Q1

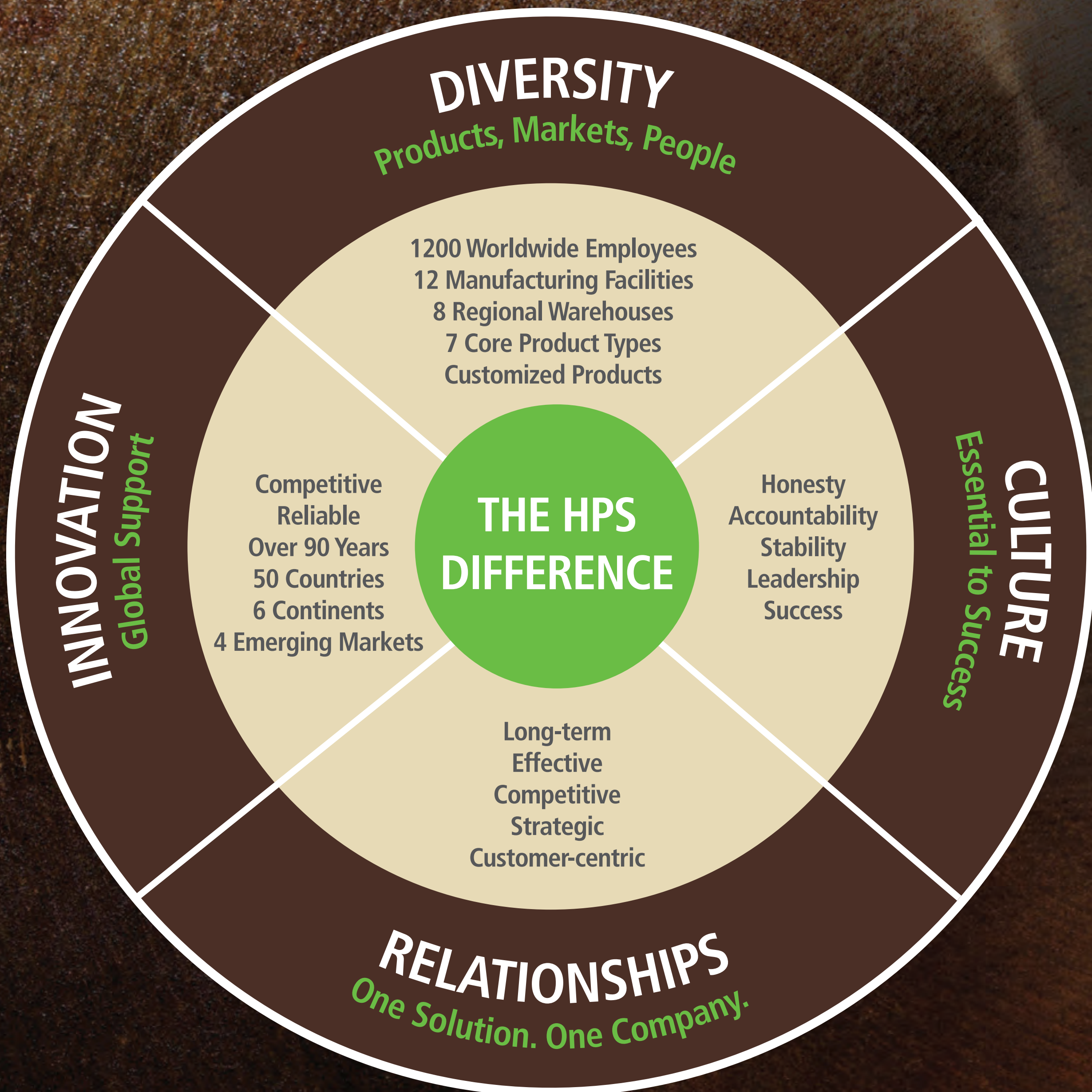
Report 2013

For the three months ended
March 30, 2013

Hammond Power
Solutions Inc.

we know

Our strengths



seizing opportunities for Growth

- European Acquisition
- Diversity in Technology
- Multiple Channels to Market

Fellow Shareholders,

Hammond Power Solutions Inc. ("HPS") is pleased to report the Quarter 1, 2013 interim financial results amid the challenging fiscal climate. The economic recovery that began over a year ago, has begun to recede in some parts of the world and in some of our markets during the last two quarters, impacting our results more than expected in the opening months of 2013.

