Hydrogenics Corporation

Second Quarter 2019
Condensed Interim Consolidated Financial Statements

Hydrogenics Corporation
Condensed Interim Consolidated Balance Sheets
(in thousands of US dollars)
(unaudited)

	Note		**June 30, 2019**		December 31, 2018
Assets					
Current assets					
Cash and cash equivalents		**$**	**16,741**	$	7,561
Restricted cash			**769**		935
Trade and other receivables	5		**8,022**		6,728
Contract assets	6		**3,789**		4,534
Inventories			**18,940**		17,174
Prepaid expenses	7		**2,008**		1,960
			50,269		38,892
Non-current assets					
Restricted cash			**225**		241
Contract assets	6		**2,795**		1,689
Investment in joint ventures	8		**1,731**		1,644
Right-of-use assets	4		**3,521**		–
Property, plant and equipment			**2,846**		2,867
Intangible assets			**200**		232
Goodwill			**4,332**		4,359
			15,650		11,032
Total assets		**$**	**65,919**	$	49,924
Liabilities					
Current liabilities					
Trade and other payables		**$**	**8,628**	$	9,068
Contract liabilities	6		**13,870**		14,581
Financial liabilities	9		**6,121**		3,359
Provisions	10		**1,867**		2,041
Deferred funding			**1,888**		1,744
			32,374		30,793
Non-current liabilities					
Other liabilities	12		**7,632**		5,711
Contract liabilities	6		**642**		1,420
Provisions	10		**799**		810
Deferred funding			**179**		229
			9,252		8,170
Total liabilities			**41,626**		38,963
Share capital	13		**408,456**		387,911
Contributed surplus			**20,940**		20,717
Accumulated other comprehensive loss			**(2,704)**		(2,681)
Deficit			**(402,399)**		(394,986)
Total equity			**24,293**		10,961
Total equity and liabilities		**$**	**65,919**	$	49,924

Guarantees and Contingencies (notes 11 and 21)

Douglas S. Alexander
Chair

David C. Ferguson
Director

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

Hydrogenics Corporation
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(in thousands of US dollars, except share and per share amounts)
(unaudited)

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenues		**$ 10,455**	$ 7,609	**$ 18,539**	$ 15,756
Cost of sales		**9,102**	5,508	**13,311**	10,417
Gross profit		**1,353**	2,101	**5,228**	5,339
Operating expenses					
Selling, general and administrative expenses		**4,476**	3,024	**8,583**	5,860
Research and product development expenses	15	**1,695**	1,880	**3,504**	3,961
		6,171	4,904	**12,087**	9,821
Loss from operations		**(4,818)**	(2,803)	**(6,859)**	(4,482)
Gains (losses) from joint ventures	8	**21**	(1,492)	**26**	(1,561)
Finance income (loss)					
Interest expense, net		**(288)**	(372)	**(572)**	(753)
Foreign currency gains (losses), net(1)		**182**	(177)	**(19)**	42
Other finance gains, net	16	**137**	43	**11**	299
Finance income (loss), net		**31**	(506)	**(580)**	(412)
Loss before income taxes		**(4,766)**	(4,801)	**(7,413)**	(6,455)
Income tax expense	17	**–**	–	**–**	300
Net loss for the period		**(4,766)**	(4,801)	**(7,413)**	(6,755)
Items that may be reclassified subsequently to net loss:					
Exchange differences on translating foreign operations		**157**	(887)	**(23)**	(558)
Comprehensive loss for the period		**$ (4,609)**	$ (5,688)	**$ (7,436)**	$ (7,313)
Net loss per share - basic and diluted	18	**$ (0.25)**	$ (0.31)	**$ (0.40)**	$ (0.44)
Weighted average number of common shares outstanding, basic and diluted	18	**18,999,286**	15,440,888	**18,542,928**	15,438,894

(1) For the three and six months ended June 30, 2019, respectively a loss of $49 and $91 (2018 – a gain of $62 and $143) relates to foreign exchange on borrowings.

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

Hydrogenics Corporation

Condensed Interim Consolidated Statements of Changes in Equity
(in thousands of US dollars, except share and per share amounts)
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	Note	Common shares Number	Common shares Amount	Contributed surplus	Deficit	Accumulated other comprehensive loss(1)	Total equity
Balance at December 31, 2018		15,447,483	$ 387,911	$ 20,717	$ (394,986)	$ (2,681)	$ 10,961
Net loss		–	–	–	(7,413)	–	(7,413)
Other comprehensive loss		–	–	–	–	(23)	(23)
Total comprehensive loss		–	–	–	(7,413)	(23)	(7,436)
Issuance of common shares	13	3,537,931	20,259	–	–	–	20,259
Issuance of common shares on exercise of stock options	13	23,912	214	(92)	–	–	122
Issuance of common shares on exercise of restricted share units	13	8,865	72	(72)	–	–	–
Stock-based compensation expense	14	–	–	387	–	–	387
Balance at June 30, 2019		19,018,191	$ 408,456	$ 20,940	$ (402,399)	$ (2,704)	$ 24,293

	Note	Common shares Number	Common shares Amount	Contributed surplus	Deficit	Accumulated other comprehensive loss(1)	Total equity
Balance at December 31, 2017		15,436,879	$ 387,746	$ 19,885	$ (381,647)	$ (1,811)	$ 24,173
Net loss		–	–	–	(6,755)	–	(6,755)
Other comprehensive loss		–	–	–	–	(558)	(558)
Total comprehensive loss		–	–	–	(6,755)	(558)	(7,313)
Issuance of common shares on vesting of performance share units	13	4,204	96	(96)	–	–	–
Issuance of common shares on exercise of stock options	13	100	1	(1)	–	–	–
Stock-based compensation expense	14	–	–	465	–	–	465
Balance at June 30, 2018		15,441,183	$ 387,843	$ 20,253	$ (388,402)	$ (2,369)	$ 17,325

(1) Accumulated other comprehensive loss represents currency translation adjustments of $2,458 as of June 30, 2019, (June 30, 2018 – ($2,054)), and loss on remeasurement of actuarial liability of $246 as of June 30, 2019 (June 30, 2018 – $315).

