Hydrogenics Corporation

Second Quarter 2013 Consolidated Interim Financial Statements and Results of Operations

Hydrogenics Corporation

Consolidated Interim Balance Sheets

(in thousands of US dollars)
(unaudited)

	June 30 2013	December 31 2012
Assets		
Current assets		
Cash and cash equivalents	**$ 12,345**	$ 13,020
Restricted cash (note 15)	**2,867**	3,039
Trade and other receivables	**3,808**	5,615
Grants receivable	**-**	16
Inventories (note 4)	**12,282**	12,213
Prepaid expenses	**689**	915
	31,991	34,818
Non-current assets		
Restricted cash (note 15)	**800**	743
Property, plant and equipment	**1,415**	1,399
Intangible assets	**90**	107
Goodwill	**4,972**	5,021
	7,277	7,270
Total assets	**$ 39,268**	$ 42,088
Liabilities		
Current liabilities		
Trade and other payables (note 5)	**11,647**	11,946
Warranty provisions (note 6)	**1,338**	1,252
Deferred revenue	**6,498**	11,597
Warrants (note 8)	**1,426**	1,545
	20,909	26,340
Non-current liabilities		
Other non-current liabilities (note 7)	**2,273**	2,384
Non-current warranty provisions (note 6)	**770**	556
Non-current deferred revenue	**7,941**	8,576
Total liabilities	**31,893**	37,856
Equity		
Share capital (note 8)	**332,634**	323,513
Contributed surplus	**18,186**	17,995
Accumulated other comprehensive loss	**(1,101)**	(999)
Deficit	**(342,344)**	(336,277)
Total equity	**7,375**	4,232
Total equity and liabilities	**$ 39,268**	$ 42,088

Contingencies and guarantees (notes 13 and 15)

Douglas Alexander
Chairman

Don Lowry
Director

The accompanying notes form an integral part of these consolidated interim financial statements.

Hydrogenics Corporation

Consolidated Interim Statements of Operations and Comprehensive Loss

(in thousands of US dollars, except share and per share amounts)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Revenues	**$ 9,771**	$ 8,259	**$ 22,083**	$ 13,983
Cost of sales	**7,205**	6,787	**15,975**	11,706
Gross profit	**2,566**	1,472	**6,108**	2,277
Operating expenses				
Selling, general and administrative expenses (note 9)	**4,875**	3,221	**8,497**	6,174
Research and product development expenses (note 10)	**1,080**	843	**2,018**	1,992
	5,955	4,064	**10,515**	8,166
Loss from operations	**(3,389)**	(2,592)	**(4,407)**	(5,889)
Finance income (expenses)				
Interest income	**-**	6	**7**	12
Interest expense	**(94)**	(84)	**(186)**	(153)
Foreign currency gains	**239**	28	**354**	230
Foreign currency losses	**(87)**	(183)	**(299)**	(372)
Other finance gains (losses), net (note 11)	**(1,185)**	**(320)**	**(1,536)**	(154)
Finance income (loss), net	**(1,127)**	**(553)**	**(1,660)**	(437)
Loss before income taxes	**(4,516)**	**(3,145)**	**(6,067)**	(6,326)
Income tax expense	**-**	-	-	-
Net loss for the period	**(4,516)**	**(3,145)**	**(6,067)**	(6,326)
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to net loss				
Exchange differences on translating foreign operations	**196**	(503)	**(102)**	(227)
Other comprehensive loss for the period, net of tax	**196**	**(503)**	**(102)**	(227)
Comprehensive loss for the period	**$ (4,320)**	$ (3,648)	**$ (6,169)**	$ (6,553)
Net loss per share				
Basic and diluted (note 12)	**$ (0.53)**	$ (0.42)	**$(0.74)**	$ (0.90)
Weighted average number of common shares outstanding (note 12)	**8,542,637**	7,462,012	**8,194,937**	7,033,830

The accompanying notes form an integral part of these consolidated interim financial statements.

Hydrogenics Corporation

Consolidated Interim Statements of Changes in Equity

(in thousands of US dollars, except share and per share amounts)
(unaudited)

	Common shares Number	Common shares Amount	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total equity
Balance at December 31, 2011	6,605,648	$ 318,016	$ 17,480	$ (323,839)	$ (884)	$ 10,773
Net loss	-	-	-	(6,326)	-	(6,326)
Other comprehensive loss	-	-	-	-	(227)	(227)
Total comprehensive loss	-	-	-	$ (6,326)	$ (227)	$ (6,553)
Issuance of common shares (note 8)	1,082,250	4,848				4,848
Issuance of common shares on exercise of stock options (note 9)	300	3				3
Stock-based compensation expense (note 9)	-	-	328	-	-	328
Balance at June 30, 2012	7,688,198	$ 322,867	$ 17,808	$ (330,165)	$ (1,111)	$ 9,399
Balance at December 31, 2012	7,775,540	323,513	17,995	(336,277)	(999)	4,232
Net loss	-	-	-	(6,067)		(6,067)
Other comprehensive loss	-	-	-		(102)	(102)
Total comprehensive loss	-	-	-	(6,067)	(102)	(6,169)
Issuance of common shares (note 8)	1,146,254	8,710	-	-	-	8,710
Issuance of common shares on exercise of stock options (note 9)	40,767	411	(150)			261
Stock-based compensation expense (note 9)	-	-	341	-	-	341
Balance at June 30, 2013	8,962,561	$332,634	$18,186	$ (342,344)	$ (1,101)	$7,375

The authorized share capital of the Corporation consists of an unlimited number of common shares, with no par value, and an unlimited number of preferred shares in series, with no par value.

