

## BALLARD POWER SYSTEMS INC.

Consolidated Balance Sheets  
(Expressed in thousands of U.S. dollars)

	September 30 2005 (unaudited)	December 31 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 123,906	\$ 188,748
Short-term investments	79,888	51,511
Accounts receivable	46,972	10,266
Inventories	16,388	12,325
Prepaid expenses and other current assets	5,542	2,396
Current assets held for sale (note 3)	-	13,003
	<u>272,696</u>	<u>278,249</u>
Property, plant and equipment	59,746	66,846
Intangible assets	41,131	61,916
Goodwill	155,324	155,324
Investments (note 2)	15,801	11,914
Long-term assets held for sale (note 3)	-	79,815
Other long-term assets	527	5,107
	<u>\$ 545,225</u>	<u>\$ 659,171</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,899	\$ 24,574
Deferred revenue	2,222	2,662
Accrued warranty liabilities	17,517	27,202
Current liabilities held for sale (note 3)	-	14,734
	<u>46,638</u>	<u>69,172</u>
Long-term liabilities	9,867	9,814
Long-term liabilities held for sale (note 3)	-	5,094
	<u>56,505</u>	<u>84,080</u>
Shareholders' equity:		
Share capital (note 5)	1,160,956	1,231,689
Contributed surplus	62,101	6,902
Accumulated deficit	(734,101)	(663,264)
Cumulative translation adjustment	(236)	(236)
	<u>488,720</u>	<u>575,091</u>
	<u>\$ 545,225</u>	<u>\$ 659,171</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Ian Bourne"  
Director

"Douglas Whitehead"  
Director

## BALLARD POWER SYSTEMS INC.

Consolidated Statements of Operations and Accumulated Deficit  
Unaudited (Expressed in thousands of U.S. dollars, except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<b>Revenues:</b>				
Product revenues	\$ 7,631	\$ 21,923	\$ 26,868	\$ 50,552
Engineering service and other revenue	8,496	1,707	9,198	10,287
Total revenues	16,127	23,630	36,066	60,839
<b>Cost of revenues and expenses:</b>				
Cost of product revenues	5,997	17,885	24,532	42,219
Research and product development	19,617	21,257	59,552	65,177
General and administrative	4,032	3,825	13,003	11,190
Marketing	1,952	3,071	6,096	7,770
Depreciation and amortization	6,862	7,975	20,667	31,298
Total cost of revenues and expenses	38,460	54,013	123,850	157,654
Loss before undernoted	(22,333)	(30,383)	(87,784)	(96,815)
Investment and other income	3,848	2,329	8,981	2,667
Loss on disposal and write-down of long-lived assets	(7,405)	(1,102)	(7,717)	(1,407)
Gain (loss) on assets held for sale (note 3)	17,781	(23,051)	17,781	(23,051)
Equity in loss of associated companies	(735)	(495)	(1,958)	(1,503)
Loss before income taxes	(8,844)	(52,702)	(70,697)	(120,109)
Income taxes	49	(121)	140	190
<b>Net loss for period</b>	<b>(8,893)</b>	<b>(52,581)</b>	<b>(70,837)</b>	<b>(120,299)</b>
Accumulated deficit, beginning of period	(725,208)	(555,575)	(663,264)	(487,857)
<b>Accumulated deficit, end of period</b>	<b>\$ (734,101)</b>	<b>\$ (608,156)</b>	<b>\$ (734,101)</b>	<b>\$ (608,156)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.07)</b>	<b>\$ (0.44)</b>	<b>\$ (0.58)</b>	<b>\$ (1.02)</b>
<b>Weighted average number of common shares outstanding</b>	<b>119,778,719</b>	<b>118,515,278</b>	<b>122,052,102</b>	<b>118,382,571</b>

See accompanying notes to consolidated financial statements.