Given the diversity of our geographical and market participation, some segments of our business improved year-over-year while others were pulled down. A number of our Original Equipment Manufacturers ("OEM") customers involved in mining equipment and domestic energy markets, have slowed noticeably over the last two quarters as a result of lower commodity prices and tepid global demand for resources. The number of large institutional, as well as heavy oil and mining projects in Canada, has also slowed compared to the last two years. OEM volumes have begun to accelerate and will hit planned rates in late Quarter 2 of this year. Lastly, the European economy remains very challenging and as a result, sales were flat compared to expected growth in the quarter.

On the positive side, the U.S. economy which drives the North American market is starting to improve compared to the rest the world. We continue to expand our U.S. distributor channel on a national scale and this is helping us to increase our industrial and commercial business. We are particularly optimistic about our growth opportunities in the commercial market as the U.S. housing, and the associated retail and commercial construction markets that we serve, are coming back to life. The OEM drive market also shows positive momentum as investment in waste water and offshore energy projects continue in the Americas and abroad. Lastly, the Indian economy is beginning to show improvement after the slowest twelve months in a decade as we've begun to see an increase in investment in chemical, refining, alternative energy, railway, and industrial projects.

Total earnings in the quarter were lower than expected due to lower than planned sales volumes, a different product mix than planned, as well as costs associated with our acquisition of Marnate Trasformatori ("Marnate") located in Milan, Italy. Given the very competitive market conditions in North America and Europe, we are very pleased that we increased our margins rates compared to a year ago in such a challenging environment.

Looking forward, we anticipate that the global economic recovery will be weaker than originally expected with the possibility of problematic fiscal shocks coming from the Euro-zone. Nonetheless, we expect our results to improve in the second half of the year as the momentum in most of our markets, particularly in the U.S., accelerates as the year progresses. In addition to this, new business and increased market share will add to our financial results in the later quarters and as we integrate Marnate with our existing Italian operation, we foresee greater market growth opportunities for cast resin transformers in Europe, Russia, and India.

Our strong core capabilities, financial strength, as well as our broad geographical and market diversification will serve HPS in weathering the current economic turbulence. We will continue to manage the Company in a cautious and prudent manner in this challenging economic environment.

WGH

William G. Hammond
CHAIRMAN OF THE BOARD &
CHIEF EXECUTIVE OFFICER

strategic in our

Growth Initiatives

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hammond Power Solutions Inc. ("HPS" or the "Company") is a North American leader in the design and manufacture of custom electrical engineered magnetics, as well as a leading manufacturer of standard electrical dry-type and cast resin transformers. Advanced engineering capabilities, high quality products and fast responsive service to customers' needs have established the Company as a technical and innovative leader in the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States, Mexico, Italy and India.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended March 30, 2013, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the First Quarter of fiscal 2013. This information is based on Management's knowledge as at April 25, 2013. The Company assumes that the reader of this MD&A has access to and has read the audited annual consolidated financial statements and MD&A of the Company, contained in our 2012 Annual Report, and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the Fiscal 2012 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward looking information

This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HPS' strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "likely", "expect", "intend", "estimate", "anticipate", "believe", "plan", "objective" and "continue" and words and expressions of similar import. Although HPS believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to currency rates); changes in laws and regulations; legal and regulatory proceedings; and the ability to execute strategic plans. HPS does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law.

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/ (income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings and EBITDA, in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending March 30, 2013 and March 31, 2012 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS. "Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended March 30, 2013 were $63,672, a slight decline of $1,982 or 3.0% from the Quarter 1, 2012 sales of $65,654.