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

Hydrogenics Corporation
Condensed Interim Consolidated Statements of Cash Flows
(in thousands of US dollars)
(unaudited)

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash and cash equivalents provided by (used in):					
Operating activities					
Net loss for the period		**$ (4,766)**	$ (4,801)	**$ (7,413)**	$ (6,755)
Decrease (increase) in restricted cash		**(145)**	(266)	**178**	(279)
Items not affecting cash:					
Loss on disposal of property, plant and equipment		**2**	3	**4**	6
Amortization and depreciation		**417**	175	**797**	352
Gain from change in fair value of warrants		**(137)**	(70)	**(11)**	(356)
Unrealized foreign exchange loss (gain)		**89**	(179)	**119**	(203)
Losses (gains) from joint ventures		**(21)**	1,492	**(26)**	1,561
Accreted interest and fair value adjustment		**254**	413	**614**	857
Stock-based compensation	14	**151**	243	**387**	465
Stock-based compensation – DSUs	14	**971**	(62)	**1,433**	(388)
Net change in non-cash operating assets and liabilities	20	**(507)**	(1,416)	**(4,687)**	(859)
Cash used in operating activities		**(3,692)**	(4,468)	**(8,605)**	(5,599)
Investing activities					
Purchase of property, plant and equipment		**(148)**	(101)	**(332)**	(335)
Receipt (repayment) of government funding	15	**–**	974	**(974)**	974
Purchase of intangible assets		**(2)**	(1)	**(10)**	(1)
Cash provided by (used in) investing activities		**(150)**	872	**(1,316)**	638
Financing activities					
Proceeds from common shares issued and stock options exercised, net of issuance costs		**21**	1	**20,381**	1
Principal repayments of long-term debt		**(500)**	(500)	**(500)**	(750)
Interest payments		**(286)**	(286)	**(330)**	(582)
Lease payments	4	**(199)**	–	**(379)**	–
Repayment of operating borrowings		**–**	–	**–**	(1,193)
Cash provided by (used in) financing activities		**(964)**	(785)	**19,172**	(2,524)
Increase (decrease) in cash and cash equivalents during the period		**(4,806)**	(4,381)	**9,251**	(7,485)
Cash and cash equivalents – Beginning of period		**21,531**	18,482	**7,561**	21,511
Effect of exchange rate fluctuations on cash and cash equivalents held		**16**	(254)	**(71)**	(179)
Cash and cash equivalents – End of period		**$ 16,741**	$ 13,847	**$ 16,741**	$ 13,847

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

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Note 1 – Description of Business

Hydrogenics Corporation and its subsidiaries ("Hydrogenics" or the "Corporation" or the "Company") design, develop and manufacture hydrogen generation products using water electrolysis technology (based on alkaline and proton exchange membrane ("PEM") electrolyzers), and fuel cell products which convert hydrogen into electricity using PEM technology. The Company has manufacturing plants in Canada and Belgium, satellite facilities in Germany and the United States, and branch offices in Russia and Indonesia. Its products are sold throughout the world.

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

Note 2 – Basis of Preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting". The disclosures contained in these unaudited condensed interim consolidated financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual consolidated financial statements. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements are based on accounting policies as described in the 2018 annual consolidated financial statements except that effective January 1, 2019, the Company implemented IFRS 16 Leases ("IFRS 16"). Note 4 explains the impact of the adoption of IFRS 16 on the Company's financial statements and discloses the new accounting policies that have been applied from January 1, 2019.

On August 9, 2019, the Board of Directors authorized the condensed interim consolidated financial statements for issue.

Note 3 – Accounting Standards Issued But Not Yet Applied

i. Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting ("the Framework") that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards ("the Amendments") to update references in IFRS Standards to previous versions of the Conceptual Framework.

Some IFRS Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document which contains consequential amendments to affected Standards so that they refer to the new Framework, with the exception of IFRS 3 Business Combinations which continues to refer to both the 1989 and 2010 Frameworks.

Both documents are effective from January 1, 2020 with earlier application permitted. The Company does not intend to adopt the Amendments in its financial statements before the annual period beginning on January 1, 2020. The extent of the impact of the change has not yet been determined.

ii. Definition of a Business (Amendments to IFRS 3 Business Combinations)

On October 22, 2018 the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business combination. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is

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concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.
The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020 with earlier adoption permitted. The Corporation does not intend to adopt the amendments in its financial statements before the annual reporting period beginning on January 1, 2020. The extent of the impact of adoption of the amendments has not yet been determined.

iii. Definition of Material (Amendments to *IAS 1* and *IAS 8*)

On October 31, 2018 the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The definition of material has been aligned across IFRS Standards and the Conceptual Framework for Financial Reporting. The amendments provide a definition and explanatory paragraphs in one place. Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier adoption permitted. The Company does not intend to adopt the amendments in its financial statements before the annual reporting period beginning on January 1, 2020. The extent of the impact of adoption of the amendments has not yet been determined.

Note 4 – IFRS 16 Leases

i. Impact of adoption:

The Company has adopted IFRS 16 from January 1, 2019 using the modified retrospective method as permitted under the transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

a) Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.7%. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

The following table shows the reconciliation of operating lease commitments disclosed as at December 31, 2018 to the lease liabilities recognized as at January 1, 2019 on adoption of IFRS16:

Operating lease commitments disclosed as at December, 31 2018	$	**3,934**
Add finance lease liabilities recognized as at December 31, 2018		**33**
Add extensions options recognized at January 1, 2019		**729**
Less short-term leases recognized on a straight-line basis as expense		**(137)**
Less low-value leases recognized on a straight-line basis as expense		**(4)**
Total before discount		**4,555**
Discounted using the Company's incremental borrowing rate at the date of initial		**(851)**
Lease liabilities recognized as at January 1, 2019	**$**	**3,704**

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		June 30, 2019		January 1, 2019
Current lease liabilities (note 9)	$	721	$	887
Non-current lease liabilities		2,774		2,817
Total lease liabilities (note 12)	$	3,495	$	3,704

The right-of-use assets were measured at the amount equal to the lease liability adjusted by the amount of previously recognized prepaid lease payments of $40 relating to these leases. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognized right-of-use assets relate to the following types of assets:

		June 30, 2019		January 1, 2019
Properties	$	2,840	$	2,964
Equipment		115		129
Automobiles		566		651
Total right-of-use assets	$	3,521	$	3,744

There were $181 additions to right-of-use assets and lease liabilities during the three and six months ended June 30, 2019. The following table shows the impact of IFRS 16 adoption in the condensed interim consolidated statements of operations and comprehensive loss:

		Three months ended June 30, 2019		Six months ended June 30, 2019
Depreciation expense for right-of-use assets:				
Properties	$	157	$	307
Equipment		8		15
Automobiles		53		105
Total depreciation expense for right-of-use assets		218		427
Interest expense on lease liabilities		57		101
Expense relating to variable lease payments not included in the measurement of lease		38		76
Expense relating to short-term leases not included in the measurement of lease liabilities		11		51
Expense relating to low-value leases not included in the measurement of lease liabilities		2		3
Total expense	$	326	$	658

During the three and six months ended June 30, 2019, the Company paid $199 and $379, respectively, as principal repayments of lease liabilities and $57 and $101, respectively, as interest expense on lease liabilities. The Company has future minimum lease payments under leases as follows:

From July 1, 2019 to June 30, 2020	$	990
From July 1, 2020 to June 30, 2021		887
From July 1, 2021 to June 30, 2022		518
From July 1, 2022 to June 30, 2023		371
From July 1, 2023 to June 30, 2024		225
Thereafter		491
Total (excluding extension options)	$	3,482

b) Practical expedients

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Contracts that were previously identified as leases applying IAS 17 Leases and *IFRIC 4 Determining whether an Arrangement contains a lease* ("IFRIC 4"), before the date of transition have not been reassessed and contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4 were not assessed whether they contain a lease under IFRS 16,
- The use of a single discount rate for a portfolio of leases with reasonably similar characteristics,
- Reliance on previous assessments on whether leases are onerous under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,*
- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
- Elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

ii. Accounting Policy

The Company leases various properties, equipment and automobiles. Lease contracts are typically made for fixed periods of three to ten years but may have extension options as described in (a) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2019 financial year, leases of property, equipment and automobiles were classified as operating leases. Payments made under operating leases were charged to the condensed interim consolidated statements of operations and comprehensive loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the condensed interim consolidated statements of operations and comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statements of operations and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of furniture and equipment with less $5 of future cash obligations on lease by lease basis.

a) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

b) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company.

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

Note 5 – Trade and Other Receivables

		June 30, 2019		December 31, 2018
Trade accounts receivable	**$**	**4,646**	$	3,313
Less: provision for impairment (note 23)		**(35)**		(30)
Net trade accounts receivable		**4,611**		3,283
Other receivables		**3,411**		3,445
Total trade and other receivables	**$**	**8,022**	$	6,728

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Note 6 – Contract Assets and Liabilities

The Company has recognized the following assets and liabilities related to contracts with customers:

	June 30, 2019	December 31, 2018	$ change
Contract assets	**$ 6,584**	$ 6,223	$ 361
Less current portion	**(3,789)**	(4,534)	745
Non-current portion	**2,795**	1,689	1,106
Contract liabilities	**14,512**	16,001	(1,489)
Less current portion	**(13,870)**	(14,581)	711
Non-current portion	**642**	1,420	(778)

(i) Significant changes in contract assets and liabilities

Contract assets at June 30, 2019 includes $3,547 (December 31, 2018 – $4,048) relating to receivables which are to be billed according to progress based and specified payment schedules, typical with long-term contracts. The remainder relates to the final instalment of contract price on the sale of equipment for installation and commissioning, which is not invoiced to the customer until this work is complete. The change in the contract assets balance during the period reflects the change in the timeframe for a right to consideration to become unconditional (i.e. for the contract asset to be reclassified as a receivable).

Contract liabilities represent deposits and payments received in advance from customers for license fees, product development contracts and equipment sales. The change in the contract liabilities balance during the period reflects changes in the timeframe for performance obligations to be satisfied and the timing of receipt of deposits.

(ii) Revenue recognized in relation to contract liabilities

Revenue recognized in the six months ended June 30, 2019, included in opening contract liabilities, amounted to $4,497 (2018 - $4,649). Of this amount, $2,857 (2018 - $nil) related to performance obligations that were satisfied in the prior year but which did not meet all of the criteria for revenue recognition until the current reporting period.

(iii) Unsatisfied performance obligations

The following table shows unsatisfied performance obligations:

	June 30, 2019	December 31, 2018
OnSite Generation	**$ 36,000**	$ 20,600
Power Systems	**108,100**	112,100
Total	**$ 144,100**	$ 132,700

The balance for Onsite Generation includes a project for Air Liquide Canada, a related party. The Company expects $59,900 of the balance to be recognized as revenues in the next 12 months period and the remaining $84,200 is to be recognized beyond 12 months.

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Note 7 – Prepaid Expenses

Prepaid expenses are as follows:

		June 30, 2019		December 31, 2018
Prepaid expenses	**$**	**1,537**	$	1,593
Costs incurred to obtain contracts with customers		**471**		367
Total prepaid expenses	**$**	**2,008**	$	1,960

The costs incurred to obtain contracts with customers relate to sales agent commissions, which are deferred until the related contract revenues with customers are recognized. The amount amortized to the consolidated statement of operations for the three and six months ended June 30, 2019 was $2 and $14 (2018 - $5 and $15), respectively.

Note 8 – Investment in Joint Ventures

On March 30, 2017, the Company entered into an arrangement with Enbridge Gas Distribution (Enbridge) to form the joint venture 2562961 Ontario Ltd. to develop, construct, own and operate a 2.5 megawatts (“MW”) Power-to-Gas energy storage facility. The Company holds a 49% equity investment in this joint venture. The Board of Directors of the joint venture has five directors consisting of three nominees from Enbridge and two nominees of Hydrogenics and all resolutions are adopted by a majority vote. The Company accounts for this joint venture using the equity method in accordance with IFRS 11, “Joint Arrangements” using the hypothetical liquidation at book value (HLBV) method due to preferential dividends and return rights of the other partner.

The energy storage facility project was commissioned and accepted by the Independent Energy Service Operator (“IESO”) in 2018. The facility began in-service operations under an IESO Regulation Services contract effective May 2018. The following table shows change in Hydrogenics investment in the joint venture:

		June 30, 2019		June 30, 2018
Balance January 1,	**$**	**1,644**	$	1,176
Gain from investment in joint venture using HLBV method		**26**		–
Amortization of deferred loss on sale of assets to the joint venture		**(4)**		(6)
Foreign currency translation (loss) gain		**65**		(49)
Investment in Enbridge joint venture	**$**	**1,731**	$	1,121

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On May 28, 2014, the Company entered into a joint arrangement with Kolon Water & Energy Co. Ltd. ("Kolon Energy"), whereby the parties formed the joint venture Kolon Hydrogenics to launch and market potential businesses based on products and technologies produced by Hydrogenics for the Korean market. The Company has a 49% equity position in Kolon Hydrogenics and shares joint control. The Board of Directors of the joint venture has four directors consisting of two nominees from each of Hydrogenics and Kolon Energy and all resolutions are adopted by an affirmative vote of two thirds. The Company accounted for this joint venture using the equity method in accordance with IFRS 11, "Joint Arrangements".

In June 2018, Kolon Energy and the Company commenced discussions with respect to dissolving the joint arrangement. The carrying value of the assets of Kolon Hydrogenics have been reduced to their estimated net recoverable amount based upon an assessment of fair values less costs of disposal. The Company sold its 49% interest in the joint venture to Kolon Energy for a nominal value of $1 and terminated the agreement effective May 2, 2019. The Company has no further obligations regarding this joint venture.