The accompanying notes form an integral part of these consolidated interim financial statements.

Hydrogenics Corporation

Consolidated Interim Statements of Cash Flows

(in thousands of US dollars)
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Cash and cash equivalents provided by (used in):				
Operating activities				
Net loss for the period	**$ (4,516)**	$ (3,145)	**$ (6,067)**	$ (6,326)
Increase in restricted cash	**340**	(321)	**115**	(859)
Items not affecting cash:				
Amortization and depreciation	**204**	260	**402**	464
Other finance losses (gains), net (note 11)	**1,185**	320	**1,536**	154
Unrealized foreign exchange (gains) losses	**(31)**	165	**80**	(29)
Stock-based compensation (note 9)	**166**	148	**341**	328
Portion of borrowings recorded as a reduction from research and development expenses (note 7(i))	**-**	(520)	**-**	(520)
Accreted non-cash interest (note 7)	**82**	106	**171**	127
Liabilities for compensation indexed to share price (note 17)	**1,811**	264	**2,212**	381
Net change in other non-cash working capital (note 17)	**(121)**	(1,320)	**(5,802)**	(515)
Cash used in operating activities	**(880)**	(4,043)	**(7,012)**	(6,795)
Investing activities				
Purchase of property, plant and equipment	**(220)**	(128)	**(409)**	(308)
Purchase of intangible assets	**-**	(2)	**-**	(4)
Cash used in investing activities	**(220)**	(130)	**(409)**	(312)
Financing activities				
Payment of post-retirement benefit liability (note 7)	**(22)**	(23)	**(49)**	(50)
Payment of repayable government contributions (note 7)	**(250)**	(150)	**(250)**	(188)
Proceeds of operating borrowings	**-**	843	**1,412**	1,511
Repayment of operating borrowings	**(1,412)**	-	**(1,412)**	-
Common shares issued, warrants and options exercised, net of issuance costs (note 8)	**6,811**	4,851	**7,234**	4,851
Cash provided by financing activities	**5,127**	5.521	**6,935**	6,124
Effect of exchange rate fluctuations on cash and cash equivalents held	**135**	(312)	**(189)**	(114)
Increase (decrease) in cash and cash equivalents during the period	**4,162**	1,036	**(675)**	(1,097)
Cash and cash equivalents - Beginning of period	**8,183**	5,652	**13,020**	7,785
Cash and cash equivalents - End of period	**$ 12,345**	$ 6,688	**$12,345**	$ 6,688

Supplemental disclosure				
Income taxes paid	-	$ -	$ -	$ -
Interest paid	$ 1	$ 1	$ 4	$ 1

The accompanying notes form an integral part of these consolidated interim financial statements.

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Notes to Consolidated Interim Financial Statements
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Note 1. Description of Business

Hydrogenics Corporation and its subsidiaries ("Hydrogenics" or the "Corporation") design, develop and manufacture hydrogen generation products based on water electrolysis technology, and fuel cell products based on proton exchange membrane ("PEM") technology. The Corporation has manufacturing plants in Canada and Belgium, a satellite facility in Germany, and a branch office in Russia. Its products are sold throughout the world.

The Corporation is incorporated and domiciled in Canada. The address of the Corporation's registered head office is 220 Admiral Boulevard, Mississauga, Ontario, Canada. The Corporation is a public corporation and its shares trade under the symbol "HYG" on the Toronto Stock Exchange and under the symbol "HYGS" on the NASDAQ.

Note 2. Basis of Preparation, Summary of Significant Accounting Policies, Judgments and Estimation Uncertainty

These consolidated condensed interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of consolidated interim financial statements, including International Accounting Standard ("IAS") 34.

These interim financial statements should be read in conjunction with the Corporation's 2012 annual consolidated financial statements.

These consolidated interim financial statements were approved for issue by the Board of Directors of the Corporation on July 31, 2013.

The accounting policies applied in these consolidated interim financial statements are consistent with those disclosed in Note 2 to the annual consolidated financial statements for the year ended December 31, 2012, except as described below:

IFRS 10, *Consolidated Financial Statements*

IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control.

The Corporation adopted IFRS 10 effective January 1, 2013. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 11, *Joint Arrangements*

IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11

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supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers.*

The Corporation adopted IFRS 11 effective January 1, 2013. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 11 was not applicable as the Company does not have any joint arrangements as at January 1, 2013 or June 30, 2013.

IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures, and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

The Corporation adopted IFRS 12 effective January 1, 2013. The Company assessed its disclosure on January 1, 2013 and determined that the adoption of IFRS 12 did not result in any change in the disclosures for the Company.

