaby, we have an Integrated Management System registered to ISO 9001 and TS16949 standards, as well as robust internal practices in the areas of environment, health and safety. We also strive for continuous manufacturing improvement through practices such as Lean Manufacturing, 5-S and advocacy of Six Sigma.

Our facility in Lowell, Massachusetts, produces friction products for the automotive industry as well as GDL product for both ourselves and others in the fuel cell market. As a Tier 1 automotive supplier, this facility is both ISO 9001 and QS 9000 registered and specializes in continuous roll-to-roll manufacturing processes.

Facilities

We currently have the following principal facilities: (a) a leased 116,797 square foot (10,850 square meter) facility in Burnaby, British Columbia that houses our corporate headquarters and our fuel cell development, manufacturing and testing activities; (b) a leased 112,000 square foot (10,398 square meter) facility in Burnaby, British Columbia that houses some of our manufacturing facilities and manufacturing facilities that we subleased to Mercedes-Benz Canada and AFCC; (c) a 137,000 square foot (12,728 square meter) facility in Lowell, Massachusetts, owned by us, that is used for the development and manufacture of carbon fiber products; and (d) a leased 4100 square foot (381.5 square meter) facility in Hobro, Denmark.

We are committed to developing and manufacturing products, and operating all of our facilities, in full compliance with all applicable local, regional, national and international environmental, health and safety regulatory standards. Our commitment is reflected in our corporate "Quality, Safety and Environmental Policy and Guiding Principles", and our underlying programs and initiatives. We have completed a detailed environmental assessment of our operations in Burnaby. In turn, we developed policies, procedures, and work instructions to manage environmental matters including air, water, and waste management and reduction, transportation of dangerous goods, environmental impact and hazard assessment, and internal and external recycling programs.

Human Resources

As of December 31, 2011, we had approximately 440 employees, 360 in Canada, 45 in the United States and 35 in Denmark, representing such diverse disciplines as electrochemistry, polymer chemistry, chemical, mechanical, electronic and electrical engineering, manufacturing, marketing, sales, business development, legal, finance, human resources, information technology and business management. Our employees in Canada and the United States are not represented by any labour union. In Denmark, there are two groups of technical employees subject to collective agreements, totalling less than 15 employees. Each employee must agree to confidentiality provisions as part of the terms of his or her employment, and certain employees have also executed non-competition agreements with us.

SHARE CAPITAL AND MARKET FOR SECURITIES

Our authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. As of February 23, 2012, our issued share capital consisted of 84,550,524 common shares. Our common shares are listed and trade on the Toronto Stock Exchange ("**TSX**") under the symbol "BLD" and on the National Association of Securities Dealers Automated Quotation Global Market ("**NASDAQ**") under the symbol "BLDP".

The following table shows the monthly trading activity for our common shares on the TSX and NASDAQ during 2011:

	TSX		**NASDAQ**	
	Price Range (CDN$)	**Average Daily Volume (#)**	**Price Range (U.S.$)**	**Average Daily Volume (#)**
January	$1.58-1.66	86,447	$1.54-1.68	308,016
February	$1.67-2.13	339,356	$1.68-2.16	893,055
March	$1.95-2.36	192,035	$1.97-2.42	746,903
April	$1.96-2.35	100,006	$2.05-2.42	381,384
May	$1.56-2.00	71,789	$1.60-2.09	323,527
June	$1.50-1.72	45,308	$1.52-1.77	258,552
July	$1.42-1.56	33,911	$1.47-1.62	157,411

	TSX		NASDAQ	
	Price Range (CDN$)	**Average Daily Volume (#)**	**Price Range (U.S.$)**	**Average Daily Volume (#)**
August	$1.24-1.47	48,064	$1.24-1.55	147,419
September	$1.25-1.50	37,170	$1.20-1.53	127,250
October	$1.18-1.48	31,862	$1.15-1.50	114,759
November	$1.25-1.49	25,735	$1.21-1.46	89,211
December	$1.10-1.31	38,809	$1.07-1.28	210,652

The holders of our common shares are entitled to one vote for each share held on all matters to be voted on by such shareholders and, subject to the rights and priorities of the holders of preferred shares, are entitled to receive such dividends as may be declared by our Board out of funds legally available therefor and, in the event of liquidation, wind-up or dissolution, to receive our remaining property, after the satisfaction of all outstanding liabilities.

Our preferred shares are issuable in series and our Board is entitled to determine the designation, preferences, rights, conditions, restrictions, limitations and prohibitions to be attached to each series of such shares. Currently there are no preferred shares outstanding.

DIVIDEND RECORD AND POLICY

To date, we have not paid any dividends on our shares and, because it is anticipated that all available cash will be needed to implement our business plans, we have no plans to pay dividends in the immediate future.

DIRECTORS AND OFFICERS

Board of Directors

The following chart provides the following information as of February 23, 2012: the name and province or state of residence of each of our directors; each director's respective positions and offices held with Ballard, their principal occupation during the past five years; the period of time each has served as a director; and the number of shares and deferred share units (the "**DSUs**") beneficially owned or controlled by each of them.

Name, Province/State and Country of Residence[1]	Principal Occupation[1]	Director Since	Shares Beneficially Owned or Controlled or Directed[1] (#/% of Class)	Deferred Share Units Owned or Controlled[2] (#/% of Class)
Ian A. Bourne Alberta, Canada	Corporate Director and Chair of the Board of Ballard since May 2006. Formerly Executive Vice President and Chief Financial Officer of TransAlta Corporation (*electricity generation and marketing*) from January 1998 to December 2006, and from January 1998 to December 2005, respectively.	2003	26,824/0.032%	77,707/26.72%
Edwin J. Kilroy Ontario, Canada	Corporate Director of Ballard. Formerly Chief Executive Officer of Symcor Inc. (*business process outsourcing services*) from January 2005 to November 2010.	2002	2,752/0.003%	42,844/14.73%
Dr. Chong Sup (C.S.) Park California, U.S.A.	Corporate Director of Ballard. Formerly Chairman of the Board and Chief Executive Officer of Maxtor Corporation (*storage solutions and hard disk drives*) from November 2004 to May 2006.	2007	17,091/0.020%	0/0%

Name, Province/State and Country of Residence[1]	Principal Occupation[1]	Director Since	Shares Beneficially Owned or Controlled or Directed[1] (#/% of Class)	Deferred Share Units Owned or Controlled[2] (#/% of Class)
John W. Sheridan British Columbia, Canada	President and Chief Executive Officer of Ballard since October 2005.	2001	472,430/0.56%	57,943/19.93%
David J. Smith British Columbia, Canada	Corporate Director of Ballard. Member, British Columbia Securities Commission since July 2006. Counsel with Lawson Lundell LLP (*law firm*) from May 2005 to April 2006.	2006	8,411/0.010%	14,841/5.10%
David B. Sutcliffe British Columbia, Canada	Corporate Director of Ballard. Corporate Director of Sierra Wireless, Inc.	2005	3,600/0.004%	25,528/8.78%
Mark A. Suwyn Florida, U.S.A.	Corporate Director of Ballard. Formerly Executive Chairman of the Board of NewPage Corporation (*coated paper*), from March 2009 to June 2010; Acting Chief Executive Officer from March 2009 to January 2010; and Chief Executive Officer and Chairman of the Board from April 2006 and May 2005, respectively.	2003	7,237/0.009%	35,019/12.04%

Name, Province/State and Country of Residence[1]	Principal Occupation[1]	Director Since	Shares Beneficially Owned or Controlled or Directed[1] (#/% of Class)	Deferred Share Units Owned or Controlled[2] (#/% of Class)
Douglas W.G. Whitehead British Columbia, Canada	Corporate Director of Ballard. Chairman of Finning International Inc. (*heavy equipment reseller*). Formerly President and Chief Executive Officer of Finning International from 1999 to May 2008.	1998	5,383/0.006%	36,916/12.69%

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Notes

(1) The information as to place of residence, principal occupation, business or employment of, and shares beneficially owned, or controlled or directed, directly or indirectly, by a director is not within the knowledge of our management and has been furnished by the director. Information on shares beneficially owned, or controlled or directed is accurate as at February 23, 2012.

(2) Rounded to the nearest whole number. Information is accurate as at February 23, 2012.

Directors are elected yearly at our annual shareholders' meeting and serve on the Board until the following annual shareholders' meeting, at which time, they either stand for re-election or leave the Board. If no meeting is held, each director serves until his or her successor is elected or appointed, unless the director resigns earlier.

Corporate Governance

Our Board and senior management consider good corporate governance to be central to our effective and efficient operation. We monitor corporate governance initiatives as they develop and benchmark industry practices to ensure that we are in compliance with corporate governance rules.

Our corporate governance practices are reflected in our "Corporate Governance Guidelines", which provide for director qualification standards, director responsibilities, the form and amount of director compensation, director orientation and continuing education, management succession planning and performance evaluation of the Board. A copy of the Corporate Governance Guidelines can be found on our website.

We also reviewed our internal control and disclosure procedures, and are satisfied that they are sufficient to enable our Chief Executive Officer and Chief Financial Officer to certify our interim and annual reports filed with Canadian securities authorities, and to certify our annual reports filed with or submitted to the United States Securities and Exchange Commission ("**SEC**").

Compliance in Canada and the United States

We believe that we comply with all applicable Canadian securities administrators (" **CSA**") and NASDAQ corporate governance rules and guidelines. The CSA requires that listed corporations subject to *National Instrument 58-101 - Disclosure of Corporate Governance Practices* ("**NI 58-101**") disclose their policies respecting corporate governance. We comply with NI 58-101, which addresses matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees, and the effectiveness and education of board members. We are exempt from the NASDAQ corporate governance rule requiring that each NASDAQ quoted company has in place a minimum quorum requirement for shareholder meetings of 33 1/3% of the outstanding shares of the company's voting common stock. Our by-laws currently provide that a quorum is met if holders of at least five percent of the votes eligible to be cast at a shareholders' meeting are present or represented by proxy at the meeting.