		2019		2018
Balance January 1,	**$**	**–**	$	1,621
Share in loss of the joint venture		**–**		(1,561)
Foreign currency translation gain		**–**		(60)
Investment in Kolon Hydrogenics joint venture at June 30,	**$**	**–**	$	–

Note 9 – Financial Liabilities

Financial liabilities are as follows:

		June 30, 2019		December 31, 2018
Current portion of long-term debt – Export Development Canada (note 12)	**$**	**2,701**	$	1,983
Current portion of long-term debt – Province of Ontario (note 12)		**704**		628
Warrants		**–**		11
Deferred share unit liability (note 14)		**1,995**		730
Current portion of lease liabilities (note 4)		**721**		7
Total financial liabilities	**$**	**6,121**	$	3,359

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Note 10 – Provisions

Changes in the Company's aggregate provisions are as follows:

	Warranty	Startup and commissioning	Total
At January 1,	**$ 2,327**	**$ 524**	**$ 2,851**
Additional provisions	**896**	**341**	**1,237**
Utilized during the period	**(949)**	**(258)**	**(1,207)**
Unused amounts reversed	**(163)**	**(36)**	**(199)**
Foreign currency translation	**(11)**	**(5)**	**(16)**
Total provision at June 30, 2019	**2,100**	**566**	**2,666**
Less current portion	**(1,418)**	**(449)**	**(1,867)**
Long-term provision at June 30, 2019	**$ 682**	**$ 117**	**$ 799**

	Warranty	Startup and commissioning	Total
At January 1,	$ 2,095	$ 625	$ 2,720
Additional provisions	630	165	795
Utilized during the period	(372)	(499)	(871)
Unused amounts reversed	(617)	(11)	(628)
Foreign currency translation	(28)	5	(23)
Total provision at June 30, 2018	1,708	285	1,993
Less current portion	(961)	(228)	(1,189)
Long-term provision at June 30, 2018	$ 747	$ 57	$ 804

Note 11 – Lines of Credit and Bank Guarantees

At June 30, 2019, the Company's subsidiary in Belgium (the "Borrower") had a joint credit and operating line facility of €7,000 (the "Credit Facility"), which renews annually in April upon review. Under the Credit Facility, the Borrower may borrow up to a maximum of 75% of the value of awarded sales contracts, approved by the Belgian financial institution, to a maximum of €500; and may also borrow up to €1,500 for general business purposes, provided sufficient limit exists under the overall facility limit of €7,000. Of the €7,000 facility, €2,761 or approximately $3,141 was drawn as standby letters of credit and bank guarantees and €Nil was drawn as an operating line. At June 30, 2019, the Company had availability of €4,239 or approximately $4,822 (December 31, 2018 – $5,527) under the Credit Facility of which €2,239, or approximately $2,547 can be used as letters of credit and bank guarantees and €2,000, or approximately $2,275 can be used as an operating line.

At June 30, 2019, the Company also had a Canadian credit facility of C$3,000 with no expiration date for use only as letters of credit and bank guarantees. At June 30, 2019, C$100 or $76 (December 31, 2018 $399) was drawn as standby letters of credit. At June 30, 2019, the Company had C$2,900 or $2,216 (December 31, 2018 – $1,800) available under this facility.

These letters of credit and bank guarantees relate primarily to obligations in connection with the terms and conditions of the Company's sales contracts. The standby letters of credit and letters of guarantee may be drawn on by the customer if the Company fails to perform its obligations under the sales contracts.

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Note 12 – Other Non-current Liabilities

Other non-current liabilities are as follows:

		June 30, 2019		December 31, 2018
Long-term debt – Export Development Canada (i)	**$**	**5,680**	$	5,958
Long-term debt – Province of Ontario (ii)		**2,345**		2,091
Non-current post-retirement benefit liabilities (iii)		**238**		247
Lease liabilities (note 4)		**3,495**		33
Total		**11,758**		8,329
Less current portion of long-term debt – Export Development Canada (note 9)		**(2,701)**		(1,983)
Less current portion of long-term debt – Province of Ontario (note 9)		**(704)**		(628)
Less current portion of lease liabilities (note 4)		**(721)**		(7)
Total other non-current liabilities	**$**	**7,632**	$	5,711

(i) Long-term debt – Export Development Canada ("EDC")

In the fourth quarter of 2016, the Company entered into a loan agreement with EDC for a five-year facility of $9,000.

The loan is structured as a five-year term loan with quarterly interest payments, currently calculated at an annual interest rate of U.S. prime plus 10%, declining to U.S. prime plus 5% to 7% if certain annual earnings before interest, taxes, depreciation and amortization thresholds are met. The loan is secured by a second charge over the assets located within Canada. Commencing March 31, 2017, the loan principal was subject to four quarterly repayments of $250 followed by 16 quarterly repayments of $500. There is an option to prepay a portion of, or the entire loan, at any quarterly repayment date.

The change in carrying value of this liability was as follows:

		2019		2018
At January 1,	**$**	**5,958**	$	8,344
Principal repayments during the period		**(500)**		(750)
Interest payments during the period		**(229)**		(582)
Interest accretion during the period		**451**		578
Revaluation of variable rate long-term debt		**–**		57
At June 30,	**$**	**5,680**	$	7,647

(ii) Long-term debt – Province of Ontario

In 2011, the Company 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 C$6,000. Each draw on the loan is calculated based on 50% of eligible costs to a maximum of C$1,500 per disbursement. Eligible costs had to be incurred between October 1, 2010 and September 30, 2015. The full amount of the facility was drawn.

Commencing in the fourth quarter of 2016, the loan bears interest at a rate of 3.67% and requires repayment at a rate of 20% per year of the outstanding balance due annually each November.

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 in Canadian dollars in a Canadian financial institution at all times. The Company was in compliance with this covenant at June 30, 2019.

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The change in carrying value of this liability was as follows:

		2019		2018
At January 1,	**$**	**2,091**	$	2,896
Interest accretion during the period		**163**		215
Foreign currency translation		**91**		(143)
At June 30,	**$**	**2,345**	$	2,968

(iii) Post-retirement benefit liabilities

The liability at June 30, 2019 relates to defined contribution pension plans in Belgium and is payable in euros. Applicable law states that in the context of defined contribution plans, the employer must guarantee a minimum return of 3.75% on employee contributions and 3.25% on employer contributions. The minimum guaranteed return for defined contribution plans in Belgium results in the employer being exposed to financial risk for the legal obligation to pay further contributions if the fund does not hold sufficient assets to meet the minimum guaranteed return and as a consequence the plan is required to be accounted for as a defined benefit plan.

There were no actuarial remeasurements during the three and six months ended June 30, 2019.

Note 13 – Share Capital

Common shares

The authorized share capital of the Company 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.