## BALLARD POWER SYSTEMS INC.

Consolidated Statements of Cash Flows  
Unaudited (Expressed in thousands of U.S. dollars)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<b>Cash provided by (used for):</b>				
<b>Operating activities:</b>				
Net loss for period	\$ (8,893)	\$ (52,581)	\$ (70,837)	\$ (120,299)
Items not affecting cash:				
Compensatory shares	2,478	2,283	5,780	4,400
Depreciation and amortization	7,580	9,512	23,108	35,855
(Gain) on forward foreign exchange contract	(830)	-	(830)	-
Loss (gain) on sale and write-down of long-lived assets	7,405	1,102	7,717	1,407
(Gain) loss on assets held for sale (note 3)	(17,781)	23,051	(17,781)	23,051
Equity in loss of associated companies	735	495	1,958	1,503
Other	(81)	(75)	(246)	(225)
	<b>(9,387)</b>	<b>(16,213)</b>	<b>(51,131)</b>	<b>(54,308)</b>
<b>Changes in non-cash working capital:</b>				
Accounts receivable	(9,954)	(3,472)	(6,274)	1,240
Inventories	(358)	5,399	(4,063)	1,383
Prepaid expenses and other current assets	(316)	(693)	67	51
Accounts payable and accrued liabilities	1,683	1,628	(2,776)	(4,216)
Deferred revenue	1,140	(613)	(298)	1,056
Accrued warranty liabilities	(2,363)	4,666	(8,415)	(1,476)
Net current assets and liabilities held for sale (note 3)	(2,843)	(6,105)	(1,221)	(7,628)
	<b>(13,011)</b>	<b>810</b>	<b>(22,980)</b>	<b>(9,590)</b>
Cash used by operations	<b>(22,398)</b>	<b>(15,403)</b>	<b>(74,111)</b>	<b>(63,898)</b>
<b>Investing activities:</b>				
Net (increase) decrease in short-term investments	64,975	54,502	(28,377)	(75,063)
Additions to property, plant and equipment	(2,010)	(2,403)	(3,454)	(3,552)
Additions to intangible assets	-	-	-	(23)
Proceeds on sale of property, plant and equipment	47	94	248	226
Disposition of assets held for sale	(4,287)	-	(5,247)	-
Investments (note 2)	(5,808)	-	(5,845)	(2,384)
Other long-term assets	(110)	(555)	(111)	(1,725)
Long-term liabilities	73	469	164	1,143
	<b>52,880</b>	<b>52,107</b>	<b>(42,622)</b>	<b>(81,378)</b>
<b>Financing activities:</b>				
Net proceeds on issuance of share capital (note 5)	5,781	50	50,668	59
Other	1,223	-	1,223	(4)
	<b>7,004</b>	<b>50</b>	<b>51,891</b>	<b>55</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>37,486</b>	<b>36,754</b>	<b>(64,842)</b>	<b>(145,221)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>86,420</b>	<b>96,124</b>	<b>188,748</b>	<b>278,099</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 123,906</b>	<b>\$ 132,878</b>	<b>\$ 123,906</b>	<b>\$ 132,878</b>

Supplemental disclosure of cash flow information (note 7)  
See accompanying notes to consolidated financial statements.

## **BALLARD POWER SYSTEMS INC.**

### Notes to Consolidated Financial Statements

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

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#### **1. Basis of presentation:**

The accompanying financial information reflects the same accounting policies and methods of application as the Corporation's 2004 Annual Report. The accompanying financial information does not include all disclosure required under Canadian generally accepted accounting principles ("GAAP") because certain information included in the Corporation's 2004 Annual Report has not been included in this report. These consolidated financial statements are unaudited but reflect all adjustments required for the fair presentation in accordance with GAAP and should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's 2004 Annual Report.

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

#### **2. Investments:**

During the nine months ended September 30, 2005, the Corporation made an additional investment of \$5,776,000 (2004 – \$1,656,000) in EBARA BALLARD Corporation representing the Corporation's proportionate share of financing by EBARA BALLARD shareholders. The Corporation also made an additional investment of \$69,000 (2004 – \$728,000) in Chrysalix Energy Limited Partnership.