IFRS 13, *Fair value measurement*

IFRS 13, *Fair value measurement,* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1, *Presentation of Items of Other Comprehensive Income*

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 19, *Employee Benefits*

IAS 19, *Employee Benefits* has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and to enhance the disclosure of all employee benefits. Hydrogenics has adopted IAS 19, *Employee Benefits* as of January 1, 2013.

IAS 19 requires the net defined benefit liability to be recognized on the balance sheet without any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Re-measurements consisting of actuarial gains and losses are recognized in other comprehensive income and deficit, without subsequent

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reclassification to net income. Whereas the Corporation previously recognized re-measurements in net loss, re-measurements are now required to be recognized in other comprehensive income and then immediately in deficit.

The Company adopted these amendments retrospectively and adjusted its opening equity as at January 1, 2012 to recognize re-measurements consisting of actuarial gains and losses in other comprehensive income and deficit. The adjustments for each financial statement line item affected are presented in the tables below.

Adjustments to the consolidated interim statements of operations and comprehensive loss:

	Six months ended June 30		Year ended December 31
	2013	2012	2012
Comprehensive loss for the period before accounting change	**$ (5,963)**	$ (6,553)	$ (12,553)
Increase in other comprehensive loss for re-measurements of post-employment benefit liabilities	**-**	-	241
Increase in net loss	**-**	-	(241)
Comprehensive loss after accounting change	**$ (5,963)**	$ (6,553)	$ (12,553)
Net loss per share after accounting change	**$ (0.72)**	$ (0.90)	$ (1.75)

The preparation of consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated interim financial statements and notes to the consolidated interim financial statements. These estimates are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Significant areas requiring the Corporation to make estimates include goodwill impairment testing, warranty provisions, warrants, repayable government contributions, and the post-retirement benefit liability.

The significant accounting judgments and estimation uncertainties used in the preparation of these consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2012 and the notes thereto.

Out of period adjustments

The company recorded adjustments with the effect of reducing gross profit and increasing net loss amounting to $168 in the three months ended June 30, 2013 and $473 in the six months ended June 30, 2013, related to prior period corrections. The Company assessed the materiality of these adjustments and concluded that they are not material to the current period nor to any prior annual or interim period. The adjustments had no impact on the cash flows from operations or total cash flows.

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Note 3. Accounting Standards Issued But Not Yet Applied

The IASB has issued accounting standards that have not yet been adopted by the Corporation. The accounting standards are the same accounting standards issued but not yet applied as noted in the consolidated financial statements for the year ended December 31, 2012, except for those standards and amendments adopted as at January 1, 2013 as described in Note 2.

Note 4. Inventories

	June 30 2013	December 31 2012
Raw materials	$ 6,068	$ 5,782
Work-in-progress	6,214	5,228
Finished goods	-	1,203
	$ 12,282	$ 12,213

During the six months ended June 30, 2013, the Corporation recorded inventory obsolescence provisions as follows:

	Six months ended June 30	
	2013	2012
At January 1	$ 1,267	$ 1,226
Write downs during the period, net of recoveries	(46)	170
Foreign exchange revaluation	(3)	(43)
At June 30	$ 1,218	$ 1,353

Previously recorded inventory obsolescence provisions were reversed as a result of subsequent recoveries in net realizable value.

Note 5. Trade and Other Payables

Accounts payable and accrued liabilities are as follows:

	June 30 2013	December 31 2012
Liabilities for compensation indexed to share price	$ 3,912	$ 1,700
Trade accounts payable	3,573	5,285
Accrued payroll and related compensation	1,897	2,233
Supplier accruals	967	1,116
Current portion of repayable government contributions	224	453
Accrued professional fees	155	195
Current portion of post-retirement benefit liability	94	100
Other	825	864
	$ 11,647	$ 11,946

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Note 6. Warranty Provisions

Changes in the Corporation's aggregate warranty provision are as follows:

	Six months ended 2013	June 30 2012
At January 1	**$ 1,808**	$ 1,654
Additional provisions	**762**	645
Utilized during the period	**(158)**	(237)
Unused amounts reversed	**(290)**	(247)
Foreign exchange revaluation	**(14)**	(23)
At June 30	**$ 2,108**	$ 1,792

	June 30 2013	December 31 2012
Current provision	**$ 1,338**	$ 1,252
Long term provision	**770**	556
Total provision	**$ 2,108**	$ 1,808

Note 7. Other Non-current Liabilities

Other non-current liabilities are as follows:

	June 30 2013	December 31 2012
Long-term debt (i)	**$ 1,321**	$ 1,288
Non-current post-retirement benefit liability (ii)	**356**	418
Non-current repayable government contributions (iii)	**596**	678
	$ 2,273	$ 2,384

(i) *Long-term debt*

In 2011, the Corporation entered into a loan agreement with the Province of Ontario's Ministry of Economic Development and Trade, Strategic Jobs and Investment Fund for funding up to CA$6,000. Each draw on the loan is calculated based on 50% of eligible costs to a maximum of CA$1,500 per disbursement. Eligible costs must be incurred between October 1, 2010 and September 30, 2015. Other than the first disbursement, which was available immediately based on eligible costs incurred, there are certain conditions to be met in order to qualify for subsequent loan disbursements. These conditions differ for each disbursement and are dependent on the execution of certain commercial events. As of June 30, 2013 the full amount of CA$6,000 may be drawn upon as the conditions have been met for all draw downs of the loan.

