

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

BALLARD POWER SYSTEMS INC.

Three months ended March 31, 2014 and 2013

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Financial Position

Unaudited (Expressed in thousands of U.S. dollars)

	Note	March 31, 2014	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents		\$ 41,550	\$ 30,301
Trade and other receivables		17,952	15,471
Inventories	6	13,970	14,087
Prepaid expenses and other current assets		1,527	852
Total current assets		<u>74,999</u>	<u>60,711</u>
Non-current assets:			
Property, plant and equipment		19,026	19,945
Intangible assets	7	2,409	2,716
Goodwill		36,291	36,291
Investments	16	7	157
Long-term trade receivables		-	219
Other long-term assets		168	175
Total assets		<u>\$ 132,900</u>	<u>\$ 120,214</u>
Liabilities and Equity			
Current liabilities:			
Trade and other payables	8	\$ 14,473	\$ 11,484
Deferred revenue		3,766	6,160
Provisions	9	5,881	6,819
Finance lease liability	10	1,316	1,399
Debt to Dantherm Power A/S non-controlling interests		-	566
Total current liabilities		<u>25,436</u>	<u>26,428</u>
Non-current liabilities:			
Finance lease liability	10	10,152	10,772
Deferred gain	10	4,619	4,734
Provisions	9	4,705	4,857
Debt to Dantherm Power A/S non-controlling interests		573	-
Employee future benefits		3,212	3,169
Total liabilities		<u>48,697</u>	<u>49,960</u>
Equity:			
Share capital	11	892,858	866,574
Treasury shares	11	-	(118)
Contributed surplus	11	287,508	296,368
Accumulated deficit		(1,094,461)	(1,091,187)
Foreign currency reserve		38	9
Total equity attributable to equity holders		<u>85,943</u>	<u>71,646</u>
Dantherm Power A/S non-controlling interests		<u>(1,740)</u>	<u>(1,392)</u>
Total equity		<u>84,203</u>	<u>70,254</u>
Total liabilities and equity		<u>\$ 132,900</u>	<u>\$ 120,214</u>

Subsequent event (note 17)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Ed Kilroy"

Director

"Ian Bourne"

Director

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

Three months ended March 31,

Note **2014** 2013

Revenues:

Product and service revenues		\$	13,992	\$	12,335
Cost of product and service revenues			10,462		9,397
Gross margin			3,530		2,938

Operating expenses:

Research and product development			2,998		5,296
General and administrative			2,780		2,995
Sales and marketing			1,895		1,936
Total operating expenses			7,673		10,227

Results from operating activities **(4,143)** (7,289)

Finance income (loss) and other 12 **422** (679)

Finance expense 12 **(242)** (427)

Net finance expense **180** (1,106)

Gain on sale of property, plant and equipment **1** 25

Impairment loss on investment 16 **(150)** -

Loss before income taxes **(4,112)** (8,370)

Income tax expense **(77)** -

Net loss from continuing operations for period (4,189) (8,370)

Net earnings (loss) from discontinued operations for period 5 **320** (42)

Net loss for period (3,869) (8,412)

Other comprehensive income (loss):

Items that may be reclassified subsequently to profit or loss:

Foreign currency translation differences **(1)** 270

Net gain on hedge of forward contracts **30** -

Other comprehensive income (loss), net of tax for the period 29 270

Total comprehensive loss for period \$ (3,840) \$ (8,142)

Net income (loss) attributable to:

Ballard Power Systems Inc. from continuing operations **\$ (3,841)** \$ (7,936)

Ballard Power Systems Inc. from discontinued operations **320** (42)

Dantherm Power A/S non-controlling interests **(348)** (434)

Net loss for period **\$ (3,869)** \$ (8,412)

Total comprehensive loss attributable to:

Ballard Power Systems Inc. **\$ (3,492)** \$ (7,824)

Dantherm Power A/S non-controlling interests **(348)** (318)

Total comprehensive loss for period **\$ (3,840)** \$ (8,142)

Basic and diluted loss per share attributable to Ballard Power Systems Inc.

Continuing operations **\$ (0.03)** \$ (0.09)

Discontinued operations **\$ 0.00** \$ (0.00)

Net loss for period **\$ (0.03)** \$ (0.09)

Weighted average number of common shares outstanding 114,756,352 92,233,498

See accompanying notes to consolidated financial statements.