	2019			2018		
	Number		**Amount**	Number		Amount
Balance at January 1,	**15,447,483**	**$**	387,911	15,436,879	$	387,746
Issuance of common shares	**3,537,931**		20,259	–		–
Issuance of common shares on exercise of stock options (note 14)	**23,912**		214	100		1
Issuance of common shares on exercise of restricted share units (note 14)	**8,865**		72	–		–
Issuance of common shares on vesting of performance share units (note 14)	**–**		–	4,204		96
At June 30,	**19,018,191**	**$**	408,456	15,441,183	$	387,843

On December 21, 2018, the Company and The Hydrogen Company ("H2C") entered into a subscription agreement to issue 3,537,931 common shares of Hydrogenics to H2C on a private placement basis, for gross proceeds to Hydrogenics of $20,520 or $5.80 per common share. The subscription price represented approximately a 20% premium to the 20-day volume-weighted average trading price of the Company's common shares on the NASDAQ for the period ending December 20, 2018.

The transaction closed on January 24, 2019 and the Company received net proceeds of $20,259 after fees and expenses of $261. Subsequent to closing of the private placement, H2C's interest in Hydrogenics is approximately 18.6% of total issued common shares.

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The subscription agreement provides, among other things, that H2C has participation rights on future offerings and the right to nominate one director to the board of directors of Hydrogenics, and that H2C will be subject to certain restrictions, including lock-up, transfer, standstill and voting restrictions, subject, in each case, to certain ownership threshold requirements or for a period of one year from the date of the subscription agreement.

Note 14 – Stock-Based Compensation

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

Under the Company's previous Stock Option Plan, 218,280 stock options were outstanding at June 30, 2019. No further stock options may be issued under this plan.

Effective May 11, 2018, the Company amended the Omnibus Incentive Plan to increase the number of shares available for issuance to 1,308,032 from 1,002,069. This was passed as a resolution by the shareholders of Hydrogenics on May 11, 2018.

Of the 1,308,032 shares available for issuance as stock options, RSUs and PSUs, under the Omnibus Incentive Plan, 605,613 have been granted as stock options and 178,217 have been granted as RSUs and were outstanding as at June 30, 2019. In addition, 12,609 previously issued PSU's had fully vested as of June 30, 2019. The Company has 455,975 share units available for issue as stock options, RSUs and PSUs under the Omnibus Incentive Plan at June 30, 2019. Under the Company's insider trading policy, no shares could be issued or purchased during the six months ended June 30, 2019.

Stock options

A summary of the Company's stock option plan for the six months ended June 30, 2019 and 2018 is as follows:

	2019			2018		
	Number of shares		**Weighted average exercise price C$**	Number of shares		Weighted average exercise price C$
Balance at January 1,	**853,089**	**$**	**8.37**	762,173	$	7.99
Granted	**–**		**-**	111,621		11.41
Exercised	**(23,912)**		**6.63**	(100)		4.91
Forfeited	**–**		**-**	(580)		13.25
Expired	**(5,284)**		**13.25**	(5,025)		14.50
At June 30,	**823,893**	**$**	**8.39**	868,089	$	8.32

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During the six months ended June 30, 2019, 23,912 (2018 – 100) stock options were exercised resulting in cash proceeds of $122 (2018 - $1), an increase in common shares of $214 (2018 - $1) with an offset to contributed surplus of $92 (2018 - $1).

During the six months ended June 30, 2019, $nil (2018 – 111,621) stock options were granted with an average fair value of C$nil per option (2018 – C$11.41). 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 was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Risk-free interest rate	**n/a**	2.12 %
Expected volatility	**n/a**	64.3 %
Expected life in years	**n/a**	7
Expected dividend	**Nil**	Nil

Expected volatility was determined using the historical volatility for the Company's share price for the seven years prior to the date of grant, as this is the expected life of the stock options.

Stock-based compensation expense for the six months ended June 30, 2019, related to stock options, was $209 (six months ended June 30, 2018 – $255) and was included in selling, general and administrative expenses with an offsetting increase to contributed surplus.

Performance Share Units ("PSUs")

Under the Hydrogenics Omnibus Incentive Plan adopted in 2012, the Company may issue performance based share units to employees, directors and consultants. Pursuant to the Hydrogenics Omnibus Incentive Plan, participants may be granted a portion of their long-term incentive plan in the form of PSUs instead of RSUs and stock options. A PSU is a unit, equivalent in value to a common share of the Company.

Each PSU entitles the participant to receive a cash payment or common shares, at the option of the Company. The fair value of the PSUs is recognized as a compensation expense and is pro-rated over the expected vesting period with the offsetting increase to contributed surplus. Fair value is calculated as the market value of the common share at the date of grant. Each PSU is subject to vesting performance conditions. The Company estimates the length of the expected vesting period at the grant date, based on the most likely outcome of the performance conditions. The Company will revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates and any change to compensation cost will be recognized in the period in which the revised estimate is made. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures. The expiry date of PSUs granted is five years from the date of award.

A summary of the Company's PSU activity is as follows:

	2019	2018
Balance at January 1,	**–**	191,366
Expired	**–**	(187,162)
Vested – share issuance	**–**	(4,204)
At June 30,	**–**	**–**

Stock-based compensation expense for the six months ended June 30, 2019, related to PSUs, was $nil (2018 – $6) and was included in selling, general and administrative expenses with an offsetting increase to contributed surplus.

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Equity-settled Restricted Share Units ("RSUs")

An RSU is a unit equivalent in value to a common share of the Company. The RSUs will be settled by issuance of shares in the Company. The cost of the Company's RSUs is determined using the cliff vesting method and is charged to selling, general and administrative expenses. RSUs vest three years from grant date. The fair value of each grant of RSUs is the fair value of the Company's share price on the date of grant. The resulting compensation expense, included in selling, general and administrative expenses, is charged to income over the period the employees unconditionally become entitled to the award, with a corresponding increase to contributed surplus.

During the six months ended June 30, 2019, $nil (six months ended June 30, 2018 – 69,523) RSUs were granted with an average fair value of C$nil per unit (2018 – C$11.41). All RSUs are for a term of three years from the date of grant, with vesting occurring at the end of the three years.

A summary of the Company's RSU (equity-settled) activity is as follows:

	2019	2018
Balance at January 1,	**202,707**	133,184
Granted	**–**	69,523
Cancelled	**(15,625)**	–
Exercised	**(8,865)**	–
At June 30,	**178,217**	202,707

Stock-based compensation expense for the six months ended June 30, 2019, related to RSUs, was $178 (six months ended June 30, 2018 – $204) and was included in selling, general and administrative expenses with an offsetting increase to contributed surplus.

Deferred Share Units ("DSUs")

The Company has a deferred share unit plan for directors. Pursuant to the DSU Plan, non-employee directors are entitled to receive all or any portion of their annual cash retainer and meeting fees in the form of DSUs instead of cash. A DSU is a unit, equivalent in value to a common share of the Company. Each DSU entitles the participant to receive a cash payment upon termination of directorship, valued at the price of the Company's common share on the Toronto Stock Exchange on the date of termination. Compensation cost for DSUs granted under the DSU Plan is recorded as an expense with a corresponding increase in accrued liabilities and is measured at fair value. The DSU liability is marked-to-market each reporting period with the offset recorded in selling, general and administrative expenses.