The maturity date of the loan is ten years from the date of the first disbursement. The loan will be interest free for the first five years, commencing on the first day of the month following the date of the first disbursement, if certain criteria are met, such as the retention and creation of a specified

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number of jobs. After this five-year period, the loan will bear interest at a rate of 3.67%, if all criteria have been met, and will require repayment at a rate of 20% per year of the outstanding balance for the next five years. If the criteria are not met, the repayment terms are unaffected, however, the loan will bear interest at a rate of 5.67% per annum for the entire term of the loan.

The change in carrying value of this liability for the six months ended June 30 was as follows:

	Six months ended June 30	
	2013	2012
At January 1	**$ 1,288**	$ 499
Draw downs during the period	**0**	327
Interest accretion during the period	**98**	46
Foreign exchange revaluation	**(65)**	2
At June 30	**$ 1,321**	$ 874

During the three and six months ended June 30, 2013, the Corporation drew down CA$nil and CA$nil respectively (June 30, 2012 – CA$nil and CA$866).

(ii) *Post-retirement benefit liability*
The liability, which is unfunded and payable in Canadian dollars, is a defined benefit plan to be paid to a beneficiary.

The present value of the unfunded obligation recognized in the consolidated interim balance sheets at June 30, 2013, including the current portion, is $450 (December 31, 2012 - $518).

(iii) *Repayable government contributions*
The Corporation has received government contributions related to certain historical research and development projects. In 1998, Stuart Energy Systems Corporation (“Stuart Energy”) entered into an agreement (the “TPC Agreement”) with Technologies Partnerships Canada (“TPC”), a program of Industry Canada to develop and demonstrate hydrogen fleet fuel appliances.

In January 2011, with respect to the TPC Agreement, the Corporation entered into an amended agreement (the “Amendment”) with Industry Canada. Under the terms of the Amendment, a total of CA$1,500 will be paid to Industry Canada in quarterly installments which commenced in January 2011 and will continue until September 2017. An additional payment of 3% of the net proceeds of all equity instrument financing transactions completed by the Corporation on or before September 30, 2017 or the sum of CA$800, whichever will be the lesser amount, will be paid to Industry Canada (“the Contingent Amount”).

The Amendment was not determined to be a significant modification of the TPC Agreement for accounting purposes. Accordingly, as at the date of the Amendment, the carrying value of the liability was adjusted to $1,158, determined by taking the net present value of the CA$1,500 due in accordance with the Amendment plus $285, which represented the Corporation’s best estimate of the Contingent Amount, using the effective interest rate inherent in the original TPC Agreement of 14%.

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The change in carrying value of this liability for the six months ended June 30 was as follows:

	Six months ended June 30 2013	2012
At January 1	**$ 1,130**	$ 1,139
Repayments during the period	**(250)**	(188)
Interest accretion during the period	**73**	80
Foreign exchange revaluation	**(53)**	(1)
Fair value (gain) loss	**(80)**	136
At June 30	**$ 820**	$ 1,166

Fair value gains and losses have been recorded in other finance gains and losses, net of interest expense.

The values of the liability as at June 30, 2013 and December 31, 2012 were $820 and $1,130, of which the current portions of $224 and $453 were included in trade and other payables, respectively.

Note 8. Share Capital

Common shares	**June 30, 2013**		June 30, 2012	
	Number	**Amount**	Number	Amount
Balance at December 31, 2012	**7,775,540**	**$ 323,513**	6,605,648	$ 318,016
Share Offering	**891,250**	**6,145**	1,082,250	4,848
Warrants exercised	**255,004**	**2,565**	-	-
Stock options exercised (note 9)	**40,767**	**411**	300	3
Balance at June 30, 2013	**8,962,561**	**$ 332,634**	7,688,198	$ 322,867

Common Share issuance

On April 30, 2013 the Company entered into an underwriting agreement with Roth Capital to issue 775,000 common shares of the Company at an issue price of $7.75 per share. Roth Capital also retained an overallotment of 116,250 shares that could be issued at any time on the ensuing 30 days. On May 3, 2013 the Company issued 891,250 shares for gross proceeds of $6,907 inclusive of the overallotment. Net proceeds after underwriting fees and expenses were $6,145.

Agreement with Enbridge Inc.

On April 20, 2012, the Corporation entered into the Subscription Agreement and a joint development agreement with Enbridge, a North American leader in delivering energy. Under the terms of the joint development agreement, the Corporation and Enbridge will jointly develop utility scale energy storage. Under the terms of the Subscription Agreement, Enbridge purchased from Hydrogenics 1,082,251 common shares at CA$4.62 per share for an aggregate purchase price of CA$5,000. Pursuant to the terms of the Subscription Agreement, the Corporation will use a portion of the proceeds to develop utility

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scale energy storage. The Corporation incurred issuance costs of $190 in connection with common shares issued under the Subscription Agreement.