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Changes in Equity

Unaudited (Expressed in thousands of U.S. dollars except 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, 2013	110,133,901	\$ 866,574	\$ (118)	\$ 296,368	\$ (1,091,187)	\$ 9	\$ (1,392)	\$ 70,254
Net loss	-	-	-	-	(3,521)	-	(348)	(3,869)
Warrants exercised (note 11)	7,615,537	11,717	-	-	-	-	-	11,717
Exercise of convertible promissory note (note 11)	4,761,905	4,000	-	(4,000)	-	-	-	-
Sale of treasury shares (note 11)	-	-	118	-	247	-	-	365
RSUs redeemed (note 11)	545,709	835	-	(2,730)	-	-	-	(1,895)
Options exercised	3,214,544	9,732	-	(3,580)	-	-	-	6,152
Share distribution plan	-	-	-	1,450	-	-	-	1,450
Other comprehensive income:								
Foreign currency translation for foreign operations	-	-	-	-	-	(1)	-	(1)
Net gain on hedge of forward contracts	-	-	-	-	-	30	-	30
Balance, March 31, 2014	126,271,596	\$ 892,858	\$ -	\$ 287,508	\$ (1,094,461)	\$ 38	\$ (1,740)	\$ 84,203

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, 2012	91,801,477	\$ 845,630	\$ (313)	\$ 291,184	\$ (1,074,181)	\$ 92	\$ (4,410)	\$ 58,002
Net loss	-	-	-	-	(7,978)	-	(434)	(8,412)
Additional investment in Dantherm Power A/S	-	-	-	-	-	-	1,319	1,319
Net Offering proceeds	7,275,000	6,794	-	-	-	-	-	6,794
Proceeds on issuance of convertible promissory note	-	-	-	4,000	-	-	-	4,000
Purchase of treasury shares	-	-	(2)	-	-	-	-	(2)
RSUs redeemed	98,156	159	169	(624)	106	-	-	(190)
Options exercised	25,000	41	-	(13)	-	-	-	28
Share distribution plan	-	-	-	785	-	-	-	785
Other comprehensive income:								
Foreign currency translation for foreign operations	-	-	-	-	-	154	116	270
Balance, March 31, 2013	99,199,633	\$ 852,624	\$ (146)	\$ 295,332	\$ (1,082,053)	\$ 246	\$ (3,409)	\$ 62,594

See accompanying notes to consolidated financial statements.

BALLARD POWER SYSTEMS INC.

Consolidated Statement of Cash Flows

Unaudited (Expressed in thousands of U.S. dollars)

	Note	Three months ended March 31,	
		2014	2013
Cash provided by (used for):			
Operating activities:			
Net loss for the period		\$ (3,869)	\$ (8,412)
Adjustments for:			
Compensatory shares		760	915
Employee future benefits		43	(50)
Depreciation and amortization		1,220	1,402
Gain on decommissioning liabilities		(152)	(52)
Gain on sale of property, plant and equipment		(1)	(25)
Impairment loss (reversal) on property, plant and equipment	5	(320)	50
Impairment loss on investment	16	150	-
		<u>(2,169)</u>	<u>(6,172)</u>
Changes in non-cash working capital:			
Trade and other receivables		(2,297)	(4,473)
Inventories		115	167
Prepaid expenses and other current assets		(638)	(140)
Trade and other payables		1,515	2,571
Deferred revenue		(2,394)	1,243
Warranty provision		(770)	(194)
		<u>(4,469)</u>	<u>(826)</u>
Cash used by operating activities		<u>(6,638)</u>	<u>(6,998)</u>
Investing activities:			
Net decrease in short-term investments		-	3,155
Additions to property, plant and equipment		(109)	(29)
Net proceeds on sale of property, plant and equipment and other		1	100
Net proceeds from disposition of Material Products division	5	-	9,044
		<u>(108)</u>	<u>12,270</u>
Financing activities:			
Sale (purchase) of treasury shares	11	365	(2)
Payment of finance lease liabilities	10	(241)	(251)
Net proceeds from bank operating line		-	(4,386)
Net proceeds on issuance of share capital from stock option exercises	11	6,152	28
Net proceeds on issuance of share capital from warrant exercises	11	11,717	-
Net Offering proceeds	11	-	6,794
Proceeds on issuance of share capital from Dantherm Power A/S non-controlling interests		-	1,360
Proceeds on issuance of convertible promissory note		-	4,000
Proceeds on issuance of convertible debenture from Dantherm Power A/S non-controlling interests		-	640
		<u>17,993</u>	<u>8,183</u>
Effect of exchange rate fluctuations on cash and cash equivalents held		2	123
Increase (decrease) in cash and cash equivalents		11,249	13,578
Cash and cash equivalents, beginning of period		30,301	9,770
Cash and cash equivalents, end of period		\$ 41,550	\$ 23,348

Supplemental disclosure of cash flow information (note 14).

