# Hydrogenics Corporation

First Quarter 2010 Interim Consolidated Financial Statements and Results of Operations

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

| | March 31 2010 | December 31 2009 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 11,242 | $ 9,159 |
| Restricted cash | 1,678 | 1,603 |
| Accounts receivable | 3,707 | 3,685 |
| Grants receivable | 562 | 490 |
| Inventories (note 5) | 8,008 | 11,746 |
| Prepaid expenses | 582 | 1,270 |
| | 25,779 | 27,953 |
| Restricted cash | 227 | 240 |
| Property, plant and equipment | 2,879 | 3,169 |
| Goodwill | 5,144 | 5,446 |
| | $ 34,029 | $ 36,808 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 12,916 | $ 14,782 |
| Unearned revenue | 3,245 | 4,546 |
| | 16,161 | 19,328 |
| **Shareholders' Equity** | | |
| Common shares and warrants (note 7) | 311,638 | 307,038 |
| Contributed surplus | 16,796 | 16,713 |
| Deficit | (304,371) | (300,795) |
| Accumulated other comprehensive loss | (6,195) | (5,476) |
| Total deficit and accumulated other comprehensive loss | (310,566) | (306,271) |
| | 17,868 | 17,480 |
| | $ 34,029 | $ 36,808 |

Going concern (note 1)
Contingencies (note 10)

Douglas Alexander
Chairman

Norman Seagram
Director

The accompanying notes form an integral part of these Interim Consolidated Financial Statements.

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

| | Three months ended March 31 2010 | 2009 |
|---|---|---|
| **Revenues** | $ 6,726 | $ 5,536 |
| **Cost of revenues** | 5,548 | 3,905 |
| | 1,178 | 1,631 |
| **Operating expenses** | | |
| Selling, general and administrative | 3,546 | 3,708 |
| Research and product development (note 9) | 908 | 1,682 |
| Amortization of property, plant and equipment | 206 | 291 |
| | 4,660 | 5,681 |
| **Loss from operations** | (3,482) | (4,050) |
| **Other income (expenses)** | | |
| Interest | 33 | 49 |
| Foreign currency gains (losses) | (127) | 4 |
| | (94) | 53 |
| **Loss before income taxes** | (3,576) | (3,997) |
| **Current income taxes** | - | - |
| **Net loss for the period** | **$ (3,576)** | **$ (3,997)** |
| **Net loss per share** | | |
| Basic and diluted (note 12) | $ (0.87) | $ (1.08) |
| Weighted average number of common shares outstanding | 4,124,203 | 3,696,266 |

The accompanying notes form an integral part of these Interim Consolidated Financial Statements.

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

| | Three months ended March 31 | |
|---|---|---|
| | **2010** | **2009** |
| **Cash and cash equivalents provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the period | $ (3,576) | $ (3,997) |
| Items not affecting cash | | |
| Amortization of property, plant and equipment | 266 | 291 |
| Unrealized foreign exchange (gains) losses | (342) | 252 |
| Non-cash selling, general and administrative expenses (note 10) | (1,000) | - |
| Stock-based compensation expense | 83 | 90 |
| Net change in non-cash working capital | 2,165 | (3,665) |
| | (2,404) | (7,029) |
| **Investing activities** | | |
| Increase in restricted cash | (62) | (204) |
| Purchase of property, plant and equipment | (51) | (36) |
| | (113) | (240) |
| **Financing activities** | | |
| Deferred research and development grants | - | 79 |
| Common shares issued, net of issuance costs | 4,600 | - |
| | 4,600 | 79 |
| **Increase (decrease) in cash and cash equivalents during the period** | 2,083 | (7,190) |
| **Cash and cash equivalents – Beginning of period** | 9,159 | 21,601 |
| **Cash and cash equivalents – End of period** | **$ 11,242** | **$ 14,411** |

| | | |
|---|---|---|
| **Supplemental disclosure** | | |
| Interest paid | $ 1 | $ 3 |
| Income taxes paid (recovered) | 9 | (23) |

The accompanying notes form an integral part of these Interim Consolidated Financial Statements.