The Subscription Agreement provides, among other things, that Enbridge will have certain participation rights and, subject to certain ownership requirements, will have the right to appoint one non-voting observer to the Board of Directors of Hydrogenics.

Registered direct offering of Warrants

On January 14, 2010, as part of a registered direct offering, the Corporation issued 239,356 warrants (the "Series A warrants"), which are exercisable at any time until January 14, 2015, at an exercise price of $13.00 per common share. On the same day, the Corporation also issued 260,646 warrants (the "Series B warrants") exercisable for a period of five years beginning on July 15, 2010 at an exercise price of $13.00 per common share. The terms of the warrants stipulated that the exercise price of the Series A and B warrants is to be reduced if the Corporation completes a share offering, whereby the price per common share of such an offering is lower than $13.00 per common share. As a result of a subsequent investment by a strategic investor on August 9, 2010, the exercise price of the Series A and B warrants was reduced to $3.68 per common share.

The warrants can be settled in cash at the option of the holder in the case of certain Fundamental Transactions, such as a change in control of the Corporation. The cash settlement amount is determined based on the Black-Scholes value on the date of the Fundamental Transaction. The key estimates used by management in arriving at the fair value of these warrants at the end of each period is determined using a binomial pricing model that relies on observable inputs, such as the market price of the Corporation's underlying common shares, the term to maturity, risk-free interest rate and volatility as well as assumptions relating to the probability of a Fundamental Transaction arising and the probability of the exercise price being reduced. The fair value is determined on the assumption that both the probability of a Fundamental Transaction arising and the probability of the exercise price being reduced (in the event the Corporation completes a share offering, whereby the price per common share of such an offering is lower than the current exercise price) are remote. The fair values of the warrants are classified as Level 3 of the fair value hierarchy.

Key assumptions included the following:

	June 30, 2013		December 31, 2012	
	Series A	Series B	Series A	Series B
Market price of common shares	$ 13.95	$ 13.95	$ 6.77	$ 6.77
Risk-free interest rate	1.25%	1.25%	1.14%	1.14%
Term to maturity	1.5 years	2.0 years	2 years	2.5 years
Volatility	59%	53%	62%	61%
Fair Value of warrants	$ 10.40	$ 10.44	$ 3.75	$ 3.89

The Corporation has included the warrants within liabilities at the date of issuance because of the cash settlement features associated with the warrants. The Corporation has measured these warrants at fair value at the time of issuance as $2,941.

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The outstanding warrants during the six months ended June 30, 2013 was as follows:

	June 30, 2013		June 30, 2012	
	Series A	Series B	Series A	Series B
At January 1	141,856	260,646	224,356	260,646
Exercised	(135,607)	(130,323)	-	-
June 30	6,249	130,323	224,356	260,646

Cash proceeds on the warrants exercise amounted to $828 (June 30, 2012 – $Nil) during the six months ended June 30, 2103.

The change in fair value of outstanding warrants during the six months ended June 30, 2013 was as follows:

	Six months ended June 30	
	2013	2012
At January 1	**$ 1,545**	$ 1,525
Fair value of warrants exercised during the period	**(1,137)**	-
Fair value (gain) loss upon revaluation	**1,018**	20
At June 30	**$ 1,426**	$ 1,545

Fair value gains and losses upon revaluation of warrants are included in other finance gains (losses), net of income tax expense.

Note 9. Share-Based Payments

Stock option plan

Under the Hydrogenics Omnibus Incentive Plan adopted in 2012, the Corporation may issue stock options to employees, directors and consultants as part of a long-term incentive plan. Stock options were previously granted under the Corporation's Stock Option Plan.

A summary of the Corporation's employee stock option plan activity is as follows:

	2013		2012	
	Number of shares	**Weighted average exercise price (CA$)**	Number of shares	Weighted average exercise price (CA$)
Outstanding, beginning of year	**526,519**	**9.71**	350,936	16.69
Granted	**30,000**	**4.71**	182,510	3.72
Exercised	**(40,767)**	**6.71**	(5,143)	4.98
Expired	**(2,583)**	**137.48**	(9,715)	192.67
Outstanding, end of year	**513,169**	**9.01**	518,588	8.94

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All options are for a term of ten years from the date of grant and vest over four years unless otherwise determined by the Board of Directors. The fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30 2013
Risk-free interest rate (%)	1.39%
Expected volatility (%)	69%
Expected life (in years)	5.5
Expected dividends	$nil
Fair Value of options (weighted average)	$4.71

Expected volatility was determined using the stock historical volatility for the 5.5 years prior to the date of grant, as this is the expected life of the stock option.

Stock-based compensation expense related to the stock options of $121 and $254 for the three and six months ended June 30, 2013 is included in selling, general and administrative expenses (June 30, 2012 - $127 and $307). Proceeds on the exercise of options amounted to $261 (June 30, 2012 – $Nil) for the six months ended June 30, 2013.