Board Composition

All of our directors are independent except for John Sheridan, our President and Chief Executive Officer. "Independence" is judged in accordance with the provisions of the United States *Sarbanes-Oxley Act of 2002* ("**Sarbanes-Oxley**"), and as determined by the CSA and the NASDAQ. We conduct an annual review of the other corporate boards on which our directors sit, and have determined that currently there are no board interlocks with respect to our directors. The Board has also established a guideline for the maximum number of corporate boards on which a director should sit. This guideline has been set at five corporate boards (not including non-profit boards).

The Board established director resignation guidelines, which set out the circumstances under which a director would be compelled to offer a resignation or be asked to resign, including a majority voting policy. This policy requires that any nominee for director who receives a greater number of votes "withheld" than "for" his or her election shall tender his or her resignation to the Board following our annual shareholders' meeting, to take effect immediately upon acceptance by the Board. Upon receipt of such conditional resignation, the Corporate Governance Committee will consider the matter and, as soon as possible, make a recommendation to the full Board regarding whether or not such resignation should be accepted. After considering the recommendation of the Corporate Governance Committee, the Board will decide whether or not to accept the tendered resignation and will, not later than 90 days after the annual shareholders' meeting, issue a press release which either confirms that they have accepted the resignation or provides an explanation for why they have refused to accept the resignation. The director tendering his or her resignation will not participate in any meeting of the Board or the Corporate Governance Committee. Subject to any restrictions or requirements contained in applicable corporate law or Ballard's constating documents, the Board may: (a) leave a resulting vacancy unfilled until the next annual shareholders' meeting; (b) appoint a replacement director whom the Board considers merits the confidence of the shareholders; or (c) call a special meeting of shareholders to elect a replacement director nominated by management. The policy does not apply in respect of any contested shareholders' meeting, which is any meeting of shareholders where the number of nominees for director is greater than the number of directors to be elected.

Share Ownership Guidelines

We have minimum share ownership guidelines that apply to our independent directors. The guidelines were revised by the board of directors effective September 21, 2011.

All independent directors must hold the number of Ballard common shares having a value equivalent to three times the director's annual retainer. Directors may apply DSUs they have received as payment for all or part of their annual retainer towards the minimum share ownership requirements.

The value of shares held by directors will be measured on or about September 1 st of each year based on the purchase price actually paid by the director for such shares, or the value of DSUs or shares received by the director when issued to him or her by the Corporation, as applicable.

Directors that were members of the Board at the time the guidelines were adopted in September 2011 have until September 2013 to comply with this requirement. Directors elected subsequently have five years from the date that they are first elected to the Board to comply. The Chair of the Board has five years from his original appointment as Chair in February 2006 to satisfy the minimum share ownership requirements for the Chair. Any director who fails to comply with the share ownership requirement may not stand for re-election. Currently, all directors have met or are on track to achieve these guidelines.

Roles and Responsibilities

The Board operates under a formal mandate (a copy of which is attached as Appendix "A" and is posted on our website), which sets out its duties and responsibilities, including matters such as corporate strategy, fiscal management and reporting, selection of management, legal and regulatory compliance, risk management, external communications and performance evaluation. The Board has also established terms of reference and corporate governance guidelines for individual directors (copies of which are also posted on our website), which set out the directors' individual responsibilities and duties. Terms of reference are also established for the Board chair and the CEO. These terms of reference and guidelines serve as a code of conduct with which each director is expected to comply, and address matters such as conflicts of interest, the duties and standard of care of directors, the level of availability expected of directors, requirements for maximizing the effectiveness of Board and committee meetings, and considerations that directors are to keep in mind in order to make effective and informed decisions.

In addition, we have a Board-approved "Code of Ethics", which applies to all members of the Board, as well as our officers and employees. A copy of the Code of Ethics can be found on our website. This document is reviewed annually and updated or revised as necessary. Annually, all employees in Sales & Marketing, Finance & Administration, Supply Chain, Customer Service and Quality, and all management employees and officers, are required to formally acknowledge they have read, reviewed and comply with the Code of Ethics. A compliance report is then presented to the Audit Committee and Board.

The Chair of the Board is responsible for ensuring the appropriate organization, content and flow of information to the Board and that all concerns of the directors are addressed. The Chair of the Board reviews and sets the agenda for each Board meeting. The Chair of the Board is also responsible for organizing and setting the frequency of Board meetings and ensuring that Board meetings are conducted efficiently. The Chair of the Board is an independent director.

Each year, the Board identifies a list of focus priorities for the Board during the year. The Corporate Governance Committee regularly monitors the Board's progress against these priorities throughout the year.

Board Orientation and Education

We have established a formal director orientation and ongoing education program. Upon joining our Board, each director receives an orientation regarding our business. Such orientation consists of site visits to all of our manufacturing facilities, presentations regarding our business, technology and products, and a manual that contains various reference documents and information. Continuing education is offered by way of ongoing circulation of informative materials aimed at topical subject matters and management presentations at Board meetings, as well as guest speakers who are invited to speak to our Board on various topics. In the past, we have invited guest speakers to speak to our Board about the fuel cell industry, government regulation, corporate governance and risk management, and internal management representatives to speak about various issues relating to our technology and business. The educational presentations that are made by internal management provide an opportunity for Board members to meet and interact with members of our management team.

Shareholder Feedback and Communication

We have set up an e-mail process for shareholders to communicate with the Board, through the Chair of the Board. Shareholders who wish to send a message to the Chair of the Board can find the details of this process on our website. In addition, a summary of shareholder feedback that is received by us is provided to the Board through a semi-annual report.

Board and Director Performance Evaluations

Each year, the Board conducts an evaluation and review of its performance during the past year. The evaluation is conducted through a process determined from time to time by the Corporate Governance Committee which elicits responses from individual directors on a confidential basis regarding the Board and individual directors. The process may include the completion of a questionnaire by all of the directors as well as individual director self-evaluations and peer evaluations. The Corporate Governance Committee presents the summary results to the full Board, which then, based on the results of the evaluation, determines appropriate changes to improve board effectiveness.

Board Committees

Our Board has established three standing committees: the Audit Committee; the Management Development, Nominating & Compensation Committee; and the Corporate Governance Committee. Each of these committees has been delegated certain responsibilities, performs certain advisory functions, and either makes certain decisions or makes recommendations to the full Board. Each of the committee chairs reports on the activities of the committee to the Board following each committee meeting. None of the members of these committees are current or former officers or employees of ours, or any of our subsidiaries.

Audit Committee

The Audit Committee is constituted in accordance with SEC rules, applicable securities laws and applicable NASDAQ rules, and assists the Board in fulfilling its responsibilities by reviewing financial information, the systems of corporate controls and the audit process.

The Audit Committee is responsible for overseeing the audit process and the preparation of our financial statements, ensuring that our financial statements are fairly presented in accordance with International Financial Reporting Standards (“IFRS”), approving our quarterly financial statements, and reviewing and recommending to the Board our year-end financial statements and all financial disclosure contained in our public documents. The Audit Committee meets with our financial officers and our internal and external auditors to review matters affecting financial reporting, the system of internal accounting and financial disclosure controls and procedures, and the audit procedures and audit plans. The Audit Committee reviews our significant financial risks and the appointment of senior financial executives, and annually reviews our insurance coverage, tax loss carry forwards, pension and health care liabilities, and off-balance sheet transactions. The Audit Committee has at least one member, Ian A. Bourne, who qualifies as an audit committee financial expert under applicable securities regulations. All of the members of the Audit Committee are independent directors and are financially literate.

The Audit Committee is responsible for recommending the appointment of our external auditors (for shareholder approval at our annual general meeting), monitoring the external auditors' qualifications and independence, and determining the appropriate level of remuneration for the external auditors. The external auditors report directly to the Audit Committee. The Audit Committee also approves in advance, on a case-by-case basis, any services to be provided by the external auditors that are not related to the audit. The following table shows the costs incurred with KPMG in 2011 and 2010 for audit and non-audit related work, all of which were approved by the Audit Committee:

Type of Audit Fees	**2011**	**2010**
Audit Fees	$351,078	$353,302
Audit-Related Fees	Nil	Nil
Tax Fees (1)	Nil	$19,265
All Other Fees	Nil	Nil

Notes

(1) The Tax Fees for 2010 related to tax advisory and transfer pricing services.

In addition, the Audit Committee is mandated to review all financial disclosure contained in prospectuses, annual reports, annual information forms, management proxy circulars and other similar documents. The Audit Committee is also responsible for ensuring that the internal audit function is being effectively carried out. The Audit Committee reviews and approves, in advance, related party transactions on a case-by-case basis.

As of February 23, 2012, the committee was composed of Ian A. Bourne, Edwin J. Kilroy (Chair), Mark A. Suwyn and Douglas W.G. Whitehead, all of whom are independent of management. In addition to each committee member's general business experience, the education and experience of each member that is relevant to the performance of his or her responsibilities as a member of the Audit Committee is set forth below.

Mr. Bourne was TransAlta Corporation's Executive Vice President from January 1998 to December 2006. From January 1998 to December 2005, Mr. Bourne was the Chief Financial Officer of TransAlta and was responsible for all financial policy, planning and reporting, as well as tax, treasury and risk management planning and implementation. Mr. Bourne has completed the Directors Education Program of the Institute of Corporate Directors and has received his ICD.D designation.

