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

Form 40-F

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

OR

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

For the fiscal year ended December 31, 2012 **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:

x Annual information form x 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.

91,801,477 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 x No o

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 o No o

The Annual Report on Form 40-F shall be incorporated by reference into or as an exhibit to, as applicable, the following Registration Statements of the Registrant filed under the Securities Act of 1933: Form S-8 (File No. 333-156553 and 333-161807); and Form F-10 (File No. 333-180579).

Documents Incorporated by Reference

The following documents of Ballard Power Systems Inc. (the "Registrant" or the "Company") are filed as exhibits to this annual report and are incorporated by reference herein:

- the Registrant's Annual Information Form for the year ended December 31, 2012;
- the Registrant's Audited Consolidated Financial Statements for the years ended December 31, 2012 and 2011; and
- the Registrant's Management Discussion and Analysis for the year ended December 31, 2012.

Explanatory Note

The Company is a Canadian issuer eligible to file its annual report pursuant to Section 13 of the United States Exchange Act of 1934, as amended (the "Exchange Act") on Form 40-F. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act. Accordingly, the Company's equity securities are exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3.

The Company is permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare this annual report on Form 40-F in accordance with Canadian disclosure requirements, which are different from those of the United States.

The Company prepares its financial statements in accordance with International Financial Reporting Standards, as issued by the International Financial Accounting Boards, and they may be subject to Canadian auditing and auditor independence standards. Accordingly, the financial statements of the Company incorporated by reference in this report may not be comparable to financial statements of United States companies.

Forward Looking Statements

This report contains forward-looking statements concerning anticipated developments in the operations of the Company in future periods, planned development activities, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "estimate", "project", "believe", "anticipate", "intend", "expect", "plan", "predict", "may", "should", "will" and similar expressions, or by statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in the Annual Information Form incorporated by reference in this report.

The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made and the Company assumes no obligation to update such forward-looking statements in the future. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

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.

Identification of the Audit Committee and Audit Committee Financial Expert

The required disclosure is included in the Annual Information Form, under the heading "Audit Committee Matters", which is incorporated herein by reference to Exhibit 99.3. The Audit Committee has at least one member, Ian A. Bourne, who qualifies as an audit committee financial expert under applicable securities regulations.

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 "Audit Committee Matters," which is incorporated herein by reference to Exhibit 99.3

Off-Balance Sheet Arrangements

The required disclosure is included under the heading "Off-Balance Sheet Arrangements & Contractual Obligations" in Management's Discussion and Analysis, which is incorporated herein by reference to Exhibit 99.2. The information pertaining to the Registrant's indemnification arrangements contained in the Annual Information Form, under the heading "Material Contracts", is also incorporated herein by reference to Exhibit 99.3.

Tabular Disclosure of Contractual Obligations

The following table lists, as of December 31, 2012, information with respect to our contractual obligations (dollar amounts are 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	**$21,574**	$2,520	$5,327	$5,499	$ 8,228
Capital leases	**20,437**	1,924	4,063	3,315	11,135
Purchase obligations	**300**	300	-	-	-
Asset retirement obligations	**6,366**	-	-	-	6,366
Employee future benefits	**6,161**	-	-	-	6,161
Total contractual obligations	**$54,838**	$4,744	$9,390	$8,814	$31,890

The additional required disclosure is included under the heading "Off-Balance Sheet Arrangements & Contractual Obligations" in Management's Discussion and Analysis, which is incorporated herein by reference to Exhibit 99.2.

NASDAQ Corporate Governance

The Registrant's common shares are listed on the NASDAQ Global Market ("Nasdaq"). Nasdaq Marketplace Rule 5615(a)(3) permits a foreign private issuer, such as the Registrant, to follow its home country practice in lieu of most of the requirements of the 5600 Series of the Nasdaq Marketplace Rules. For a discussion of the significant differences between our corporate governance practices and those required to be followed by U.S. domestic issuers under Nasdaq's corporate governance requirements, please refer to our website at www.ballard.com.

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/ Tony Guglielmin

Tony Guglielmin
Vice President and Chief Financial Officer

Date: March 15, 2013

EXHIBIT LIST

Exhibit	Description
99.1	Ballard Power Systems Inc. Consolidated Financial Statements for the years ended December 31, 2012 and 2011
99.2	Ballard Power Systems Inc. Management's Discussion and Analysis for the year ended December 31, 2012
99.3	Annual Information Form for Ballard Power Systems Inc. dated as of March 15, 2013
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, 2012 and 2011

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, 2012. 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, 2012. 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 20, 2013

"TONY GUGLIELMIN"

TONY GUGLIELMIN
Vice President and
Chief Financial Officer
February 20, 2013

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
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Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

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. (the “Company”) as at December 31, 2012 and December 31, 2011 and the related consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended. 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board .

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2(e) to the consolidated financial statements, the Company’s ability to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business is dependent on it having sufficient liquidity and achieving profitable operations that are sustainable. These conditions indicate the existence of a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern. Management’s plans in regard to these matters are also described in note 2(e). The consolidated financial statements do not include any adjustments that might result from the outcome of this material uncertainty.

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.

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, 2012, 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 20, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Chartered Accountants

February 20, 2013
Vancouver, Canada

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
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Internet www.kpmg.ca

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, 2012, 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, 2012, 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.

We also have audited, in accordance with 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, 2012 and December 31, 2011, and the related consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and our report dated February 20, 2013 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chartered Accountants

February 20, 2013
Vancouver, Canada

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Financial Position
(Expressed in thousands of U.S. dollars)

	Note	December 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		**$ 9,770**	$ 20,316
Short-term investments		**12,068**	25,878
Trade and other receivables	7	**16,374**	17,164
Inventories	8	**11,277**	13,614
Prepaid expenses and other current assets		**1,011**	934
		50,500	77,906
Assets classified as held for sale	28	**10,798**	-
Total current assets		**61,298**	77,906
Property, plant and equipment	9	**24,316**	35,085
Intangible assets	10	**4,194**	2,249
Goodwill	11	**36,291**	48,106
Investments	12	**667**	635
Long-term trade receivables	7	**594**	1,126
Other long-term assets		**187**	183
Total assets		**$ 127,547**	$ 165,290
Liabilities			
Current liabilities:			
Bank operating line	13	**$ 9,358**	$ 4,587
Trade and other payables	14	**12,215**	22,693
Deferred revenue		**3,705**	3,560
Provisions	15	**9,423**	9,573
Finance lease liability	13 & 16	**1,043**	978
Convertible debenture	17	**2,924**	-
		38,668	41,391
Liabilities classified as held for sale	28	**1,423**	-
Total current liabilities		**40,091**	41,391
Finance lease liability	13 & 16	**13,011**	13,749
Deferred gain		**5,193**	5,653
Provisions	15	**5,089**	4,733
Convertible debenture	17	**-**	1,733
Employee future benefits	18	**6,161**	5,686
Total liabilities		**69,545**	72,945
Equity:			
Share capital	19	**845,630**	837,686
Treasury shares	19	**(313)**	(515)
Contributed surplus	19	**291,184**	289,219
Accumulated deficit		**(1,074,181)**	(1,031,279)
Foreign currency reserve		**92**	209
Total equity attributable to equity holders		**62,412**	95,320
Dantherm Power A/S non-controlling interests		**(4,410)**	(2,975)
Total equity		**58,002**	92,345
Total liabilities and equity		**$ 127,547**	$ 165,290

Subsequent events (note 29)
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	2012	2011 (restated – note 28)
Revenues:			
Product and service revenues		**$ 43,690**	$ 55,773
Cost of product and service revenues		**36,321**	48,494
Gross margin		**7,369**	7,279
Operating expenses:			
Research and product development		**19,273**	24,896
General and administrative		**12,306**	11,455
Sales and marketing		**6,901**	8,515
Total operating expenses		**38,480**	44,866
Results from operating activities		**(31,111)**	(37,587)
Finance income and other	27	**31**	195
Finance expense	27	**(1,690)**	(1,392)
Net finance expense		**(1,659)**	(1,197)
Gain (loss) on sale of property, plant and equipment	9	**(69)**	734
Impairment loss on property, plant and equipment	9	**(570)**	(1,727)
Impairment loss on goodwill	11	**(10,000)**	-
Loss before income taxes		**(43,409)**	(39,777)
Income tax expense	23	**-**	(134)
Net loss from continuing operations		**(43,409)**	(39,911)
Net earnings (loss) from discontinued operations	28	**(65)**	3,755
Net loss		**$ (43,474)**	$ (36,156)
Foreign currency translation differences		**(186)**	363
Defined benefit plan actuarial losses	18	**(807)**	(2,905)
Net gain (loss) on hedge of forward contracts		**(20)**	20
Comprehensive loss		**$ (44,487)**	$ (38,678)
Net loss attributable to:			
Ballard Power Systems Inc. from continuing operations		**$ (42,070)**	$ (37,175)
Ballard Power Systems Inc. from discontinued operations		**(65)**	3,755
Dantherm Power A/S non-controlling interest		**(1,339)**	(2,736)
Net loss		**$ (43,474)**	$ (36,156)
Comprehensive loss attributable to:			
Ballard Power Systems Inc.		**$ (43,059)**	$ (36,116)
Dantherm Power A/S non-controlling interest		**(1,428)**	(2,562)
Comprehensive loss		**$ (44,487)**	$ (38,678)
Basic and diluted loss per share attributable to Ballard Power Systems Inc.			
Continuing operations		**$ (0.48)**	$ (0.44)
Discontinued operations		**$ (0.00)**	$ 0.04
Net loss		**$ (0.48)**	$ (0.40)
Weighted average number of common shares outstanding		**87,591,501**	84,440,970

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, December 31, 2010	84,148,465	$ 836,245	$ (670)	$ 289,444	$ (995,023)	$ -	$ (413)	$ 129,583
Net loss	-	-	-	-	(33,420)	-	(2,736)	(36,156)
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
Other comprehensive income (loss):								
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
Balance, December 31, 2011	84,550,524	$ 837,686	$ (515)	$ 289,219	$ (1,031,279)	$ 209	$ (2,975)	$ 92,345
Net loss	**-**	**-**	**-**	**-**	**(42,135)**	**-**	**(1,339)**	**(43,474)**
Acquisition (note 6)	**7,136,237**	**7,493**	**-**	**-**	**-**	**-**	**-**	**7,493**
Additional investment in Dantherm Power A/S	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Purchase of treasury shares	**-**	**-**	**(6)**	**-**	**-**	**-**	**-**	**(6)**
DSUs redeemed	**52,120**	**314**	**-**	**(358)**	**-**	**-**	**-**	**(44)**
RSUs redeemed	**49,095**	**113**	**208**	**(415)**	**40**	**-**	**-**	**(54)**
Options exercised	**13,501**	**24**	**-**	**(7)**	**-**	**-**	**-**	**17**
Share distribution plan	**-**	**-**	**-**	**2,745**	**-**	**-**	**-**	**2,745**
Other comprehensive loss:								
Foreign currency translation for foreign operations	**-**	**-**	**-**	**-**	**-**	**(97)**	**(89)**	**(186)**
Defined benefit plan actuarial loss	**-**	**-**	**-**	**-**	**(807)**	**-**	**-**	**(807)**
Net loss on hedge of forward contracts	**-**	**-**	**-**	**-**	**-**	**(20)**	**-**	**(20)**
Balance, December 31, 2012	**91,801,477**	**$ 845,630**	**$ (313)**	**$ 291,184**	**$ (1,074,181)**	**$ 92**	**$ (4,410)**	**$ 58,002**

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	2012	2011
Cash provided by (used for):			
Operating activities:			
Net loss for the year		**$ (43,474)**	$ (36,156)
Adjustments for:			
Compensatory shares		**2,746**	2,646
Employee future benefits		**(331)**	(172)
Depreciation and amortization		**6,184**	5,906
Loss (gain) on sale of property, plant and equipment	9	**69**	(734)
Impairment loss on property, plant and equipment	9	**1,070**	1,727
Impairment loss on goodwill	11	**11,815**	-
Unrealized loss (gain) on forward contracts		**(285)**	285
		(22,206)	(26,498)
Changes in non-cash working capital:			
Trade and other receivables		**65**	(4,317)
Inventories		**4,434**	(1,293)
Prepaid expenses and other current assets		**(151)**	42
Trade and other payables		**(10,459)**	(1,691)
Deferred revenue		**166**	1,052
Warranty provision		**5**	(516)
		(5,940)	(6,723)
Cash used by operating activities		**$ (28,146)**	$ (33,221)
Investing activities:			
Net decrease (increase) in short-term investments		**13,810**	(3,370)
Additions to property, plant and equipment		**(1,168)**	(4,107)
Net proceeds on sale of property, plant and equipment and other		**424**	3,666
Net investments in associated companies	12	**(32)**	36
Other investment activities		**(9)**	-
		$ 13,025	$ (3,775)
Financing activities:			
Non-dilutive financing		**-**	(60)
Purchase of treasury shares		**(6)**	(327)
Payment of finance lease liabilities		**(999)**	(830)
Net proceeds from bank operating line	13	**4,771**	4,587
Net proceeds on issuance of share capital		**17**	40
Proceeds on issuance of convertible debenture from Dantherm Power A/S non-controlling interests	17	**862**	1,718
		$ 4,645	$ 5,128
Effect of exchange rate fluctuations on cash and cash equivalents held		**$ (70)**	$ 247
Increase (decrease) in cash and cash equivalents		**$ (10,546)**	$ (31,621)
Cash and cash equivalents, beginning of period		**20,316**	51,937
Cash and cash equivalents, end of period		**$ 9,770**	$ 20,316

Supplemental disclosure of cash flow information (note 25).
Cash flows of discontinued operations (note 28).
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, 2012 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").

The consolidated financial statements were authorized for issue by the Board of Directors on February 20, 2013.

(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 benefits liability is recognized as the net total of the present value of the defined benefit obligation, less the fair value of plan assets.

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:

The preparation of the consolidated financial statements in conformity with IFRS requires the Corporation's management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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 having estimation uncertainty include revenue recognition, asset impairment, warranty provision, inventory provision, employee future benefits, and income taxes. These estimates and assumptions are discussed further in note 4.

(e) Going concern:

These consolidated financial statements have been prepared assuming the Corporation will continue as a going concern. The Corporation is required to assess its ability to continue as a going concern or whether substantial doubt exists as to the Corporation's ability to continue as a going concern into the foreseeable future. While the Corporation believes that it has adequate liquidity in cash, working capital and non-core asset monetization opportunities (notes 28 & 29) to finance its operations, there are material risks and uncertainties that cause substantial doubt as to the Corporation's ability to continue as a going concern. The Corporation's ability to continue as a going concern and realize its assets and discharge its liabilities and commitments in the normal course of business is dependent upon the Corporation having adequate liquidity and achieving profitable operations that are sustainable. There are various risks and uncertainties affecting the Corporation including, but not limited to, the market acceptance and rate of commercialization of the Corporation's products, the ability of the Corporation to successfully execute its business plan, and general global economic conditions, certain of which are beyond the Corporation's control.

The Corporation's strategy to mitigate these risks and uncertainties is to execute a business plan aimed at continued focus on Fuel Cell Products revenue growth, improving overall gross margins, managing operating expenses and working capital requirements, and securing additional financing to fund its operations as needed including the sale of non-core assets (notes 28 & 29). Failure to implement this plan could have a material adverse effect on the Corporation's financial condition and or results of operations.

2. Basis of preparation (cont'd):

(e) Going concern (cont'd):

These consolidated financial statements do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

Certain prior year comparative figures have been reclassified to comply with current year presentation.

(a) Basis of consolidation:

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

	Percentage ownership	
	2012	2011
Ballard Fuel Cell Systems Inc.	100%	-
Ballard Material Products Inc.	100%	100%
Ballard Power Corporation	100%	100%
Dantherm Power A/S	52% - 57%	52%

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. The Corporation acquired an additional 7% interest in Dantherm Power A/S in August 2010 and a further 5% interest in December 2012. 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 acquisition on 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.

3. Significant accounting policies (cont'd):

(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.

(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.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

(i) Financial assets (cont'd)

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with original maturities of three months or less and are initially measured at fair value, and subsequently measured at amortized cost, which approximates fair value due to the short-term and liquid nature of these assets.

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.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

(i) Financial assets (cont'd)

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.

(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.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

(iv) Derivative financial instruments, including hedge accounting

The Corporation periodically 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.

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.

3. Significant accounting policies (cont'd):

(c) Financial instruments (cont'd):

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

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.

(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.

3. Significant accounting policies (cont'd):

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

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

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.

3. Significant accounting policies (cont'd):

(f) Leases (cont'd):

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. 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.

3. Significant accounting policies (cont'd):

(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.

(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.

3. Significant accounting policies (cont'd):

(h) Impairment (cont'd):

(ii) Non-financial assets (cont'd)

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.

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.

3. Significant accounting policies (cont'd):

(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.

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.

3. Significant accounting policies (cont'd):

(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.

(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.

3. Significant accounting policies (cont'd):

(m) Employee benefits (cont'd):

Defined benefit plans (cont'd)

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.

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.

3. Significant accounting policies (cont'd):

(m) Employee benefits (cont'd):

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.

(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 19. 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.

3. Significant accounting policies (cont'd):

(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.

(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 judgments in applying accounting policies and key sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with IFRS requires the Corporation's management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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.

Critical judgments in applying accounting policies:

At this time, the Corporation's management has concluded that there are no critical judgments that management has made in the process of applying the Corporation's accounting policies.

Key sources of estimation uncertainty:

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the reported amount of assets, liabilities, income and expenses within the next fiscal year.

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty (cont'd):

(a) Revenue recognition:

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) Asset impairment:

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.

The Corporation's most significant estimates and assumptions involve values associated with goodwill and intangible assets. These estimates and assumptions include those with respect to future cash inflows and outflows, discount rates, asset lives, and the determination of cash generating units. At least annually, the carrying value of goodwill and intangible assets 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. This review involves significant estimation uncertainty, which could affect the Corporation's future results if the current estimates of future performance and fair values change.

(c) 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 judgments in applying accounting policies and key sources of estimation uncertainty (cont'd):

(d) Inventory provision:

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.

(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.

(f) Income taxes:

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. Management reviews the deferred income tax assets at each reporting period and records adjustments to the extent that it is no longer probable that the related tax benefit will be realized.

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.

(a) IFRS 9 – *Financial Instruments:*

In November 2009, the International Accounting Standards Board ("IASB") published IFRS 9 Financial Instruments. This new standard simplifies the classification and measurement of financial assets set out in IAS 39 Financial Instruments: Recognition and Measurement. Financial assets are to be measured at amortized cost or fair value. They are to be measured at amortized cost if the two following conditions are met:

a) the assets are held within a business model whose objective is to collect contractual cash flows; and

b) the contractual cash flows are solely payments of principal and interest on the outstanding principal.