Deferred Share Units ("DSUs")

	June 30, 2013		June 30, 2012	
DSU continuity schedule:	**Number**	**Amount**	Number	Amount
Balance at December 31	**124,085**	**$ 842**	108,909	$ 558
DSU forfeitures	**(805)**		-	
DSU compensation expense	**4,745**	**47**	7,753	43
DSU fair value adjustments	**n/a**	**901**	-	81
Balance at June 30	**128,025**	**$ 1,790**	116,662	$ 682

The Corporation recognized a compensation expense associated with DSUs issued of $948 for the six months ended June 30, 2013 (June 30, 2012 - $124). The portion relating to compensation expense for the six months ended June 30, 2013 totaled $47 (June 30, 2012 - $43), and the portion related to fair value adjustments totaled $901 (June 30, 2012- $81). The liability amount of $1,790 (December 31, 2012 - $842) is included in trade and other payables. DSUs issued vest immediately on the date of issuance.

Restricted Share Units ("RSUs")

	June 30, 2013		June 30, 2012	
RSU continuity schedule:	**Number**	**Amount**	Number	Amount
Balance at December 31	**189,694**	**$ 859**	233,230	$ 531
RSU compensation expense	**n/a**	**416**	n/a	172
RSU fair value adjustments	**n/a**	**846**	n/a	74
Balance at June 30	**189,694**	**$ 2,121**	233,230	$ 777

During the six months ended June 30, 2013, the Corporation recognized a compensation expense of

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$1,262 (June 30, 2012 - $246) associated with RSUs issued under the Hydrogenics Omnibus Incentive Plan and the former RSU plan. The portion relating to compensation expense for the six months ended June 30, 2013 totaled $416 (June 30, 2012 - $172), and the portion related to fair value adjustments totaled $846 (June 30, 2012- $74). The liability amount of $2,121 (December 31, 2012 - $859) is included in trade and other payables.

Performance Share Units ("PSUs")

	June 30	
PSU continuity schedule:	**2013**	2012
Balance at December 31	**148,320**	132,162
PSUs issued	**6,173**	-
PSUs forfeited	**-**	-
Balance at June 30	**154,493**	132,162

During the six months ended June 30, 2013, the Corporation recognized a stock-based compensation expense associated with PSUs issued under the Hydrogenics Omnibus Incentive Plan of $87 (June 30, 2012 - $22), with the offsetting increase to contributed surplus.

Note 10. Research and Product Development Expenses

Research and product development expenses are recorded net of non-repayable third party program funding received or receivable. For the three and six months ended June 30, 2013 and 2012, research and product development expenses and non-repayable program funding, which have been received, or are to be received, are as follows:

	Three months ended June 30	
	2013	2012
Research and product development expenses	**$ 1,486**	$ 1,271
Government research and product development funding	**(406)**	(428)
	$ 1,080	$ 843

	Six months ended June 30	
	2013	2012
Research and product development expenses	**$ 2,758**	$ 2,422
Government research and product development funding	**(740)**	(430)
	$ 2,018	$ 1,992

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Note 11. Other Finance Gains and Losses, Net

Components of other finance gains and losses, net are as follows:

	Three months ended June 30	
	2013	2012
(Loss) gain from change in fair value of exercised warrants (note 8)	**$ (461)**	$ -
(Loss) gain from change in fair value of outstanding warrants (note 8)	**(776)**	(180)
(Loss) gain from change in net present value of repayable government contribution (note 7)	**52**	(140)
	$ (1,185)	$ (320)

	Six months ended June 30	
	2013	2012
(Loss) gain from change in fair value of exercised warrants (note 8)	**$ (600)**	$ -
(Loss) gain from change in fair value of outstanding warrants (note 8)	**(1,018)**	(18)
(Loss) gain from change in net present value of repayable government contribution (note 7)	**82**	(136)
	$ (1,536)	$ (154)

Note 12. Net Loss Per Share

For the three and six months ended June 30, 2013, the weighted average number of common shares outstanding was 8,542,637 and 8,194,937 respectively. No effect has been given to the potential exercise of stock options and warrants in the calculation of diluted net loss per share, as the effect would be anti-dilutive.

Note 13. Contingencies

The Corporation has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement, and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service.

These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Corporation has purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated interim financial statements with respect to these indemnification agreements, as the Corporation is not aware of any claims.

In the normal course of operations, the Corporation may provide indemnification agreements, other than those listed above, to counterparties that would require the Corporation to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of

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these indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the consolidated interim financial statements with respect to these indemnification agreements, as the Corporation is not aware of any claims.

Note 14. Lines of Credit and Other Loan Facilities

Operating lines of credit

At June 30, 2013 the Corporation had entered into operating lines of credit for up to 7,900 Euros, or the US equivalent of $10,314 (December 31, 2012 - $10,416).

Pursuant to the terms of the credit facility, Hydrogenics Europe NV (the “Borrower”), a wholly owned Belgian based subsidiary, may utilize the facility for the issuance of standby letters of credit and letters of guarantee up to 7,900 Euro. The Borrower may also borrow a maximum of 75% of the value of awarded sales contracts, approved by the Belgian financial institution, to a maximum of 750 Euro, provided that sufficient room exists under the overall facility limit of 7,900 Euro. The Borrower may also borrow up to 1,250 Euro for general business purposes, provided sufficient limit exists under the overall facility limit of 7,900 Euro. At June 30, 2013, 5,794 Euro of standby letters of credit and letters of guarantee are outstanding. No amount has been drawn upon the operating line of credit. At June 30, 2013, the Corporation had availability of 2,106 Euro or the US equivalent of $2,750 (December 31, 2012 - $2,197).