Mr. Kilroy was the Chief Executive Officer of Symcor Inc. from January 2005 to November 2010. Prior to that, Mr. Kilroy was the Chief Executive Officer of IBM Canada Ltd. from April 2001 to January 2005.

Mr. Suwyn held various board and executive positions at NewPage Corporation from May 2005 to June 2010. From January 1996 to October 2004, Mr. Suwyn was also the Chairman of the Board and the Chief Executive Officer of Louisiana-Pacific Corporation.

Mr. Whitehead is the Chairman of Finning International Inc., and was elected to Finning International's board of directors on April 23, 1999. Mr. Whitehead was President and Chief Executive Officer of Finning International from 1999 to May 2008.

The Audit Committee operates under a mandate that is approved by the Board and which outlines the responsibilities of the Audit Committee. A copy of the Audit Committee's mandate is attached as Appendix "B" and posted on our website. This mandate is reviewed annually and the Audit Committee's performance is assessed annually through a process overseen by the Corporate Governance Committee.

Management Development, Nominating & Compensation Committee

The Management Development, Nominating & Compensation Committee is responsible for considering and authorizing the terms of employment and compensation of executive officers and providing advice on compensation structures in the various jurisdictions in which we operate. In addition to approving the compensation of our executive officers, the committee also regularly reviews and sets the minimum share ownership requirement for executive officers. The committee also provides advice on our organizational structure, reviews all distributions under our equity-based compensation plans, and reviews and approves the design and structure of, and any amendments to, those plans. The committee seeks out and recommends nominees for election to the Board, annually reviews the Board succession plan and annually reviews the composition of director talents and skills against Board requirements to identify any gaps.

The committee ensures appropriate senior management succession planning, recruitment, development, training and evaluation. In particular, the committee annually reviews the performance objectives of our Chief Executive Officer and is responsible for conducting his annual performance evaluation. Any compensation consultants engaged by us, at the direction of the committee, report directly to the committee, and the committee has the authority to appoint such consultants, determine their level of remuneration, and oversee and terminate their services. In 2011, the committee directly retained Towers Watson to provide independent compensation analysis and advice specifically related to Ballard executive compensation items.

As of February 23, 2012, the committee was composed of Ian A. Bourne, Dr. C.S. Park, David B. Sutcliffe (Chair) and Mark Suwyn, all of whom are independent of management.

A copy of the Management Development, Nominating & Compensation Committee's mandate is posted on our website. The mandate is reviewed annually and the committee's performance is assessed annually through a process overseen by the Corporate Governance Committee.

Corporate Governance Committee

The Corporate Governance Committee is responsible for recommending to the Board the size of the Board, monitoring corporate governance, including the formation and membership of committees of the Board, conducting succession planning for the Chair of the Board and determining director compensation. The committee regularly reviews the level of director compensation and approves the design and structure of, and any amendments to, our director compensation plans. Any compensation consultants engaged by us, at the direction of the committee, report directly to the committee, and the committee has the authority to appoint such consultants, determine their level of remuneration, and oversee and terminate their services. In 2011, the committee directly retained Towers Watson to provide independent compensation analysis and advice specifically related to Ballard director compensation items. The committee is responsible for ensuring a formal process exists to evaluate the performance of the Board, Board committees, individual directors, and the Chair of the Board, and ensuring that appropriate actions are taken, based on the results of the evaluation, to improve the effectiveness of the Board.

The Corporate Governance Committee makes recommendations to the Board to enable the Board to comply with best corporate governance practices in Canada and the United States. The committee is also responsible for maintaining an ongoing education program for Board members.

As of February 23, 2012, the committee was composed of Ian A. Bourne, Dr. C.S. Park and David J. Smith (Chair), all of whom are independent of management.

A copy of the Corporate Governance Committee's mandate is posted on our website. The mandate is reviewed annually and the committee's performance is assessed annually through a process overseen by the Board.

Executive Officers

As of February 23, 2012, we had five executive officers. The name and province or state of residence of each executive officer, the offices held by each officer and each officer's principal occupation during the last five years are as follows:

Name and Province/State of Residence	Position	Principal Occupation
John W. Sheridan British Columbia, Canada	President and Chief Executive Officer	Executive of Ballard.
Tony Guglielmin British Columbia, Canada	Vice President and Chief Financial Officer	Executive of Ballard. Formerly SVP Finance and Chief Financial Officer of Canada Line Rapid Transit Inc. (2005 to 2009)
Paul Cass British Columbia, Canada	Vice President, Operations	Executive of Ballard. Formerly Director, Operations of Ballard.
Michael Goldstein British Columbia, Canada	Vice President and Chief Commercial Officer	Executive of Ballard. Formerly President and Chief Executive Officer of Actuality Systems (2006 to 2009).
Christopher J. Guzy British Columbia, Canada	Vice President and Chief Technical Officer	Executive of Ballard.

Shareholdings of Directors and Senior Officers

As of February 23, 2012, our directors and executive officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 788,079 of our common shares, being 0.93% of our issued and outstanding common shares, and 290,798 DSUs.

TRANSFER AGENT AND REGISTRAR

Our transfer agent and registrar is Computershare Trust Company of Canada, 100 University Avenue, 9 th Floor, Toronto, Ontario, M5J 2Y1.

MATERIAL CONTRACTS

Particulars of every contract that is material to Ballard, other than a contract entered into in the ordinary course of business that is not required to be disclosed under the CSA's *National Instrument 51-102 – Continuous Disclosure Obligations* , and that was entered into within the most recently completed financial year, or before the most recently completed financial year but is still in effect, are listed below.

Dantherm Power Acquisition

On January 18, 2010, Ballard acquired a controlling interest in Denmark-based Dantherm Power A/S (" **Dantherm Power**"), partnering with co-investors Danfoss Ventures A/S ("**Danfoss**") and Dantherm A/S ("**Dantherm**"). Pursuant to a share subscription agreement among Ballard, Dantherm, Danfoss and Dantherm Power (the "**Subscription Agreement**"), Ballard obtained an initial 45% interest in Dantherm Power including the right to nominate a majority of the members of the Board of Directors. In return, Ballard invested DKK 15m (approximately $3m) and contributed knowledge and intellectual property related to core fuel cell technology. On September 1, 2010, Ballard invested a further DKK 15m (approximately $3m) pursuant to the Subscription Agreement, increasing its interest in Dantherm Power to 52%.

As part of the acquisition, Ballard and Dantherm Power entered into a technology transfer agreement (the " **Technology Transfer and License Agreement**", dated January 18, 2010). Under the agreement, Dantherm Power transferred all Intellectual Property Rights relating to fuel cells or fuel cell systems. Ballard agreed to transfer certain Know-How to Dantherm Power and granted a non-exclusive, royalty-free license to Ballard Intellectual Property Rights for use in Stationary Power Systems.

Dantherm Power develops clean energy backup power systems, utilizing Ballard's fuel cell technology, for telecom equipment suppliers including Motorola and Ericsson. Dantherm Power will continue its current commercial initiatives, including sales of hydrogen-based products incorporating Ballard's fuel cell stack. In addition to its cash investment, Dantherm agreed to continue to provide operational support and collaborative sales and marketing activities through its worldwide sales organization. Danfoss invested cash, proprietary technology, expertise, as well as operational and commercial assistance through its network of 93 sites in 25 countries. Executives from the three companies formed a new board of directors for Dantherm Power.

Ballard filed a Business Acquisition Report in respect of the Dantherm Power transaction on SEDAR on April 16, 2010.

Superior Plus Transaction and Associated Material Contracts

We entered into an arrangement agreement dated October 30, 2008 with Superior Plus (the " **Arrangement Agreement**"), which specified the parties' respective obligations with respect to the Superior Plus Transaction. That transaction was implemented by way of a statutory plan of arrangement under section 192 of the *Canada Business Corporations Act*, whereby Ballard caused its entire business and operations, including all assets and liabilities, to be transferred to a new corporate entity, such that the new corporate entity now has all of the same assets, liabilities, directors, management and employees as Ballard formerly had under its old corporate entity, except for its tax attributes. Under the arrangement, Ballard shareholders exchanged their common shares in the capital of the old corporate entity for common shares in the capital of the new corporate entity on a one-for-one basis, and Superior Plus obtained 100% of the common shares in the capital of Ballard's old corporate entity. Ballard received a cash payment of approximately C$46.3 million (C$41 million net of expenses) in consideration for allowing Superior Plus to use its old corporate entity as the vehicle to complete its conversion from an income trust to a corporation. Following completion of the Superior Plus Transaction, Ballard continued to carry on its business operations as a public entity, and retained all the rights it previously held to related intellectual property.

The purpose of the Superior Plus Transaction was to obtain non-dilutive financing for Ballard. In addition to the increase in both Ballard's cash reserves and shareholders' equity of approximately C$41 million, the Superior Plus Transaction allowed Ballard to step up the Canadian tax basis in its assets, which may be applied towards sheltering future taxable income.

Indemnification Arrangements

We entered into an indemnification agreement with Superior Plus dated December 31, 2008 (the " **Indemnity Agreement**"), which specifies the parties' respective continuing indemnification obligations to the other. The Indemnity Agreement provides that we are liable to Superior Plus for all Losses (as defined in the Indemnity Agreement) which it may suffer, sustain, pay or incur, and we will indemnify and hold Superior Plus harmless from and against all Losses which may be brought against or suffered by Superior Plus or which Superior Plus may suffer, sustain, pay or incur arising out of, resulting from, attributable to or connected with:

(a) any debts, liabilities, commitments or obligations of any nature (whether matured or unmatured, accrued, fixed, contingent or otherwise) of any kind whatsoever resulting from any matters, actions, events, facts or circumstances related to the activities, affairs or business of Ballard which occurred prior to the Effective Time (as defined in the Indemnity Agreement);

(b) any debts, liabilities, commitments or obligations of any nature (whether matured or unmatured, accrued, fixed, contingent or otherwise) of any kind whatsoever resulting from any matters, actions, events, facts or circumstances related to the activities, affairs or business of Ballard which occur on or after the date of the Indemnity Agreement; and

(c) any breach (including any failure or inaccuracy) of any of the representations and warranties of Ballard under the Arrangement Agreement, or any failure of Ballard to perform or observe any covenant or agreement to be performed by it under the Arrangement Agreement, excluding any Losses which Superior Plus may suffer, sustain, pay or incur, relating to or based upon the existence or availability of Superior Plus' Tax Pools (as defined in the Indemnity Agreement), other than as a result of fraud or wilful misrepresentation.