# Hydrogenics Corporation
## Interim Consolidated Statements of Shareholders' Equity
(in thousands of US dollars, except for share and per share amounts)
(unaudited)

| | Common shares | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Number (note 8)** | **Amount** | **Number** | **Warrants Series A** | **Number** | **Warrants Series B** | **Contributed surplus** | **Deficit** | **Accumulated other comprehend-sive income (loss)** | **Total share-holders' equity** |
| **Balance at Dec. 31, 2008** | 3,696,227 | $ 307,000 | - | $ - | - | $ - | $ 16,300 | $ (291,420) | $ (6,397) | $ 25,483 |
| Net loss for the period | - | - | - | - | - | - | - | (3,997) | - | (3,997) |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | - | (598) | (598) |
| **Comprehensive loss** | - | - | - | - | - | - | - | - | - | **(4,595)** |
| Shares issued: | | | | | | | | | | |
| Stock-based compensation expense | - | - | | - | | - | 90 | - | - | 90 |
| **Balance at Mar 31, 2009** | 3,696,227 | 307,000 | - | - | - | - | 16,390 | (295,417) | (6,995) | 20,978 |
| Net loss for the period | - | - | - | - | - | - | - | (5,378) | - | (5,378) |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | - | 1,519 | 1,519 |
| **Comprehensive loss** | | | | | | | | | | **(3,859)** |
| Shares issued: | | | | | | | | | | |
| Issuance of common shares on exercise of stock options | 5,760 | 38 | - | - | - | - | - | - | - | 38 |
| Stock-based compensation expense | - | - | - | - | - | - | 323 | - | - | 323 |
| **Balance at Dec. 31, 2009** | 3,701,987 | 307,038 | - | - | - | - | 16,713 | (300,795) | (5,476) | 17,480 |
| Net loss for the period | - | - | - | - | - | - | - | (3,576) | - | (3,576) |
| Foreign currency translation adjustments | - | - | - | - | - | - | - | - | (719) | (719) |
| **Comprehensive loss** | | | | | | | | | | **(4,295)** |
| Shares issued: | | | | | | | | | | |
| Issuance of common shares and warrants (note 7) | 500,000 | 2,941 | 239,356 | 778 | 260,646 | 881 | - | - | - | 4,600 |
| Adjustment for partial shares on share consolidation | (7) | - | - | - | - | - | - | - | - | - |
| Stock-based compensation expense | - | - | - | - | - | - | 83 | - | - | 83 |
| **Balance at Mar 31. 2010** (note 8) | 4,201,980 | $ 309,979 | 239,356 | $ 778 | 260,646 | $ 881 | $ 16,796 | $ (304,371) | $ (6,195) | $ 17,868 |

The authorized capital stock of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

The accompanying notes form an integral part of these Interim Consolidated Financial Statements.

Hydrogenics Corporation
Notes to Interim Consolidated Financial Statements
(in thousands of US dollars, except share and per share amounts)
(unaudited)

## Note 1. Description of Business and Going Concern

Hydrogenics Corporation ("Hydrogenics" or the "Corporation"), together with its subsidiaries, designs, develops and manufactures hydrogen generation products based on water electrolysis technology and fuel cell products based on proton exchange membrane, or PEM, technology. While the accompanying interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities during the normal course of operations and the continuation of operations for the foreseeable future, there are material uncertainties related to certain conditions and events that cast significant doubt upon the Corporation's ability to continue as a going concern. The events and conditions that cast significant doubt include the Corporation's recurring operating losses and negative cash flows from operations and risk of securing additional funding. The Corporation expects these conditions to continue in the near term.