All other financial assets are to be measured at fair value through net earnings. The entity may, if certain conditions are met, elect to use the fair value option instead of measurement at amortized cost. As well, the entity may choose upon initial recognition to measure non-trading equity investments at fair value through comprehensive income. Such a choice is irrevocable.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39 and further points. For financial liabilities measured at fair value through net earnings using the fair value option, the amount of change in a liability's fair value attributable to changes in its credit risk is recognized directly in other comprehensive income.

In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. Early adoption is permitted under certain conditions. An entity is not required to restate comparative financial periods for its first-time application of IFRS 9, but must comply with the new disclosure requirements.

The Corporation intends to adopt IFRS 9 in its financial statements for the fiscal year beginning on January 1, 2015. The extent of the impact of adoption has not yet been determined.

5. Recent accounting pronouncements (cont'd):

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

In May 2011, the IASB published IFRS 10 *Consolidated Financial Statements* which is a replacement of SIC-12 *Consolidation – Special Purpose Entities*, and certain parts of IAS 27 *Consolidated and Separate Financial Statements* . IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, employing the following factors to identify control:

a) power over the investee;

b) exposure or rights to variable returns from involvement with the investee;

c) the ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 shall be applied to fiscal years beginning on or after January 1, 2013.

The Corporation intends to adopt IFRS 10 for the fiscal year beginning on January 1, 2013. The Corporation does not expect IFRS 10 to have a material impact on its financial statements.

(c) IFRS 11 – *Joint Arrangements:*

In May 2011, the IASB published IFRS 11 *Joint Arrangements* which supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 requires that joint ventures be accounted for using the equity method of accounting and eliminates the need for proportionate consolidation. This new standard shall be applied to fiscal years beginning on or after January 1, 2013.

The Corporation intends to adopt IFRS 11 for the fiscal year beginning on January 1, 2013. The Corporation does not expect IFRS 11 to have a material impact on its financial statements.

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

In May 2011, the IASB published IFRS 12 *Disclosure of Interests in Other Entities* which requires that an entity disclose information on the nature of and risks associated with its interests in other entities (i.e. subsidiaries, joint arrangements, associates or unconsolidated structured entities) and the effects of those interests on its financial statements. IFRS 12 shall be applied to fiscal years beginning on or after January 1, 2013.

The Corporation intends to adopt IFRS 12 for the fiscal year beginning on January 1, 2013. The Corporation does not expect IFRS 12 to have a material impact on its financial statements.

5. Recent accounting pronouncements (cont'd):

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

In May 2011, the IASB published IFRS 13 *Fair Value Measurement* to establish a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as 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 requires disclosure of certain information on fair value measurements. IFRS 13 shall be applied to fiscal years beginning on or after January 1, 2013.

The Corporation intends to adopt IFRS 13 for the fiscal year beginning on January 1, 2013. The Corporation does not expect IFRS 13 to have a material impact on its financial statements.

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

In June 2011, the IASB issued 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 amendments to IAS 19 shall be applied to fiscal years beginning on or after January 1, 2013. The Corporation intends to adopt the amendments in its financial statements for the fiscal year beginning on January 1, 2013. 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 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:*

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*. Items of other comprehensive income and the corresponding tax expense are required to be grouped into those that will and will not subsequently be reclassified through net earnings. These amendments shall be applied to fiscal years beginning on or after July 1, 2012.

The Corporation intends to adopt the amendments to IAS 1 for the fiscal year beginning on January 1, 2013. The Corporation does not expect the amendments to IAS 1 to have a material impact on its financial statements.

(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. The Corporation does not expect the amendments to have a material impact on its financial statements.

6. Acquisition:

On August 1, 2012 ("acquisition date"), the Corporation completed an agreement to acquire key assets and product lines from IdaTech, LLC ("IdaTech"). In exchange for 7,136,237 of the Corporation's common shares valued at $7,493,000 based on the Corporation's share price at the acquisition date, the Corporation acquired IdaTech's key assets including fuel cell systems inventory, prepaid right to inventory, and product lines for backup power applications, distributor and customer relationships, a license to intellectual property, the right to assume control of a manufacturing facility, and certain property, plant and equipment.

The prepaid right to inventory and other current assets of approximately $2,728,000 relates to a contract manufacturing agreement including a supply commitment whereby IdaTech will provide additional units of finished goods inventory to the Corporation prior to January 1, 2013. An additional payment of approximately $500,000 for the additional units will be made to IdaTech when the Corporation receives payment from its customers as the units are sold.

6. Acquisition (cont'd):

The acquisition has been accounted for using the acquisition method of accounting and, accordingly, the acquired assets and liabilities have been included in the consolidated financial statements since the date of acquisition, and revenues since the acquisition date totaling $5,087,000 are reported in the Fuel Cell Products segment. The intangible assets arising from this acquisition are amortized over their estimated useful life of 5 years. Pro forma revenue and net loss attributable to the Corporation as if the assets were acquired on January 1, 2012 cannot be determined, as reliable information is not available.

Acquisition costs of $274,000 were incurred in 2012 as a result of the transaction, and are recognized in general and administrative expenses.

The following is the fair value of the identified assets acquired, and liabilities assumed at the date of acquisition:

Net assets acquired:	
Inventories	$ 1,895
Prepaid right to inventory and other current assets	2,728
Property, plant and equipment	861
Intangible assets	2,886
Trade and other payables	(431)
Warranty provision	(446)
Total purchase consideration	$ 7,493

7. Trade and other receivables:

	December 31, 2012	December 31, 2011
Trade receivables	$ 16,709	$ 16,343
Other	259	1,947
	16,968	18,290
Less: Non-current trade receivables	(594)	(1,126)
	$ 16,374	$ 17,164

8. Inventories:

	December 31, 2012	December 31, 2011
Raw materials and consumables	$ 4,702	$ 8,353
Work-in-progress	1,646	1,820
Finished goods	4,929	3,441
	$ 11,277	$ 13,614

8. Inventories (cont'd):

In 2012, changes in raw materials and consumables, finished goods and work-in-progress recognized as cost of product and service revenues amounted to $19,218,000 (2011 - $37,227,000).

In 2012, the write-down of inventories to net realizable value amounted to $717,000 (2011 - $486,000). There were no reversals of previously recorded write-downs in 2012 or 2011. 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.

9. Property, plant and equipment:

Cost	Balance at December 31, 2011	Additions	Disposals	Reclassified as held for sale	Balance at December 31, 2012
Land	$ 1,220	$ -	$ -	$ (1,220)	$ -
Building	3,666	-	-	(3,666)	-
Building under finance lease	12,180	-	-	-	12,180
Computer equipment	6,423	276	(54)	(701)	5,944
Furniture and fixtures	834	1	(23)	(57)	755
Furniture and fixtures under finance lease	317	-	-	-	317
Leasehold improvements	10,086	125	-	(1,032)	9,179
Production and test equipment	45,091	1,670	(1,493)	(13,161)	32,107
Production and test equipment under finance lease	3,667	-	-	-	3,667
Total	$ 83,484	$ 2,072	$ (1,570)	$ (19,837)	$ 64,149

Depreciation and impairment loss	Balance at December 31, 2011	Depreciation	Impairment loss	Disposals	Reclassified as held for sale	Balance at December 31 2012
Land	$ -	$ -	$ -	$ -	$ -	$ -
Building	2,199	154	-	-	(2,353)	-
Building under finance lease	1,488	813	-	-	-	2,301
Computer equipment	5,676	241	-	(54)	(493)	5,370
Furniture and fixtures	788	12	-	(23)	(57)	720
Furniture and fixtures under finance lease	37	63	-	-	-	100
Leasehold improvements	4,963	694	-	-	(767)	4,890
Production and test equipment	32,806	3,003	1,070	(975)	(10,352)	25,552
Production and test equipment under finance lease	442	458	-	-	-	900
Total	$ 48,399	$ 5,438	$ 1,070	$ (1,052)	$ (14,022)	$ 39,833

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

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

Carrying amounts	Balance at December 31, 2012	Balance at December 31, 2011
Land	$ -	$ 1,220
Building	-	1,467
Building under finance lease	9,879	10,692
Computer equipment	574	747
Furniture and fixtures	35	46
Furniture and fixtures under finance lease	217	280
Leasehold improvements	4,289	5,123
Production and test equipment	6,555	12,285
Production and test equipment under finance lease	2,767	3,225
Total	$ 24,316	$ 35,085

9. 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.

Disposals

The total loss on sale of property, plant and equipment was $69,000 in 2012. In 2011, a gain on sale of property, plant and equipment of $734,000 was recognized.

Impairment loss

During the year ended December 31, 2012, impairment losses of $1,070,000 (2011 - $1,727,000) were recognized, of which $570,000 related to the obsolescence of production and test equipment. The remaining $500,000 related to the impairment of assets held for sale (note 28). No impairment losses were reversed in 2012 or 2011.

10. Intangible assets:

Fuel cell technology Balance	Cost	Accumulated amortization	Net carrying amount
At January 1, 2011	$43,443	$ 40,468	$ 2,975
Amortization	-	726	(726)
At December 31, 2011	43,443	41,194	2,249
Acquisition through business combination	2,886	-	2,886
Amortization	-	941	(941)
At December 31, 2012	$46,329	$ 42,135	$ 4,194

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 2012 and 2011.

11. 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 26).

11. Goodwill (cont'd):

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

	December 31, 2012	December 31, 2011
Fuel cell products	$ 36,291	$ 46,291
Contract automotive	-	-
Material products	-	1,815
	$ 36,291	$ 48,106

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.

Fuel Cell Products

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, 2012 based on the average closing share price in the month of December, adding a reasonable estimated control premium of 25% to determine the Corporation's enterprise value on a controlling basis after adjusting for excess cash balances, and deducting the fair value of the Materials Product segment from this enterprise value, arriving at the fair value of the Fuel Cell Products segment. Based on the fair value test, the Corporation has determined that the fair value of the Fuel Cell Products segment was deficient compared to its carrying value, resulting in a $10,000,000 impairment loss recognized against goodwill. The $46,291,000 of goodwill associated with the Fuel Cell Products segment as of December 31, 2011 was written down to $36,291,000 as of December 31, 2012.

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 20%; an average estimated compound annual growth rate of approximately 35% from 2012 to 2017; 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 an estimated fair value for the Fuel Cell Products segment that is consistent with that determined under the fair value, less costs to sell, assessment.

11. Goodwill (cont'd):

Material Products

The Material Products segment was disposed of on January 31, 2013 (note 29). As a result, the fair value of the Material Products segment, determined based on a fair value less costs to sell assessment, compared the segment's carrying value as of December 31, 2012 against the actual net proceeds received on disposition on January 31, 2013. As a result of the assessment, the Corporation determined that the fair value of the Material Products segment was deficient to its carrying value, resulting in a $1,815,000 write-off of goodwill and $500,000 write-down of property, plant and equipment associated with the Material Products segment. The impairment losses relating to the Material Products segment are included in net loss from discontinued operations (note 28).

12. Investments:

Investments are comprised of the following:

	December 31, 2012		December 31, 2011	
	Amount	Percentage ownership	Amount	Percentage ownership
Chrysalix Energy Limited Partnership	$ 659	15.0%	$ 627	15.0%
Other	8		8	
	$ 667		$ 635	

Chrysalix Energy Limited Partnership ("Chrysalix") is accounted for as an available-for-sale financial asset and recorded at fair value. During 2012, the Corporation made additional capital contributions of $44,000 (2011 - $103,000) in Chrysalix, which was offset by cash distributions received from Chrysalix of $12,000 (2011 - $139,000).

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.

13. Bank facilities:

The Corporation has a demand revolving facility ("Bank Operating Line") in which an operating line of credit of up to CDN $10,000,000 is 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 2012, the Corporation was advanced $17,331,000 (2011 - $14,265,000) under the bank operating line of which $12,560,000 (2011 - $9,678,000) was repaid during the year. At December 31, 2012, $9,358,000 (2011 - $4,587,000) was outstanding on the Bank Operating Line.

13. Bank facilities (cont'd):

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 9 & 16). Interest is charged on outstanding amounts at the bank's prime rate per annum and is repayable at the option of the bank, if there has been, in the opinion of the bank, a material adverse change in the financial condition of the Corporation. At December 31, 2012, $2,546,000 was outstanding on the Leasing Facility which is included in the finance lease liability. The remaining $11,508,000 finance lease liability relates to the lease of the Corporation's head office building.

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

14. Trade and other payables:

	December 31, 2012	December 31, 2011
Trade accounts payable	$ 5,256	$ 10,195
Compensation payable	2,046	6,615
Other liabilities	4,669	5,427
Taxes payable	244	456
	$ 12,215	$ 22,693

15. Provisions:

Balance	Legal	Restructuring	Warranty provision	Decommissioning liabilities	Total
At January 1, 2011	$ 1,371	$ 78	$ 8,570	$ 3,102	$ 13,121
Provisions made during the year	50	1,356	2,097	1,706	5,209
Provisions used during the year	(897)	(401)	(716)	-	(2,014)
Provisions reversed during the year	-	-	(1,721)	-	(1,721)
Effect of movements in exchange rates	(4)	(29)	(181)	(75)	(289)
At December 31, 2011	$ 520	$ 1,004	$ 8,049	$ 4,733	$ 14,306
Assumed through business combination	-	-	447	-	447
Provisions made during the year	-	1,937	1,514	250	3,701
Provisions used during the year	(528)	(2,060)	(1,309)	-	(3,897)
Provisions reversed during the year	-	-	(373)	-	(373)
Effect of movements in exchange rates	8	41	173	106	328
At December 31, 2012	$ -	$ 922	$ 8,501	$ 5,089	$ 14,512
Current	$ -	$ 922	$ 8,501	$ -	$ 9,423
Non-current	-	-	-	5,089	5,089
	$ -	$ 922	$ 8,501	$ 5,089	$ 14,512

15. Provisions (cont'd):

Restructuring

During 2012, the Corporation incurred $1,931,000 of restructuring charges due primarily to a 7% workforce reduction and a minor restructuring focused on overhead cost reduction. The estimated restructuring costs primarily include employee termination benefits and are expected to be paid in 2013. Restructuring charges are recognized in general and administrative expenses.

Warranty provision

During the year, the warranty provision increased by $452,000, due in part to the assumption of warranty provisions as part of the acquisition of key assets and product lines from IdaTech (note 6).

Decommissioning liabilities

Provisions for decommissioning liabilities have been recorded for the Corporation's two leased locations in Burnaby, British Columbia, comprising the Corporation's head office building and manufacturing facilities, and are related to site restoration obligations at the end of their respective 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 head office building and manufacturing facility. In determining the fair value of the decommissioning liabilities, the estimated future cash flows have been discounted at 2% per annum.

The Corporation performed an assessment of the estimated cash flows required to settle the obligations for the two buildings as of December 31, 2012, resulting in an additional provision of $100,000 recorded against decommissioning liabilities. The remaining provision increase during 2012 was due to accretion costs. The total undiscounted amount of the estimated cash flows required to settle the obligation for one of the buildings is $2,372,000, which is expected to be settled at the end of the lease term in 2025. The total undiscounted amount of the estimated cash flows required to settle the obligation for the second building is $3,994,000, which is expected to be settled at the end of the operating lease term of 2019.

16. Finance lease liability

The Corporation leases certain assets under finance lease agreements (note 9). 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	
2013	$ 1,924
2014	2,329
2015	1,734
2016	1,914
2017	1,401
Thereafter	11,135
Total minimum lease payments	20,437
Less: Imputed interest	(6,383)
Total finance lease liability	14,054
Less: Current portion of finance lease liability	(1,043)
Non-current portion of finance lease liability	$ 13,011

At December 31, 2012, $2,546,000 was outstanding on the Leasing Facility which is included in the finance lease liability. The remaining $11,508,000 finance lease liability relates to the lease of the Corporation's head office building.

17. Convertible debenture

The convertible debenture relates to financing to Dantherm Power A/S by the non-controlling partner and is redeemable at the option of Dantherm 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 to December 31, 2013 (the "Maturity Date"), the convertible debenture holders may elect to convert all or part of the debenture into shares of Dantherm Power A/S. The conversion price for convertible debenture notes entered into prior to January 1, 2012, of approximately DKK 9,120,000, is DKK 3.40 per share. Convertible debenture notes of approximately DKK 5,066,000 entered into since January 1, 2012 have a conversion price of DKK 0.14 per share. This conversion feature was determined to have a nominal value. The Maturity Date may be extended to December 31, 2014 with approval of the subscribers (note 29). During 2012, an additional $862,000, of convertible debt financing was advanced to Dantherm Power A/S by a non-controlling partner. At December 31, 2012, the convertible debt outstanding was $2,924,000, which includes $417,000 of interest payable.

18. Employee future benefits:

	2012		2011	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Plan assets	$ 9,344	$ -	$ 8,223	$ -
Plan obligations	(14,652)	(853)	(13,329)	(580)
Employee future benefit plans deficit	$ (5,308)	$ (853)	$ (5,106)	$ (580)

The Corporation maintains a defined benefit pension plan covering existing and former employees in the United States. The benefits under the pension plan are based on years of service and salary levels accrued as of December 31, 2009. In 2009, amendments were made to the defined benefit pension plan to freeze benefits accruing to employees at their respective years of service and salary levels obtained as of December 31, 2009. Certain employees in the 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 of plan assets.

The measurement date used to determine pension and other post-retirement benefit obligations and expense is December 31 of each year. The most recent actuarial valuation of the employee future benefit plans for funding purposes was as of January 1, 2012. The next actuarial valuation of the employee future benefit plans for funding purposes is expected to be performed as of January 1, 2013.