#### **3. Assets held for sale:**

On August 31, 2005, the Corporation completed the previously-announced sale of its interest in its German subsidiary, Ballard Power Systems AG ("BPSAG"), to DaimlerChrysler AG ("DaimlerChrysler") and Ford Motor Company ("Ford"). Under the terms of the Acquisition Agreement:

- DaimlerChrysler and Ford acquired the Corporation's 50.1% interest in BPSAG. In exchange, DaimlerChrysler and Ford returned to the Corporation an aggregate of 9.0 million of its common shares owned by them, valued at \$73.8 million, based on the average quoted market price of the common shares around the July 8, 2004 announcement date of \$8.20 per share. These shares were then cancelled. The return and cancellation of shares was recorded as a decrease in share capital of \$93.1 million at the historical weighted average share price and an increase in contributed surplus of \$19.3 million.
- The existing forward sale agreement, which committed the Corporation to purchase the remaining 49.9% interest in BPSAG from DaimlerChrysler in exchange for the issuance of approximately 7.6 million of its common shares to DaimlerChrysler, was cancelled on August 31, 2005. As a result, BPSAG is now wholly-owned by DaimlerChrysler and Ford.

## **BALLARD POWER SYSTEMS INC.**

### Notes to Consolidated Financial Statements

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

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#### **3. Assets held for sale (cont'd):**

- The Corporation will be reimbursed for BPSAG's net operating expenses incurred between August 1, 2004 and the closing date of the transaction. This payment, net of other purchase price adjustments, is estimated to be \$29 million and has been included as part of the gain recorded during the period. Determination and receipt of the final payment is expected in the fourth quarter.
- The Corporation received a royalty-free license to use all existing vehicular fuel cell support systems intellectual property owned by BPSAG for non-vehicular applications.
- The Corporation has also agreed, as part of the transaction, to release Ford from any future obligations under the Third Alliance Agreement relating to electric drives for internal combustion/battery hybrid vehicles in exchange for the return to the Corporation of 3,005,892 of its common shares owned by Ford valued at \$12.5 million. The return and cancellation of shares was recorded as a decrease in share capital of \$31.1 million at the historical weighted average share price and an increase in contributed surplus of \$31.1 million, as it was a non-monetary related party transaction.
- The Corporation has also agreed, as part of the transaction, to assign to DaimlerChrysler certain service obligations of the Corporation under contracts for the supply and service of fuel cell bus engines for demonstration programs in China and Australia. In consideration for the assignment, the Corporation will pay to DaimlerChrysler \$1,413,000.

During 2004, the Corporation recorded an estimated loss of \$23.1 million on the sale of BPSAG. This loss resulted from writing down the goodwill of BPSAG to the estimated proceeds to be received. Due to the longer than expected time required to complete the sale and the resultant reimbursement of BPSAG's net operating expenses as set out above, an estimated gain of \$17.8 million was recorded in the three months ended September 30, 2005 resulting in an estimated total net loss on the sale of BPSAG of \$5.3 million. On closing, the Corporation ceased to consolidate the results of BPSAG. The net proceeds on disposal are estimated at \$95.3 million, which includes the return to the Corporation of 9,000,000 of its common shares that are currently held by DaimlerChrysler and Ford, valued at \$73.8 million and the receipt of cash for an estimated purchase price adjustment of \$29.3 million net of \$7.8 million of disposal costs.

**BALLARD POWER SYSTEMS INC.**

## Notes to Consolidated Financial Statements

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

**3. Assets held for sale (cont'd):**

Proceeds on disposal	\$ 73,800,000
Estimated purchase price adjustments	29,328,000
Disposal costs	(7,800,000)
Net proceeds	95,328,000
Net investment in BPSAG as at August 31, 2005	77,547,000
Net gain on disposal	\$ 17,781,000

**4. Employee future benefits:**

The Corporation maintains a defined benefit pension plan. The benefits under the pension plan are based on years of service and salary levels. Certain employees are also eligible for post-retirement healthcare, life insurance and other benefits.