The Corporation needs to increase its revenues to generate profits and related operating cash flows. During 2009, the Corporation experienced a decline in revenue due to variations in the timing of delivery combined with lower order intake due to the prevailing conditions in the Corporation's markets and the current global economy. There are various uncertainties affecting the Corporation's revenues related to the current market environment including the level of sales orders, the length of sales cycles, the continuing development of products by the Corporation, the adoption of new technologies by customers, price competition, and continuation of government incentives for the Corporation's customers and the ability of customers to finance purchases.

The Corporation also requires additional funding in the form of debt or equity in addition to the funding obtained during the three months ended March 31, 2010. During the three months ended March 31, 2010, the Corporation completed an offering of common shares and warrants for gross cash proceeds of $5,000 before placement agent's fees and other offering expenses. While the Corporation is pursuing various sources of financing, there are no definitive plans at this stage and there is no assurance these initiatives will be successful or provide additional funds sufficient to continue operations.

The material uncertainties referred to above relate to the Corporation's ability to increase revenues and to raise additional funding to support operations. Additionally, the pace of economic recovery could continue to have a negative impact on the Corporation's business, results of operations and consolidated financial condition, or the Corporation's ability to forecast results and cash flows, and it may cause a number of the risks the Corporation currently faces (such as the ability to increase revenue and to raise capital) to increase in likelihood, magnitude and duration.

The Corporation's ability to continue as a going concern and manage the material uncertainties is dependent on the successful execution of its business plan, which involves: (i) securing additional financing to fund its operations; (ii) continued investment in research and development through advancing product designs for efficiency, durability, cost reduction and entry into complementary markets to improve overall gross margins; (iii) increasing market penetration and sales to improve operating cash flow; and (iv) actively managing its working capital to preserve cash resources. At present, the success of these initiatives cannot be assured due to the material uncertainties described above.

These interim consolidated financial statements do not include any adjustments or disclosures that may result from the Corporation's inability to continue as a going concern. If the going concern assumption were not appropriate for these interim consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities and the reported expenses and balance sheet classifications; such adjustments could be material.

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## Note 2. Basis of Preparation

The accompanying interim consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information and are presented in US dollars, unless otherwise noted. Accordingly, they do not include all of the information and footnotes required by Canadian GAAP for annual consolidated financial statements. Canadian GAAP, in the case of the Corporation, conforms in all material respects with accounting principles generally accepted in the United States.

The accompanying interim consolidated financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for interim periods. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010. The accounting policies used in the preparation of these interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's fiscal 2009 annual report.

These interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements for the year ended December 31, 2009.

## Note 3. New Accounting Standards

The Corporation will be adopting the following changes to its accounting policies in the future.

*(i)* *Canadian standards*

In January 2009, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 1582, "Business Combinations," 1601 "Consolidated Financial Statements," and 1602 "Non-controlling Interests." These sections replace the former Handbook Section 1581, "Business Combinations" and Handbook Section 1600, "Consolidated Financial Statements," and establish a new section for accounting for a non-controlling interest in a subsidiary. Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Handbook Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. The Corporation does not anticipate these standards will have any material impact on the Corporation's results of operations and consolidated financial position.

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with IFRS over a transition period expected to end in 2011. The Corporation will begin reporting its consolidated financial statements in accordance with IFRS on January 1, 2011.

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (ii) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (iv) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Corporation is currently

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assessing the future impact of these amendments on its consolidated financial statements and has not yet determined the timing and method of their adoption.

*(ii) US standards*

The following changes will only apply to the US GAAP reconciliation contained in the annual consolidated financial statements.

In October 2009, the Financial Accounting Standards Board ("FASB") issued amendments to ASC 605, Revenue Recognition ("ASU 2009-13") and amendments to ASC 985, Software ("ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Corporation is currently assessing the future impact of these amendments on its consolidated financial statements and has not yet determined the timing and method of its adoption.