The Indemnity Agreement also provides that Superior Plus will be liable to the Corporation for all Losses which the Corporation may suffer, sustain, pay or incur and will indemnify and hold the Corporation harmless from and against all Losses which may be brought against or suffered by the Corporation or which the Corporation may suffer, sustain, pay or incur arising out of, resulting from, attributable to or connected with any breach (including any failure or inaccuracy) of any of the representations and warranties of Superior Plus under the Arrangement Agreement, or any failure of Superior Plus to perform or observe any covenant or agreement to be performed by it under the Arrangement Agreement.

The Indemnity Agreement does not contain any limit on the amount of the claims that can be indemnified nor is there any threshold before indemnification is provided. In addition, the Indemnity Agreement specifically extends the limitation period within which a party is entitled to make a claim under the Indemnity Agreement to two years after the notice of claim with respect to such obligation was given. However, with the exception of certain limited adjustments to address differences in the amount of specific Tax Pools of Ballard, which is described below, the indemnification provisions of the Indemnity Agreement do not provide indemnification to Superior Plus in respect of the amount or the availability of the Tax Pools.

The Indemnity Agreement also provides for certain compensation payments to be made by Ballard and Superior Plus depending on the final determination of the amount of certain Tax Losses (as defined in the Indemnity Agreement) of Ballard to the extent that such amounts are more or less than the amounts estimated at the time the Arrangement Agreement was executed or to the extent that such Tax Pools are used to reduce Ballard's income, taxable income, or income taxes for any period ending at any time at or before the completion of the Arrangement. Ballard's obligations under the Indemnity Agreement relating to NCL Obligations (as defined in the Indemnity Agreement) are limited to an aggregate of C$7,350,000 with a threshold amount of C$500,000 before there is an obligation to make a compensation payment.

The Indemnity Agreement provides detailed procedures for claims under the Indemnity Agreement, which, provided Ballard acknowledges liability under the Indemnity Agreement with respect to such matter, gives Ballard the right to elect to take carriage and control of the dispute process relating to such claims.

RISK FACTORS

An investment in our common shares involves risk. Investors should carefully consider the risks described below and the other information contained in, and incorporated into, this Annual Information Form, including "Management's Discussion and Analysis" and our financial statements for the year ended December 31, 2011. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, including those that we do not know about now or that we currently deem immaterial, may also adversely affect our business.

We may not be able to achieve commercialization of our products on the timetable we anticipate, or at all.

We cannot guarantee that we will be able to develop commercially viable fuel cell products on the timetable we anticipate, or at all. The commercialization of our fuel cell products requires substantial technological advances to improve the durability, reliability and performance of these products, and to develop commercial volume manufacturing processes for these products. It also depends upon our ability to significantly reduce the costs of these products, since they are currently more expensive than products based on existing technologies, such as ICEs and batteries. We may not be able to sufficiently reduce the cost of these products without reducing their performance, reliability and durability, which would adversely affect the willingness of consumers to buy our products. We cannot guarantee that we will be able to internally develop the technology necessary for commercialization of our fuel cell products or that we will be able to acquire or license the required technology from third parties.

In addition, before we release any product to market, we subject it to numerous field tests. These field tests may encounter problems and delays for a number of reasons, many of which are beyond our control. If these field tests reveal technical defects or reveal that our products do not meet performance goals, our commercialization schedule could be delayed, and potential purchasers may decline to purchase our products.

We expect our cash reserves will be reduced due to future operating losses and working capital requirements, and we cannot provide certainty as to how long our cash reserves will last or that we will be able to access additional capital when necessary.

We expect to incur continued losses and generate negative cash flow until we can produce sufficient revenues to cover our costs. We may never become profitable. Even if we do achieve profitability, we may be unable to sustain or increase our profitability in the future. For the reasons discussed in more detail below, there are substantial uncertainties associated with our achieving and sustaining profitability. We expect our cash reserves will be reduced due to future operating losses and working capital requirements, and we cannot provide certainty as to how long our cash reserves will last or that we will be able to access additional capital if and when necessary.

A mass market for our products may never develop or may take longer to develop than we anticipate.

Our fuel cell products represent emerging markets, and we do not know whether end-users will want to use them in commercial volumes. In such emerging markets, demand and market acceptance for recently introduced products and services are subject to a high level of uncertainty and risk. The development of a mass market for our fuel cell products may be affected by many factors, some of which are beyond our control, including the emergence of newer, more competitive technologies and products, the cost of fuels used by our products, regulatory requirements, consumer perceptions of the safety of our products and related fuels, and end-user reluctance to buy a new product.

If a mass market fails to develop, or develops more slowly than we anticipate, we may never achieve profitability. In addition, we cannot guarantee that we will continue to develop, manufacture or market our products if sales levels do not support the continuation of the product.

We may not be able to successfully execute our business plan.

The execution of our business plan poses many challenges and is based on a number of assumptions. We may not be able to successfully execute our business plan. If we experience significant cost overruns on our programs, or if our business plan is more costly than we anticipate, certain research and development activities may be delayed or eliminated, resulting in changes or delays to our commercialization plans, or we may be compelled to secure additional funding (which may or may not be available) to execute our business plan. We cannot predict with certainty our future revenues or results from our operations. If the assumptions on which our revenue or expenditure forecasts are based change, the benefits of our business plan may change as well. In addition, we may consider expanding our business beyond what is currently contemplated in our business plan. Depending on the financing requirements of a potential acquisition or new product opportunity, we may be required to raise additional capital through the issuance of equity or debt. If we are unable to raise additional capital on acceptable terms, we may be unable to pursue a potential acquisition or new product opportunity.

We have limited experience manufacturing fuel cell products on a commercial basis.

To date, we have limited experience manufacturing fuel cell products on a commercial basis. We cannot be sure that we will be able to develop efficient, low-cost, high-volume automated processes that will enable us to meet our cost goals and profitability projections. While we currently have sufficient production capacity to fulfill customer orders in the near-term, we expect that we will increase our production capacity based on market demand. We cannot be sure that we will be able to achieve any planned increases in production capacity or that unforeseen problems relating to our manufacturing processes will not occur. Even if we are successful in developing high-volume automated processes and achieving planned increases in production capacity, we cannot be sure that we will do so in time to meet our product commercialization schedule or to satisfy customer demand. If our business does not grow as quickly as anticipated, our existing and planned manufacturing facilities would, in part, represent excess capacity for which we may not recover the cost, in which case our revenues may be inadequate to support our committed costs and planned growth, and our gross margins and business strategy would be adversely affected. Any of these factors could have a material adverse effect on our business, results of operations and financial performance.

Global economic conditions are beyond our control and may have an adverse impact on our business or our key suppliers and/or customers.

Current global economic conditions may adversely affect the development of sales of our products, and thereby delay the commercialization of our products. Customers and/or suppliers may not be able to successfully execute their business plans; product development activities may be delayed or eliminated; new product introduction may be delayed or eliminated; end-user demand may decrease; and some companies may not continue to be commercially viable.

Potential fluctuations in our financial and business results make forecasting difficult and may restrict our access to funding for our commercialization plan.

We expect our revenues and operating results to vary significantly from quarter to quarter. As a result, quarter-to-quarter comparisons of our revenues and operating results may not be meaningful. Due to the stage of development of our business, it is difficult to predict our future revenues or results of operations accurately. We are also subject to normal operating risks such as credit risks, foreign currency risks and fluctuations in commodity prices. As a result, it is possible that in one or more future quarters, our operating results may fall below the expectations of investors and securities analysts. Not meeting investor and security analyst expectations may materially and adversely impact the trading price of our common shares, and restrict our ability to secure required funding to pursue our commercialization plans.

We could be adversely affected by risks associated with acquisitions.

We may in future, seek to expand our business through acquisitions. Any such acquisitions will be in part dependent on management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In certain circumstances, acceptable acquisition targets might not be available. Acquisitions involve a number of risks, including: (i) the possibility that we, as successor owner, may be legally and financially responsible for liabilities of prior owners; (ii) the possibility that we may pay more than the acquired company or assets are worth; (iii) the additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; (iv) the difficulty of integrating the operations and personnel of an acquired business; (v) the challenge of implementing uniform standards, controls, procedures and policies throughout an acquired business; (vi) the inability to integrate, train, retrain and motivate key personnel of an acquired business; and (vii) the potential disruption of our ongoing business and the distraction of management from our day-to-day operations. These risks and difficulties, if they materialize, could disrupt our ongoing business, distract management, result in the loss of key personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial performance. These risks are applicable to our acquisition of Dantherm Power in the first quarter of 2010.

We are subject to risks inherent in international operations.

Our success depends in part on our ability to secure international customers. We have limited experience developing and manufacturing products that meet foreign regulatory and commercial requirements in our target markets. We face numerous challenges in our international business activities, including war, insurrection, civil unrest, strikes and other political risks, negotiation of contracts with government entities, unexpected changes in regulatory and other legal requirements, fluctuations in currency restrictions and exchange rates, longer accounts receivable requirements and collections, difficulties in managing international operations, potentially adverse tax consequences, restrictions on repatriation of earnings and the burdens of complying with a wide variety of international laws. Any of these factors could have a material adverse effect on our business, results of operations and financial performance.