A summary of the Company's DSU activity is as follows:

	2019			2018		
	Number		**Amount**	Number		Amount
Balance at January 1,	**147,171**	**$**	**730**	125,949	$	1,406
DSU redemptions	**(20,000)**		**(207)**	–		–
DSU compensation expense	**6,926**		**72**	9,491		75
DSU fair value adjustments	**–**		**1,361**	–		(463)
Foreign currency translation	**–**		**39**	–		–
At June 30,	**134,097**	**$**	**1,995**	135,440	$	1,018

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For the six months ended June 30, 2019, the Company recognized $72 (2018 – $75) as an expense for the issue of new DSUs and $1,361 (2018 – $463) for the mark-to-market adjustment on the liability. The DSU liability at June 30, 2019 of $1,995 (December 31, 2018 – $730) was included in financial liabilities. DSUs vest immediately on the date of issuance.

Summary of stock-based compensation expense

Three months ended June 30,		2019		2018
Stock-based compensation expense - stock options	**$**	**74**	$	128
Stock-based compensation expense - PSU		**–**		–
Stock-based compensation expense - RSU (equity-settled)		**77**		115
Subtotal stock based compensation expense		**151**		243
DSU - new issuance		**37**		34
DSU - mark-to-market adjustment		**934**		(96)
Subtotal stock-based compensation expense - DSU		**971**		(62)
Total	**$**	**1,122**	$	181

Six months ended June 30,		2019		2018
Stock-based compensation expense - stock options	**$**	**209**	$	255
Stock-based compensation expense - PSU		**–**		6
Stock-based compensation expense - RSU (equity-settled)		**178**		204
Subtotal stock based compensation expense		**387**		465
DSU - new issuance		**72**		75
DSU - mark-to-market adjustment		**1,361**		(463)
Subtotal stock-based compensation expense - DSU		**1,433**		(388)
Total	**$**	**1,820**	$	77

Note 15 – Research and Product Development Expenses

Research and product development expenses are recorded net of non-repayable third-party program funding received or receivable. Funds received prior to incurring the related program expenses are deferred and amounted to $2,067 at June 30, 2019 (June 30, 2018 - $1,514). For the three and six months ended June 30, 2019 and 2018, research and product development expenses and non-repayable program funding, which have been received or receivable, are as follows:

Three months ended June 30,		2019		2018
Research and product development expenses	**$**	**2,174**	$	3,271
Government research and product development funding		**(479)**		(1,391)
Total	**$**	**1,695**	$	1,880

Six months ended June 30,		2019		2018
Research and product development expenses	**$**	**4,278**	$	6,286
Government research and product development funding		**(774)**		(2,325)
Total	**$**	**3,504**	$	3,961

In March 2018, the Company entered into a government grant funding agreement for C$5,000. The funding schedule provided for an initial payment of C$2,500, which was paid in May 2018, with subsequent funding pursuant to achieving specified project milestones. In August 2018, the Company received notice that the government funding program was being terminated effective September 28, 2018. In March 2019, the Company repaid C$1,361 of unused funds.

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Note 16 – Other Finance Gains and Losses, Net

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

Three months ended June 30,		2019		2018
Gain (loss) from change in fair value of outstanding warrants	**$**	**137**	$	70
Revaluation of variable rate long-term debt – Export Development Canada		**–**		(27)
Total	**$**	**137**	$	**43**

Six months ended June 30,		2019		2018
Gain (loss) from change in fair value of outstanding warrants	**$**	**11**	$	356
Revaluation of variable rate long-term debt – Export Development Canada		**–**		(57)
Total	**$**	**11**	$	299

Note 17 – Income Taxes

The components of income tax expense included in the determination of the net loss for the period was as follows:

Six months ended June 30,		2019		2018
Current tax expense				
Current period income tax	**$**	**–**	$	–
Withholding tax		**–**		300
Total	**$**	**–**	$	300

Withholding tax arises from remittances made, on behalf of the Company, by foreign based customers.

Note 18 – Net Loss Per Share

The net loss per share for the periods ended June 30, 2019 and 2018 was as follows:

		Three months ended June 30,				Six months ended June 30,		
		2019		2018		**2019**		2018
Net loss	**$**	**(4,766)**	$	(4,801)	**$**	**(7,413)**	$	(6,755)
Weighted average number of shares outstanding – basic		**18,999,286**		15,440,888		**18,542,928**		15,438,894
Dilutive effect of stock options		**–**		–		**–**		–
Dilutive effect of warrants		**–**		–		**–**		–
Weighted average number of shares outstanding – diluted		**18,999,286**		15,440,888		**18,542,928**		15,438,894
Net loss per share – basic and diluted	**$**	**(0.25)**	$	(0.31)	**$**	**(0.40)**	$	(0.44)

No effect has been given to the potential exercise of stock options and RSUs in the calculation of diluted net loss per share, as their impact would be anti-dilutive.

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Note 19 – Related Party Transactions

In the normal course of operations, the Company subcontracts certain manufacturing functions to a company owned by a family member of an executive officer and Director of the Company. During the three and six months ended June 30, 2019, Hydrogenics made purchases of $38 and $61 (2018 – $42 and $160) from this related company. At June 30, 2019, the Company had an accounts payable balance due to this related party of $12 (December 2018 – $21).

The Company holds an equity investment in the joint venture 2562961 Ontario Ltd., related to the energy storage facility project with Enbridge Gas Distribution. During the three and six months ended June 30, 2019, the Company had sales to the joint venture of $34 and $68 (2018 – $23 and $nil) and at the end of June 30, 2019, the Company had a net receivable of $26 (December 31, 2018 – $196) from the joint venture.

All related party transactions involve the parent company. There are no related party transactions to disclose for the Company's subsidiaries.

Note 20 – Consolidated Statements of Cash Flows

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

Three months ended June 30,		**2019**		2018
Decrease (increase)				
Trade and other receivables	**$**	**(1,576)**	$	(1,031)
Contract assets		**771**		961
Inventories		**1,871**		(455)
Prepaid expenses		**(17)**		83
Increase (decrease)				
Trade and other payables, including provisions		**149**		(2,509)
Contract liabilities		**(1,681)**		37
Deferred funding		**(24)**		1,498
Total	**$**	**(507)**	$	(1,416)

Six months ended June 30,		**2019**		2018
Decrease (increase)				
Trade and other receivables	**$**	**(1,312)**	$	704
Contract assets		**(371)**		254
Inventories		**(1,810)**		(3,731)
Prepaid expenses		**(89)**		185
Increase (decrease)				
Trade and other payables, including provisions		**247**		(2,883)
Contract liabilities		**(1,456)**		2,513
Deferred funding		**104**		2,099
Total	**$**	**(4,687)**	$	(859)

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Note 21 – Commitments and Contingencies

Forgivable loan facility

In November 2014, Hydrogenics entered into an agreement with the IESO to provide a 2.5MW Power-to-Gas storage unit to the Province of Ontario. The target in-service period for the IESO Regulation Services contract was the second quarter of 2018. The contract was assigned to the joint venture 2562961 Ontario Ltd. in 2017. The joint venture will receive a total of C$2,950, paid in equal monthly instalments, in return for IESO's use of the energy storage solution over the initial three-year period commencing with commissioning. The Power-to-Gas storage unit is estimated to have a potential 20-year life.