The credit facility bears interest on cash borrowings at a rate of EURIBOR plus 1.45% per annum and is secured by a 1,000 Euro first charge covering all assets of the Borrower. The credit facility contains a negative pledge precluding the Borrower from providing security over its assets. Additionally, the Borrower is required to maintain a solvency covenant of not less than 25%, defined as equity plus current account divided by total liabilities, and ensure that its intercompany accounts with Hydrogenics Corporation (“the parent corporation”) do not fall below a defined level. At June 30, 2013, the Borrower was in compliance with these covenants.

Within the Power Systems business segment, the parent and subsidiary corporations have an additional $1,969 (December 31, 2012 - $873) of available operating lines of credit, for which $1,969 is outstanding, representing standby letters of credit and letters of guarantee issued by the financial institution. At June 30, 2013, the Corporation had availability of $nil (December 31, 2012 - $nil).

Other loan facilities

On September 28, 2011, the Canadian operating entity (“Hydrogenics Corporation”) entered into a loan agreement with the Province of Ontario’s Ministry of Economic Development, Strategic Jobs and Investment Fund for funding up to CA$6,000. Refer to Note 7 for further details.

The Corporation drew CA$nil on the loan during the six months ended June 30, 2013. During 2011 and 2012, the Corporation drew CA$3,127. The remaining CA$2,873 remains undrawn at June 30, 2013. The loan is collateralized by a general security agreement covering assets of Hydrogenics Corporation. Additionally, the Corporation is required to maintain a minimum balance of cash and cash equivalents. At June 30, 2013, the Corporation was in compliance with these covenants.

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Note 15. Guarantees

At June 30, 2013, the Corporation had outstanding standby letters of credit and letters of guarantee issued by several financial institutions totaling $9,533 (December 31, 2012 - $9,092), with expiry dates extending to May 2016. The Corporation has restricted cash totaling $3,667 as partial security for these standby letters of credit and letters of guarantee, with $3,080 restricted in Hydrogenics Europe NV, $174 restricted in Hydrogenics Corporation, and $413 restricted within the German entity included in the Power Systems business segment. These instruments relate primarily to obligations in connection with the terms and conditions of the Corporation's sales contracts. The standby letters of credit and letters of guarantee may be drawn upon by the customer if the Corporation fails to perform its obligations under the sales contracts. The Corporation would be liable to the financial institution for the amount of the standby letter of credit or letter of guarantee in the event the instruments are drawn upon.

Note 16. Related Party Transactions

In the normal course of operations, the Corporation subcontracts certain manufacturing functions to a corporation owned by a relative of one of the shareholders of the Corporation. Billings by this related corporation for material totaled $77 and $165 respectively in the three and six month periods ended June 30, 2013 (June 30, 2012 - $26 and $45). At June 30, 2013, the Corporation has an accounts payable balance due to this related party of $nil (December 31, 2012 - $114).

As a result of CommScope's investments in the Corporation, CommScope is also a related party. Revenues from this related party for Power System products were $1,549 and $3,895 respectively for the three and six months ended June 30, 2013 (June 30, 2012 - $54 and $318). At June 30, 2013, the Corporation has an accounts receivable balance from this related party of $163 (December 31, 2012 - $6). Billings from this related party for product were $nil and $nil for the three and six months ended June 30, 2013 (June 30, 2012 - $nil and $8). At June 30, 2013, the Corporation has an accounts payable balance to this related party of $nil (December 31, 2012 - $nil).

All related party transactions noted above involve the parent company. There are no related party transactions to disclose for the subsidiaries.

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Note 17. Consolidated Interim Statements of Cash Flows

Components of the net change in non-cash working capital are as follows:

	Three months ended June 30	
	2013	2012
Decrease (increase) in current assets		
Trade and other receivables	**$ 2,881**	$ (369)
Grants receivable	**51**	8
Inventories	**536**	775
Prepaid expenses	**95**	240
Increase (decrease) in current liabilities		
Trade and other payables, including warranty provision	**(1,679)**	(1,373)
Deferred revenue	**(2,005)**	(601)
Subtotal	**(121)**	(1,320)
Liabilities for compensation indexed to share price	**1,811**	264
	$ 1,690	$ (1,056)

	Six months ended June 30	
	2013	2012
Decrease (increase) in current assets		
Trade and other receivables	**$ 1,815**	$ 671
Grants receivable	**17**	107
Inventories	**(69)**	(938)
Prepaid expenses	**226**	112
Increase (decrease) in current liabilities		
Trade and other payables, including warranty provision	**(2,058)**	(857)
Deferred revenue	**(5,733)**	390
Subtotal	**(5,802)**	(515)
Liabilities for compensation indexed to share price	**2,212**	381
	$ (3,590)	$ (134)

Note 18. Segmented Financial Information

The Corporation's two reportable segments include OnSite Generation and Power Systems. Segmentation is based on the internal reporting and organizational structure, taking into account the different risk and income structures of the key products and production processes of the Corporation. Where applicable, corporate and other activities are reported separately as Corporate and Other. OnSite Generation includes the design, development, manufacture and sale of hydrogen generation products. Power Systems includes the design, development, manufacture and sale of fuel cell products.