Exchange rate fluctuations are beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability.

Our revenues are particularly affected by fluctuations in the exchange rate between the Canadian dollar and the United States dollar. We generate approximately 90% of our revenues in United States dollars while approximately 60% of our operating expenses, cost of revenues and capital expenditures are in Canadian dollars. As a result, any decrease in the value of the United States dollar relative to the Canadian dollar reduces the amount of Canadian dollar revenues we realize on sales, without a corresponding decrease in expenses. Exchange rate fluctuations are beyond our control, and the United States dollar may depreciate against the Canadian dollar in the future, which would result in lower revenues and margins. In order to reduce the potential negative effect of a weakening United States dollar, we have entered into various hedging programs. However, if the Canadian dollar increases in value, it will negatively affect our financial results and our competitive position compared to other fuel cell product manufacturers in jurisdictions where operating costs are lower.

Commodity price fluctuations are beyond our control and may have a material adverse effect on our business, operating results, financial condition and profitability.

Commodity prices, in particular the price of platinum, affect our costs. Platinum is a key component of our fuel cell products. Platinum is a scarce natural resource and we are dependent upon a sufficient supply of this commodity. While we do not anticipate significant near or long-term shortages in the supply of platinum, such shortages could adversely affect our ability to produce commercially viable fuel cell products or significantly raise our cost of producing such products. In order to reduce the impact of platinum price fluctuations, we have entered into various hedging programs.

We are dependent upon Original Equipment Manufacturers and Systems Integrators to purchase certain of our products.

To be commercially useful, our fuel cell products must be integrated into products manufactured by Systems Integrators and OEMs. We can offer no guarantee that Systems Integrators or OEMs will manufacture appropriate products or, if they do manufacture such products, that they will choose to use our fuel cell products. Any integration, design, manufacturing or marketing problems encountered by Systems Integrators or OEMs could adversely affect the market for our fuel cell products and our financial results.

We are dependent on third party suppliers for the supply of key materials and components for our products.

We have established relationships with third party suppliers, on whom we rely to provide materials and components for our products. A supplier's failure to supply materials or components in a timely manner, or to supply materials and components that meet our quality, quantity or cost requirements, or our inability to obtain substitute sources for these materials and components in a timely manner or on terms acceptable to us, could harm our ability to manufacture our products. In addition, to the extent that our product development plans rely on development of supplied materials or components, we cannot guarantee that we will be able to leverage our relationships with suppliers to support these plans. To the extent that the processes that our suppliers use to manufacture the materials and components are proprietary, we may be unable to obtain comparable materials or components from alternative suppliers, which could adversely affect our ability to produce viable fuel cell products or significantly raise our cost of producing such products.

We currently face and will continue to face significant competition.

As fuel cell products have the potential to replace existing power products, competition for our products will come from current power technologies, from improvements to current power technologies, and from new alternative energy technologies, including other types of fuel cells. Each of our target markets is currently serviced by existing manufacturers with existing customers and suppliers. These manufacturers use proven and widely accepted technologies such as ICEs and batteries as well as coal, oil and nuclear powered generators.

Additionally, there are competitors working on developing technologies other than PEM fuel cells (such as other types of fuel cells and advanced batteries) in each of our targeted markets. Some of these technologies are as capable of fulfilling existing and proposed regulatory requirements as the PEM fuel cell.

Within the PEM fuel cell market, we also have a large number of competitors. Across the world, corporations, national laboratories and universities are actively engaged in the development and manufacture of PEM fuel cell products and components. Each of these competitors has the potential to capture market share in each of our target markets.

Many of our competitors have substantial financial resources, customer bases, manufacturing, marketing and sales capabilities, and businesses or other resources, which give them significant competitive advantages over us.

We could lose or fail to attract the personnel necessary to run our business.

Our success depends in large part on our ability to attract and retain key management, engineering, scientific, marketing, manufacturing and operating personnel. As we develop additional manufacturing capabilities and expand the scope of our operations, we will require more skilled personnel. Recruiting personnel for the fuel cell industry is highly competitive. We may not be able to continue to attract and retain qualified executive, managerial and technical personnel needed for our business. Our failure to attract or retain qualified personnel could have a material adverse effect on our business.

Public policy and regulatory changes could hurt the market for our products.

Changes in existing government regulations and the emergence of new regulations with respect to fuel cell products may hurt the market for our products. Environmental laws and regulations in the United States and other countries have driven interest in fuel cells. We cannot guarantee that these laws and policies will not change. Changes in these laws and other laws and policies, or the failure of these laws and policies to become more widespread, could result in manufacturers abandoning their interest in fuel cell products or favouring alternative technologies. In addition, as fuel cell products are introduced into our target markets, the United States government and other governments may impose burdensome requirements and restrictions on the use of fuel cell products that could reduce or eliminate demand for some or all of our products.

We depend on our intellectual property, and our failure to protect that intellectual property could adversely affect our future growth and success.

Failure to protect our existing intellectual property rights may result in the loss of our exclusivity or the right to use our technologies. If we do not adequately ensure our freedom to use certain technology, we may have to pay others for rights to use their intellectual property, pay damages for infringement or misappropriation, or be enjoined from using such intellectual property. We rely on patent, trade secret, trademark and copyright laws to protect our intellectual property. However, some of our intellectual property is not covered by any patent or patent application, and the patents to which we currently have rights expire between 2011 and 2027. Our present or future-issued patents may not protect our technological leadership, and our patent portfolio may not continue to grow at the same rate as it has in the past. Moreover, our patent position is subject to complex factual and legal issues that may give rise to uncertainty as to the validity, scope and enforceability of a particular patent. Accordingly, there is no assurance that: (a) any of the patents owned by us or other patents that third parties license to us will not be invalidated, circumvented, challenged, rendered unenforceable or licensed to others; or (b) any of our pending or future patent applications will be issued with the breadth of claim coverage sought by us, if issued at all. In addition, effective patent, trade secret, trademark and copyright protection may be unavailable, limited or not applied for in certain countries.

We also seek to protect our proprietary intellectual property, including intellectual property that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our strategic partners and employees. We can provide no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, or that such persons or institutions will not assert rights to intellectual property arising out of these relationships.

Certain of our intellectual property have been licensed to us on a non-exclusive basis from third parties who may also license such intellectual property to others, including our competitors. If necessary or desirable, we may seek further licences under the patents or other intellectual property rights of others. However, we may not be able to obtain such licences or the terms of any offered licences may not be acceptable to us. The failure to obtain a licence from a third party for intellectual property we use could cause us to incur substantial liabilities and to suspend the manufacture or shipment of products or our use of processes requiring the use of such intellectual property.

We may become subject to lawsuits in which it is alleged that we have infringed the intellectual property rights of others or commence lawsuits against others who we believe are infringing upon our rights. Our involvement in intellectual property litigation could result in significant expense to us, adversely affecting the development of sales of the challenged product or intellectual property and diverting the efforts of our technical and management personnel, whether or not such litigation is resolved in our favour.

We could be liable for environmental damages resulting from our research, development or manufacturing operations.

Our business exposes us to the risk of harmful substances escaping into the environment, resulting in personal injury or loss of life, damage to or destruction of property, and natural resource damage. Depending on the nature of the claim, our current insurance policies may not adequately reimburse us for costs incurred in settling environmental damage claims, and in some instances, we may not be reimbursed at all. Our business is subject to numerous laws and regulations that govern environmental protection and human health and safety. These laws and regulations have changed frequently in the past and it is reasonable to expect additional and more stringent changes in the future. Our operations may not comply with future laws and regulations, and we may be required to make significant unanticipated capital and operating expenditures. If we fail to comply with applicable environmental laws and regulations, governmental authorities may seek to impose fines and penalties on us, or to revoke or deny the issuance or renewal of operating permits, and private parties may seek damages from us. Under those circumstances, we might be required to curtail or cease operations, conduct site remediation or other corrective action, or pay substantial damage claims.

Our products use flammable fuels, which could subject our business to product liability claims.

Our business exposes us to potential product liability claims that are inherent in hydrogen and products that use hydrogen. Hydrogen is a flammable gas and therefore a potentially dangerous product. Any accidents involving our products or other hydrogen-based products could materially impede widespread market acceptance and demand for our fuel cell products. Involvement in litigation could result in significant expense to us, adversely affecting the development and sales of our products, and diverting the efforts of our technical and management personnel, whether or not the litigation is resolved in our favour. In addition, we may be held responsible for damages beyond the scope of our insurance coverage. We also cannot predict whether we will be able to maintain our insurance coverage on acceptable terms.

ADDITIONAL INFORMATION

Additional information regarding Ballard may be found on SEDAR at www.sedar.com. In particular, additional information regarding directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under security compensation plans is contained in our information circular for our most recent annual meeting of securityholders that involved the election of directors. Additional financial information is provided in our financial statements and Management's Discussion and Analysis for the most recently completed financial year.

Copies of this Annual Information Form and the documents incorporated by reference herein, our comparative financial statements (including the auditors' report) for the year ended December 31, 2011, each interim financial statement issued after December 31, 2011, our management proxy circular and our Annual Report may be obtained upon request from our Corporate Secretary, 9000 Glenlyon Parkway, Burnaby, British Columbia, V5J 5J8, or on our website at www.ballard.com.