The defined benefit expense of the Corporation's employee future benefit plans, in aggregate, is as follows:

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Pension plans	\$ 341	\$ 812	\$ 1,034	\$ 1,384
Other benefit plans	118	89	353	276
	\$ 459	\$ 901	\$ 1,387	\$ 1,660

**5. Share capital:**

	2005		2004	
	Number of shares	Amount	Number of shares	Amount
<b>Common shares:</b>				
Balance, beginning of period	118,778,844	\$ 1,231,689	118,187,877	\$ 1,227,079
Issued for cash (net of issue costs)	5,461,723	50,668	-	-
Options exercised	-	-	204,617	1,234
Share distribution plan	454,442	2,587	386,350	3,376
Shares cancelled (note 3)	(12,005,892)	(123,988)	-	-
Balance, end of period	112,689,117	1,160,956	118,778,844	1,231,689
<b>Class A share:</b>				
Balance, beginning and end of period	1	-	1	-
<b>Class B share:</b>				
Balance, beginning and end of period	1	-	1	-
Total shares, end of period	112,689,119	\$ 1,160,956	118,778,846	\$ 1,231,689

During the three-month period ended March 31, 2005, the Corporation issued 4,457,545 of its common shares at CAD\$12.34 per share subsequent to the Corporation's unconditional exercise, in December 2004, of its right to call a CAD\$55 million equity investment in the Corporation by DaimlerChrysler and Ford.

**BALLARD POWER SYSTEMS INC.**

## Notes to Consolidated Financial Statements

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

**5. Share capital (cont'd):**

During the three and nine month periods ended September 30, 2005, compensation expense of \$989,000 (2004 – \$919,000) and \$2,906,000 (2004 – \$2,366,000), respectively, was recorded in net income as a result of fair value accounting for share options.

During the three and nine month periods ended September 30, 2005, options to acquire nil (2004 – nil) and 779,250 (2004 – 532,152) common shares, respectively, were granted with a fair value of \$3.95 per share (2004 - \$6.72) and vesting periods of three years (2004 – three years). The fair value of options issued during the period was determined using the Black-Scholes valuation model under the following assumptions:

	Nine months ended September 30	
	<b>2005</b>	2004
Expected life	<b>7 years</b>	7 years
Expected dividends	<b>Nil</b>	Nil
Expected volatility	<b>60%</b>	63%
Risk-free interest rate	<b>4%</b>	4%

Pro-forma disclosure is required to reflect the impact on the Corporation if it had elected to adopt the fair value method of accounting from inception of the standard, being January 1, 2002. If computed fair values of the options had been amortized to expense over their vesting periods, the net loss and net loss per share would have been:

	Three months ended September 30		Nine months ended September 30	
	<b>2005</b>	2004	<b>2005</b>	2004
Net loss	<b>\$ 8,893</b>	\$ 52,581	<b>\$ 70,837</b>	\$ 120,299
Compensation charge related to options granted	<b>45</b>	4,152	<b>6,176</b>	12,367
Pro-forma net loss	<b>\$ 8,938</b>	\$ 56,733	<b>\$ 77,013</b>	\$ 132,666
Pro-forma basic and diluted loss per share	<b>\$ 0.07</b>	\$ 0.48	<b>\$ 0.63</b>	\$ 1.12

As at September 30, 2005, options to purchase 5,692,973 common shares were outstanding.

**6. Related party transactions:**

Related parties include shareholders with a significant ownership interest in the Corporation, together with their subsidiaries, affiliates, and the Corporation's equity accounted investees. The revenue and costs recognized from such transactions reflect the prices and terms of sale and purchase transactions with related parties which are in accordance with normal trade practices.

**BALLARD POWER SYSTEMS INC.**

## Notes to Consolidated Financial Statements

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

**8. Related party transactions (cont'd):**

	September 30, 2005	December 31, 2004
Balances with related parties:		
Accounts receivable	\$ 44,246	\$ 8,700
Accounts payable	4,800	1,333

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Transactions during the period with related parties:				
Revenues from fuel cells, engineering services and related equipment	\$ 11,383	\$ 13,731	\$ 20,735	\$ 34,597
Purchases	254	592	669	1,351
Contract research and development expenditures	55	-	268	608

During the nine months ended September 30, 2005, the Corporation completed the sale of its German subsidiary, BPSAG, to related parties (note 3).