Financial information by reportable segment for the three and six months ended June 30, 2013 and June 30, 2012 is as follows:

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	Three months ended June 30, 2013			
	OnSite Generation	Power Systems	Corporate and Other	Total
Consolidated Interim Statement of Operations and Comprehensive Loss:				
Revenues from external customers	**$ 4,844**	**$ 4,927**	**$ -**	**$ 9,771**
Intersegment revenue	**7**	**24**	**-**	**31**
Gross profit	**323**	**2,243**	**-**	**2,566**
Selling, general and administrative expenses	**787**	**1,158**	**2,930**	**4,875**
Research and product development expenses	**402**	**666**	**12**	**1,080**
Other finance losses, net	**-**	**-**	**(1,185)**	**(1,185)**
Interest income	**-**	**-**	**-**	**-**
Interest expense	**-**	**-**	**(94)**	**(94)**
Segment gain (loss) (i)	**(868)**	**433**	**(4,081)**	**(4,516)**
Consolidated Interim Balance Sheet:				
Total segment assets	**21,321**	**6,803**	**11,144**	**39,268**
Total segment liabilities (current and non-current)	**11,183**	**16,740**	**3,969**	**31,892**

	Three months ended June 30, 2012			
	OnSite Generation	Power Systems	Corporate and Other	Total
Consolidated Interim Statement of Operations and Comprehensive Loss:				
Revenues from external customers	$ 7,407	$ 852	$ -	$ 8,259
Intersegment revenue	-	-	-	-
Gross profit	1,286	186	-	1,472
Selling, general and administrative expenses	754	968	1,499	3,221
Research and product development expenses	234	597	12	843
Other finance gains, net	-	-	(320)	(320)
Interest income	-	-	6	6
Interest expense	-	-	(84)	(84)
Segment loss (i)	298	(1,378)	(2,065)	(3,145)
Consolidated Interim Balance Sheet:				
Total segment assets	20,406	4,366	5,829	30,601
Total segment liabilities (current and non-current)	13,362	6,322	1,518	21,202

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	Six months ended June 30, 2013			
	OnSite Generation	Power Systems	Corporate and Other	Total
Consolidated Interim Statement of Operations and Comprehensive Loss:				
Revenues from external customers	$ 11,169	$ 10,914	$ -	$ 22,083
Intersegment revenue	8	38	-	46
Gross profit	1,398	4,710	-	6,108
Selling, general and administrative expenses	1,613	2,336	4,548	8,497
Research and product development expenses	646	1,354	18	2,018
Other finance losses, net	-	-	(1,536)	(1,536)
Interest income	-	-	7	7
Interest expense	-	-	(186)	(186)
Segment gain (loss) (i)	(862)	1,018	(6,223)	(6,067)

	Six months ended June 30, 2012			
	OnSite Generation	Power Systems	Corporate and Other	Total
Consolidated Interim Statement of Operations and Comprehensive Loss:				
Revenues from external customers	$ 12,623	$ 1,360	$ -	$ 13,983
Intersegment revenue	464	18	-	482
Gross profit	2,081	196	-	2,277
Selling, general and administrative expenses	1,664	1,653	2,857	6,174
Research and product development expenses	408	1,571	13	1,992
Other finance losses, net	-	-	(154)	(154)
Interest income	-	-	12	12
Interest expense	-	-	(153)	(153)
Segment gain (loss) (i)	9	(3,029)	(3,306)	(6,326)

(i) Segment loss includes directly attributable selling, general and administrative expenses, research and product development costs, net of associated grants and depreciation of property, plant and equipment and amortization of intangible assets and is consistent with the Corporation's computation of loss before income tax expense.

Goodwill relating to the Corporation's OnSite Generation segment at June 30, 2013 was $4,972 (December 31, 2012 - $5,021). OnSite Generation consists of the Corporation's subsidiary primarily located in Belgium with a functional currency of the euro. The changes in goodwill are a result of currency fluctuations between the US dollar and the euro.

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Note 19. Risk Management Arising From Financial Instruments – Fair Value

Fair value

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities (excluding the liabilities relating to the RSUs and DSUs) approximate their fair value given their short-term nature. The carrying value of the non-current liabilities approximates their fair value given the difference between the discount rates used to recognize the liabilities in the consolidated balance sheets and the market rates of interest is insignificant.

Fair value measurements recognized in the balance sheets 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 fair value of the warrants are estimated using a binomial pricing model which relies on observable inputs, such as the market price of the Corporation’s underlying common shares, the term to maturity, risk-free interest rate and volatility (i.e. Level 3 of the fair value hierarchy) as well as assumptions related to the probability of a Fundamental Transaction arising and the probability of the exercise price being reduced. The Corporation has not transferred any financial instruments between Level 1, 2, or 3 of the fair value hierarchy during the six months ended June 30, 2013.