The Corporation expects contributions of approximately $210,000 to be paid to its defined benefit plans in 2013. 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:

	2012		2011	
	Pension Plan	Other benefit plan	Pension plan	Other benefit plan
Defined benefit plan obligations at January 1	$ 13,329	$ 580	$ 10,819	$ 491
Current service cost	-	20	-	6
Interest cost	565	31	587	25
Benefits paid	(318)	(60)	(251)	(44)
Benefits payable	46	-	48	-
Actuarial losses in other comprehensive income	1,030	282	2,126	102
Defined benefit plan obligations at December 31	$ 14,652	$ 853	$ 13,329	$ 580

18. Employee future benefits: (cont'd):

Movement in the present value of plan assets:

	2012		2011	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Fair value of plan assets at January 1	$ 8,223	$ -	$ 8,360	$ -
Expected return on plan assets	574	-	582	-
Employer's contributions	360	60	210	44
Benefits paid	(318)	(60)	(252)	(44)
Actuarial (losses) gains in other comprehensive income	505	-	(677)	-
Fair value of plan assets at December 31	$ 9,344	$ -	$ 8,223	$ -

Pension plan assets comprise:

	2012	2011
Cash and cash equivalents	3%	3%
Equity securities	70%	70%
Debt securities	27%	27%
Total	100%	100%

Expense recognized in net income:

	2012		2011	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Current service cost	$ -	$ 20	$ -	$ 6
Interest on obligations	565	31	587	25
Expected (return) on plan assets	(574)	-	(582)	-
Benefits payable	47	-	48	-
Expense recognized in net income	38	51	53	31
Actuarial (gain) loss on plan assets and plan obligations recognized in other comprehensive income	525	282	2,803	102
Total expense (income) recognized in net income and other comprehensive income	$ 563	$ 333	$ 2,856	$ 133

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

18. Employee future benefits: (cont'd):

Expense (income) recognized in other comprehensive income:

	2012		2011	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Actuarial loss on defined benefit plan obligations	$ 1,030	$ 282	$ 2,126	$ 102
Expected return on plan assets	574	-	582	-
Actual (return) loss on plan assets	(1,126)	-	68	-
Plan expenses	47	-	27	-
Actuarial (gain) loss recognized in other comprehensive income	$ 525	$ 282	$ 2,803	$ 102

Cumulative actuarial gains and losses recognized in other comprehensive income:

	2012		2011	
	Pension Plan	Other benefit plan	Pension plan	Other benefit plan
Cumulative amount at January 1	$ 2,823	$ (30)	$ 20	$ (132)
Recognized during the period	525	282	2,803	102
Cumulative amount at December 31	$ 3,348	$ 252	$ 2,823	$ (30)

The significant actuarial assumptions adopted in measuring the fair value of benefit obligations at December 31, 2012 and 2011 were as follows:

	2012		2011	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Discount rate	3.87%	3.02%	4.3%	4.3%
Rate of compensation increase	n/a	n/a	n/a	n/a

The significant actuarial assumptions adopted in determining net expense for the years ended December 31, 2012 and 2011 were as follows:

	2012		2011	
	Pension plan	Other benefit plan	Pension plan	Other benefit plan
Discount rate	4.3%	4.3%	5.5%	5.5%
Expected return on plan assets	7.0%	n/a	7.0%	n/a
Rate of compensation increase	n/a	n/a	n/a	n/a

18. Employee future benefits: (cont'd):

The assumed health care cost trend rates applicable to the other benefit plans at December 31, 2012 and 2011 were as follows:

	2012	2011
Initial medical health care cost trend rate	8.0%	8.0%
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	2018	2017
Year that the dental rate reaches the rate it is assumed to remain at	2012	2011

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

19. 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, 2012, 91,801,477 (2011 – 84,550,524) 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.

19. Equity (cont'd):

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

As at December 31, 2012, options outstanding from the consolidated share option plan was as follows:

Balance	Options for common shares	Weighted average exercise price
At January 1, 2011	6,682,589	$ 10.84
Options granted	1,874,369	1.99
Options exercised	(25,834)	1.27
Options forfeited	(260,016)	7.62
Options expired	(655,139)	46.52
At December 31, 2011	7,615,969	$ 5.54
Options granted	1,009,640	1.51
Options exercised	(13,501)	1.22
Options forfeited	(1,271,663)	5.33
Options expired	(435,394)	35.75
At December 31, 2012	6,905,051	$ 3.22

The following table summarizes information about the Corporation's share options outstanding as at December 31, 2012:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.81 – $1.96	2,621,207	4.8	$ 1.54	1,422,290	$ 1.57
$2.11 – $2.41	2,635,131	4.8	2.24	1,257,197	2.29
$3.12 – $5.11	533,034	2.2	4.81	533,034	4.81
$5.82 – $7.99	880,619	2.2	7.28	880,619	7.28
$10.00 – $14.76	235,060	0.5	14.07	235,060	14.07
	6,905,051	4.1	$ 3.22	4,328,200	$ 4.02

During 2012, compensation expense of $1,274,000 (2011 - $1,743,000) was recorded in net income as a result of fair value accounting for share options granted. The share options granted during the year had a weighted average fair value of $0.80 (2011 - $1.14) and vesting periods of three years.

19. Equity (cont'd):

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

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

	2012	2011
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Expected volatility	62%	63%
Risk-free interest rate	2%	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 the Corporation to recognize their past contribution and to encourage future contribution to the Corporation. At December 31, 2012, there were 873,441 (2011 – 440,268) shares available to be issued under this plan.

No compensation expense was recorded against income during the years ended December 31, 2012 and 2011 for shares distributed, and to be distributed, under the plan.

(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 annual 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 the capital of the Corporation after the director or executive ceases to provide services to the Corporation. Shares will be issued from the Corporation's share distribution plan.

Balance	DSUs for common shares
At January 1, 2011 and December 31, 2011	290,797
DSUs granted	249,785
DSUs exercised	(90,337)
At December 31, 2012	450,245

During 2012, compensation expense of $176,000 was recorded in net income. No compensation expense was recorded against income during the year ended December 31, 2011.

19. Equity (cont'd):

(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 a 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 plan. Awards under the consolidated share distribution plan (note 19 (c)) are satisfied by the issuance of treasury shares on maturity. Awards granted under the market purchase RSU Plan are satisfied by shares purchased on the open market by a trust established for that purpose. No common shares were repurchased in 2012. During 2011, the Corporation repurchased 230,211 common shares through the trust for cash consideration of $327,000 for the purpose of funding future grants under the Market Purchase RSU Plan. As at December 31, 2012 the Corporation held 183,629 shares as treasury shares.

	RSUs for common shares		
	Share	Market	
Balance	Distribution Plan	Purchase Plan	Total RSUs
At January 1, 2011	851,970	1,059,098	1,911,068
RSUs granted	-	1,351,516	1,351,516
RSUs exercised	(660,522)	(371,626)	(1,032,148)
RSUs forfeited	(4,975)	(52,084)	(57,059)
At December 31, 2011	186,473	1,986,904	2,173,377
RSUs granted	1,352,784	245,897	1,598,681
RSUs exercised	(84,530)	(124,884)	(209,414)
RSUs forfeited	(122,044)	(602,893)	(724,937)
RSUs transferred	652,625	(652,625)	-
At December 31, 2012	1,985,308	852,399	2,837,707

In December 2012, 652,625 unvested RSUs previously granted under the Market Purchase Plan were cancelled and new RSUs were reissued from the Share Distribution Plan with identical terms.

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 2012, compensation expense of $1,296,000 (2011 - $870,000) was recorded against income.

20. 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 term expiring in 2019, with renewal options after that date. Lease payments of $2,434,000 were expensed in 2012.

At December 31, 2012, the Corporation is committed to payments under operating leases as follows:

Less than 1 year	$ 2,520
1-3 years	5,327
4-5 years	5,499
Thereafter	8,228
Total minimum lease payments	$ 21,574

21. Commitments and contingencies:

As of December 31, 2012, the Corporation has agreed to pay royalties in respect of sales of certain fuel cell-based stationary power products under two development programs with Canadian government agencies. The total combined royalty is limited in any year to 4% of revenue from such products. Under the terms of the Utilities Development Program (Phase 1) with the Governments of Canada and British Columbia, total royalties are payable to a maximum equal to the original amount of the government contributions of CDN$5,351,000. As of December 31, 2012, no royalties have been incurred for Phase 1. Under the terms of the Utilities Development Program (Phase 2) with Technology Partnerships Canada (“TPC”), total royalties are payable to a maximum of CDN$38,329,000. As of December 31, 2012, a total of CDN $5,320,000 in royalty repayments have been made for Phase 2. The Corporation has made no Phase 2 royalty repayments in 2012 and 2011. On January 15, 2013, the Corporation reached a settlement agreement with TPC to terminate all existing and future potential royalties payable under the Utilities Development Program (Phase 2) in exchange for a final repayment of CDN $1,930,000 (note 29).

At December 31, 2012, the Corporation has outstanding commitments aggregating up to a maximum of $329,000 (2011 - $867,000) relating primarily to purchases of property, plant and equipment.

The Corporation is also committed to make future investments totaling $56,000 in Chrysalix (note 12).

21. Commitments and contingencies (cont'd):

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 Program Agreement ("FC Bus Agreement"), with Province of British Columbia, BC Transit, and BC Transportation Financing Authority ("BCTFA"). Under the 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 maximum of $2,211,000 (CDN$ 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 an indemnification agreement (the "Indemnity Agreement"), which sets out the parties' continuing obligations to the other. The Indemnity Agreement provides for the indemnification by each of the parties to the other for breaches of representations and warranties or covenants, as well as, in the Corporation's case, any liability relating to the business which is suffered by Superior Plus. The Corporation's indemnity to Superior Plus with respect to representation relating to the existence of the Corporation's tax pools immediately prior to the completion of the Arrangement is limited to an aggregate of $7,388,000 (CDN $7,350,000) with a threshold amount of $503,000 (CDN $500,000) before there is an obligation to make a payment. The Indemnity Agreement also provides for adjustments to be paid by the Corporation, or to the Corporation, depending on the final determination of the amount of 2008 Canadian non-capital losses, scientific research and development expenditures and investment tax credits, to the extent that such amounts are more or less than the amounts estimated at the time the Arrangement was executed. At December 31, 2012, no amount payable or receivable has been accrued as a result of the Indemnity Agreement.

22. Personnel expenses:

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

	December 31, 2012	December 31, 2011
Salaries and employee benefits	$ 45,836	$ 51,662
Share-based compensation (note 19)	2,582	2,377
	$ 48,418	$ 54,039

23. Income taxes:

(a) Current tax expense:

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

	2012	2011
Current tax expense		
Current period income tax	$ -	$ -
Withholding tax	-	134
Adjustment for prior periods	-	-
Total current tax expense	$ -	$ 134
Deferred tax expense		
Origination and reversal of temporary differences	$ 14,967	$ (8,044)
Adjustments for prior periods	2,146	(1,037)
Change in unrecognized deductible temporary differences	(17,113)	9,081
Total deferred tax expense	$ -	$ -
Total income tax expense	$ -	$ 134

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

	2012	2011
Net loss before income taxes	$ (43,409)	$ (39,777)
Expected tax expense (recovery) at 25.0% (2011 – 26.5%)	$ (10,852)	$ (10,541)
Increase (reduction) in income taxes resulting from:		
Non-deductible portion of capital gain (loss)	-	2,839
Non-deductible expenses (non-taxable income)	3,512	840
Expiry of losses and investment tax credits	27,539	-
Investment tax credits earned	(3,848)	(4,352)
Foreign tax rate differences	(6)	11
Change in unrecognized deductible temporary differences	(16,345)	11,337
Income taxes	$ -	$ 134

(b) Unrecognized deferred tax liabilities:

At December 31, 2012, the Corporation did not recognize any deferred tax liabilities resulting from taxable temporary differences for financial statement and income tax purposes.

23. Income taxes (cont'd):

(c) Unrecognized deferred tax asset:

At December 31, 2012, the Corporation did not have any deferred tax assets resulting from the following deductible temporary differences for financial statement and income tax purposes.

	2012	2011
Scientific research expenditures	$ 57,285	$ 46,587
Investment in associated companies	18,364	17,965
Accrued warranty liabilities	30,359	31,370
Losses from operations carried forward	75,290	66,095
Capital losses carried forward	9,423	90,238
U.S. investment tax credits	626	835
Investment tax credits	22,451	17,984
Property, plant and equipment and intangible assets	206,860	197,744
	$ 420,658	$ 468,818

Deferred tax assets have not been recognized in respect of these deductible temporary differences 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:

	2012	2011
Canadian scientific research expenditures	$ 57,285	$ 46,587
Canadian losses from operations	29,710	23,075
Canadian investment tax credits	22,451	17,984
German losses from operations for corporate tax purposes	241	227
U.S. federal losses from operations	13,543	13,287
U.S. state losses from operations	1,702	1,972
U.S. research and development and investment tax credits	626	825
U.S. capital losses	9,423	90,237
Denmark losses from operations	30,094	27,534

The Canadian scientific research expenditures may be carried forward indefinitely. The Canadian losses from operations may be used to offset future Canadian taxable income and expire over the period from 2029 to 2032.

23. Income taxes (cont'd):

(c) Unrecognized deferred tax assets (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 2013 to 2032. 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 2013 to 2031. The U.S. capital losses are available to reduce U.S. capital gains and expire in 2013.

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

2013	$ 121
2014	107
2016	96
2017	105
2019	2,643
2020	1,925
2021	1,814
2022	1,637
2029	4,763
2030	3,261
2031	3,032
2032	2,947
	$ 22,451

24. Related party transactions:

Related parties include shareholders with a significant ownership interest in the Corporation, together with its subsidiaries and affiliates and the Corporation's key management personnel. 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:	2012	2011
Trade receivables	$ -	$ -
Trade payables	$ 100	$ 260
Interest payable	$ 417	$ 141
Convertible debenture payable	$ 2,507	$ 1,592

24. Related party transactions (cont'd):

Transactions during the year with related parties:	2012	2011
Revenues	$ -	$ -
Purchases	$ 309	$ 744
Finance expense	$ 289	$ 151

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 19).

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:

	2012	2011
Salaries and employee benefits	$ 2,412	$ 3,744
Post-employment retirement benefits	63	79
Termination benefits	-	425
Share-based compensation (note 19)	1,396	1,136
	$ 3,871	$ 5,384

25. Supplemental disclosure of cash flow information:

Non-cash financing and investing activities:	2012	2011
Compensatory shares	$ 427	$ 2,046
Shares issued for acquisition (note 6)	$ 7,493	$ -
Assets acquired under finance lease	$ -	$ 1,906

26. Operating segments:

The Corporation's business has 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 (Discontinued Operation)**: carbon fiber products primarily for automotive transmissions and gas diffusion layers ("GDL") for fuel cells.

In 2012, the Corporation decided to dispose of its Material Products segment, which was subsequently sold on January 31, 2013 (note 29). As a result, the Material Products segment has been classified and accounted for as a discontinued operation (note 28) at December 31, 2012 and has not been included in the segment disclosures.

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 ceased to be an operating segment as of December 31, 2011.

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.

26. Operating segments (cont'd):

	2012	2011
Total revenues		
Fuel Cell Products	$ 43,690	$ 46,468
Contract Automotive	-	9,305
	$ 43,690	$ 55,773
Segment income (loss) for the year [(1)]		
Fuel Cell Products	$ 850	$ (1,475)
Contract Automotive	-	1,803
Total	850	328
Corporate amounts		
Research and product development	(12,754)	(17,945)
General and administrative	(12,306)	(11,455)
Sales and marketing	(6,901)	(8,515)
Net finance loss	(1,659)	(1,197)
Gain (loss) on sale of property, plant and equipment	(69)	734
Impairment loss on property, plant and equipment	(570)	(1,727)
Impairment loss on goodwill	(10,000)	-
Loss before income tax and discontinued operations	$ (43,409)	$ (39,777)

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

In 2012, revenues from the Fuel Cell Products segment included sales to two customers of $6,152,000 and $5,500,000, respectively, which exceeded 10% of total revenue.

In 2011, sales to a single customer of $18,119,000 exceeded 10% of total revenue, of which $9,899,000 were included in revenues from the Fuel Cell Products segment and $8,220,000 were included in revenues from the Contract Automotive segment.

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

Revenues	2012	2011
Canada	$ 9,669	$ 9,300
U.S.	11,346	13,284
Germany	2,664	19,086
Denmark	1,716	2,631
Belgium	4,119	4,992
South Africa	6,887	-
Brazil	-	2,810
Other countries	7,289	3,670
	$ 43,690	$ 55,773

26. Operating segments (cont'd):

Non-current assets by geographic area is as follows:

Non-current assets	December 31, 2012	December 31, 2011
Canada	$ 63,935	$ 76,728
U.S.	251	8,635
Denmark	1,318	1,962
Germany	59	59
Mexico	686	-
	$ 66,249	$ 87,384

27. 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 and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments. The Corporation's investments (note 12) 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 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) or 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 short-term investments in Level 1 as they are primarily derived directly from reference to quoted (unadjusted) prices in active markets.

27. 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 Canadian dollar denominated cash and cash equivalents and short-term investments.

	2012			
	Canadian dollar portfolio[1]	U.S. dollar portfolio	Other [1]	Total
Cash and cash equivalents	$ 5,419	$ 3,591	$ 760	$ 9,770
Short-term investments	12,068	-	-	12,068
Total cash, cash equivalents and short-term investments	$ 17,487	$ 3,591	$ 760	$ 21,838

	2011			
	Canadian dollar portfolio[1]	U.S. dollar portfolio	Other [1]	Total
Cash and cash equivalents	$ 9,421	$ 10,284	$ 611	$ 20,316
Short-term investments	25,878	-	-	25,878
Total cash, cash equivalents and short-term investments	$ 35,299	$ 10,284	$ 611	$ 46,194

[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:

	2012	2011
Investment income	$ 249	$ 303
Other income	(11)	-
Pension costs	(29)	(37)
Foreign exchange loss	(178)	(71)
Finance income (loss) and other	$ 31	$ 195
Finance expense	$ (1,690)	$ (1,392)

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

27. Financial instruments (cont'd):

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

Foreign currency exchange rate risk (cont'd)

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.

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, 2012, the Corporation had Canadian dollar cash, cash equivalents and short-term investments of CDN $17,398,000.

The following exchange rates applied during the year ended December 31, 2012:

	$U.S. to $1.00 CDN	$CDN to $1.00 $U.S.
January 1, 2012 Opening rate	$ 0.983	$ 1.017
December 31, 2012 Closing rate	$ 1.005	$ 0.995
Fiscal 2012 Average rate	$ 1.001	$ 0.999

Based on cash, cash equivalents and short-term investments held at December 31, 2012, 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 $1,742,000 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.

27. Financial instruments (cont'd):

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

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, 2012, a 0.25% decline in interest rates, with all other variables held constant, would result in a decrease in investment income $55,000, 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.

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.

28. Assets held for sale and discontinued operations:

In 2012, the Corporation decided to dispose of its Material Products segment, which was subsequently sold on January 31, 2013 (note 29). Due to the Corporation's commitment to the disposition of the segment as of December 31, 2012, the Material Products segment has been classified and accounted for as discontinued operations and the assets and liabilities of the Material Products segment have been classified as held for sale. Impairment losses of $1,815,000 and $500,000 relating to goodwill and property, plant and equipment, respectively, were recognized based on a fair value less costs to sell assessment, which compared the segment's carrying value as of December 31, 2012 to the actual net proceeds received on disposition on January 31, 2013 (note 11).