See accompanying notes to consolidated financial statements.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

1. Reporting entity:

The principal business of Ballard Power Systems Inc. (the "Corporation") is the design, development, manufacture, sale, service, and license of fuel cell products for a variety of applications, focusing on "commercial stage" markets of Telecom Backup Power and Material Handling, and "development stage" markets of Bus and Distributed Generation, as well as the provision of 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 condensed consolidated interim financial statements of the Corporation as at and for the three months ended March 31, 2014 comprise the Corporation and its subsidiaries.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the Corporation have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those followed in the most recent annual consolidated financial statements, except as described in note 3 below. As described in note 3, the Corporation has adopted new IFRS standards effective January 1, 2014. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Audit Committee of the Board of Directors on April 28, 2014.

(b) Basis of measurement:

The condensed consolidated interim 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.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

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(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

2. Basis of preparation (cont'd):

(c) Functional and presentation currency:

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

(d) Use of estimates:

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards ("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 judgments are discussed further in note 4.

(e) Future operations:

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. The Corporation has forecast its cash flows for the foreseeable future and despite the ongoing volatility and uncertainties inherent in the business, the Corporation believes it has adequate liquidity in cash and working capital to finance its operations. 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 revenue growth, improving overall gross margins, and managing operating expenses and working capital requirements. Failure to implement this plan could have a material adverse effect on the Corporation's financial condition and on results of operations.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

3. Changes in accounting policies:

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's consolidated financial statements for the year ended December 31, 2013, with the exception of the following new accounting standards that were issued by the IASB and adopted by the Corporation, effective January 1, 2014. Certain comparative figures have been reclassified to conform to the basis of presentation adopted in the current period.

(a) Amendments to IAS 32 – *Offsetting Financial Assets and Liabilities*:

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* clarifies that an entity currently has a legally enforceable right to set-off if that right is:

- a) not contingent on a future event; and
- b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The adoption of the amendments to IAS 32 does not have a material impact on the consolidated financial statements.

(b) Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*:

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

The adoption of the amendments to IAS 39 does not have a material impact on the consolidated financial statements.

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty:

The preparation of the condensed consolidated interim 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.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

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

Critical judgments in applying accounting policies:

Critical judgments that management has made in the process of applying the Corporation's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements are limited to management's assessment of the Corporation's ability to continue as a going concern (note 2(e)).

The Corporation's significant accounting policies are detailed in note 4 of the Corporation's consolidated financial statements for the year ended December 31, 2013, with the exception of the new accounting standards adopted by the Corporation effective January 1, 2014, detailed in note 3 of these condensed consolidated interim financial statements.

Key sources of estimation uncertainty:

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

(a) Revenue recognition:

Revenues under certain contracts for product, licensing 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, as appropriate. 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.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

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

(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.

(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.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

4. Critical judgments in applying accounting policies and key sources of estimation uncertainty (cont'd):**(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. Discontinued operations – Disposition of Material Products division:

On January 31, 2013, the Corporation completed an agreement to sell substantially all of the assets of its Material Products division for net cash proceeds of \$9,044,000 after deducting for working capital adjustments, brokers commissions and expenses, and legal and other expenses. During the three months ended March 31, 2014, the Corporation received additional proceeds of \$320,000 payable through a product credit in 2014 for fuel cell gas diffusion layers based on preliminary 2013 results of the former Material Products division. The additional proceeds have been recorded as a reversal of previously recorded impairment losses on property, plant and equipment, and were recorded in net loss from discontinued operations.

6. Inventories:

During the three months ended March 31, 2014, the write-down of inventories to net realizable value amounted to \$5,000 (2013 - \$124,000). There were no reversals of previously recorded write-downs during the three months ended March 31, 2014 and 2013. 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.

7. Intangible assets:

Amortization and impairment losses of fuel cell technology and development costs are allocated to research and product development expense. For the three months ended March 31, 2014, amortization of \$307,000 (2013 - \$307,000) was recorded. There were no impairment losses recorded during the three months ended March 31, 2014 and 2013.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

8. Trade and other payables:

	March 31, 2014	December 31, 2013
Trade accounts payable	\$ 4,917	\$ 2,154
Compensation payable	5,614	5,133
Other liabilities	3,580	3,819
Taxes payable	362	378
	\$ 14,473	\$ 11,484

9. Provisions:

	March 31, 2014	December 31, 2013
Restructuring charges	\$ 69	\$ 237
Warranty	5,812	6,582
Current	\$ 5,881	\$ 6,819
Non-current decommissioning liabilities	\$ 4,705	\$ 4,857

10. Finance lease liability:

The Corporation has a CDN \$1,830,770 capital leasing facility ("Leasing Facility") which can be utilized to finance the acquisition and lease of operating equipment. Interest is charged on outstanding amounts at the bank's prime rate per annum and is repayable on demand by the bank in the event of certain conditions. The Corporation leases certain assets under finance lease agreements, which have imputed interest rates ranging from 2.25% to 7.35% per annum and expire between December 2014 and February 2025. At March 31, 2014, \$1,555,000 (December 31, 2013 – \$1,772,000) was outstanding on the Leasing Facility which is included in the finance lease liability.