**7. Supplemental disclosure of cash flow information:**

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Income taxes paid	\$ -	\$ 160	\$ 145	\$ 206
<b>Non-cash financing and investing activities</b>				
Compensatory shares	\$ -	\$ 1,476	\$ 2,510	\$ 3,526
Accrued disposition costs (note 3)	\$ 3,982	\$ -	\$ 3,022	\$ -
Proceeds receivable gross of cash from disposition of assets held for sale (note 3)	\$ 29,797	\$ -	\$ 29,797	\$ -
Shares cancelled from disposition of assets held for sale (note 3)	\$ 73,800	\$ -	\$ 73,800	\$ -
Shares cancelled upon release of Ford from certain future obligations (note 3)	\$ 12,500	\$ -	\$ 12,500	\$ -

**8. Segmented financial information:**

The Corporation operates in three market segments, Transportation, Power Generation and Material Products. The Corporation develops, manufactures and markets complete proton exchange membrane ("PEM") fuel cell engines, PEM fuel cell components and electric drive systems for the Transportation market segment. The Corporation develops, manufactures and markets a variety of products ranging from fuel cell power generation products to power electronics for the Power Generation market segment. The Material Products segment develops, manufactures and markets carbon fiber products primarily to automotive manufacturers for automotive transmissions and gas diffusion electrode materials for the PEM fuel cell industry.



**BALLARD POWER SYSTEMS INC.**

## Notes to Consolidated Financial Statements

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

**8. Segmented financial information (cont'd):**

Segment revenues and segment income (loss) represent the primary financial measures used by senior management in assessing performance and allocating resources, and include the revenues, cost of product revenues and expenses for which segment managers are held accountable. Segment expenses include research and product development costs directly related to individual segments. Costs associated with shared services and other costs are allocated based on headcount and square footage. Corporate amounts include expenses for research and product development, marketing expenses and general and administrative expenses, which apply generally across all segments and are reviewed separately by senior management. A significant portion of the Corporation's production, testing and lab equipment, and facilities, as well as intellectual property and goodwill, are common across the segments. Therefore, management does not classify asset information on a segmented basis. Instead, performance assessments of these assets and related resource allocations are done on a portfolio basis. No change in segment definition has been made in the quarter.

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<b>Revenues</b>				
Transportation	\$ 11,686	\$ 19,099	\$ 23,535	\$ 48,197
Power Generation	1,767	1,343	4,127	2,825
Material Products	2,674	3,188	8,404	9,817
	\$ 16,127	\$ 23,630	\$ 36,066	\$ 60,839
<b>Segment income (loss) for period<sup>(1)</sup></b>				
Transportation	\$ 1,897	\$ (2,992)	\$ (12,451)	\$ (7,254)
Power Generation	(862)	(2,303)	(2,666)	(9,306)
Material Products	(344)	96	(1,196)	109
Total	691	(5,199)	(16,313)	(16,451)
Corporate amounts				
Research and product development	(10,178)	(10,313)	(31,705)	(30,106)
General and administrative	(4,032)	(3,825)	(13,003)	(11,190)
Marketing	(1,952)	(3,071)	(6,096)	(7,770)
Depreciation and amortization	(6,862)	(7,975)	(20,667)	(31,298)
Investment and other income (loss)	3,848	2,329	8,981	2,667
Gain (loss) on sale and write-down of long-lived assets	(7,405)	(1,102)	(7,717)	(1,407)
Gain (loss) of assets held for sale	17,781	(23,051)	17,781	(23,051)
Equity in loss of associated companies	(735)	(495)	(1,958)	(1,503)
Loss before income taxes	\$ (8,844)	\$ (52,702)	\$ (70,697)	\$ (120,109)

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

**BALLARD POWER SYSTEMS INC.**

## Notes to Consolidated Financial Statements

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

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**9. Guarantees and contingencies:**

The Corporation has issued a letter of credit in the amount of \$1,199,000 related to a lease agreement for premises. The letter of credit expires in December 2005.

**10. Financial instruments:**

Periodically, the Corporation enters into forward foreign exchange contracts to manage exposure to currency rate fluctuations. As at September 30, 2005, forward foreign exchange contracts to sell Euros for US dollars of EUR 25,000,000 were outstanding which expire in November 2005. At September 30, 2005, the Corporation would have received \$830,000 to settle the outstanding forward foreign exchange contracts. The forward foreign exchange contracts are accounted for using the fair value method of accounting and as such, the Corporation records the fair value on the balance sheet and recognizes the changes in these fair values as gains or losses in the period.