Assets and liabilities classified as held for sale are comprised of the following:

	December 31, 2012
Trade and other receivables	$ 2,367
Inventories	2,555
Prepaid expenses and other current assets	61
Property, plant and equipment	5,815
Assets classified as held for sale	$ 10,798
Trade and other payables	$ 1,398
Deferred revenue	25
Liabilities classified as held for sale	$ 1,423

Net earnings (loss) from discontinued operations is comprised of the following:

	2012	2011
Product and service revenues	$ 15,540	$ 20,236
Cost of product and service revenues	11,159	13,630
Gross margin	4,381	6,606
Total operating expenses	(2,053)	(2,602)
Impairment on property, plant and equipment	(500)	-
Impairment loss on goodwill	(1,815)	-
Earnings before income taxes	13	4,004
Income tax expense	(78)	(249)
Net earnings (loss) from discontinued operations	$ (65)	$ 3,755

28. Assets held for sale and discontinued operations (cont'd):

Net cash flows from discontinued operations is as follows:

	2012	2011
Cash provided by (used in) operating activities	$ 2,303	$ 3,587
Cash used in investing activities	(476)	(282)
Cash used in financing activities	-	-
Cash and cash equivalents provided by (used in) discontinued operations	$ 1,827	$ 3,305

29. Subsequent events:

On January 15, 2013, a Canadian government agency agreed to terminate previous funding obligations that were repayable through potential royalties in respect of future sales of fuel cell based stationary power products under the Utilities Development Program (Phase 2) (note 21) in exchange for a final repayment by the Corporation of CDN $1,930,000.

On January 31, 2013, the Corporation completed an agreement to sell substantially all of the assets of its Material Products division for up to $12,000,000. Of this amount, $10,500,000 was paid to the Corporation in cash on closing, with the remainder payable dependent on the Material Products division achieving certain financial results in 2013. The Material Products division has been classified and accounted for as assets held for sale and discontinued operations (note 28) at December 31, 2012.

On February 18, 2013, the maturity date of the convertible debenture related to financing to Dantherm Power A/S by the non-controlling partner (note 17) was extended from December 31, 2013 to December 31, 2014.

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 20, 2013 and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2012. 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. Our focus is on leveraging the inherent reliability and durability derived from our legacy automotive technology into non-automotive markets where demand is near term and on our core competencies of PEM fuel cell design, development, manufacture, sales and service.

Our business strategy is to establish a sharp focus on key growth opportunities with near-term commercial prospects in our core fuel cell markets, enhanced by our engineering services operating unit to leverage our expertise in fuel cell design, prototyping, manufacturing and servicing. To support our business strategy and our capability to execute on our clean energy growth priorities, we have also focused our efforts on both product cost reduction and managing our operating expense base including overall expense reductions, the pursuit of government funding for our research and product development efforts, and the redirection of engineering resources to revenue bearing engineering service projects.

We are based in Canada, with head office, research and development, testing and manufacturing facilities in Burnaby, British Columbia. We also utilize a manufacturing facility in Tijuana, Mexico (as of January 1, 2013), research and development facilities in Oregon and Maryland, and sales, manufacturing, and research and development facilities in Hobro, Denmark and Lowell, Massachusetts (disposed of on January 31, 2013).

RECENT DEVELOPMENTS

On January 31, 2013, we completed an agreement to sell substantially all of the assets in our Lowell, Massachusetts based Material Products division for gross cash proceeds of $10.5 million and additional potential proceeds of up to $1.5 million. The additional proceeds of up to $1.5 million are payable in 2014 and 2015 (through a GDL product credit) if the former Material Products division attains certain financial results in 2013. As we were committed to the disposition of the Material Products segment as of December 31, 2012, the Material Products segment has been classified as a discontinued operation in our 2012 consolidated financial statements. As such, the assets of the Material Products segment have been classified as "assets held for sale" and have been measured at the lower of (i) carrying amount and (ii) fair value less costs to sell. Furthermore, the annual operating results of the Material Products segment for both 2012 and 2011 have been removed from continuing operating results and are instead presented separately in the statement of comprehensive income as income from discontinued operations.

On August 1, 2012 (announced on July 24, 2012), we completed an agreement to acquire key assets and product lines from IdaTech LLC ("Idatech"), a customer of Ballard for the past several years. In exchange for $7.5 million of Ballard shares issued from treasury (7.1 million Ballard shares valued at $1.05 per share based on our share price as of the acquisition date), we acquired Idatech's key assets including fuel cell systems inventory, prepaid rights to inventory, product lines for backup power applications, distributor and customer relationships, a license to intellectual property, the right to assume control of a manufacturing facility in Tijuana, Mexico, and certain property, plant and equipment. Acquired fuel cell systems inventory, prepaid rights to inventory, product lines and intellectual property consist of both direct hydrogen units as well as methanol fuelled units and are designed for deployment as emergency backup power in the networks of wireless telecom service providers. The methanol systems incorporate a fuel reformer to extract hydrogen from a mixture of methanol and water which is then used as feedstock for the fuel cells.

In July 2012, we completed a 7% workforce reduction and an overall curtailment of discretionary spending designed to have a minimal impact on key product development initiatives and our manufacturing capabilities. Total restructuring and related costs of $1.6 million has been recorded in general and administration expense in our third quarter of 2012 financial results.

In June 2011, we obtained an $7.0 million Canadian (revised to $7.3 million Canadian in December 2012) award agreement from Sustainable Development Technology Canada ("SDTC") for the period from 2011 to 2013 (extended to 2014) 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 (revised to $6.9 million Canadian in June 2012) award agreement from SDTC announced in 2010 for the period from 2010 to 2012 (extended to November 2013) 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.

In March 2011, we completed a sub-lease agreement with Mercedes-Benz Canada Inc. ("MBC") for the rental of 21,000 square feet of previously used consolidated 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.

OPERATING SEGMENTS

We report 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; and

2 . *Contract Automotive*: contract manufacturing services (consisting of light-duty automotive FCvelocity 1100 fuel cell products) provided primarily for Daimler AG's ("Daimler") Hyway 2/3 programs. With the completion of our manufacturing supply agreement with Daimler in October 2011, this segment ceased to be an ongoing operating segment as of the fourth quarter of 2011 and is now presented for comparative purposes only.

3. Material Products (Discontinued Operation): carbon fiber products primarily for automotive transmissions and gas diffusion layers ("GDLs") for fuel cells. As a result of the disposition of this segment on January 31, 2013, the Material Products segment has been classified as a discontinued operation as of December 31, 2012.

SELECTED ANNUAL FINANCIAL INFORMATION

Results of Operations	Year ended,		
	2012	2011	2010
(Expressed in thousands of U.S. dollars, except per share amounts and gross margin %)			
From continuing operations			
Revenues	$ 43,690	$ 55,773	$ 44,055
Gross margin	$ 7,369	$ 7,279	$ 1,670
Gross margin %	17%	13%	4%
Cash Operating Costs [1]	$ 30,301	$ 36,969	$ 40,258
Adjusted EBITDA [1]	$ (22,076)	$ (27,913)	$ (34,011)
Normalized Net Loss [1]	$ (31,500)	$ (35,448)	$ (45,723)
Normalized Net Loss per share	$ (0.36)	$ (0.42)	$ (0.54)
Net loss from continuing operations attributable to Ballard	$ (42,070)	$ (37,175)	$ (37,691)
Net loss per share attributable to Ballard, basic and diluted	$ (0.48)	$ (0.44)	$ (0.45)
From discontinued operations			
Revenues	$ 15,540	$ 20,236	$ 20,964
Gross margin	$ 4,381	$ 6,606	$ 8,462
Gross margin %	28%	33%	40%
Cash Operating Costs [1]	$ 1,889	$ 2,333	$ 1,820
Adjusted EBITDA [1]	$ 3,580	$ 5,618	$ 7,848
Net earnings (loss) from discontinued operations	$ (65)	$ 3,755	$ 6,159
Total			
Revenues	$ 59,230	$ 76,009	$ 65,019
Gross margin	$ 11,750	$ 13,885	$ 10,132
Gross margin %	20%	18%	16%
Cash Operating Costs [1]	$ 32,190	$ 39,302	$ 42,078
Adjusted EBITDA [1]	$ (18,496)	$ (22,295)	$ (26,163)
Net loss attributable to Ballard	$ (42,135)	$ (33,420)	$ (31,532)
Net loss per share attributable to Ballard, basic and diluted	$ (0.48)	$ (0.40)	$ (0.37)

Financial Position	At December 31,		
	2012	2011	2010
(expressed in thousands of U.S. dollars)			
Assets from continuing operations	$ 116,749	$ 165,290	$ 190,027
Assets from discontinued operations	$ 10,798	$ -	$ -
Total assets	$ 127,547	$ 165,290	$ 190,027
Cash and cash equivalents	$ 9,770	$ 20,316	$ 51,937
Short-term investments	$ 12,068	$ 25,878	$ 22,508
Bank operating line	$ (9,358)	$ (4,587)	$ -
Net cash reserves	$ 12,480	$ 41,607	$ 74,445

[1] Cash Operating Costs, Adjusted EBITDA, Normalized Net Loss and Normalized Net Loss per share 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.

2012 Performance compared to 2012 Revised Business Outlook

- Revenues from continuing and discontinued operations in 2012 of $59.2 million, was consistent with our revised outlook from October 9, 2012 of revenues in 2012 of approximately $60 million.

- Adjusted EBITDA from continuing and discontinued operations in 2012 of ($18.5) million, was consistent with our revised outlook from October 9, 2012 of Adjusted EBITDA in 2012 of approximately ($18) million.

RESULTS OF CONTINUING OPERATIONS – Fourth Quarter of 2012

Revenue and gross margin (from continuing operations)

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2012	2011	$ Change	% Change
Fuel Cell Products	**$ 16,476**	$ 16,872	$ (396)	(2%)
Contract Automotive	**-**	101	(101)	(100%)
Revenues	**16,476**	16,973	(497)	(3%)
Cost of goods sold	**12,789**	14,030	(1,241)	(9%)
Gross Margin	**$ 3,687**	$ 2,943	$ 744	25%
Gross Margin %	**22%**	17%	n/a	5 pts

Revenues from continuing operations of $16.5 million for the fourth quarter of 2012 declined (3%), or ($0.5) million, compared to the fourth quarter of 2011 primarily as a result of slight declines in our Fuel Cell Products segment.

In our core Fuel Cell Products segment, fourth quarter of 2012 revenues were down slightly as declines in Motive power and distributed generation revenues were only partially offset by higher backup power and engineering services revenues. The decline in Motive power revenues was driven by lower fuel cell bus revenues as new fourth quarter of 2012 heavy-duty bus shipments to Van Hool NV and others were significantly lower than 2011 shipments to Van Hool NV and UNDP-EMTU Brazil and were also negatively impacted by the completion of our fuel cell bus manufacturing supply agreement with a Daimler subsidiary in October 2011 ($0.4 million impact), combined with lower material handling market revenues as a result of a decline in shipments in support of Plug Power Inc.'s GenDrive™ systems. These declines were partially offset by significantly higher backup power market revenues and higher engineering services revenues. The increase in backup power revenues is as a result of new shipments of hydrogen-based and methanol-based backup power systems due to our recent acquisition of Idatech's key assets (impact of approximately $3.0 million) combined with an increase in shipments of hydrogen-based backup power stacks. The increase in engineering services revenues is a result of our increased focus on building our engineering services business including ongoing projects with Anglo American Platinum Limited and others.

Gross margins from continuing operations increased to $3.7 million, or 22% of revenues, for the fourth quarter of 2012, compared to $2.9 million, or 17% of revenues, for the fourth quarter of 2011. The overall increase and improvement in gross margin was driven primarily by increased work performed on higher margin engineering services projects at both Ballard and Dantherm Power, by significant sales of hydrogen-based and methanol-based backup power systems acquired from Idatech, and by our ongoing product cost reduction efforts across all of our platforms.

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

	Three months ended December 31,		
	2012	2011	% Change
Material handling	**468**	799	(41%)
Backup power	**313**	124	152%
Other	**3**	19	(84%)
Fuel Cell Stack Shipments	**784**	942	(17%)
Fuel Cell System Shipments	**204**	75	172%

Cash Operating Costs (from continuing operations)

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2012	2011	$ Change	% Change
Research and Product Development (operating cost)	**$ 4,228**	$ 4,084	$ 144	4%
General and Administrative (operating cost)	**2,709**	2,100	609	29%
Sales and Marketing expense	**1,951**	1,695	256	15%
Operating costs	**8,888**	7,879	1,009	13%
Less: Stock-based compensation (expense) recovery	**(1,555)**	322	(1,877)	(583%)
Cash Operating Costs	**$ 7,333**	$ 8,201	$ (868)	(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, acquisition costs and financing charges.

Cash Operating Costs (see Supplemental Non-GAAP Measures) from continuing operations for the fourth quarter of 2012 were $7.3 million, a decline of ($0.9) million, or (11%), compared to the fourth quarter of 2011. The 11% reduction in the fourth quarter of 2012 was driven by lower operating costs across the business as a result of our continued cost reduction efforts including a 7% workforce reduction initiated in July 2012, and by lower research and product development expense due to the redirection of engineering resources to revenue bearing engineering service projects. Labour and material costs incurred on revenue producing engineering services projects are reallocated from research and product development expenses to cost of goods sold.

As the Canadian dollar relative to the U.S. dollar was relatively consistent for the fourth quarter of 2012 compared to the fourth quarter of 2011, foreign exchange impacts on our Canadian operating cost base were relatively insignificant. A 1% increase in the Canadian dollar, relative to the U.S. dollar, negatively impacts annual Cash Operating Costs and Adjusted EBITDA by approximately $0.3 million to $0.4 million.

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 (from continuing operations)

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2012	2011	$ Change	% Change
Adjusted EBITDA	$ **(3,222)**	$ (4,875)	$ 1,653	34%

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) from continuing operations for the fourth quarter of 2012 was ($3.2) million, an improvement of $1.7 million, or 34%, compared to the fourth quarter of 2011.

The $1.7 million reduction in Adjusted EBITDA loss in the fourth quarter of 2012 was driven by gross margin improvements of $0.7 million as margins improved on a percentage of revenue basis from 17% to 22% primarily as a result of increased work performed on higher margin engineering services projects, combined with lower Cash Operating Costs of $0.9 million primarily as a result of the redirection of engineering resources to revenue bearing engineering service projects and our continued cost optimization efforts across the business.

Net loss attributable to Ballard (from continuing operations)

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2012	2011	$ Change	% Change
Net loss attributable to Ballard from continuing operations	$ **(16,809)**	$ (7,969)	$ (8,840)	(111%)

Net loss attributable to Ballard from continuing operations for the fourth quarter of 2012 was ($16.8) million, or ($0.18) per share, compared to a net loss of ($8.0) million, or ($0.09) per share, in the fourth quarter of 2011. The ($8.8) million increase in net loss for the fourth quarter of 2012 was driven by a Fuel Cell Products goodwill impairment charge of ($10.0) million. Net loss from continuing operations in the fourth quarters of 2012 and 2011 also include impairment charges related to a write-down of manufacturing equipment of ($0.6) million and ($1.7) million, respectively.

Excluding the impact of these impairment charges in continuing operations of ($10.6) million in the fourth quarter of 2012 and ($1.7) million in the fourth quarter of 2011, Normalized Net Loss (see Supplemental Non-GAAP Measures) in the fourth quarter of 2012 would have been comparable to the fourth quarter of 2011.

Net loss attributable to Ballard from continuing operations excludes the net loss attributed to 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 in 2012 and 2011, and the results of discontinued operations. Net loss attributed to non-controlling interests for the fourth quarter of 2012 was ($0.5) million, as compared to ($0.3) million for the fourth quarter of 2011. Net loss from discontinued operations for the fourth quarter of 2012 was ($1.3) million, as compared to net income for the fourth quarter of 2011 of $0.7 million. Net loss from discontinued operations in the fourth quarter of 2012 includes a goodwill impairment charge of ($1.8) million and a write-down of property, plant and equipment of ($0.5) million.

Cash used in operating activities

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2012	2011	$ Change	% Change
Cash (used in) provided by operating activities	**$ (535)**	$ 4,066	$ (4,601)	(113%)

Cash used in operating activities in the fourth quarter of 2012 was ($0.5) million, consisting of cash operating losses of ($2.4) million partially offset by net working capital inflows of $1.9 million. Cash provided by operating activities in the fourth quarter of 2011 was $4.1 million, consisting of cash operating losses of ($4.7) million and net working capital inflows of $8.8 million.

The ($4.6) million increase in cash used by operating activities in the fourth quarter of 2012, as compared to the fourth quarter of 2011, was driven by reduced working capital inflows of ($6.9) million partially offset by an decrease in cash operating losses of $2.3 million. The reduction in cash operating losses of $2.3 million is primarily a result of a $1.8 million improvement in Adjusted EBITDA loss from both continuing and discontinued operations. In the fourth quarter of 2012, net working capital cash inflows of $1.9 million were driven by lower inventory of $5.4 million as we consumed previously built-up or acquired inventory in order to fulfill the higher product shipments in the fourth quarter, and by higher deferred revenue and cost recovery of $0.9 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. These fourth quarter of 2012 working capital inflows were partially offset by higher accounts receivable of ($2.5) million due primarily to the timing of shipment versus collection of our fuel cell product and service revenues, and by lower accounts payable and accrued liabilities of ($2.6) million due to increased supplier payments made for higher first three quarter of 2012 inventory purchases.

RESULTS OF CONTINUING OPERATIONS – Year ended December 31, 2012

Revenue and gross margin (from continuing operations)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2012	2011	$ Change	% Change
Fuel Cell Products	**$ 43,690**	$ 46,468	$ (2,778)	(6%)
Contract Automotive	**-**	9,305	(9,305)	(100%)
Revenues	**43,690**	55,773	(12,083)	(22%)
Cost of goods sold	**36,321**	48,494	(12,173)	(25%)
Gross Margin	**$ 7,369**	$ 7,279	$ 90	1%
Gross Margin %	**17%**	13%	n/a	4pts

Revenues from continuing operations of $43.7 million for 2012 declined (22%), or ($12.1) million, compared to 2011. The ($12.1) million decline was driven by the absence of Contract Automotive segment revenues ($9.3 million impact) as a result of the completion of our light-duty automotive manufacturing supply agreement with Daimler in October 2011 and by lower revenues of $(2.8) million in our core Fuel Cell Products segment.

In our core Fuel Cell Products segment, 2012 revenues declined (6%), or ($2.8) million, to $43.7 million compared to 2011, primarily as a result of significantly lower fuel cell bus revenues combined with slightly lower material handling and distributed generation revenues. The significant decline in fuel cell bus revenues was driven by the completion of our fuel cell bus manufacturing supply agreement with a Daimler subsidiary in October 2011 ($8.7 million impact), combined with lower shipments of heavy-duty fuel cell bus modules primarily as a result of a lack of shipments in 2012 to Brazil. This decline was partially offset by significant increases in both our backup power and engineering services revenues. The significant increase in backup power revenues is as a result of new shipments of hydrogen-based and methanol-based backup power systems due to our recent acquisition of Idatech's key assets (impact of approximately $5.1 million), combined with an increase in shipments of hydrogen-based backup power systems at Dantherm Power, and by relatively stable shipments of hydrogen-based backup power stacks. The increase in engineering services revenues is a result of our increased focus on building our engineering services business including ongoing projects with Anglo American Platinum Limited and others.