In order to partially fund the development of the unit, Hydrogenics and the Province of Ontario, through the Ministry of Research and Innovation ("MRI"), negotiated a C$4,000 forgivable loan from the Innovation Demonstration Fund Program ("IDF"). The loan bears interest at 3.23%, is expected to mature on June 30, 2020 and the principal and interest are forgivable upon the satisfaction of certain criteria.

The forgiveness of the principal and interest on the loan is contingent on a final commercialization report satisfactory to MRI, indicating successful commissioning and verification of the operation of the multi-stack 2.5MW PEM electrolyzer and demonstrated performance capabilities that would be deemed acceptable for ancillary service as per the IESO specifications. The unit achieved acceptance by IESO in May 2018. The final commercialization report is expected to be delivered in 2019. The forgivable loan has been accounted for as a government grant as management estimates there is reasonable assurance that the terms of forgiveness will be met.

		June 30, 2019
Total cumulative cost of 2.5MW Power-to-Gas unit	$	**8,792**
Funding received from the IDF (C$4,000)		**(2,941)**
Cumulative costs transferred to the joint venture		**(3,402)**
Foreign exchange loss on disposal		**(117)**
Costs recorded as research and product development costs		**(2,332)**
Costs remaining to be transferred to the joint venture	$	**-**

Note 22 – Segmented Financial Information

The Company'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 Company. 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.

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Financial information by reportable segment for the three and six months ended June 30, 2019 and 2018 was as follows:

Three months ended June 30, 2019	**OnSite Generation**	**Power Systems**	**Corporate and Other**	**Total**
Revenue transferred at a point in time	**$ 7,361**	**$ 2,083**	**$ –**	**$ 9,444**
Revenue transferred over time	**224**	**787**	**–**	**1,011**
Revenues from external customers	**7,585**	**2,870**	**–**	**10,455**
Gross profit	**1,173**	**180**	**–**	**1,353**
Selling, general and administrative expenses	**539**	**852**	**3,085**	**4,476**
Research and product development expenses	**178**	**1,499**	**18**	**1,695**
Segment income (loss)	**456**	**(2,171)**	**(3,103)**	**(4,818)**
Interest expense, net	**–**	**–**	**(288)**	**(288)**
Foreign currency gains, net	**–**	**–**	**182**	**182**
Gain from joint venture	**–**	**–**	**21**	**21**
Other finance gains, net	**–**	**–**	**137**	**137**
Income (loss) before income taxes	**$ 456**	**$ (2,171)**	**$ (3,051)**	**(4,766)**
At June 30, 2019				
Total segment assets	**$ 23,397**	**$ 26,942**	**$ 15,580**	**$ 65,919**
Total segment liabilities (current and non-current)	**$ 17,919**	**$ 15,915**	**$ 7,792**	**$ 41,626**

Three months ended June 30, 2018	OnSite Generation	Power Systems	Corporate and Other	Total
Revenue transferred at a point in time	$ 4,637	$ 1,838	$ –	$ 6,475
Revenue transferred over time	139	995	–	1,134
Revenues from external customers	4,776	2,833	–	7,609
Gross profit	1,419	682	–	2,101
Selling, general and administrative expenses	700	1,057	1,267	3,024
Research and product development expenses	855	1,007	18	1,880
Segment loss	(136)	(1,382)	(1,285)	(2,803)
Interest expense, net	–	–	(372)	(372)
Foreign currency losses, net	–	–	(177)	(177)
Loss from joint ventures	–	–	(1,492)	(1,492)
Other finance gains, net	–	–	43	43
Loss before income taxes	$ (136)	$ (1,382)	$ (3,283)	$ (4,801)
At June 30, 2018				
Total segment assets	$ 24,352	$ 26,721	$ 8,076	$ 59,149
Total segment liabilities (current and non-current)	$ 12,340	$ 20,687	$ 8,797	$ 41,824

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Six months ended June 30, 2019	**OnSite Generation**	**Power Systems**	**Corporate and Other**	**Total**
Revenue transferred at a point in time	**$ 9,634**	**$ 4,435**	**$ –**	**$ 14,069**
Revenue transferred over time	**434**	**4,036**		**4,470**
Revenues from external customers	**10,068**	**8,471**	**–**	**18,539**
Gross profit	**1,191**	**4,037**		**5,228**
Selling, general and administrative expenses	**1,305**	**2,053**	**5,225**	**8,583**
Research and product development expenses	**722**	**2,744**	**38**	**3,504**
Segment loss	**(836)**	**(760)**	**(5,263)**	**(6,859)**
Interest expense, net	**–**	**–**	**(572)**	**(572)**
Foreign currency losses, net	**–**	**–**	**(19)**	**(19)**
Gain from joint venture	**–**	**–**	**26**	**26**
Other finance gains, net	**–**	**–**	**11**	**11**
Loss before income taxes	**$ (836)**	**$ (760)**	**$ (5,817)**	**$ (7,413)**

Six months ended June 30, 2018	OnSite Generation	Power Systems	Corporate and Other	Total
Revenue transferred at a point in time	$ 8,171	$ 5,590	$ –	$ 13,761
Revenue transferred over time	366	1,629	–	1,995
Revenues from external customers	8,537	7,219	–	15,756
Gross profit	2,655	2,684	–	5,339
Selling, general and administrative expenses	1,451	2,122	2,287	5,860
Research and product development expenses	1,487	2,446	28	3,961
Segment loss	(283)	(1,884)	(2,315)	(4,482)
Interest expense, net	–	–	(753)	(753)
Foreign currency gains, net	–	–	42	42
Loss from joint ventures	–	–	(1,561)	(1,561)
Other finance gains, net	–	–	299	299
Loss before income taxes	$ (283)	$ (1,884)	$ (4,288)	$ (6,455)

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Note 23 – Risk Management Arising From Financial Instruments

Fair value

The carrying value of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and current portion of contract assets and contract liabilities approximates their fair value given their short-term nature. The carrying value of the non-current restricted cash, contract assets and contract liabilities and other 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 consolidated 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); and

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

The fair value of the liabilities relating to the DSUs is classified as Level 1. The fair value of the warrants are classified as Level 2.