## Note 4. Business Streamlining Initiatives

On January 5, 2009 and December 10, 2009, the Corporation reduced its headcount and implemented additional cost saving measures in order to maximize the Corporation's cash resources and streamline operations. The Corporation recorded charges of $582 and $409 respectively for severance and related expenses, which are included in selling, general and administrative expenses. These amounts were charged to the Corporation's business segments as follows: Corporate - $146; OnSite Generation - $99; and Power Systems - $746.

A summary of the movements in the liability are as follows:

| | January 5, 2009 | December 10, 2009 | Total |
|---|---|---|---|
| December 31, 2008 | - | - | - |
| Expense for the period | $ 582 | $ 409 | $ 991 |
| Cash payments | (582) | (33) | (615) |
| December 31, 2009 | - | 376 | 376 |
| Cash payments | - | (281) | (281) |
| March 31, 2010 | $ - | $ 95 | $ 95 |

The remaining accruals relating to the business streamlining initiatives will be paid by December 31, 2010.

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**Note 5. Inventories**

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Raw materials | $ 2,595 | $ 3,239 |
| Work-in-progress | 4,237 | 5,336 |
| Finished goods | 1,176 | 3,171 |
| | $ 8,008 | $ 11,746 |

During the three months ended March 31, 2010, the Corporation recorded provisions of $127 (March 31, 2009 - $10) and reversed previously accrued provisions for inventory to net realizable value totaling $177 (March 31, 2009 - $nil). Provisions for previously accrued provisions for inventory to net realizable value were reversed as a result of the recovery for production of inventory parts in sub-assemblies which were previously written off as a result of potential quality defects. During the period, approximately $4,573 of inventory was expensed in cost of revenues (March 31, 2009 - $3,225).

**Note 6. Warranties**

Product warranty liabilities are included in accounts payable and accrued liabilities on the interim consolidated balance sheets. Changes in the Corporation's aggregate product warranty liabilities for the three months ended March 31, 2010 and 2009 are as follows:

| | March 31 2010 | March 31 2009 |
|---|---|---|
| Balance, December 31, 2009 and 2008 | $ 3,185 | $ 3,717 |
| Accruals for warranties during the period | 491 | 292 |
| Settlements made during the period | (179) | (629) |
| Reversal of warranty accruals during the period | (218) | (118) |
| Balance, March 31, 2010 and 2009 | $ 3,279 | $ 3,262 |

**Note 7. Share Capital**

On February 8, 2010, the Corporation announced it would implement a share consolidation of its issued and outstanding common shares in order to comply with the Minimum Bid Price Rule of the NASDAQ Global Market. The consolidation was effective as of March 12, 2010 and was implemented with a ratio of one post-consolidation share for every 25 pre-consolidation shares. The Corporation has amended the disclosures in the interim consolidated financial statements to reflect the share consolidation as if it had occurred on December 31, 2008.

On January 14, 2010, the Corporation issued units in a registered direct offering (the "Offering") with two institutional investors, resulting in gross proceeds of $5,000 before placement agent's fees and other offering expenses. The terms of the Offering were set out in a securities purchase agreement (the "Purchase Agreement") dated as of January 11, 2010 between the Corporation, Alpha Capital Anstalt ("Alpha") and Iroquois Master Fund Ltd. ("Iroquois").Under the terms of the Offering, the Corporation sold 12,500,000 units for $0.40 per unit (500,000 and $10.00, respectively, on a post-consolidated basis). The units consisted of 12,500,000 shares (500,000 on a post consolidated basis) of the Corporation and warrants for the purchase of one common share for each common share purchased; 5,983,886 (239,356 on a post-consolidated basis) of these warrants (the "series A warrants") are exercisable at any time until January 14, 2015, at an exercise price of $0.52 per common share ($13.00 on a post-consolidated basis).