Gross margins from continuing operations increased to $7.4 million, or 17% of revenues, for 2012, compared to $7.3 million, or 13% of revenues, for 2011. The overall increase and improvement in gross margin was driven primarily by increased work performed on higher margin engineering services projects at both Ballard and Dantherm Power, by significant sales of hydrogen-based and methanol-based backup power systems acquired from Idatech, and by our ongoing product cost reduction efforts across all of our platforms.

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

	Years ended December 31,		
	2012	2011	% Change
Material handling	**2,022**	1,422	42%
Backup power	**667**	1,238	(46%)
Other	**12**	396	(97%)
Fuel Cell Stack Shipments	**2,701**	3,056	(12%)
Fuel Cell System Shipments	**399**	145	175%

Cash Operating Costs (from continuing operations)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2012	2011	$ Change	% Change
Research and Product Development (operating cost)	**$ 16,680**	$ 21,038	$ (4,358)	(21%)
General and Administrative (operating cost)	**9,302**	9,793	(491)	(5%)
Sales and Marketing expense	**6,901**	8,515	(1,614)	(19%)
Operating costs	**32,883**	39,346	(6,463)	(16%)
Less: Stock-based compensation expense	**(2,582)**	(2,377)	(205)	(9%)
Cash Operating Costs	**$ 30,301**	$ 36,969	$ (6,668)	(18%)

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, acquisition costs and financing charges.

Cash Operating Costs (see Supplemental Non-GAAP Measures) from continuing operations for 2012 were $30.3 million, a decline of $6.7 million, or 18%, compared to 2011. The 18% reduction in 2012 was driven by lower operating costs across the business as a result of our continued cost reduction efforts including a 7% workforce reduction initiated in July 2012, lower research and product development expense due to the redirection of engineering resources to revenue bearing engineering service projects, the receipt of government funding for certain of our research and product development efforts, and by lower sales and marketing expense due to a corporate leadership restructuring initiated in September 2011. Government research funding is reflected as a cost offset to research and product development expenses, whereas labour and material costs incurred on revenue producing engineering services projects are reallocated from research and product development expenses to cost of goods sold.

As the Canadian dollar relative to the U.S. dollar was relatively consistent for 2012 compared to 2011, foreign exchange impacts on our Canadian operating cost base were relatively insignificant. A 1% increase in the Canadian dollar, relative to the U.S. dollar, negatively impacts annual Cash Operating Costs and Adjusted EBITDA by approximately $0.3 million to $0.4 million.

Adjusted EBITDA (from continuing operations)

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2012	2011	$ Change	% Change
Adjusted EBITDA	$ **(22,076)**	$ (27,913)	$ 5,837	21%

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) from continuing operations for 2012 was ($22.1) million, an improvement of $5.8 million, or 21%, compared to 2011. The $5.8 million reduction in Adjusted EBITDA loss in 2012 was driven by lower Cash Operating Costs of $6.7 million due primarily to lower operating costs across the business as a result of our continued cost reduction efforts including a 7% workforce reduction initiated in July 2012, and by lower research and product development expense primarily due to the redirection of engineering resources to revenue bearing engineering service projects. Total gross margin was consistent year over year despite the 22% decline in revenues from continuing operations as margins improved on a percentage of revenue basis from 13% to 17% primarily as a result of increased work performed on higher margin engineering services projects, and by our ongoing product cost reduction efforts across all of our platforms. These improvements in Adjusted EBITDA were partially offset by an increase in restructuring charges of ($0.5) million from ($1.4) million in 2011 to ($1.9) million in 2012.

As part of our focus on cost optimization, we have taken steps to reduce our cost base in both 2012 and 2011. In addition to the measures taken in April 2012 to reduce our manufacturing overhead cost pool, we completed a 7% workforce reduction in July 2012 along with other cost reduction activities. During 2011, we completed a corporate leadership restructuring in September 2011 and a Dantherm Power leadership restructuring in March 2011. These actions have resulted in the above noted restructuring charges of ($1.9) million in 2012 and ($1.4) million in 2011.

Net loss attributable to Ballard (from continuing operations)

(Expressed in thousands of U.S. dollars)	Twelve months ended December 31,			
	2012	2011	$ Change	% Change
Net loss attributable to Ballard	$ **(42,070)**	$ (37,175)	$ (4,985)	(13%)

Net loss from continuing operations attributable to Ballard for 2012 was ($42.1) million, or ($0.48) per share, compared to net loss of ($37.2) million, or ($0.44) per share, in 2011. The ($5.0) million increase in net loss for 2012 was driven by a Fuel Cell Products goodwill impairment charge of ($10.0) million which more than offset improvements in Adjusted EBITDA loss of $5.8 million. Net loss from continuing operations in 2012 and 2011 also includes impairment charges related to a write-down of manufacturing equipment of ($0.6) million and ($1.7) million, respectively.

Excluding the impact of these impairment charges in continuing operations of ($10.6) million in 2012 and ($1.7) million in 2011, Normalized Net Loss (see Supplemental Non-GAAP Measures) in 2012 would have improved by $4.0 million, or 11%, as compared to 2011.

Net loss from continuing operations attributable to Ballard excludes the net loss attributed to 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 in 2012 and 2011, and the results of discontinued operations. Net loss attributed to non-controlling interests for 2012 was ($1.3) million, as compared to ($2.7) million for 2011. The reduced loss in 2012 at Dantherm Power is primarily a result of improved gross margins combined with lower operating costs as a result of our continued cost reduction efforts. Net loss from discontinued operations in 2012 was ($0.1) million, as compared to net income in 2011 of $3.8 million. Net loss from discontinued operations in 2012 includes a goodwill impairment charge of ($1.8) million and a write-down of property, plant and equipment of ($0.5) million.

Cash used in operating activities

(Expressed in thousands of U.S. dollars)	Twelve months ended December 31,			
	2012	2011	$ Change	% Change
Cash used in operating activities	$ **(28,146)**	$ (33,221)	$ 5,075	15%

Cash used in operating activities in 2012 was ($28.1) million, consisting of cash operating losses of ($22.2) million and working capital requirements of ($5.9) million. Cash used in operating activities in 2011 was ($33.2) million, consisting of cash operating losses of ($26.5) million and working capital requirements of ($6.7) million. The $5.1 million, or 15%, decline in cash used by operating activities in 2012 as compared to 2011 was driven by reductions in cash operating losses of $4.3 million combined with lower working capital requirements of $0.8 million.

The reduction in cash operating losses of $4.3 million is primarily a result of the 17%, or $3.8 million, improvement in Adjusted EBITDA from both continuing and discontinued operations. Total working capital requirements of ($5.9) million in 2012 were driven by lower accounts payable and accrued liabilities of ($10.5) million due to increased supplier payments made for higher fourth quarter of 2011 and first three quarter of 2012 inventory purchases combined with the payment of accrued 2011 annual employee bonuses, partially offset by lower inventory of $4.4 million as we consumed previously built-up or acquired inventory in order to fulfill the higher product shipments in the fourth quarter of 2012.

RESULTS OF DISCONTINUED OPERATIONS – Fourth Quarter of 2012

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
	2012	2011	$ Change	% Change
Revenues	**$ 4,783**	$ 4,023	$ 760	19%
Cost of goods sold	**3,265**	2,824	441	16%
Gross margin	**1,518**	1,199	319	27%
Operating expenses	**(495)**	(488)	(7)	(1%)
Impairment charge on property, plant and equipment	**(500)**	-	(500)	(100%)
Impairment charge on goodwill	**(1,815)**	-	(1,815)	(100%)
Income taxes	**(7)**	(30)	23	77%
Net earnings (loss) from discontinued operations	**$ (1,299)**	$ 681	$ (1,980)	(291%)

Revenues from the discontinued Material Products segment in the fourth quarter of 2012 of $4.8 million increased 19%, or $0.8 million, as a result of higher shipments of fuel cell GDL products and relatively stable shipments of carbon friction material products.

Impairment charges in 2012 were determined based on a fair value less costs to sell assessment which compared the segment's carrying value at December 31, 2012 to the actual net proceeds received on disposition on January 31, 2013. As a result of this assessment, we recorded a ($1.8) million write-off of Material Products goodwill and a ($0.5) million write-down of property, plant and equipment in the fourth quarter of 2012.

RESULTS OF DISCONTINUED OPERATIONS – Year ended December 31, 2012

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2012	2011	$ Change	% Change
Revenues	**$ 15,540**	$ 20,236	$ (4,696)	(23%)
Cost of goods sold	**11,159**	13,630	(2,471)	(18%)
Gross margin	**4,381**	6,606	(2,225)	(34%)
Operating expenses	**(2,053)**	(2,602)	549	21%
Impairment charge on property, plant and equipment	**(500)**	-	(500)	(100%)
Impairment charge on goodwill	**(1,815)**	-	(1,815)	(100%)
Income taxes	**(78)**	(249)	171	69%
Net earnings (loss) from discontinued operations	**$ (65)**	$ 3,755	$ (3,820)	(102%)

Revenues from the discontinued Material Products segment in 2012 of $15.5 million were down (23%), or ($4.7) million as a result of lower shipments of both fuel cell GDL products and carbon friction material products. Fuel cell GDL product shipments were negatively impacted by ongoing technical issues experienced by a third party fuel cell customer unrelated to our GDL products, whereas carbon friction material product shipments were negatively impacted by the timing of customer programs and inventory levels.

Impairment charges in 2012 were determined based on a fair value less costs to sell assessment which compared the segment's carrying value at December 31, 2012 to the actual net proceeds received on disposition on January 31, 2013. As a result of this assessment, we recorded a ($1.8) million write-off of Material Products goodwill and a ($0.5) million write-down of property, plant and equipment in the fourth quarter of 2012.

OPERATING EXPENSES AND OTHER ITEMS FROM CONTINUING OPERATIONS

Research and product development expenses

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
Research and product development	**2012**	2011	$ Change	% Change
Research and product development expense	**$ 4,677**	$ 5,041	$ (364)	(7%)
Less: depreciation and amortization expense	**$ (449)**	$ (957)	$ 508	53%
Research and product development (operating cost)	**$ 4,228**	$ 4,084	$ 144	4%

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
Research and product development	**2012**	2011	$ Change	% Change
Research and product development expense	**$ 19,273**	$ 24,896	$ (5,623)	(23%)
Less: depreciation and amortization expense	**$ (2,593)**	$ (3,858)	$ 1,265	33%
Research and product development (operating cost)	**$ 16,680**	$ 21,038	$ (4,358)	(21%)

Research and product development expenses for the three months ended December 31, 2012 were $4.7 million, a decrease of ($0.4) million, or 7%, compared to the corresponding period of 2011. Excluding depreciation and amortization expense of ($0.4) million and ($1.0) million, respectively, research and product development expense was effectively flat compared to the fourth quarter of 2011. Reductions in 2012 as a result of the redirection of engineering resources to revenue bearing engineering service projects were offset by higher share-based compensation expense due to a downward adjustment to accrued share-based compensation expense for 2011 that was recorded in the fourth quarter of 2011.

Research and product development expenses for the year ended December 31, 2012 were $19.3 million, a decrease of ($5.6) million, or 23%, compared to 2011. Excluding depreciation and amortization expense of ($2.6) million and ($3.9) million, respectively, research and product development expense declined ($4.4) million, or 21%, compared to 2011. The 21% reduction in 2012 was primarily as a result of the redirection of engineering resources to revenue bearing engineering service projects, by the receipt of government funding for certain of our research and product development efforts, and by lower operating costs across the business due to our continued cost reduction efforts including a 7% workforce reduction initiated in July 2012, partially offset by higher share-based compensation expense in 2012.

Government research funding is reflected as a cost offset to research and product development expenses, whereas labour and material costs incurred on revenue producing engineering services projects are reallocated from research and product development expenses to cost of goods sold.

General and administrative expenses

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
General and administrative	**2012**	2011	$ Change	% Change
General and administrative expense	**$ 3,419**	$ 2,256	$ 1,163	52%
Less: Depreciation and amortization expense	**$ (55)**	$ (77)	$ 22	29%
Less: Restructuring charges	**$ -**	$ (79)	$ 79	100%
Less: Acquisition and integration costs	**$ (91)**	$ -	$ (91)	n/a
Less: Financing charges	**$ (564)**	$ -	$ (564)	n/a
General and administrative (operating cost)	**$ 2,709**	$ 2,100	$ 609	29%

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
General and administrative	**2012**	2011	$ Change	% Change
General and administrative expense	**$ 12,306**	$ 11,455	$ 851	7%
Less: Depreciation and amortization expense	**$ (235)**	$ (306)	$ 71	23%
Less: Restructuring charges	**$ (1,931)**	$ (1,356)	$ (575)	(42%)
Less: Acquisition and integration costs	**$ (274)**	$ -	$ (274)	n/a
Less: Financing charges	**$ (564)**	$ -	$ (564)	n/a
General and administrative (operating cost)	**$ 9,302**	$ 9,793	$ (491)	(5%)

General and administrative expenses for the three months ended December 31, 2012 were $3.4 million, an increase of $1.2 million, or 52%, compared to the corresponding period of 2011. Excluding acquisition and integration costs related to the Idatech acquisition of ($0.1) million and financing charges of ($0.6) million related to withdrawn financing efforts, general and administrative expense was $2.7 million, an increase of $0.6 million, or 29%, compared to the fourth quarter of 2011. The 29% increase in the fourth quarter of 2012 was due primarily to higher share-based compensation expense as a result of a downward adjustment to accrued share-based compensation expense for 2011 that was recorded in the fourth quarter of 2011. General and administrative expenses also include impairment losses on trade receivables of ($0.2) million and ($0.3) million, respectively, in the fourth quarters of 2012 and 2011.

General and administrative expenses for the year ended December 31, 2012 were $12.3 million, an increase of $0.9 million, or 7%, compared to 2011. Excluding restructuring charges of ($1.9) million and ($1.4) million, respectively, depreciation and amortization expense of ($0.2) million and ($0.3) million, respectively, and 2012 acquisition and integration costs related to the Idatech acquisition of ($0.3) million and financing charges of ($0.6) million related to withdrawn financing efforts, general and administrative expense, general and administrative expense was $9.3 million, a decrease of ($0.5) million, or 5%, compared to 2011. The 5% reduction in 2012 was primarily as result of our continued cost reduction efforts including a 7% workforce reduction initiated in July 2012, partially offset by higher share-based compensation expense in 2012. General and administrative expenses also include impairment losses on trade receivables of ($0.2) million and ($0.3) million, respectively, in 2012 and 2011.

Restructuring charges of ($1.9) million in 2012 relate primarily to the 7% workforce reduction initiated in July 2012 and a minor restructuring focused on manufacturing overhead cost reduction initiated in April 2012. Restructuring charges of ($1.4) million in 2011 relate primarily to a corporate leadership restructuring initiated in September 2011 and a Dantherm Power leadership restructuring initiated in March 2011.

Sales and marketing expenses

(Expressed in thousands of U.S. dollars)	Three months ended December 31,			
Sales and marketing	**2012**	2011	$ Change	% Change
Sales and marketing expense	**$ 1,951**	$ 1,695	$ 256	15%

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
Sales and marketing	**2012**	2011	$ Change	% Change
Sales and marketing expense	**$ 6,901**	$ 8,515	$ (1,614)	(19%)

Sales and marketing expenses for the three months ended December 31, 2012 were $2.0 million, an increase of $0.3 million, or 15% compared to the corresponding period of 2011. The 15% increase in the fourth quarter of 2012 is as a result of increased investment in sales and marketing capacity in the backup power market due to our acquisition of the Idatech assets in August 2012, combined with higher share-based compensation expense due to a downward adjustment to accrued share-based compensation expense for 2011 that was recorded in the fourth quarter of 2011.

Sales and marketing expenses for the year ended December 31, 2012 were $6.9 million, a decrease of $1.6 million, or 19% compared to 2011. The 19% reduction in 2012 was primarily as a result of our continued cost reduction efforts across the business which included a 7% workforce reduction initiated in July 2012 and a corporate leadership restructuring initiated in September 2011, partially offset by increased investment in sales and marketing capacity in the backup power market due to our acquisition of the Idatech assets in August 2012.

Finance income (loss) and other for the three months and year ended December 31, 2012 was $0.2 million and $0.1 million, respectively, compared to $0.1 million and $0.2 million, respectively, for the corresponding periods of 2011. The following tables provide 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,			
	2012	2011	$ Change	% Change
Employee future benefit plan expense	**$ (29)**	$ (37)	$ 8	22%
Investment and other income	**48**	77	(29)	(38%)
Foreign exchange gain (loss)	**148**	38	110	289%
Finance income (loss) and other	**$ 167**	$ 78	$ 89	114%

(Expressed in thousands of U.S. dollars)	Years ended December 31,			
	2012	2011	$ Change	% Change
Employee future benefit plan expense	**$ (29)**	$ (37)	$ 8	22%
Investment and other income	**238**	303	(65)	(21%)
Foreign exchange gain (loss)	**(178)**	(71)	(107)	(151%)
Finance income (loss) and other	**$ 31**	$ 195	$ (164)	(84%)

Employee future benefit plan expense for the three months and years ended December 31, 2012 and 2011 were nominal. 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

Foreign exchange gains and losses are attributable primarily 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. Foreign exchange gains and losses are also impacted by the conversion of Dantherm Power's assets and liabilities from the Danish Kroner to the U.S. dollar at exchange rates in effect at each reporting date.

Investment and other income of $0.2 million and $0.3 million, respectively, for the years ended December 31, 2012 and 2011 was earned primarily on our cash, cash equivalents and short-term investments.

Finance expense for the three months and year ended December 31, 2012 was ($0.5) million and ($1.7) million, respectively, compared to ($0.5) million and ($1.4) million, respectively, for the corresponding periods of 2011. 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 (loss) on sale of property, plant and equipment for the three months and year ended December 31, 2012 was ($0.1) million, compared to $0.7 million for the three months and year ended December 31, 2011. The gain in 2011 relates primarily to a gain on sale of certain property, plant and equipment to Mercedes-Benz Canada Inc. in conjunction with the sub-lease of 21,000 square feet of production space in Burnaby, B.C, effective in August 2011.

Impairment loss on property, plant and equipment for the three months and year ended December 31, 2012 was ($0.6) million, compared to ($1.7) million for the three months and year ended December 31, 2011, and relate to a write-down of manufacturing equipment never put into use.