APPENDIX "A" BOARD OF DIRECTORS MANDATE

Purpose

The board of directors (the "Board") is responsible for the overall corporate governance of the Corporation. It oversees and directs the management of the Corporation's business and affairs. In doing so, it must act honestly, in good faith, and in the best interests of the Corporation. The Board guides the Corporation's strategic direction, evaluates the performance of the Corporation's executive officers, monitors the Corporation's financial results, and is ultimately accountable to the Corporation's shareholders, employees, customers, suppliers, and regulators. Board members are kept informed of the Corporation's operations at meetings of the Board and its committees, and through reports and analyses by, and discussions with, management. The Board manages the delegation of decision-making authority to management through Board resolutions under which management is given authority to transact business, but only within specific limits and restrictions. In this Mandate, the "Corporation" means Ballard Power Systems Inc. and a "director" means a Board member.

COMPOSITION

A) As stated in the Articles of the Corporation, the Board will be composed of no fewer than five and no more than fifteen directors.

B) The Board will have a majority of independent directors.

C) The Board will appoint its own Chair.

MEETINGS

D) Meetings of the Board will be held as required, but at least four times a year.

E) The Board will appoint its own Secretary, who need not be a director. The Secretary, in conjunction with the Chair of the Board, will draw up an agenda, which will be circulated in advance to the members of the Board along with the materials for the meeting. The Secretary will be responsible for taking and keeping the Board's meeting minutes.

F) As set out in the By-laws of the Corporation, meetings will be chaired by the Chair of the Board, or if the Chair is absent, by a member chosen by the Board from among themselves.

G) If all directors consent, and proper notice has been given or waived, a director or directors may participate in a meeting of the Board by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a director participating in such a meeting by any such means is deemed to be present at that meeting.

H) The Board will conduct an in-camera session excluding management at the end of each Board meeting.

I) A majority of directors constitute a quorum.

J) All decisions made by the Board may be made at a Board meeting or evidenced in writing and signed by all Board members, which will be fully effective as if it had been made or passed at a Board meeting.

DUTIES AND RESPONSIBILITIES

K) **Selection of Management**

The Board is responsible for appointing the Chief Executive Officer ("CEO"), for monitoring and evaluating the CEO's performance, and approving the CEO's compensation. Upon recommendation of the CEO and the Management Development, Nominating & Compensation Committee, the Board is also responsible for appointing all officers. The Board also ensures that adequate plans are in place for management development and succession and conducts an annual review of such plans.

L) **Corporate Strategy**

The Board is responsible for reviewing and approving the Corporation's corporate mission statement and corporate strategy on a yearly basis, as well as determining the goals and objectives to achieve and implement the corporate strategy, while taking into account, among other things, the opportunities and risks of the business. Each year, the Board meets for a strategic planning session to set the plans for the upcoming year. In addition to the general management of the business, the Board expects management to achieve the corporate goals set by the Board, and the Board monitors throughout the year the progress made against these goals.

In addition, the Board approves key transactions, which have strategic impact to the Corporation, such as acquisitions, key collaborations, key supply arrangements, and strategic alliances. Through the delegation of signing authorities, the Board is responsible for setting out the types of transactions that require approval of the Board before completion.

M) **Fiscal Management and Reporting**

The Board monitors the financial performance of the Corporation and must ensure that the financial results are reported: (a) to shareholders and regulators on a timely and regular basis; and (b) fairly and in accordance with generally accepted accounting principles. The Board must also ensure that all material developments of the Corporation are disclosed to the public on a timely basis in accordance with applicable securities regulations. In the spring of each year, the Board reviews and approves the Annual Report, which is sent to shareholders of the Corporation and describes the achievements and performance of the Corporation for the preceding year.

N) **Legal Compliance**

The Board is responsible for overseeing compliance with all relevant policies and procedures by which the Corporation operates and ensuring that the Corporation operates at all times in compliance with all applicable laws and regulations, and to the highest ethical and moral standards.

O) **Statutory Requirements**

The Board is responsible for approving all matters, which require Board approval as prescribed by applicable statutes and regulations, such as payment of dividends and issuances of shares. Management ensures that such matters are brought to the attention of the Board as they arise.

P) **Formal Board Evaluation**

The Board, through a process led by the Corporate Governance Committee, conducts an annual evaluation and review of the performance of the Board, Board committees, and the Chair of the Board. The Corporate Governance Committee reviews the results of such evaluation and together with the Chair of the Board, discusses potential ways to improve Board effectiveness. The Corporate Governance Committee discusses the results of the evaluation and the recommended improvements with the full Board. The Board also sets annual effectiveness goals and tracks performance against those goals. In addition, each individual director's performance is evaluated and reviewed regularly.

Q) **Risk Management**

The Board is responsible for identifying the Corporation's principal risks and ensuring the implementation of appropriate systems to manage these risks. The Board is also responsible for the integrity of the Corporation's internal controls and management information systems.

R) **External Communications**

The Board is responsible for overseeing the establishment, maintenance and annual review of the Corporation's external communications policies which address how the Corporation interacts with analysts and the public and which also contain measures for the Corporation to avoid selective disclosure. The Board is responsible for establishing a process for receiving shareholder feedback. This is achieved through a semi-annual presentation of an investor relations report, which contains a summary of the feedback and common enquiries received from shareholders, as well as a Board e-mail address, which has been set up for the public to submit messages to the Board.

APPENDIX "B" AUDIT COMMITTEE MANDATE

Purpose

The purpose of the Audit Committee (the "Committee") is to assist the board of directors in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the shareholders and the public, the systems of corporate controls which management and the board of directors have established, and overseeing the audit process. The Committee also is mandated to review and approve all related party transactions, as further described below under "Duties and Responsibilities", other than those related party transactions in respect of which the board has delegated review to a special committee of independent directors.

In this Mandate, the “Corporation” means Ballard Power Systems Inc. and a “director” means a board member.

More specifically the purpose of the Committee is to satisfy itself that:

A) the Corporation’s annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend approval of the annual financial statements to the board;

B) the financial information contained in the Corporation’s quarterly financial statements, Annual Report to Shareholders and other financial publications such as Management’s Discussion and Analysis, the Annual Information Form, Management Proxy Circular and information contained in any prospectus is complete and accurate in all material respects and to recommend to the board approval of these materials other than the quarterly financial statements for which approval authority has been delegated to the Committee hereunder;

C) the Corporation has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements and to manage financial and asset related risks;

D) the external audit function has been effectively carried out and that any matter which the external auditors wish to bring to the attention of the Committee or board of directors has been addressed. The Committee is also responsible for recommending the appointment (for approval by the shareholders at the Corporation’s annual meeting of shareholders) of, and overseeing the external auditors, monitoring the external auditors’ qualifications and independence, pre-approving all substantive audit services and non-audit services performed by the external auditors, and determining the appropriate level of remuneration for the external auditors. The external auditors will report directly to the Audit Committee;

E) management has established and is maintaining processes to assure compliance by the Corporation with all applicable laws, regulations and corporate policies;

F) the internal audit function is being effectively carried out, that the Committee is meeting with the internal auditor (or persons responsible for the function) as necessary, and that any matter which the internal auditor wishes to bring to the attention of the Committee or board of directors has been addressed;

G) the related party transactions being reviewed by the Committee are in the best interests of the Corporation; and

H) it has engaged any necessary independent counsel or other advisors in fulfilling its duties and responsibilities, as set forth in this Mandate.

Composition and Eligibility

A) Following each annual meeting of shareholders of the Corporation, the board will appoint from its members not less than three directors to serve on the Committee. Each member of the Committee must meet the independence and expertise requirements for audit committees imposed by any listing standards of NASDAQ or requirements of the Canadian securities regulatory authorities under National Instrument 52-110, any applicable statutes, or applicable rules or regulations of the U.S. Securities Exchange Commission.

B) Any member may be removed or replaced at any time by the board and will cease to be a member upon ceasing to be a director of the Corporation. Each member will hold office until the close of the next annual meeting of shareholders of the Corporation or until the member resigns or is replaced whichever occurs first.

C) All members of the Committee must have working familiarity with basic finance and accounting practices, and be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement at the time of their appointment.

D) At least one member of the Committee must be an audit committee "financial expert" as defined by the applicable rules set out by the U.S. Securities and Exchange Commission (the "SEC") or any other regulatory authority. The financial expert must have all of the following five attributes:

(i) an understanding of Generally Accepted Accounting Principles ("GAAP") or the generally accepted accounting principles used by the issuer in preparing its primary financial statements filed with the SEC;

(ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more person engaged in such activities;

(iv) an understanding of internal controls and procedures for financial reporting; and

(v) an understanding of audit committee functions.

The financial expert must have acquired the requisite attributes through any one or more of the following methods:

(i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

(ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;

(iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or

(iv) other relevant experience, based on the determination by the board of directors as to the specific experience, which satisfies this requirement.

E) Any member of the Committee who serves on more than three public company audit committees must inform the Chair of the Board, so that the board may consider and discuss with such member any issues related to his or her effectiveness and time commitment.

Meetings

A) The Committee will meet at least quarterly. The meetings will be scheduled to permit timely review of the interim and annual financial statements, as well as the Corporation's other financial disclosures and related party transactions. The Chair, CEO, CFO, Controller, internal and external auditors or any member of the Committee may request additional meetings.

B) The Committee will appoint its own Secretary, who need not be a director. The Secretary in conjunction with the Chair of the Committee will draw up an agenda, which will be circulated, in advance to the members of the Committee with the materials for the meeting. The Secretary will be responsible for taking and keeping the Committee's meeting minutes.

C) Meetings will be chaired by the Chair of the Committee, or if the Chair is absent, by a member chosen by the Committee from among themselves.

D) If all members consent, and proper notice has been given or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

E) All directors who are not Committee members will be given notice of every meeting of the Committee and will be allowed to attend as observers, unless deemed inappropriate by the Committee in cases where a potential conflict of interest may exist, such as discussions concerning related party transactions.