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The remaining 6,516,114 warrants (260,646 on a post -consolidated basis) (the "series B warrants") are exercisable for a period of five years beginning July 15, 2010, at an exercise price of $0.52 per common share($13.00 on a post-consolidated basis). Under the terms of the Offering, each of Alpha and Iroquois paid $2,500 for 6,250,000 common shares, 2,992,200 series A warrants and 3,250,075 series B warrants (250,000 common shares, 119,688 series A warrants and 130,323 series B warrants on a post consolidated basis) of the Corporation. The exercise price of the Series A warrants is 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 (post consolidation). The exercise price of the series A warrants would be reduced to the price per common share obtained from such a common share offering. The series B warrants contain similar provisions but the reduction in the exercise price is subject to Shareholder approval.

The warrants can be settled in cash at the option of the holder in the case of certain defined transactions ("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 Corporation has included the warrants within share capital because, as at March 31, 2010, it was not probable that a Fundamental Transaction would occur. The fair value of the common shares and the warrants have therefore been calculated on a relative fair value basis.

The warrants have been valued using the following assumptions:

| | |
|---|---|
| Corporation's share price at the date of the registered direct offering | $9.50 |
| Exercise price | $13.00 |
| Risk-free interest rate (%) | 3.63% |
| Expected volatility (%) | 66% |
| Expected life (in years) | 5 years |
| Expected dividends | Nil |

## Note 8. Stock-based Compensation

On February 8, 2010, the Corporation announced it would implement a share consolidation of its issued and outstanding common shares in order to comply with the Minimum Bid Price Rule of the NASDAQ Global Market. The consolidation was effective as of March 12, 2010 and was implemented with a ratio of one post-consolidation share for every 25 pre-consolidation shares. The Corporation has amended the disclosures in the interim consolidated financial statements to reflect the share consolidation as if it had occurred on December 31, 2008.

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During the three months ended March 31, 2010, nil (March 31, 2009 – 77,144) stock options with a weighted average fair value of $nil at the date of grant (March 31, 2009 - $7.75) were issued to employees. 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 assumptions:

| | **March 31, 2010** | **March 31, 2009** |
|---|---|---|
| Risk-free interest rate (%) | nil% | 2.93% |
| Expected volatility (%) | nil% | 66% |
| Expected life (in years) | nil | 4 |
| Expected dividends | $ nil | $ nil |

Stock-based compensation expense of $83 for the three months ended March 31, 2010, is included in selling, general and administrative expenses (March 31, 2009 - $90).

In 2004, the Corporation created a deferred share unit plan (“DSU Plan”) for directors. During the three months ended March 31, 2010, 10,353 (March 31, 2009 – 4,655) DSUs were issued with immediate vesting on the date of issuance. As at March 31, 2010, 52,180 (March 31, 2009 – 34,659) DSUs were outstanding under the DSU plan. The Corporation recognized a compensation expense of ($146) for the three months ended March 31, 2010 (March 31, 2009 – $86). The liability amount of $247 ($389 - December 31, 2009) is included in accounts payable and accrued liabilities.

In 2008, the Corporation created a restricted share unit plan (“RSU Plan”) for senior executives. During the three months ended March 31, 2010, nil (March 31, 2009 – 36,820) RSUs were awarded under the terms of the RSU plan, with vesting occurring on December 31 of the third year following the date of grant. As at March 31, 2010, 88,320 (March 31, 2009 – 88,320) RSUs were outstanding under the RSU plan. The Corporation recognized a compensation expense of ($124) for the three months ended March 31, 2010 (March 31, 2009 - $44). The liability amount of $179 ($303 - December 31, 2009) is included within accounts payable and accrued liabilities.

## Note 9. Research and Product Development

Research and product development expenses are recorded net of third party program funding received or receivable. For the three months ended March 31, 2010, research and product development expenses and program funding, which has been received or is to be received, are as follows:

| | **Three months ended Mar 31** | |
|---|---|---|
| | **2010** | **2009** |
| Research and product development expenses | $ 1,245 | $ 1,914 |
| Research and product development funding | (337) | (232) |
| Net research and product development expenses | $ 908 | $ 1,682 |

## Note 10. 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.

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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 these interim consolidated financial statements with respect to these indemnification agreements.