Impairment loss on goodwill for the three months and year ended December 31, 2012 was ($10.0) million and consists of an impairment charge related to our Fuel Cell Products segment.

Net loss attributed to non-controlling interests for the three months and year ended December 31, 2012 was ($0.5) million and ($1.3) million, respectively, compared to ($0.3) million and ($2.7) million, respectively, for the corresponding periods of 2011. 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 during 2012 and 2011. The improved performance in 2012 at Dantherm Power is primarily a result of improved gross margins as a result of increased higher margin engineering services revenues and increased shipments of backup power systems, combined with lower operating costs due to our continued cost reduction efforts which included a leadership restructuring in the first quarter of 2011. 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 FROM CONTINUING OPERATIONS

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

(Expressed in thousands of U.S. dollars, except per share amounts and weighted average shares outstanding which are expressed in thousands)	Quarter ended,			
	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
Revenues from continuing operations	$ 16,476	$ 10,312	$ 6,824	$ 10,078
Net income (loss) attributable to Ballard from continuing operations	$ (16,809)	$ (9,185)	$ (7,416)	$ (8,660)
Net income (loss) per share attributable to Ballard from continuing operations, basic and diluted	$ (0.18)	$ (0.10)	$ (0.09)	$ (0.10)
Weighted average common shares outstanding	91,801	89,269	84,621	84,566
	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011
Revenues from continuing operations	$ 16,973	$ 15,071	$ 13,595	$ 10,134
Net income (loss) attributable to Ballard from continuing operations	$ (7,969)	$ (8,337)	$ (10,109)	$ (10,760)
Net income (loss) per share attributable to Ballard from continuing operations, basic and diluted	$ (0.09)	$ (0.10)	$ (0.12)	$ (0.13)
Weighted average common shares outstanding	84,549	84,548	84,456	84,205

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

- **Revenues**: Variations in fuel cell revenues reflect the demand and timing of our customers' fuel cell vehicle, bus and fuel cell product deployments as well as the demand and timing of their engineering services projects. Variations in fuel cell revenues also reflect the timing of work performed and the achievements of milestones under long-term fixed price contracts. Revenues were positively impacted in the third and fourth quarters of 2012 by $2.1 million and $3.0 million, respectively, as a result of our acquisition of Idatech's key assets and product lines as of August 1, 2012. Revenues were positively impacted in 2011 by a manufacturing supply agreement with Daimler and a Daimler subsidiary which was completed in October 2011. Contract Automotive revenues of $9.3 million (Q1-11: $2.9 million, Q2-11: $4.6 million, Q3-11: $1.8 million, and Q4-11: $0.1 million) and Fuel Cell Products revenues of $8.7 million (Q1-11: $2.4 million, Q2-11: $3.3 million, Q3-11: $2.6 million, Q4-11: $0.4 million) in 2011 were derived from this contract manufacturing agreement.

- **Operating expenditures**: Operating expenses were negatively impacted by restructuring charges of ($1.6) million in the third quarter of 2012 as a result of a 7% workforce reduction, restructuring charges of ($0.4) million in the third quarter of 2011 due to a corporate leadership restructuring, and by restructuring charges of ($0.9) million in the first quarter of 2011 due to a leadership restructuring in Dantherm Power.Restructuring charges are recognized in general and administrative expense.

  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.

- **Impairment loss on property, plant and equipment** : The net loss for the fourth quarter of 2012 and the fourth quarter of 2011 was negatively impacted by an impairment charge of ($0.6) million and ($1.7) million, respectively, related to the write-down of manufacturing equipment never put into use.

- **Impairment loss on goodwill** : The net loss for the fourth quarter of 2012 was negatively impacted by an impairment charge of ($10.0) million related to a write-down of goodwill in our Fuel Cell Products segment.

CASH FLOWS

Cash, cash equivalents and short-term investments were $21.8 million (or $12.5 million net of Operating Facility draws of $9.3 million) at December 31, 2012, compared to $46.2 million (or $41.6 million net of Operating Facility draws of $4.6 million) at December 31, 2011. The decrease in cash, cash equivalents and short-term investments of ($24.4) million in 2012 was driven by a net loss (excluding non-cash items) of ($22.2) million, and by net working capital requirements of ($5.9) million. These outflows were partially offset by net cash advances on our Operating Facility of $4.8 million and by convertible debt financing of $0.9 million to Dantherm Power by a non-controlling partner.

For the three months ended December 31, 2012, cash used by operating activities was ($0.5) million, consisting of cash operating losses of ($2.4) million partially offset by net working capital inflows of $1.9 million. For the three months ended December 31, 2011, cash from operating activities was $4.1 million, consisting of cash operating losses of ($4.7) million and net working capital inflows of $8.8 million. The ($4.6) million increase in cash used by operating activities in the fourth quarter of 2012, as compared to the fourth quarter of 2011, was driven by reduced working capital inflows of ($6.9) million partially offset by a reduction in cash operating losses of $2.3 million. The reduction in cash operating losses of $2.3 million is primarily a result of a $1.8 million improvement in total Adjusted EBITDA loss. In the fourth quarter of 2012, net working capital cash inflows of $1.9 million were driven by lower inventory of $5.4 million as we consumed previously built-up or acquired inventory in order to fulfill the higher product shipments in the fourth quarter, and by higher deferred revenue and cost recovery of $0.9 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. These fourth quarter of 2012 working capital inflows were partially offset by higher accounts receivable of ($2.5) million due primarily to the timing of shipment versus collection of our fuel cell product and service revenues, and by lower accounts payable and accrued liabilities of ($2.6) million due to increased supplier payments made for higher first three quarter of 2012 inventory purchases. Working capital inflows of $8.8 million in the fourth quarter of 2011 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.

For the year ended December 31, 2012, cash used by operating activities was ($28.1) million, consisting of cash operating losses of ($22.2) million and working capital requirements of ($5.9) million. For the year ended December 31, 2011, cash used by operating activities was ($33.2) million, consisting of cash operating losses of ($26.5) million and working capital requirements of ($6.7) million. The $5.1 million, or 15%, decline in cash used by operating activities in 2012, as compared to 2011, was driven by reductions in cash operating losses of $4.3 million combined with lower working capital requirements of $0.8 million. The reduction in cash operating losses of $4.3 million is primarily a result of the 17%, or $3.8 million, improvement in Adjusted EBITDA from both continuing and discontinued operations. In 2012, net working capital outflows of ($5.9) million were driven by lower accounts payable and accrued liabilities of ($10.5) million due to increased supplier payments made for higher fourth quarter of 2011 and first three quarter of 2012 inventory purchases combined with the payment of accrued 2011 annual employee bonuses, partially offset by lower inventory of $4.4 million as we consumed previously built-up or acquired inventory in order to fulfill the higher product shipments in the fourth quarter. Working capital outflows of ($6.7) million in 2011 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.

Investing activities resulted in cash inflows of $0.4 million and $13.0 million, respectively, for the three months and year ended December 31, 2012, compared to cash outflows of ($15.5) million ($3.8) million, respectively, for the corresponding periods of 2011. Changes in short-term investments resulted in cash inflows of $0.6 million and $13.8 million, respectively, for the three month and year ended December 31, 2012, compared to cash outflows of ($15.6) million and ($3.4) million, respectively, for the corresponding periods of 2011. 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 2012 consist primarily of proceeds on sale of $0.4 million for previously impaired manufacturing equipment, less capital expenditures of ($1.2) million. Other investing activities in 2011 consist primarily of proceeds on sale of $1.7 million received primarily from Daimler 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.

Financing activities resulted in cash outflows of ($0.4) million and inflows of $4.6 million, respectively, for the three months and year ended December 31, 2012, compared to cash outflows of ($3.2) million and inflows of $5.1 million, respectively, for the corresponding periods of 2011. Financing activities in 2012 primarily represent advances, net of repayments, of $4.8 million on our Operating Facility which is used to assist with the financing of our working capital requirements. Financing activities in 2012 also include proceeds on convertible debenture financing from the Dantherm Power non-controlling interests to Dantherm Power of $0.9 million and finance lease payments of ($1.0) million. Financing activities in 2011 consist primarily of net cash advances on our Operating Facility of $4.6 million, proceeds on convertible debenture financing from the Dantherm Power non-controlling interests to Dantherm Power of $1.7 million, less finance lease payments of ($0.8) million.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2012, we had total Liquidity of $12.5 million. We measure Liquidity as our net cash position, consisting of the sum of our cash, cash equivalents and short-term investments of $21.8 million, net of amounts drawn on our $10 million Canadian demand revolving facility ("Operating Facility") of $9.3 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, 2012, $2.5 million was outstanding on the Leasing Facility.

Our Liquidity objective is to maintain cash balances sufficient to fund at least six quarters of forecasted cash used by operating activities at all times. Our strategy to attain this objective is to continue our drive to attain profitable operations that are sustainable by executing a business plan aimed at continued focus on Fuel Cell Products revenue growth, improving overall gross margins, minimizing Cash Operating Costs, managing working capital requirements, and securing additional financing to fund our operations as needed until we do achieve profitable operations that are sustainable. While we believe that we have adequate liquidity in cash, working capital and non-core asset monetization opportunities (consisting primarily of the subsequent disposition of our Materials Product segment for gross cash proceeds of $10.5 million on January 31, 2013) to finance our operations, we may also choose to pursue additional liquidity through the issuance of debt or equity in private or public market financings. To facilitate such an action, we filed a short form base shelf prospectus ("Prospectus") in April 2012 in each of the provinces and territories of Canada, except Quebec, and a corresponding shelf registration statement on Form F-10 ("Registration Statement") with the United States Securities and Exchange Commission, which has been declared effective. These filings will enable offerings of equity securities during the effective period of the Prospectus and Registration Statements. However, no assurance can be given that any such additional liquidity will be available or that, if available, it can be obtained on terms favorable to the Company.

Failure to achieve this Liquidity objective will have a material adverse effect on our financial condition and results of operations including our ability to continue as a going concern. There are also various risks and uncertainties affecting our ability to achieve this Liquidity objective including, but not limited to, the market acceptance and rate of commercialization of our products, the ability to successfully execute our business plan, and general global economic conditions, certain of which are beyond our control. While we continue to make significant investments in product development and market development activities necessary to commercialize our products, and make increased investments in working capital as we grow our business, our actual liquidity requirements will also vary and will be impacted by 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 operating expense and working capital requirements, foreign exchange fluctuations, and the progress and results of our research, development and demonstration programs.

2013 BUSINESS OUTLOOK

On a continuing operations basis, we expect:

- Revenue growth in 2013 in excess of 30% over 2012 (or at least $56.8 million from $43.7 million in 2012); *and*
- Adjusted EBITDA improvement in 2013 in excess of 50% from 2012 (or lower than ($11.1) million from ($22.1) million in 2012).

Consistent with the past couple of years, we expect a majority of our 2013 revenue to be realized in the second half of the year. Our business revenue outlook for 2013 is based on our internal revenue forecast which reflects an assessment of overall business conditions and takes into account actual sales in the first month of 2013, sales orders received for units and services to be delivered in 2013, and an estimate with respect to the generation of new sales in each of our markets. Our 2013 business revenue outlook is also supported by our 12-month order book of $36.8 million at December 31, 2012 ($32.0 million at December 31, 2011). The primary risk factors that could cause us to miss our revenue guidance for 2013 are potential disruptions in the material handling market as a result of our reliance on a single customer in this market, and delays from forecast in terms of closing and shipping expected sales orders primarily in our backup power and engineering services markets.

The key drivers for the expected improvement in Adjusted EBITDA for 2013 are expected increases in gross margins driven primarily by the above noted overall increase in expected revenues, supported by continued operating expense optimization and a resulting reduction in Cash Operating Costs to the mid-$20 million range from $30.3 million in 2012. Consistent with the expectation that a majority of our 2013 revenue will fall in the last half of the year, Adjusted EBITDA is expected to be materially improved in the last half of 2013, as compared to the first half of 2013.

Our Adjusted EBITDA outlook for 2013 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 2013 are lower than expected gross margins due to (i) lower revenues from forecast due to potential disruptions in the material handling market as a result of our reliance on a single customer in this market, or unexpected delays in terms of closing and shipping expected sales orders primarily in our backup power and engineering services markets; (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 cost overruns or by lower than anticipated engineering services contracts or government cost recoveries; or (ii) negative foreign exchange impacts due to 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 $0.3 million to $0.4 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 2013 to be materially higher in the first and second quarters of 2013, as compared to the third and fourth quarters of 2013. Cash used in operating activities in the first two quarters of 2013 is expected to be negatively impacted by the buildup of inventory to support higher product shipments in the third and fourth quarters, and by the timing of revenues and the related customer collections which are also skewed towards the last half of the year.

Our cash flow from operations outlook for 2013 is based on our internal net cash forecast and takes into account our actual results for the first month of 2013 and our forecasted net cash requirements for the balance of the year as a result of the above noted Adjusted EBITDA forecast and our expectations for working capital requirements, capital expenditures, and other investing, and financing activities for the year. The primary risk factors that could cause us to miss our cash flow from operations expectations for 2013 are lower than expected Adjusted EBITDA performance as a result of the occurrence of any or all of the above noted risk factors, and increased working capital requirements primarily as a result of (i) higher than anticipated accounts receivable due to delays in the timing of revenues and the related customer collections, (ii) unexpected changes in the timing and amount of expected government grants and the related contract payments; (iii) unexpected changes in the timing and mix of supplier purchases and payments; and (iv) increased inventory levels due to unexpected changes in the timing and mix of expected product shipments.

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, 2012, we did not have any outstanding foreign exchange currency contracts or outstanding platinum forward purchase contracts.

At December 31, 2012, 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.

At December 31, 2012 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	**$ 21,574**	$ 2,520	$ 5,327	$ 5,499	$ 8,228
Capital leases	**20,437**	1,924	4,063	3,315	11,135
Asset retirement obligations	**6,366**	-	-	-	6,366
Total contractual obligations	**$ 48,377**	$ 4,444	$ 9,390	$ 8,814	$ 25,729

In addition to the contractual purchase obligations above, we have outstanding commitments of $0.3 million related primarily to purchases of capital assets at December 31, 2012. Capital expenditures pertain to our regular operations and are expected to be funded through cash on hand.

As of December 31, 2012, we have also agreed to pay previous funding obligations that were repayable through potential royalties in respect of sales of certain fuel cell-based stationary power products under two development programs with Canadian government agencies. The total combined royalty is limited in any year to 4% of revenue from such products. Under the terms of the Utilities Development Program (Phase 1) with the Government British Columbia, total royalties are payable to a maximum equal to the original amount of the government contributions of CDN $5.4 million. As at December 31, 2012, no royalties have been incurred for Phase 1. Under the terms of the Utilities Development Program (Phase 2) with Technology Partnerships Canada ("TPC") total royalties are payable to a maximum of CDN $38.3 million. As at December 31, 2012, a total of CDN $5.3 million in royalty repayments have been made for Phase 2. The Corporation has made no Phase 2 royalty repayments in 2012 and 2011. On January 15, 2013, we reached an agreement with TPC to terminate all existing and future potential royalties payable in respect of future sales of fuel cell based stationary power products under the Utilities Development Program (Phase 2) in exchange for a final repayment to TPC of CDN $1.9 million.

In the ordinary course of business or as required by certain acquisition or disposition agreements, we are periodically required to provide certain indemnities to other parties. Our 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, 2012, 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)	Three months ended December 31,		Year ended December 31,	
Transactions with related parties	**2012**	2011	**2012**	2011
Revenues	**$ -**	$ -	**$ -**	$ -
Purchases	**$ -**	$ 288	**$ 309**	$ 744
Finance expense on convertible debenture payable	**$ 86**	$ 53	**$ 289**	$ 151

(Expressed in thousands of U.S. dollars)	As at December 31,	
Balances with related parties	**2012**	2011
Trade accounts payable	**$ 100**	$ 260
Interest payable	**$ 417**	$ 141
Convertible debenture payable	**$ 2,507**	$ 1,592

OUTSTANDING SHARE DATA

As at February 20, 2013	
Common share outstanding	91,801,477
Options outstanding	6,595,937

CRITICAL ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which require us to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result may 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.

At this time, we have concluded that there are no critical judgments that we have made in the process of applying our accounting policies. Our significant accounting policies are detailed in note 3 to the annual consolidated financial statements.

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the reported amount of assets, liabilities, income and expenses within the next financial year.

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 and 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 estimation 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, 2012 and 2011, there was 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 at least 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. Prior to our 2012 annual impairment test, our consolidated goodwill balance of $48.1 million consisted of $46.3 million in our core Fuel Cell Products segment, and $1.8 million in our now discontinued Material Products segment. Based on the impairment test performed as at December 31, 2012, we have recorded a goodwill impairment charge of ($11.8) million in our 2012 financial results, consisting of goodwill impairment of ($10.0) million in our Fuel Cell Products segment and a goodwill write-off of ($1.8) million in our Material Products segment. 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, 2012 based on the average closing share price in the month of December, add a reasonable estimated control premium of 25% to determine the Company's enterprise value on a controlling basis after adjusting for excess cash balances, and then deduct the fair value of our Materials Product 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 was deficient to its carrying value resulting in a ($10.0) million write-down of Fuel Cell Products goodwill from $46.3 million to $36.3 million as of December 31, 2012.

- 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 significant estimation 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 20%; an average estimated compound annual growth rate of approximately 35% from 2012 to 2017; and a terminal year EBITDA multiplied by a terminal value multiplier of 4.0. Our value in use assessment resulted in an estimated fair value for the Fuel Cell Products segment that is consistent with that as determined under the above fair value, less costs to sell, assessment.

- The fair value of our Material Products segment was determined based on a fair value less costs to sell assessment which compared the segment's carrying value at December 31, 2012 to the actual net proceeds received on disposition on January 31, 2013. As a result of this assessment, we have determined that the fair value of the Material Products segment was deficient to its carrying value resulting in a ($1.8) million write-off of Material Products goodwill and a ($0.5) million write-down of property, plant and equipment as of December 31, 2012. Total 2012 impairment charges of ($2.3) million for the Material Products segment are included in net loss from discontinued operations.

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 ($0.6) million in our Fuel Cell Products segment for the three months and year ended December 31, 2012 related to a write-down of manufacturing equipment never put into use.

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, 2012, we recorded provisions to accrued warranty liabilities of $0.4 million and $1.5 million, respectively, for new product sales, compared to $1.0 million and $1.9 million, respectively, for the three months and year ended December 31, 2011.