The Company has not transferred any financial instruments between Levels 1, 2, or 3 of the fair value hierarchy during the three and six months ended June 30, 2019 and 2018.

Financial instruments are classified into one of the following categories: financial assets at fair value through profit and loss; financial liabilities at fair value through profit or loss; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at fair value through other comprehensive income. The following table summarizes information regarding the carrying value of the Company's financial instruments:

		June 30, 2019		December 31, 2018
Cash and cash equivalents	**$**	**16,741**	$	7,561
Restricted cash (current and non-current)		**994**		1,176
Trade and other receivables, including contract assets		**14,606**		12,951
Financial assets at amortized cost	**$**	**32,341**	$	21,688
Trade and other payables	**$**	**8,628**	$	9,068
Long-term debt and repayable government contribution (current and non-current)		**8,025**		8,049
Contract liabilities, current and non-current		**14,512**		16,001
Lease liabilities		**3,495**		33
Financial liabilities at amortized cost	**$**	**34,660**	$	33,151
DSU liability		**1,995**		730
Warrants		**–**		11
Financial liabilities at fair value through profit or loss	**$**	**1,995**	$	741

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Liquidity risk

The Company has sustained losses and negative cash flows from operations since its inception. At June 30, 2019 the Company had $16,741 (December 31, 2018 – $7,561) of current unrestricted cash and cash equivalents. Liquidity risk is the risk the Company will encounter difficulty in meeting its financial obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk as it continues to have net cash outflows from its operations. The Company's objective for liquidity risk management is to maintain sufficient liquid financial resources to fund the consolidated balance sheets, pursue growth and development strategies, and to meet commitments and obligations in the most cost-effective manner possible. The Company achieves this by maintaining sufficient cash and cash equivalents and managing working capital. The Company monitors its financial position on a monthly basis at minimum, and updates its expected use of cash resources based on the latest available data. Such forecasting takes into consideration the Company's financing plans and compliance with internal targets. A significant portion of the Company's financial liabilities is classified as current liabilities, as settlement is expected within one year.

There are uncertainties related to the timing and use of the Company's cash resources and working capital requirements. These uncertainties include, among other things, the timing and volume of commercial sales and associated gross margin of our existing products and the development of markets for, and customer acceptance of, new products. Throughout 2019 the Company's operations may not generate sufficient cash flow to fund our obligations. As such, these obligations will be funded out of existing and forecasted cash resources. Hydrogenics may need to take additional measures to increase its liquidity and capital resources, including obtaining additional debt or equity financing, pursuing joint-venture arrangements, equipment financings or other receivables financing arrangements. Hydrogenics may experience difficulty in obtaining satisfactory financing terms. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on Hydrogenics' results of operations or financial condition.

Credit risk

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Company has therefore determined that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The loss allowance at June 30, 2019 was determined as follows for both trade receivables and contract assets. The expected credit losses also incorporate forward looking information:

June 30, 2019:	Not yet due	Less than 31 days past due	31-60 days past due	More than 60 days past due	Total
Expected loss rate	0.06%	1.23%	9.14%	5.08%	
Gross carrying amount	$ 10,450	$ 364	$ 68	$ 348	$ 11,230
Loss allowance	$ 6	$ 5	$ 6	$ 18	$ 35

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. During the six months ended June 30, 2019, the Company made no write-offs of trade receivables and was awarded an arbitration settlement in the amount of $376 in May 2019 for trade receivables that were previously written off.

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Foreign currency risk

Foreign currency risk arises because of fluctuations in exchange rates. The Company conducts a significant portion of its business activities in currencies other than the Company's functional currency of US dollars and the functional currency of its Belgium and German subsidiaries in euros. This primarily includes Canadian dollar transactions at the parent company and US dollar transactions at the Company's subsidiaries in Belgium and Germany.

The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by converting foreign denominated financial assets into the applicable currency of the foreign subsidiaries to the extent practicable to match the obligations of its financial liabilities. The Company also periodically enters into foreign exchange forward contracts to limit its exposure to foreign currency rate fluctuations. There were no foreign exchange forward contracts in place at June 30, 2019.

Financial assets and financial liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and these foreign currencies. This primarily includes cash and cash equivalents; trade and other receivables; contract assets, trade and other payables, contract liabilities and other long-term liabilities, which are denominated in foreign currencies.

Note 24 – Capital Management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and product development, while at the same time, taking a conservative approach toward financial leverage and management of financial risk.

The Company's primary uses of capital are to finance operations, increase non-cash working capital and capital expenditures. The Company currently funds these requirements from existing cash resources, cash raised through share issuances and long-term debt. The Company's objectives when managing capital are to ensure the Company will continue to have enough liquidity so it can provide its products and services to its customers and returns to its shareholders. The Company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the Company's ongoing growth, the Company does not currently pay a dividend to holders of its common shares.

The Company's capital is composed of debt and shareholders' equity as follows:

		June 30, 2019		December 31, 2018
Total equity	**$**	**24,293**	$	10,961
Long-term debt (EDC and Province of Ontario)		**8,025**		8,082
Total		**32,318**		19,043
Less: Cash and cash equivalents and restricted cash		**17,735**		8,737
Total capital employed	**$**	**14,583**	$	10,306

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Note 25 - Subsequent Events

On June 28, 2019, the Company entered into an arrangement agreement (the “Arrangement Agreement”) with Cummins Inc. (“Cummins”) and Atlantis AcquisitionCo Canada Corporation (the “Purchaser”), pursuant to which the Purchaser, a subsidiary of Cummins Inc., has agreed to acquire all of the outstanding common shares of the Company (the “Shares”), other than Shares owned by The Hydrogen Company, a wholly owned subsidiary of L’Air Liquide S.A. (“Air Liquide”), for US$15.00 in cash per Share (the “Transaction”). The Hydrogen Company has agreed to exchange its Shares for shares of the Purchaser pursuant to the Transaction. The Transaction is structured as a statutory plan of arrangement under the Canada Business Corporations Act. The Transaction requires approval of at least 66 2/3% of the votes cast by Shareholders, as well as the approval by a simple majority of votes cast by disinterested Shareholders, excluding Shares held by The Hydrogen Company and its affiliates, and any other Shareholders required to be excluded under MI 61-101.

On July 31, 2019, the Company issued a Notice of Meeting and Management Information Circular (“Circular”) setting August 29, 2019 for a Special Meeting of the Shareholders to approve the Transaction. If approved by the Shareholders, the Transaction is expected to close in Q3 2019 and, as a result, the Company’s shares will be delisted from Toronto Stock Exchange and NASDAQ. The Company has incurred $811 in costs during the six months ended June 30, 2019 related to the Transaction which was included in selling, general and administrative expenses in the condensed interim consolidated statements of operations and comprehensive loss.