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 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 these interim consolidated financial statements with respect to these indemnification agreements.

In 1998, Stuart Energy Systems Corporation ("Stuart Energy"), a wholly owned subsidiary of the Corporation until October 27, 2009, entered into an agreement with Technologies Partnerships Canada ("TPC"), a program of the Ministry of Industry of the Canadian government to develop and demonstrate Hydrogen Fleet Fuel Appliances. This agreement was amended in 2003 to expand the scope of work and resulted in Stuart Energy receiving a total of $5,557 in funding from TPC. Pursuant to an amendment to the TPC agreement, Stuart Energy received an additional $1,335 of funding. Stuart Energy undertook to repay $16,466 (the "Repayable Loan Amount"). The amended agreement requires Stuart Energy to commence making royalty payments against the Repayable Loan Amount on the earlier of revenues of Stuart Energy reaching a minimum of CA$90,000 or April 1, 2007. In accordance with the terms of the agreement, Stuart Energy is required to commence payments to TPC at 0.53% of its annual gross business revenues for a period of 12 years or until the Repayable Loan Amount is fully repaid. To date, the Corporation has recognized $56,117 (2009 - $51,325) in revenues and recorded a repayable amount of $272 (December 31, 2009 - $272).

On January 14, 2010, the Corporation issued units in a registered direct offering (the "Offering") with two institutional investors, Alpha and Iroquois (note 7). On February 23, 2010, Alpha filed suit against the Corporation and two of its officers in the Supreme Court of the State of New York (County of New York) regarding the Corporation's share consolidation, which was announced on February 8, 2010. In its complaint, Alpha alleged that the Corporation's share consolidation triggered a put right pursuant to the terms of the warrants and gave rise to breach of contract, negligent misrepresentation and fraud claims. Alpha sought damages of at least $2,000 plus interest, costs and fees with respect to the alleged put right and damages of at least $1,375 plus interest, costs and fees with respect to the alleged breach of contract, negligent misrepresentation and fraud claims.

While the Corporation believes the claims are without merit and is taking such action as is advised to protect its interests, in the interest of settling this matter in a timely and cost effective manner, the Corporation has entered into settlement discussions with these parties. Accordingly, the Corporation has accrued a $1.0 million non-cash charge in selling, general and administrative expenses reflecting the Corporation's best estimate of the costs to settle this matter, which may include the issuance of additional shares. The non-cash charge of $1,000 has been valued using market information up to the date of the release of the financial statements and may change in future periods if there are changes in the underlying market information or the estimate of the settlement.

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## Note 11. - Lines of Credit

At March 31, 2010, the Corporation had operating lines of credit negotiated up to $3,500 euros, or the US equivalent of $4,727 (December 31, 2009 - $5,005).

Pursuant to the terms of the credit facility, Hydrogenics Europe NV ("the Borrower"), a wholly owned Belgian-based subsidiary, may borrow a maximum of 75% of the value of awarded sales contracts, approved by the Belgian financial institution, to a maximum of 2,000 euros, along with a maximum of 1,500 euros for general business purposes. The credit facility bears interest at a rate of EURIBOR plus 1.45% per annum and is secured by a 1,000 euro first secured charge covering all assets of the Borrower. The credit facility may be increased to 1,500 euros in certain circumstances, and contains a negative pledge precluding the Borrower from providing security over its assets. Additionally, the Borrower is required to maintain a solvency covenant, defined as equity plus current account divided by total liabilities of not less than 25% and ensure that its intercompany accounts with the Corporation does not fall below a defined level. As at March 31, 2010, the Corporation was in compliance with these covenants.

The amount of the available line of credit is reduced by $1,796, the amount of the outstanding standby letters of credit and letters of guarantee, if any, issued from time to time by the Belgian financial institution. As at March 31, 2010, the Corporation did not have any availability under this line of credit as the Corporation did not submit any sales contracts for approval.