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, 2012 were adjusted upwards by a net amount of ($0.2) million and downwards by $0.4 million, respectively, compared to a net adjustment downwards of $0.5 million and $1.7 million, respectively, for the three months and year ended December 31, 2011. The adjustments to reduce accrued warranty liabilities were primarily due to contractual expirations, changes 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, 2012, inventory provisions of ($0.2) million and ($0.7) million, respectively, were recorded as a charge to cost of product and service revenues, compared to ($0.3) million and ($0.6) million, respectively, for the three months and year ended December 31, 2011.

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.

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, 2012 and 2011, we have not recorded any deferred income tax assets on our consolidated statement of financial position.

NEW IFRS ACCOUNTING POLICIES

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.

IFRS 9 – Financial Instruments

In November 2009, the International Accounting Standards Board (“IASB”) published IFRS 9 “Financial Instruments”. This new standard simplifies the classification and measurement of financial assets set out in IAS 39 “Financial Instruments: Recognition and Measurement”. Financial assets are to be measured at amortized cost or fair value. They are to be measured at amortized cost if the two following conditions are met:

a) The assets are held within a business model whose objective is to collect contractual cash flows; and

b) The contractual cash flows are solely payments of principal and interest on the outstanding principal.

All other financial assets are to be measured at fair value through net earnings. The entity may, if certain conditions are met, elect to use the fair value option instead of measurement at amortized cost. As well, the entity may choose upon initial recognition to measure non-trading equity investments at fair value through comprehensive income. Such a choice is irrevocable.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39 and further points. For financial liabilities measured at fair value through net earnings using the fair value option, the amount of change in a liability's fair value attributable to changes in its credit risk is recognized directly in other comprehensive income.

In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. Early adoption is permitted under certain conditions. An entity is not required to restate comparative financial periods for its first-time application of IFRS 9, but must comply with the new disclosure requirements.

We intend to adopt IFRS 9 in our financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRS 10 - Consolidated Financial Statements

In May 2011, the IASB published IFRS 10 "Consolidated Financial Statements" which is a replacement of SIC-12 "Consolidation – Special Purpose Entities", and certain parts of IAS 27 "Consolidated and Separate Financial Statements". IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, employing the following factors to identify control:

a) Power over the investee;

b) Exposure or rights to variable returns from involvement with the investee;

c) The ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 shall be applied to fiscal years beginning on or after January 1, 2013. We intend to adopt IFRS 10 in our financial statements for the annual period beginning on January 1, 2013. We do not expect IFRS 10 to have a material impact on our financial statements.

IFRS 11 - Joint Arrangements

In May 2011, the IASB published IFRS 11 "Joint Arrangements" which supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". IFRS 11 requires that joint ventures be accounted for using the equity method of accounting and eliminates the need for proportionate consolidation.

IFRS 11 shall be applied to fiscal years beginning on or after January 1, 2013. We intend to adopt IFRS 11 in our financial statements for the annual period beginning on January 1, 2013. We do not expect IFRS 11 to have a material impact on our financial statements.

IFRS 12 - Disclosure of Interests in Other Entities

In May 2011, the IASB published IFRS 12 "Disclosure of Interests in Other Entities" which requires that an entity disclose information on the nature of and risks associated with its interests in other entities (i.e. subsidiaries, joint arrangements, associates or unconsolidated structured entities) and the effects of those interests on its financial statements.

IFRS 12 shall be applied to fiscal years beginning on or after January 1, 2013. We intend to adopt IFRS 12 in our financial statements for the annual period beginning on January 1, 2013. We do not expect IFRS 12 to have a material impact on our financial statements.

IFRS 13 - Fair Value Measurement

In May 2011, the IASB published IFRS 13 “Fair Value Measurement” to establish a single framework for fair value measurement of financial and non-financial items. IFRS 13 defines fair value as 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 requires disclosure of certain information on fair value measurements.

IFRS 13 shall be applied to fiscal years beginning on or after January 1, 2013. We intend to adopt IFRS 13 in our financial statements for the annual period beginning on January 1, 2013. We do not expect IFRS 13 to have a material impact on our financial statements.

Amendments to IAS 19 - Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 “Employee Benefits”. Changes in defined benefit obligations and plan assets are to be recognized in other comprehensive income when they occur, thus eliminating the corridor approach and accelerating recognition of past service cost. Net interest is to be recognized in net earnings and calculated using the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds. The actual return on plan assets minus net interest is to be recognized in other comprehensive income.

The amendments to IAS 19 shall be applied to fiscal years beginning on or after January 1, 2013. We intend to adopt the amendments to IAS 19 in our financial statements for the annual period beginning on January 1, 2013. Our current accounting policy for employee benefits for the presentation of pension expense and the immediate recognition of actuarial gains and losses in other comprehensive income is consistent with the requirements of the amended IAS 19 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

In June 2011, the IASB issued amendments to IAS 1 “Presentation of Financial Statements”. Items of other comprehensive income and the corresponding tax expense are required to be grouped into those that will and will not subsequently be reclassified through net earnings.

These amendments shall be applied to fiscal years beginning on or after July 1, 2012. We intend to adopt the amendments to IAS 1 in our financial statements for the annual period beginning on January 1, 2013. We do not expect the amendments to IAS 1 to have a material impact on our financial statements.

Amendments to other IFRS 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. We do not expect these amendments to have a material impact on our financial statements.

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, acquisition costs and financing charges. The following table shows a reconciliation of operating expenses to Cash Operating Costs from continuing operations for the three months and years ended December 31, 2012 and 2011:

(Expressed in thousands of U.S. dollars)	Three months ended December 31,		
Cash Operating Costs	**2012**	2011	$ Change
Operating Expense	**$ 10,047**	$ 8,992	$ 1,055
Stock-based compensation (expense) recovery	**(1,555)**	322	(1,877)
Acquisition and integration costs	**(91)**	-	(91)
Restructuring charges	**-**	(79)	79
Financing charges	**(564)**	-	(564)
Depreciation and amortization	**(504)**	(1,034)	530
Cash Operating Costs	**$ 7,333**	$ 8,201	$ (868)

(Expressed in thousands of U.S. dollars)	Years ended December 31,		
Cash Operating Costs	**2012**	2011	$ Change
Operating Expense	**$ 38,480**	$ 44,866	$ (6,386)
Stock-based compensation expense	**(2,582)**	(2,377)	(205)
Acquisition and integration costs	**(274)**	-	(274)
Restructuring charges	**(1,931)**	(1,356)	(575)
Financing charges	**(564)**	-	(564)
Depreciation and amortization	**(2,828)**	(4,164)	1,336
Cash Operating Costs	**$ 30,301**	$ 36,969	$ (6,668)

EBITDA and 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 expense, income taxes, 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 from continuing operations for the three months and year ended December 31, 2012 and 2011:

(Expressed in thousands of U.S. dollars)	Three months ended December 31,		
EBITDA and Adjusted EBITDA	**2012**	2011	$ Change
Net loss from continuing operations attributable to Ballard	**$ (16,809)**	$ (7,969)	$ (8,840)
Depreciation and amortization	**1,016**	1,157	(141)
Finance expense	**458**	455	3
Income taxes	**-**	134	(134)
EBITDA attributable to Ballard	**$ (15,335)**	$ (6,223)	$ (9,112)
Stock-based compensation expense (recovery)	**1,555**	(322)	1,877
Acquisition and integration costs	**91**	-	91
Finance and other (income) loss	**(167)**	(78)	(89)
Impairment of goodwill	**10,000**	-	10,000
Loss (gain) on sale and impairment of property, plant and equipment	**634**	1,750	(1,116)
Adjusted EBITDA	**$ (3,222)**	$ (4,873)	$ 1,651

(Expressed in thousands of U.S. dollars)	Year ended December 31,		
EBITDA and Adjusted EBITDA	**2012**	2011	$ Change
Net loss from continuing operations attributable to Ballard	**$ (42,070)**	$ (37,175)	$ (4,895)
Depreciation and amortization	**4,840**	4,561	279
Finance expense	**1,690**	1,392	298
Income taxes	**-**	134	(134)
EBITDA attributable to Ballard	**$ (35,540)**	$ (31,088)	$ (4,452)
Stock-based compensation	**2,582**	2,377	205
Acquisition costs	**274**	-	274
Finance and other (income) loss	**(31)**	(195)	164
Impairment of goodwill	**10,000**	-	10,000
Loss (gain) on sale and impairment of property, plant and equipment	**639**	993	(354)
Adjusted EBITDA	**$ (22,076)**	$ (27,913)	$ (5,837)

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 results from continuing operations for one-time transactional gains and losses and impairment losses. Normalized Net Loss differs from the most comparable GAAP measure, net loss attributable to Ballard from continuing operations, primarily because it does not include transactional gains and losses and asset impairment charges.

The following table shows a reconciliation of net loss attributable to Ballard from continuing operations to Normalized Net Loss for the three months and years ended December 31, 2012 and 2011.

(Expressed in thousands of U.S. dollars)	Three months ended December 31,		
Normalized Net Loss	**2012**	2011	$ Change
Net loss attributable to Ballard from continuing operations	**$ (16,809)**	$ (7,969)	$ (8,840)
Impairment of goodwill	**10,000**	-	10,000
Impairment on property, plant and equipment	**570**	1,727	(1,157)
Normalized Net Loss	**$ (6,239)**	$ (6,242)	$ 3
Normalized Net Loss per share	**$ (0.07)**	$ (0.07)	$ -

(Expressed in thousands of U.S. dollars)	Years ended December 31,		
Normalized Net Loss	**2012**	2011	$ Change
Net loss attributable to Ballard from continuing operations	**$ (42,070)**	$ (37,175)	(4,895)
Impairment of goodwill	**10,000**	-	10,000
Impairment on property, plant and equipment	**570**	1,727	(1,157)
Normalized Net Loss	**$ (31,500)**	$ (35,448)	$ 3,948
Normalized Net Loss per share	**$ (0.36)**	$ (0.42)	$ 0.06

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, 2012, 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, 2012.

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, 2012.

Changes in internal control over financial reporting

During the year ended December 31, 2012, 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;
- In our material handling market, we depend on a single customer for the majority of our revenues;
- 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, liquidity, sources of capital and our 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

MARCH 15, 2013

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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.

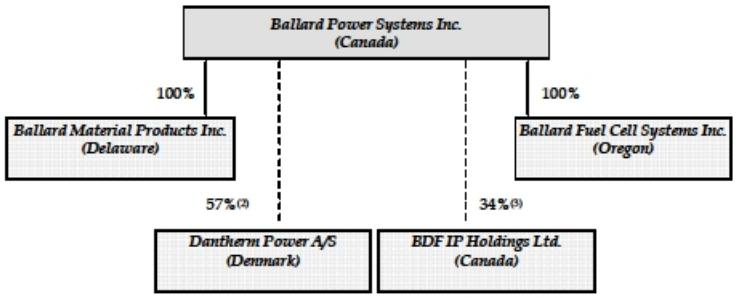
Previously, Ballard Power Systems Inc. was a British Columbia company incorporated on May 30, 1989. The original predecessor to Ballard was founded in 1979 under the name Ballard Research Inc. to conduct research and development on high-energy lithium batteries. In the course of investigating environmentally 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 Fuel Cell Systems Inc., an Oregon corporation that develops methanol-fueled clean energy backup power systems; Dantherm Power A/S ("**Dantherm Power**"), a Denmark-based corporation jointly owned with Dantherm A/S that develops hydrogen-fueled clean energy backup power systems; BDF IP Holdings Ltd. ("**IP Holdings**"), a Canadian corporation that holds intellectual property assets; and Ballard Material Products Inc., a Delaware corporation that formerly developed and manufactured carbon fiber products for use in the automotive and fuel cell markets, and which now focuses on the development of fuel processing components and systems for use in fuel cell applications.

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 March 15, 2013[(1)]:



_____

Notes

(1) Our 19.9% equity interest in AFCC was transferred to Ford on January 31, 2013, pursuant to a purchase agreement with Ford, Daimler and AFCC dated January 31, 2008 (the "Share Purchase Agreement"). As part of an agreement with a financial institution in December 2009 to monetize our rights under the Share Purchase Agreement, Ballard pledged its shares in AFCC and assigned its right to "put" or sell those shares to Ford.

(2) Following the acquisition of the shares of Danfoss Ventures A/S in December 2012, the Corporation holds 57% of the shares of Dantherm Power A/S and Dantherm A/S hold 43%.

(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 January 31, 2013, we sold substantially all of the assets of Ballard Material Products Inc., a subsidiary located in Lowell, MA, a non-core asset with the majority of its sales generated in industrial sectors unrelated to fuel cells. The corporate entity, as well as assets and personnel related to the development of fuel processing components and systems, were retained. On August 1, 2012, Ballard acquired key assets from IdaTech LLC, a customer in the telecommunications backup power market. 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.

Engineering Services Contract with Volkswagen AG

On March, 2013, we signed an agreement with Volkswagen AG for an engineering services contract to advance development of fuel cells for use in powering demonstration cars in Volkswagen's fuel cell automotive research program. The contract term is for 4 years, with an option for a 2-year extension. The expected contract value is in the range of C$60-100 million.

Work will involve the design and manufacture of a next-generation fuel cell for use in Volkswagen HyMotion demonstration cars. Ballard engineers will lead critical areas of fuel cell product design – including the membrane electrode assembly (MEA), plate and stack components – along with testing and integration work.

Volkswagen will own all intellectual property generated during the program while Ballard retains a royalty-free license to use it for all non-vehicular applications and for bus and motorcycle applications.

Sale of Ballard Material Products Inc. Assets

On January 31, 2013, we completed an agreement to sell substantially all of the assets in our Lowell, Massachusetts based Material Products division for gross cash proceeds of $10.5 million and additional potential proceeds of up to $1.5 million. The additional proceeds of up to $1.5 million are payable in 2014 and 2015 (through a GDL product credit) if the former Material Products division attains certain financial results in 2013.

Acquisition of Key Assets from IdaTech LLC

On August 1, 2012 (announced on July 24, 2012), we completed an agreement to acquire key assets and product lines from IdaTech LLC ("Idatech"), a customer of Ballard for the past several years. In exchange for $7.5 million of Ballard shares issued from treasury (7.1 million Ballard shares valued at $1.05 per share based on our share price as of the acquisition date), we acquired Idatech's key assets including fuel cell systems inventory, prepaid rights to inventory, product lines for backup power applications, distributor and customer relationships, a license to intellectual property, the right to assume control of a manufacturing facility in Tijuana, Mexico, and certain property, plant and equipment. Acquired fuel cell systems inventory, prepaid rights to inventory, product lines and intellectual property consist of both direct hydrogen units as well as methanol fuelled units and are designed for deployment as emergency backup power in the networks of wireless telecom service providers. The methanol systems incorporate a fuel reformer to extract hydrogen from a mixture of methanol and water which is then used as feedstock for the fuel cells. The assets were transferred to Ballard Fuel Cell Systems Inc., a new company formed as a result of the transaction.

As part of the transaction, Ballard exercised its right to assume IdaTech's manufacturing facilities in Tijuana, Mexico in January 2013.

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. On December 20, 2012, Ballard and Dantherm A/S acquired the shares of Danfoss Ventures A/S, giving Ballard a 57% 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 (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. Our focus is on leveraging the inherent reliability and durability derived from our legacy automotive technology into non-automotive markets where demand is near term and on our core competencies of PEM fuel cell design, development, manufacture, sales and service.

Strategy

Our business strategy is to establish a sharp focus on key growth opportunities with near-term commercial prospects in our core fuel cell markets, enhanced by our engineering services operating unit to leverage our expertise in fuel cell design, prototyping, manufacturing and servicing. To support our business strategy and our capability to execute on our clean energy growth priorities, we have also focused our efforts on both product cost reduction and managing our operating expense base including overall expense reductions, the pursuit of government funding for our research and product development efforts, and the redirection of engineering resources to revenue bearing engineering service projects.

Revenues from Market Segments

In 2012, we operated in two 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) applications and engineering services for a variety of fuel cell applications; and

(b) Material Products: carbon fiber products primarily for automotive transmissions and gas diffusion layers (" **GDLs**") for fuel cells. As a result of the disposition of this segment on January 31, 2013, the Material Products segment has been classified as a discontinued operation as of December 31, 2012.

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 2012 and 2011:

	2012	2011
Revenues from Fuel Cell Products		
Percentage of total revenues	73.8%	61.1%
Portion representing sales to investees [1]	7.0%	3.2%
Portion representing sales to customers other than investees	66.8%	57.9%
Revenues from Contract Automotive[2]		
Percentage of total revenues	Nil	12.2%
Portion representing sales to investees [1]	Nil	0.4%
Portion representing sales to customers other than investees	Nil	11.8%
Revenues from Material Products		
Percentage of total revenues	26.2%	26.6%
Portion representing sales to investees	0.1%	Nil
Portion representing sales to customers other than investees	26.1%	26.6%

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) In the table, "investees" means AFCC.

(2) Contract manufacturing services provided primarily for Daimler. With the completion of the Daimler manufacturing contract, this segment ceased to be an operating segment as of the end of 2011.

(3) Fuel cell systems: Ballard also builds complete fuel cell systems for stationary power markets that are designed to solve certain energy needs of our customers. The ElectraGen™ product lines provide fuel-flexible (hydrogen & methanol) system solutions for Back-up power markets. The ClearGen™ product line provides system solutions for large scale Distributed Generation markets.

(4) Material Products: As of December 31, 2012, we designed, developed, manufactured, sold and serviced carbon fiber materials that can be used in a variety of fuel cell and non-fuel cell applications. As of January 31, 2013 Ballard divested this business but maintains a strong customer/supplier relationship with the purchaser, AvCarb LLC.

(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®-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
ElectraGen™-H2	Back-up power systems (Dantherm Power and Ballard)	Sales to customers
ElectraGen™-Me	Back-up power systems	Sales to customers

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 fuel cell stack shipments in 2012 totalled 2,022 units, which represents a 42% increase over 2011 shipment levels.

In order to support market growth, we continue to pursue cost reduction of our FCvelocity®-9SSL and FCvelocity®-1020ACS fuel cell products. To date we have reduced the cost of this fuel cell product by roughly 55% since its introduction in 2008. With the increased purchase order commitments 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. Plug Power is the only company currently offering a full suite of class 1, 2 and 3 forklift solutions to the material handling market.

Advanced battery technology continues to make progress in the material handling market. However, the high up-front cost of advanced batteries continues to be a barrier to broad market adoption. Furthermore, advanced battery technologies 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. In 2012, during the process of negotiating final agreements the City of São Paulo elected not to follow through with the project. Ballard is opportunistically looking at other market entry opportunities in Brazil.

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, most of which are now in place.