F) The CEO, CFO, Controller and internal auditor shall have direct access to the Committee and shall receive notice of and attend all meetings of the Committee, except the in-camera sessions.

G) The external auditors will be given notice of, and have the right to appear before and to be heard at, every meeting of the Committee and will appear before the Committee when requested to do so by the Committee.

H) The Committee is authorized to request the presence, at any meeting, of senior management, legal counsel or anyone else who could contribute substantively to the subject of the meeting.

I) The Committee members will receive minutes of all meetings of the Corporation's internal Disclosure Committee.

J) A majority of Committee members constitute a quorum.

K) All decisions made by the Committee may be made at a Committee meeting or evidenced in writing and signed by all Committee members, which will be fully effective as if it had been made or passed at a Committee meeting.

L) The minutes of all meetings of the Committee will be provided to the board of directors. The Chair of the Committee will provide an oral report on the Committee's activities to the board of directors at the next regularly scheduled meeting of the board following each Committee meeting.

M) Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request to the Secretary of the Committee.

N) The Committee may form and delegate authority to subcommittees. In particular, the Committee may delegate to one or more of its members the authority to pre-approve audit or permissible non-audit services, provided that the decisions of any member(s) to whom pre-approval authority is delegated will be presented to the Committee at the next Committee meeting.

Duties and Responsibilities

A) Investigations

The Committee is empowered to investigate any activity of the Corporation and all employees are to co-operate as requested by the Committee. The Committee may retain outside advisors having special expertise to assist it in fulfilling its responsibilities, and determine the appropriate level of remuneration for such outside advisors.

B) Financial Reporting Control Systems

The Committee will:

(i) review with management any significant changes in financial risks facing the Corporation;

(ii) review with management procedures followed with respect to disclosure controls and procedures;

(iii) review the management letter from the external auditors and the Corporation's responses to suggestions made;

(iv) annually review specific matters affecting financial reporting, including but not limited to, the Corporation's insurance coverage, the status of the Corporation's tax loss carry-forwards, pension and health care liabilities, and off balance sheet transactions;

(v) review the appointment of the financial senior executives of the Corporation, prior to recommendation by the Management Development, Nominating & Compensation Committee ("MDNCC") to the board;

(vi) establish and maintain a set of procedures for the receipt, retention and treatment of complaints received by the Corporation concerning accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

(vii) discuss and consider policies with respect to risk assessment and risk management, including:

a) review and periodic approval of management's risk philosophy and risk management policies;

b) review with management, at least annually, of reports demonstrating compliance with risk management policies; and

c) discussing with management, at least annually, the Corporation's major financial risk exposures and the steps management has taken to monitor and control such expenses including the Corporation's risk assessment and risk management policies.

(viii) meet separately and periodically, no less than annually, with management, with internal auditors (or the persons responsible for the internal audit function) and with external auditors.

C) Interim Financial Statements

The Committee will, prior to their release, review and approve the interim (quarterly) financial statements and Management's Discussion and Analysis with the Corporation's officers and external auditors. This will include significant transactions, which have occurred in the quarter.

D) Annual Financial Statements and Other Financial Information

The Committee will:

(i) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;

(ii) obtain summaries of significant transactions, and other complex matters whose treatment in the annual financial statements merits advance consideration;

(iii) obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by the Corporation's officers;

(iv) review a summary provided by the Corporation's legal counsel of the status of any material pending or threatened litigation, claims and assessments;

(v) review and approve the annual financial statements, Management's Discussion and Analysis and the auditors' report thereon, and discuss them in detail with the Corporation's officers and the external auditors;

(vi) review and recommend to the board of directors approval of all financial disclosure contained in prospectuses, annual information forms, management proxy circulars and other similar documents;

(vii) before the release of each quarterly report and the annual financial statements, discuss with the external auditors all matters required by SAS 61 (including the auditors' responsibility under GAAP, the selection of and changes in significant accounting policies or their application, management judgments and accounting estimates, significant audit adjustments, the external auditors' responsibility for information other than financial statements, disagreements with management, consultation with other accountants, and difficulties encountered in performing the audit) and CICA Handbook section 5751 (which governs the communications between the external auditors and the Committee); and

(viii) provide the board of directors with a recommendation for approval of the annual financial statements; and

(ix) discuss earnings press releases and earnings guidance, as well as the release of significant new financial information.

E) Relationship with External Auditors

The Committee will:

(i) recommend the appointment of the external auditors (for approval by the shareholders at the Corporation's annual meeting of shareholders); if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition. The external auditors will report directly to the Committee. The Committee will not recommend the appointment of an external auditor who has previously employed the Corporation's CEO, CFO, Controller or chief accounting officer and where such person participated in any capacity in the audit of the Corporation within the past year;

(ii) annually review and approve the terms of engagement and determine the remuneration of the external auditors;

(iii) review the quarterly and annual representation letters given by management to the external auditors;

(iv) monitor the external auditors' qualifications and independence through the activities listed in section (G) below, "Independence of External Auditors";

(v) review the audit plan with the external auditors and approve all substantive audit services in advance;

(vi) approve in advance any services to be provided by the external auditors which are not related to the audit, including the fees and terms of engagement relating to such non-audit services for the Corporation and its subsidiaries. Specifically, the Committee must not allow the external auditors to provide the following services:

a) bookkeeping services;

b) financial information systems design and implementation;

c) appraisal or valuation services, fairness opinions or contribution-in-kind reports;

d) actuarial services;

e) internal audit services which relate to the Corporation's internal accounting controls, financial systems or financial statements;

f) investment banking, broker, dealer or investment advisor services;

g) management and human resources services;

h) legal services and expert services unrelated to the audit (however the external auditors may provide tax services); and

i) any other services that the Public Company Accounting Oversight Board or the Canadian Public Accountability Board determines by regulation, or the Corporation's board of directors determines, to be impermissible.

(vii) review quarterly all fees paid to external auditors;

(viii) review performance against audit proposal plan;

(ix) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;

(x) receive from the external auditors a report with respect to:

a) all critical accounting policies and practices;

b) all alternative treatments of financial information within GAAP that have been discussed with management, implications of their use and the external auditors' "preferred treatment";

c) any other material written communications between the external auditors and management;

d) the internal quality-control procedures of the external auditors;

e) any material issues raised by the most recent internal quality- control review of the external auditors' firm, or by an inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors' firm, and any steps taken to deal with any such issues; and

f) all relationships between the external auditors and the Corporation as detailed in §(i) under Section (G) below "Independence of External Auditors";

(xi) resolve all disagreements between management and the external auditors regarding financial reporting; and

(xii) ensure that the audit partners representing the external auditors meet the rotation requirements set out by the U.S. Securities and Exchange Commission and by any other applicable Canadian or U.S. securities regulatory authority or stock exchange.

F) Treasury

The Committee will:

(i) review and approve the Treasury Policy;

(ii) review the quarterly Treasury Report;

(iii) review and approve the Foreign Exchange Policy; and

(iv) review and approve any commodities hedging policy.

G) Independence of External Auditors

The Committee will oversee the independence of the Corporation's external auditors by:

(i) receiving from the external auditors, on a periodic basis, a formal written statement delineating all relationships between the external auditors and the Corporation consistent with ISBS No. 1 and CICA Handbook Section 5751;

(ii) reviewing and actively discussing with the board of directors, if necessary, and the external auditors, on a periodic basis, any relationships or services between the external auditors and the Corporation or any other relationships or services that may impact the objectivity and independence of the external auditors;

(iii) recommending, if necessary, that the board of directors take action to satisfy itself, of the external auditors' independence; and

(iv) ensuring that the Corporation does not hire as the Corporation's CEO, CFO, Controller or chief accounting officer any person who was employed by the Corporation's external auditors and who participated in any capacity in the audit of the Corporation during the one-year period preceding the initiation of the current audit.

H) Internal Audit and Controls

(i) The Committee will ensure that the Corporation has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements and to manage financial and asset related risks.

(ii) The Committee will review quarterly the internal auditors' report on the adequacy of the Corporation's internal controls, policies and procedures.

(iii) The Committee will annually review and approve the internal audit plan.

(iv) The Committee will regularly review progress against the approved internal audit plan, and adjust the plan to deal with emerging issues as required.

l) Related Party Transactions

The Committee will review and approve all related party transactions, other than those related party transactions in respect of which the board has delegated review to a special committee or independent directors or those related party transactions which are previously approved under the mandate of the MDNCC, including, but not limited to, executive employment agreements and compensation matters. A related party transaction is defined as a transaction in which the Corporation or any of its subsidiaries is to be a party, which involves an amount exceeding U.S. $60,000 and in which any of the following persons have a direct or indirect material interest:

(i) a director or executive officer of the Corporation;

(ii) any nominee for election as a director of the Corporation;

(iii) any security holder of the Corporation known by the Corporation to own (of record or beneficially) more than 5% of any class of the Corporation's voting securities; and

(iv) any member of the immediate family of any of the foregoing persons.

In carrying out its responsibilities in reviewing and approving related party transactions, the Committee will:

(v) receive details of all related party transactions proposed by the Corporation, other than those related party transactions which the board has delegated review of to a special committee of independent directors;

(vi) discuss such related party transactions with the representatives of the relevant parties (the "Representatives") and with the Corporation's executive officers;

(vii) review the terms and conditions of each related party transaction;

(viii) with respect to the holders of common shares, consider the effect of the related party transaction on, and the fairness of the related party transaction to, such shareholders;

(ix) recommend any revisions to the structure of the related party transaction that the Committee considers to be necessary or advisable;

(x) if a valuation or fairness opinion is required by any applicable statutes or regulations, supervise the preparation of such valuation or fairness opinion;

(xi) if approval of the board of directors is necessary, provide a recommendation to the board of directors with respect to the related party transaction; and

(xii) review a summary of completed related party transactions to ensure that such transactions are consistent with the terms and conditions previously approved by the committee.