As at March 31, 2010 and 2009, the Corporation had no indebtedness on its lines of credit.

## Note 12. Net Loss Per Share

For the three months ended March 31, 2010, the weighted average number of common shares outstanding was 4,124,203. 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. Guarantees

As at March 31, 2010, the Corporation had outstanding standby letters of credit and letters of guarantee issued by several financial institutions that totalled $2,805 (December 31, 2009 - $3,173), with expiry dates extending to October 2011. The Corporation has restricted cash totaling $1,905 as partial security for these standby letters of credit and letters of guarantee. 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 on by the customer if the Corporation fails to perform its obligations under the sales contracts and 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 on.

## Note 14. Segmented Financial Information

The Corporation's three reportable segments include: (i) OnSite Generation; (ii) Power Systems; and (iii) Test Systems. Where applicable, corporate and other activities are reported separately as Corporate & 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. Test Systems included the design, development, manufacture, and sale of fuel cell test products and the provision of fuel cell diagnostic testing services.

Financial information by reportable segment for the three months ended March 31, 2010 and 2009 is as follows:

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(unaudited)

**Three months ended March 31, 2010**

| | **OnSite Generation** | **Power Systems** | **Test Systems** | **Corporate & Other** | **Total** |
|---|---|---|---|---|---|
| Revenue from external customers | $ 5,885 | $ 841 | $ - | $ - | $ 6,726 |
| Amortization of property, plant and equipment | - | - | - | 206 | 206 |
| Interest income | - | - | - | 34 | 34 |
| Interest expense | - | - | - | (1) | (1) |
| Income tax expense | - | - | - | - | - |
| Segment income (loss) (i) | 339 | (1,522) | - | (2,393) | (3,576) |

**Three months ended March 31, 2009**

| | **OnSite Generation** | **Power Systems** | **Test Systems** | **Corporate & Other** | **Total** |
|---|---|---|---|---|---|
| Revenue from external customers | $ 3,784 | $ 1,752 | $ - | $ - | $ 5,536 |
| Amortization of property, plant and equipment | - | - | - | 291 | 291 |
| Interest income | - | - | - | 52 | 52 |
| Interest expense | - | - | - | (3) | (3) |
| Income tax expense | - | - | - | - | - |
| Segment income (loss) (i) | 58 | (2,445) | (77) | (1,533) | (3,997) |

(i) Segment income (loss) includes directly attributable selling, general and administrative costs, research and product development costs net of associated grants and amortization of property, plant and equipment and intangible assets.

The accounting policies for intersegment transactions are the same as those described in note 2.

Goodwill relating to the Corporation's OnSite Generation segment as at March 31, 2010 was $5,144 (December 31, 2009 - $5,446). The Corporation currently does not allocate its remaining assets among reportable segments.

A significant portion of the Corporation's intangible assets and goodwill are common across the locations. Therefore, management does not classify intangible assets and goodwill on a location basis.

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Revenues are segmented by geography, as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2010** | **2009** |
| Columbia | $ 2,308 | $ - |
| Saudi Arabia | 2,041 | - |
| United States | 812 | 265 |
| Canada | 385 | 1,103 |
| China | 319 | - |
| India | 284 | 609 |
| Germany | 59 | 1,532 |
| Russia | 31 | 658 |
| British Virgin Islands | - | 404 |
| Belize | - | 315 |
| Rest of world | 487 | 650 |
| | $ 6,726 | $ 5,536 |

**Note 15. Subsequent events**

On April 22, 2010, the Corporation reached a settlement with American Power Conversion Corporation ("APC") regarding the Corporation’s previously announced litigation in connection with the Supply Agreement entitled "Hydrogenics Corporation v. American Power Conversion Corporation, Civil Action 09-11947." Under terms of the settlement, APC paid the Corporation $1,200 and both parties have terminated all pending claims with regard to this matter.