Product cost reduction efforts for the FCvelocity®-HD6 fuel cell module in 2012 have focused on unit cell design enhancements, including extension of durability and lifetime. This ongoing effort was partially funded by a C$4.8 million award received in January 2010 (revised to C$6.9 million in June 2012) from Sustainable Development Technology Canada ("**SDTC**") for the period from 2010 to 2012 (extended to November 2013) to further develop fuel cell power module technology for the transit bus market. Product cost reductions will continue in 2013 with the development of our next generation bus module, FCvelicity®-HD7, which is anticipated to reduce total cost of the module by 25%. These ongoing cost reductions remain partially funded through the support of SDTC.

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 backup power market. Shipment of fuel cell stacks to backup power market customer in 2012 totalled 635 units.

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 2012, Dantherm Power re-branded the DBX 2000 and DBX 5000 fuel cell system products as ElectraGen™-H2.

Ballard Fuel Cell Systems Inc. develops clean energy fuel cell backup power and supplemental power systems for telecom equipment suppliers, for installation primarily in outdoor applications. The ElectraGen™-ME fuel cell system is powered by a liquid methanol/water mix; the ElectraGen™-H2 fuel cell system is powered by hydrogen. Both the ElectraGen™-ME and ElectraGen™-H2 outdoor cabinet solutions are available in 2.5 kW or 5kW models.

In 2012, Ballard completed the commissioning of 30 2kW ElectraGen™-H2 modules for Idea Cellular in India, together with partner Delta Power Solutions (India). Dantherm Power shipped 50 2kW ElectraGen™-H2 modules to China for wide-scale trials by China Mobile. A total of 270 ElectraGen™ products were also shipped to telecom operators in South East Asia and Africa, mainly through channel partners Cascadiant and Inala.

Ballard and Dantherm Power also reported progress on the development of a fuel-cell powered electric generator for the African rural home market, with funding from Anglo American Platinum Limited.

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, Altergy 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 has been operated for demonstration purposes through 2012 and has served 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 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 was successfully installed and commissioned in August of 2012.

In June 2011, we obtained an C$7.0 million (revised to C$7.3 million in December 2012) award agreement from Sustainable Development Technology Canada (“SDTC”) for the period from 2011 to 2013 (extended to 2014) 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.

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 UTC Power (phosphoric acid fuel cells), which was purchased by ClearEdge Power in December 2012, 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 included in our core Fuel Cell Products segment.

Material Products

As of December 31, 2012, we designed, developed, manufactured, sold and serviced carbon fiber materials for use in a variety of fuel cell and non-fuel cell applications, including fuel cell GDLs and friction materials in torque converters for light vehicle automatic transmissions. As of January 31, 2013 Ballard divested from this business but maintains a strong customer/supplier relationship with the purchaser, AvCarb, ensuring the continued supply of AvCarb™ GDL materials.

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.
- 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 2012, feed-in tariff policies have been enacted in 92 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 2012, quota/RPS policies existed in 18 countries at the national level and in at least 53 other jurisdictions at the state, provincial, or regional level.

Beginning in 2012, the Ministry of Commerce, Industry and Energy (MOCIE) in Korea introduced 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 sixth annual call for proposals has been published with a due date of May 2013.

Research and Product Development

Ballard’s research activities are primarily focussed 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, 2013, Ballard owns or controls through IP Holdings, patents approximately as follows: 58 United States granted patents, 80 non-United States granted patents, 3 United States published patent applications and 20 published non-United States patent applications. Our patents will expire between 2013 and 2030.

We hold licence rights to additional intellectual property from a number of third parties. We have a royalty-free non-exclusive license to approximately 350 patents and patent applications from IdaTech LLC for methanol reforming and other fuel cell-related technologies. These licences also 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 until January 31, 2013. As of January 31, 2013, 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 manufacturing facilities in Burnaby are focused on the production of membrane electrode assemblies (MEA's) and the integration/testing of our fuel cell stacks. Additional capabilities include the assembly and test of FCvelocity®-HD6 fuel cell bus modules along with assembly of our ClearGen™ distributed generation systems. Through the transition to automated manufacturing and roll-to-roll MEA production, we are well positioned to meet manufacturing capacity requirements for the next few years. As product demand grows, we will increase capacity either by further investment in automation, leveraging our low cost production facility in Mexico, or in outsourcing select manufacturing processes.

Our ElectraGen™-ME products are primarily produced in our low cost manufacturing facility located in Tijuana, Mexico – acquired as part of the Idatech asset transaction. The ElectraGen™-H2 products, deployed mostly in Europe, are manufactured in Denmark through a combination of outsource contract manufacturing and in-house integration at our Dantherm Power facilities in Hobro.

Many of the materials and components comprising the membrane electrode assemblies and the fuel cell stack, along with key balance of plant items, are unique and proprietary in nature. They have been developed in joint collaboration between Ballard and our key supply base. 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.

Quality

Quality is an integral part of the Ballard culture and our systems are focused on ensuring that every product shipped to our customers conforms to their requirements while being produced in a safe and environmentally conscious manner. We adhere to our Quality Policy Statement, which reads, “Ballard is committed to being a world leader in the commercialization of cost effective fuel cells by conducting our business in a manner that meets or exceeds our customer and other stakeholder requirements, manufactures the highest quality products, safeguards the health and safety of all, and, sustains our natural environment”.

We use 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 that conform to the requirements of ISO 14001. We strive for continuous manufacturing improvement through practices such as Lean Manufacturing, 5-S and advocacy of Six Sigma.

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 13,000 square foot (1,207 square metre) subleased facility in Bend, Oregon that houses our ElectraGen™-ME product development group as well as system test lab; (d) a leased 4100 square foot (381.5 square meter) facility in Hobro, Denmark, and (e) a leased 38,000 square foot (3,530 square metre) facility in Tijuana, Mexico which operates under a shelter agreement arrangement for the manufacture and testing of our ElectraGen™-ME product line.

As per our Quality Statement, 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.

Human Resources

As of December 31, 2012, we had approximately 395 employees, 295 in Canada, 65 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. Effective February 1, 2013, 39 US based employees left Ballard’s employment as a result of their transition to the Avcarb as part of the sale of the Material Products division. 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 March 15, 2013, our issued share capital consisted of 91,899,633 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 2012:

	TSX		**NASDAQ**	
	Price Range (CDN$)	**Average Daily Volume (#)**	**Price Range (U.S.$)**	**Average Daily Volume (#)**
January	$1.10-1.22	61,381	$1.07-1.22	231,812
February	$1.19-1.70	83,982	$1.20-1.72	353,814
March	$1.36-1.55	54,096	$1.36-1.56	233,303
April	$1.25-1.42	26,821	$1.26-1.43	89,687
May	$1.16-1.39	26,843	$1.14-1.41	105,057
June	$1.12-1.23	32,783	$1.10-1.20	111,988
July	$1.04-1.16	22,143	$1.03-1.15	69,826
August	$0.92-1.11	29,436	$0.92-1.13	105,440
September	$0.70-0.97	73,345	$0.68-0.98	222,838

	TSX		NASDAQ	
	Price Range (CDN$)	**Average Daily Volume (#)**	**Price Range (U.S.$)**	**Average Daily Volume (#)**
October	$0.70-0.85	45,825	$0.72-0.87	175,988
November	$0.61-0.73	35,549	$0.61-0.74	117,043
December	$0.59-0.66	58,596	$0.59-0.68	134,680

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 March 15, 2013: 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	26,824/0.029%	136,028/30.21%
Douglas P. Hayhurst British Columbia, Canada	Corporate Director of Ballard. Formerly an executive with IBM Canada Business Consulting Services *(consulting services)* and a Partner with PricewaterhouseCoopers Management Consultants *(consulting services).*	2012	Nil	33,327/7.40%
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%	84,503/18.77%

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)
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	17,091/0.019%	33,245/7.38%
John W. Sheridan British Columbia, Canada	President and Chief Executive Officer of Ballard since October 2005.	2001	524,522/0.57%	57,943/12.87%
Carol M. Stephenson British Columbia, Canada	Dean of the Richard Ivey School of Business at the University of Western Ontario, a position she has held since 2003. Previously, served as President and Chief Executive Officer of Lucent Technologies Canada from 1999 to 2003	2012	3,550/0.004%	38,013/8.44%
David B. Sutcliffe British Columbia, Canada	Corporate Director of Ballard. Chief Executive Officer of Sierra Wireless, Inc. from May 1995 to October 2005. From May 2001 to April 2005, he was also the Chair of the Board of Sierra Wireless, Inc.	2005	3,600/0.004%	67,186/14.92%

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 March 15, 2013.

(2) Rounded to the nearest whole number. Information is accurate as at March 15, 2013.

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.

Executive Officers

As of March 29, 2013, we had four 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.
Christopher J. Guzy British Columbia, Canada	Vice President and Chief Technical Officer	Executive of Ballard.

Shareholdings of Directors and Senior Officers

As of March 15, 2013, our directors and executive officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, 833,818 of our common shares, being 0.91% of our issued and outstanding common shares, and 450,243 DSUs.

AUDIT COMMITTEE MATTERS

Audit Committee Mandate

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 "A" and posted on our website. This mandate is reviewed annually and the Audit Committee's performance is assessed.

Composition of the Audit Committee

The following table sets forth the name of each of the current members of the Audit Committee, whether such member is independent, whether such member is financially literate and the relevant education and experience of such member.

Name	Independent?	Financially Literate?	Relevant Education and Experience
Ian A. Bourne (*ex officio*)	Yes	Yes	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.
Douglas P. Hayhurst	Yes	Yes	Mr. Hayhurst was an executive with IBM Canada Business Consulting Services and a Partner with PricewaterhouseCoopers Management Consultants. Prior to that, Mr. Hayhurst held various senior executive management roles with Price Waterhouse including National Deputy Managing Partner (Toronto) and Managing Partner for British Columbia (Vancouver). Mr. Hayhurst received a Fellowship (FCA) from the Institutes of Chartered Accountants of British Columbia and of Ontario. He has completed the Directors Education Program of the Institute of Corporate Directors and has received his ICD.D designation.

Edwin J. Kilroy (Chair)	Yes	Yes	Mr. Kilroy has been the Chief Executive Officer of MedAvail Technologies Inc. since November 2012. Previously, he 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.
David B. Sutcliffe	Yes	Yes	Mr. Sutcliffe was the Chief Executive Officer of Sierra Wireless, Inc. from May 1995 to October 2005. From May 2001 to April 2005, he was also the Chair of the Board of Sierra Wireless, Inc. He has completed the Directors Education Program of the Institute of Corporate Directors and has received his ICD.D designation.

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 2012 and 2011 for audit and non-audit related work, all of which were approved by the Audit Committee:

Type of Audit Fees	**2012**	**2011**
Audit Fees	$447,340	$351,078
Audit-Related Fees	Nil	Nil
Tax Fees	$3,374	Nil
All Other Fees	Nil	Nil

Audit Fees

Audit fees were for professional services rendered by KPMG LLP for the audit of the annual financial statements, quarterly reviews and services provided in connection with statutory and regulatory filings or engagements relating to prospectuses and other offering documents.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under the heading audit fees above.

Tax Fees

The Tax Fees for 2012 related to tax advisory and transfer pricing services.

All Other Fees

There were no fees paid to KPMG LLP that would be considered “Other Fees” in 2012 or 2011. Fees to be disclosed under this category would be for products and services other than those described under the headings audit fees, audit-related fees and tax fees above.

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.

LEGAL PROCEEDINGS

We are not involved in any material legal proceedings, nor are any such proceedings known to be contemplated. From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

INTERESTS OF EXPERTS

KPMG LLP, our independent auditors, have audited our consolidated financial statements for the year ended December 31, 2012. As at the date hereof, KPMG LLP has confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and the professional and regulatory requirements in the U.S..

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of our insiders, directors or executive officers, nor any associate or affiliate of such persons, has had any material interest, direct or indirect, in any transaction of ours within our three most recently completed financial years, nor in any transaction or proposed transaction within our current financial year that has materially affected or would materially affect us or any of our subsidiaries.

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.

Ballard Material Products Asset Sale

On January 31, 2013, we completed an agreement to sell substantially all of the assets in our Lowell, Massachusetts based Material Products division to ALY Holdings LLC (" **ALY Holdings** ") in partnership with the division's senior management, through AvCarb LLC, a new company formed as a result of the transaction, for gross cash proceeds of $10.5 million and additional potential proceeds of up to $1.5 million. The additional proceeds of up to $1.5 million are payable in 2014 and 2015 (through a GDL product credit) if the former Material Products division attains certain financial results in 2013.

As part of the transaction, Ballard and AvCarb entered into a non-exclusive agreement for the supply of gas diffusion layer ("GDL") materials by AvCarb for Ballard's products. Ballard also granted a non-exclusive license to certain of its GDL patents to AvCarb.

Ballard is required to indemnify AvCarb in respect of, and hold them harmless against, amongst other things, Damages (as the term is defined in the transaction agreement) incurred or suffered by AvCarb or any Affiliate thereof resulting from, relating to or constituting any liability, obligation or commitment of the Seller under or related to any applicable environmental laws to the extent arising out of or in connection with (i) any actual or alleged violation of, non-compliance with or liability under, any environmental law, in any case arising out of circumstances or conditions occurring on or prior to the closing date in connection with any acquired assets, (ii) the release of any materials of environmental concern on or prior to the closing date at, on, in, under or migrating onto or from, any of the acquired assets or any property formerly owned, leased or used by Ballard Material Products Inc. or any of its predecessors or affiliates, (iii) the transportation, storage, release or recycling of, or arrangement for such activities with respect to, materials of environmental concern from, at or to any location on or prior to the closing date, (iv) the exposure of any person, on or prior to the closing date, to materials of environmental concern that were generated from or located on or in any property currently or formerly owned, leased or used by the Ballard Material Products Inc. or any of its predecessors or affiliates, and (v) any division, subsidiary or predecessor of, or any property owned, leased or used by, Ballard Material Products Inc. that was sold or otherwise transferred on or prior to the closing date.

The indemnification obligation is conditioned on AvCarb's not undertaking any subsurface investigation, drilling, excavation or other disturbance (unless reasonably necessary for normal maintenance of existing structures and improvements or for the expansion of existing structures or construction of new structures on the purchased property) or otherwise precipitating through its actions any Damages for a period of four years from the closing date of the transaction. Ballard's obligations are limited to 90% of the total cost of the remedial work required to comply with the remedial requirements applicable to properties used for industrial or commercial purposes.

Ballard filed a Material Change Report in respect of the Ballard Material Products transaction on SEDAR on February 8, 2013.

IdaTech Asset Acquisition

On August 1, 2012 (announced on July 24, 2012), we completed an agreement to acquire key assets and product lines from IdaTech LLC ("Idatech"), a customer of Ballard for the past several years. In exchange for $7.5 million of Ballard shares issued from treasury (7.1 million Ballard shares valued at $1.05 per share based on our share price as of the acquisition date), we acquired Idatech's key assets including fuel cell systems inventory, prepaid rights to inventory, product lines for backup power applications, distributor and customer relationships, a license to intellectual property, the right to assume control of a manufacturing facility in Tijuana, Mexico, and certain property, plant and equipment. Acquired fuel cell systems inventory, prepaid rights to inventory, product lines and intellectual property consist of both direct hydrogen units as well as methanol fuelled units.

As part of the transaction, IdaTech agreed to contract manufacture products for Ballard until the end of the year. The transaction also provided Ballard with an option to assume IdaTech's manufacturing facilities in Tijuana, Mexico, which Ballard exercised as of January 2013.

Ballard filed a Material Change Report in respect of the IdaTech asset acquisition on SEDAR on August 2, 2012.

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.

In our material handling market, we depend on a single customer for the majority of our revenues.

We sell most of our products in the material handling market to a single customer, Plug Power, and while we are continually seeking to expand our customer base, we expect this will continue for the next several years. Any decline in business with this customer could have an adverse impact on our business, financial condition and results of operations. Our future success is dependent upon the continued purchases of our products by this customer. Any fluctuations in demand from this customer or other customers may negatively impact our business, financial condition and results of operations. If we are unable to broaden our customer base and expand relationships with other potential customers, our business in this market will continue to be impacted by unanticipated demand fluctuations due to our dependence on a single customer. Unanticipated demand fluctuations can have a negative impact on our revenues and business, and an adverse effect on our business, financial condition and results of operations. In addition, our dependence on a single customer in this market exposes us to numerous other risks, including: (i) a slowdown or delay in the customer's deployment of our products could significantly reduce demand for our products as well as increase pricing pressure on our products due to increased purchasing leverage; (ii) reductions in a single customer's forecasts and demand could result in excess inventories; (iii) the current or future economic conditions could negatively affect our major customer and cause them to significantly reduce operations, or file for bankruptcy; and (iv) concentration of accounts receivable credit risk, which could have a material adverse effect on our liquidity and financial condition if our major customer declared bankruptcy or delayed payment of their receivables.

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 and to our acquisition of IdaTech assets in the third quarter of 2012.

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.

We report our financial results in United States dollars. Our operating expenditures are particularly affected by fluctuations in the exchange rate between the Canadian dollar and the United States dollar. We generate the majority of our revenues in United States dollars while the majority of our operating expenditures are incurred in Canadian dollars. As a result, any increase in the value of the Canadian dollar, relative to the United States dollar, increases the amount of reported operating expenditures without a corresponding increase in revenues. Exchange rate fluctuations are beyond our control, and the Canadian dollar may appreciate against the United States dollar in the future, which would result in higher operating expenditures and lower net income. In order to reduce the potential negative effect of a strengthening Canadian dollar, we occasionally enter 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 and palladium, affect our costs. Platinum and palladium are key components of our fuel cell products. Platinum and palladium are scarce natural resources and we are dependent upon a sufficient supply of these commodities. While we do not anticipate significant near or long-term shortages in the supply of platinum or palladium, 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 occasionally enter 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, 2012, each interim financial statement issued after December 31, 2012, 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" 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. Directors who have served as the CEO of the Corporation at any time, or as the CFO within the past three years, are ineligible for appointment to the Committee.

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 Human Resources & Compensation Committee ("HRCC") 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.

I) 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 HRCC, 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: March 15, 2013

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: March 15, 2013

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, 2012 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: March 15, 2013 /s/ John W. Sheridan

John W. Sheridan
President and Chief Executive Officer (principal executive officer)

Dated: March 15, 2013 /s/ Tony Guglielmin

Tony Guglielmin
Vice President and Chief Financial Officer (principal financial officer)

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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 20, 2013 on the consolidated statements of financial position of Ballard Power Systems Inc. (the "Company") as at December 31, 2012 and December 31, 2011 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, 2012;

- our Report of Independent Registered Public Accounting Firm dated February 20, 2013 on the Company's internal control over financial reporting as of December 31, 2012,

each of which is contained in this annual report on Form 40-F of the Company for the fiscal year ended December 31, 2012.

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 and No. 333-180579 on Form F-10, as amended).

KPMG LLP

Chartered Accountants

Vancouver, Canada
March 15, 2013

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