As part of its review of all related party transactions, the Committee will review all modifications to existing loans and advances to the Corporation's executive officers or directors.

J) Other

The Committee will:

(i) perform an annual review of management's compliance with the Corporation's Code of Ethics & Workplace Guidelines and Corporate Watch Policy;

(ii) perform an annual review of the Corporation's Code of Ethics & Workplace Guidelines and Corporate Watch Policy, with any recommended changes being forwarded to the board for approval;

(iii) perform an annual review of the succession plans for the Corporation's CFO and Controller;

(iv) perform an annual review of this Committee mandate, with any recommended changes being forwarded to the Corporate Governance Committee and ultimately the board for approval; and

(v) annually review the audit of the expense reports of the Chair of the Board of Directors and the CEO.

K) Performance Evaluation

The Committee will perform an annual evaluation of its performance, having regard to the issues reviewed during the year.

COMMITTEE TIMETABLE

The timetable below generally outlines the Committee's anticipated schedule of activities during the year.

Committee Timetable												
Agenda Items	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**
A) Financial Reporting Control Systems												
(i) Review with management any significant changes in financial risks facing the Corporation.		ü			ü		ü			ü		
(ii) Review with management procedures followed with respect to disclosure controls and procedures.		ü			ü		ü			ü		
(iii) Review the management letter from the external auditor and corporation's responses to suggestions made.					ü							
(iv) Annually review the Committee mandate.		ü										
(v) Review specific matters as required affecting financial reporting such as insurance coverage, the status of the Corporation's tax loss carry-forwards, pension and health care liabilities, and off balance sheet transactions.										ü		
(vi) Review the appointment of the financial senior executives of the Corporation.		ü			ü		ü			ü		
(vii) Establish and maintain a set of procedures for the receipt, retention and treatment of complaints received by the Corporation concerning accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and review submissions as received.		ü			ü		ü			ü		
(viii) Discuss and consider policies with respect to risk assessment and risk management.												ü
(ix) Meet separately and periodically, no less than annually, with management, with internal auditors (or persons responsible for the internal audit function) and with independent auditors.		ü			ü		ü			ü		

Committee Timetable												
Agenda Items	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**
B) Interim Financial Statements												
(i) Review and approval of interim financial statements and MD&A.					ü		ü			ü		
C) Annual Financial Statements and Other Financial Information												
(i) Review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements.		ü			ü		ü			ü		
(ii) Obtain summaries of significant transactions, and other complex matters whose treatment in the annual financial statements merits advance consideration.		ü			ü		ü			ü		
(iii) Obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by the Corporation's officers.		ü										
(iv) Review summary provided by the Corporation's legal counsel of the status of any material pending or threatened litigation, claims and assessments.		ü			ü		ü			ü		
(v) Discuss the annual financial statements, MD&A and the auditors' report thereon in detail with the Corporation's officers and the external auditors.		ü										
(vi) Review and recommend to the board of directors approval of all financial disclosure contained in prospectuses, annual information forms, management proxy circulars and other similar documents.		ü										
(vii) Before the release of each quarterly report and annual financial statements, discuss with the external auditors all matters required by SAS 61 and Handbook section 5751.		ü			ü		ü			ü		
(viii) Provide the board with a recommendation for approval of the annual financial statements.		ü										
(ix) Discuss earnings press releases and earnings guidance as well as the release of significant new financial information.		ü			ü		ü			ü		
D) Relationship with External Auditors												
(i) Annually appoint (subject to shareholder approval) external auditor.		ü										

Committee Timetable												
Agenda Items	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**
(ii) Annually review and approve terms of engagement and determine remuneration of external auditor.										ü		
(iii) Review representation letters given by management to external auditor.		ü			ü				ü	ü		
(iv) Monitor the external auditor's qualifications and independence through the activities listed in Section F.		ü										
(v) Review the audit plan with the external auditors and approve all substantive audit services in advance.										ü		
(vi) Approve permissible non-audit services in advance.		ü			ü				ü			
(vii) Review all fees paid to external auditors.		ü			ü				ü	ü		
(viii) Review performance against audit proposal plan.		ü										
(ix) Discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters.		ü			ü				ü	ü		
(x) Receive a report from the external auditor with respect to:												
(a) all critical accounting policies and practices;		ü										
(b) all alternative treatments of financial information within GAAP that have been discussed with management, implications of their use and the external auditors' "preferred treatment";		ü										
(c) any other material written communications between the auditor and management;		ü										
(d) the internal quality-control procedures of the external auditors;		ü										
(e) any material issues raised by the most recent internal quality-control review of the external auditors' firm, or by an inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by such firm, and any steps taken to deal with any such issues; and		ü										
(f) all relationships between the external auditors and the Corporation, as detailed in §(i) under Section F – Independence of External Auditors.		ü										

Committee Timetable												
Agenda Items	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**
(xi) Resolve all disagreements between management and the external auditors regarding financial reporting					ü				ü	ü		
(xii) Ensure that the audit partners representing the external auditors meet the rotation requirements set out by the U.S. Securities and Exchange Commission and by any other applicable Canadian or U.S. securities regulatory authority or stock exchange.										ü		
E) Treasury												
(i) Review and approve the Treasury Policy.					ü							
(ii) Review the Quarterly Treasury Report.		ü			ü				ü	ü		
(iii) Review and approve the Foreign Exchange Policy.					ü							
F) Independence of External Auditors												
(i) Receive from the external auditors, on a periodic basis, a formal written statement delineating all relationships between the external auditors and the Corporation consistent with ISB No. 1.		ü										
(ii) Review and actively discuss with the Board of Directors, if necessary, and the external auditors, on a periodic basis, any disclosed relationships or services between the external auditors and the Corporation or any other disclosed relationships or services that may impact the objectivity and independence of the external auditors.		ü										
(iii) Recommend, if necessary, that the Board take action to satisfy itself, of the external auditors' independence.		ü										
(iv) Ensure that the Corporation does not hire as the Corporation's CEO, CFO, Controller or chief accounting officer any person who was employed by the Corporation's external auditors and who participated in any capacity in the audit of the Corporation during the one-year period preceding the initiation of the current audit		ü			ü				ü	ü		
G) Internal Audit and Controls												
(i) Ensure that the Corporation has appropriate systems of internal control.		ü			ü			ü		ü		

Committee Timetable												
Agenda Items	**J**	**F**	**M**	**A**	**M**	**J**	**J**	**A**	**S**	**O**	**N**	**D**
(ii) Review quarterly the internal auditors' report on the adequacy of the internal controls, policies and procedures.		ü			ü		ü			ü		
(iii) Annually review and approve internal audit plan					ü							
H) Related Party Transactions												
(i) Review and approve the Corporation's related party transactions over US$60,000.		ü			ü		ü			ü		ü
(ii) Review a summary of the Corporation's related party transactions to ensure that such transactions are consistent with the terms and conditions previously approved by the Committee.		ü			ü		ü			ü		ü
I) Other												
(i) Annually review management's compliance with the Corporation's Code of Ethics & Workplace Guidelines and Corporate Watch Policy.												ü
(ii) Annually review the Corporation's Code of Ethics & Workplace Guidelines and Corporate Watch Policy, with any recommended changes being forwarded to the board for approval												ü
(iii) Annually review the succession plans for the Corporation's CFO and Controller.												ü
(iv) Annually review the audit of expense reports of the Chair of the Board of Directors and the CEO.					ü							
J) Performance Evaluation												
(i) Review annual evaluation of the Committee's performance.		ü										

Certification Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002

I, **John W. Sheridan,** certify that:

1. I have reviewed this annual report on Form 40-F of Ballard Power Systems Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 23, 2012

By: /s/ John W. Sheridan
Name: John W. Sheridan
President and Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to Ballard Power Systems Inc. and will be retained by Ballard Power Systems Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Certification Pursuant to Section 302
of the Sarbanes-Oxley Act of 2002

I, **Tony Guglielmin,** certify that:

1. I have reviewed this annual report on Form 40-F of Ballard Power Systems Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 23, 2012

By: /s/ Tony Guglielmin
Name: Tony Guglielmin
Vice President and Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to Ballard Power Systems Inc. and will be retained by Ballard Power Systems Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Section 906 Certification

Certification Pursuant to
18 U.S.C. Section 1350

As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Ballard Power Systems Inc., a corporation organized under the laws of Canada (the "Company"), for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 23, 2012 /s/ John W. Sheridan

John W. Sheridan
President and Chief Executive Officer (principal executive officer)

Dated: February 23, 2012 /s/ Tony Guglielmin

Tony Guglielmin
Vice President and Chief Financial Officer (principal financial officer)

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
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Canada

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Consent of Independent Registered Public Accounting Firm

To the Board of Directors of
Ballard Power Systems Inc.

We consent to the inclusion in this annual report on Form 40-F of:

- our Report of Independent Registered Public Accounting Firm dated February 22, 2012 on the consolidated statements of financial position of Ballard Power Systems Inc. (the "Company") as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for each of the years in the two-year period ended December 31, 2011;

- our Report of Independent Registered Public Accounting Firm dated February 22, 2012 on the Company's internal control over financial reporting as of December 31, 2011,

each of which is contained in this annual report on Form 40-F of the Company for the fiscal year ended December 31, 2011.

We also consent to incorporation by reference of the above mentioned audit reports in the Company's Registration Statements (No. 333-156553 and 333-161807) on Form S-8.

KPMG LLP

Chartered Accountants

Vancouver, Canada
February 23, 2012

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