The remaining \$9,913,000 finance lease liability relates to the lease of the Corporation's head office building.

Deferred gains were also recorded on closing of the finance lease agreements and are amortized over the finance lease term. At March 31, 2014, the outstanding deferred gain was \$4,619,000 (December 31, 2013 - \$4,734,000).

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

11. Equity:

(a) Share capital:

On March 26, 2013, the Corporation closed an underwritten offering ("Offering") of 7,275,000 units at a price of \$1.10 per unit for gross Offering proceeds of \$8,003,000. Each unit in the Offering was comprised of one common share and one warrant to purchase one common share. Each warrant is exercisable immediately upon issuance having a 5 year term and an exercise price of \$1.50 per share. Net proceeds from the Offering were \$6,794,000 after deducting for underwriting discounts, commissions, and other offering expenses, legal and accounting fees, and previously incurred costs related to the 2012 base shelf prospectus under which the units were issued.

Gross Offering proceeds (7,275,000 shares at \$1.10 per share)	\$	8,003
Less: Underwriting expenses		(642)
Less: Other financing expenses		(567)
Net Offering proceeds	\$	6,794

At March 31, 2014, 126,271,596 common shares were issued and outstanding.

(b) Share purchase warrants:

During the three months ended March 31, 2014, 7,615,537 warrants were exercised for gross proceeds of \$11,717,000.

Warrants	Exercise price of \$1.50	Exercise price of \$2.00	Total Warrants
At December 31, 2013	7,275,000	2,587,500	9,862,500
Warrants exercised	(7,027,437)	(588,100)	(7,615,537)
At March 31, 2014	247,563	1,999,400	2,246,963

At March 31, 2014, 2,246,963 share purchase warrants were issued and outstanding.

(c) Convertible promissory note:

On March 28, 2013, the Corporation completed an agreement with Anglo American Platinum Limited ("Anglo"), under which Anglo invested \$4,000,000 in the Corporation through its Platinum Group Metals Development Fund, to support continued development and commercial advancement of the Corporation's fuel cell products in target market applications. The investment took the form of a 5 year non-interest bearing convertible promissory note ("Note"). The Note may be repaid in the form of the Corporation's common shares at Anglo's option on or before the loan maturity date of April 1, 2018. The conversion, or repayment price, was set at a fixed price of \$0.84 per share which was equal to a 20% discount to the market price of the shares on the closing date of the agreement.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

11. Equity (cont'd):

(c) Convertible promissory note (cont'd):

In March 2014, Anglo exercised its option and converted the Note into 4,761,905 common shares. The conversion right and \$4,000,000 proceeds received in 2013 were accounted for as a single equity instrument and originally recorded in contributed surplus, which has been reclassified to share capital upon the issuance of the common shares in March 2014.

(d) Share options:

During the three months ended March 31, 2014, 3,214,544 options were exercised for proceeds of \$6,152,000.

During the three months ended March 31, 2014, options to purchase 1,367,507 (2013 – 1,081,250) common shares were granted with a weighted average fair value of \$1.73 (2013 – \$0.63). The granted options vest annually over three years.

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

	Three months ended March 31,	
	2014	2013
Expected life	4 years	5 years
Expected dividends	Nil	Nil
Expected volatility	68%	63%
Risk-free interest rate	1%	1%

As at March 31, 2014 and 2013, options to purchase 4,762,901 and 7,439,471 common shares, respectively, were outstanding. During the three months ended March 31, 2014, compensation expense of \$273,000 (2013 - \$255,000) was recorded in net income based on the grant date fair value of the awards recognized over the vesting period.

(e) Deferred share units:

As at March 31, 2014 and 2013, 833,096 and 523,061 deferred share units ("DSUs"), respectively, were outstanding. During the three months ended March 31, 2014 and 2013, 216,832 and 72,816 DSUs were issued, respectively. During the three months ended March 31, 2014, \$77,000 of compensation was recorded in net income relating to 17,522 DSUs granted during the period. For the remaining 199,310 DSUs granted during the period, estimated compensation expense of \$737,000 was recorded in net income in 2013. Upon the issuance of the DSUs in 2014, an \$18,000 adjustment increasing net income was recorded.

During the three months ended March 31, 2013, \$204,000 of compensation was recorded in net income, of which \$74,000 related to DSUs granted during the period. The remaining \$130,000 related to compensation expense expected to be earned for DSUs not yet issued.

BALLARD POWER SYSTEMS INC.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

11. Equity (cont'd):

(f) Restricted share units:

As at March 31, 2014 and 2013, 1,980,214 and 3,257,688 restricted share units ("RSUs"), respectively, were outstanding. During the three months ended March 31, 2014, 544,894 (2013 – 1,327,266) RSUs were issued and compensation expense of \$428,000 (2013 – \$457,000) was recorded in net income. Each RSU is convertible into one common share. The RSUs vest after a specific number of years from date of issuance and, under certain circumstances, are contingent on achieving specific performance criteria.

During the three months ended March 31, 2014, the Corporation sold its remaining 65,441 treasury shares as no RSUs remained outstanding under the market purchase RSU plan. As of March 31, 2014, the Corporation held no treasury shares.

12. Finance income and expense:

	Three months ended March 31,	
	2014	2013
Investment income	\$ 27	\$ 31
Settlement of TPC funding obligation	-	(1,197)
Pension costs	(45)	-
Foreign exchange gain	440	487
Finance income (loss) and other	\$ 422	\$ (679)
Finance expense	\$ (242)	\$ (427)

13. Related party transactions:

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

	March 31,	December 31,
	2014	2013
Balances with related parties:		
Trade payables	\$ 110	\$ 139
Interest payable	24	16
Revolving credit facility	549	550

	Three months ended March 31,	
	2014	2013
Transactions during the period with related parties:		
Purchases	\$ 38	\$ 41
Finance expense	8	88

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Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

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14. Supplemental disclosure of cash flow information:

Non-cash financing and investing activities:	Three months ended March 31,	
	2014	2013
Compensatory shares	\$ 835	\$ 159

15. Operating segments:

The Corporation operates in a single segment, Fuel Cell Products and Services, which consists of the sale, service, and licensing of fuel cell products for "commercial stage" markets of Telecom Backup Power and Material Handling and for "development stage" markets of Bus and Distributed Generation, as well as the provision of Engineering Services for a variety of fuel cell applications.

16. Financial instruments:

(a) Fair value:

The Corporation's financial instruments consist of cash and cash equivalents, short-term investments, trade and other receivables, investments, trade and other payables, and finance lease liability. The fair values of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their carrying value because of the short-term nature of these instruments. The Corporation's investments (note 16(c)) 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 finance lease liability are not considered to be materially different from market rates, thus the carrying value of the finance lease liability approximates its fair value.

Fair value measurements recognized in the statement of financial position 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.

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Notes to Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013

Unaudited

(Tabular amounts expressed in thousands of U.S. dollars, except number of shares)

16. Financial instruments (cont'd):

(b) Carrying value:

As of March 31, 2014, the carrying values of the Corporation's financial instruments approximate their fair values. For the Corporation's non-financial assets and liabilities measured at fair value on a non-recurring basis, no fair value measurements were made as of March 31, 2014.

(c) Investments:

Investments are comprised of the following:

	March 31, 2014		December 31, 2013	
	Amount	Percentage ownership	Amount	Percentage ownership
Chrysalix Energy Limited Partnership	\$ -	15.0%	\$ 150	15.0%
Other	7		7	
	\$ 7		\$ 157	

The Corporation's 15% ownership share in Chrysalix Energy Limited Partnership ("Chrysalix") is accounted for as an available-for-sale financial asset and recorded at fair value. During the three months ended March 31, 2014, the Corporation wrote-off the remaining value of Chrysalix of \$150,000 to its estimated net realizable value of \$nil.

17. Subsequent event:

On April 24, 2014, the Corporation acquired the transportation and stationary related fuel cell intellectual property assets of United Technologies Corporation ("UTC") for total consideration of \$22,306,775. The acquired assets consist of approximately 800 patents and patent applications, as well as patent licenses, invention disclosures and know-how primarily related to PEM fuel cell technology. As consideration for the acquired intellectual property assets, UTC received 5,121,507 of the Corporation's common shares valued at \$20,306,775, \$2,000,000 in cash, a grant back license to use the patent portfolio in UTC's existing businesses, and a royalty on the Corporation's future intellectual property licensing income generated from the combined intellectual property portfolio.