As a result of softer OEM order booking and sales activity, sales in the U.S., were $35,185 in Quarter 1, 2013 a small decrease of $1,317 or 3.6% from Quarter 1, 2012. Sales in the U.S., stated in U.S. dollars ("USD") were $35,413 in Quarter 1, 2013 a small decrease of $1,159 or 3.2% from Quarter 1, 2012. Some of this decline was offset by a 1% weaker Canadian dollar ("CAD") ($1.00 USD = $1.01 CAD in Quarter 1, 2013 compared against $1.00 USD = $1.00 CAD in Quarter 1, 2012) and had a positive impact on the amount of stated sales for the U.S. this quarter as compared to Quarter 1, 2012.

Canadian sales were $21,272 for the quarter, a decrease over Quarter 1, 2012, of $3,698 or 14.8%, due to a decline in reduced booking rates particularly in the institutional construction project business.

Quarter 1, 2013 sales include international derived sales of $7,215 versus $4,182 in Quarter 1, 2012, an increase of $3,033 or 72.5%. European sales were $3,291 in Quarter 1 2013 compared to $2,225 in Quarter 1 2012. Our recently acquired Italian acquisition, Marnate Trasformatori s.r.l. ("Marnate"), contributed $1,068 in European sales for the quarter. Sales in India increased $1,967 or 100% from $1,957 in Quarter 1, 2012 to $3,924 in Quarter 1, 2013.

The Company held its sales levels in many of its strategic markets and has seen instability in overall market activity in the electrical industry in the U.S. and Canada as evidenced by lower order booking activities. The National Association of Electrical Distributors ("NAED") motor control, excitation, switchgear, power conditioning and gas pumping markets in both Canada and the U.S remained steady in Quarter 1, 2013 compared with Quarter 1, 2012. Quarter 1, 2013 sales by geographic segment include U.S. sales of 55.3% of total sales, Canadian sales of 33.4%, European sales of 5.2%, and Indian sales of 6.2%.

The Company continues to focus on its channel growth initiatives in strategic market segments in the U.S., Canada, and internationally. The Company is committed to producing premium quality transformers and to offering a broad and evolving product range.

We expect that this, combined with our capabilities in custom product design, manufacturing agility, competitive lead-times, product breadth, uncompromised quality and geographically diverse manufacturing capabilities, will produce sales opportunities leading to moderate growth through existing and new customer sales.

This, collectively with our solid position in the distributior channel, will continue to be a competitive advantage and the cornerstone to our revenue and profit growth.

Order bookings and backlog

The Company was not immune to the sluggish North American, European and Asian economies. Bookings for Quarter 1, 2013 decreased by 12.1% from Quarter 4, 2012 and were 13.2% lower than Quarter 1, 2012. The impact on total bookings of the newly acquired company, Marnate Trasformatori s.r.l., was 1.6% when compared to both Quarter 1, 2012 and Quarter 4, 2012.

Compared to Quarter 1, 2012 we experienced 20.8% lower bookings through the direct channel and 0.1% decrease through the distributor channel when compared to Quarter 1, 2012. Included in the direct bookings for Quarter 1, 2013 are bookings from the newly acquired Marnate, which had an impact of 2.9% when compared to Quarter 1, 2012.

Due to lower order activity, backlog finished 7.2% lower than Quarter 1, 2012, which includes 2.3% of backlog relating to Marnate.

Our sales development initiatives will drive improvement in our booking rates, which will gain momentum particularly in the second half of the year. The lethargic general world economies and softer electrical market conditions are evidenced with reduced quotation activity. Many in our customer base experienced a later 2012 slowdown in business activity that spilled over into Quarter 1, 2013. As a result, our customer base and the Company are seeing a limited booking horizon. Many of our customers are feeling more positive about current medium-term market trends and prospects. The Company is very cognizant however that it may see some month-to-month fluctuations in booking rates. As a result, the Company will see some volatility in booking rates but still anticipates realizing higher order bookings year-over-year.

The Company is steadfast in its implementation of its market share growth and channel expansion strategies in the U.S., Canada and internationally. This positions HPS well to deliver strong operational results for the balance of the year.

Gross margin

The Company was effective at maintaining its margin rates this quarter. Gross margin rates for Quarter 1, 2013 finished at 24.0% versus 23.7% in Quarter 1, 2012, an increase of 0.3% of sales.

The slightly improved margin rate achieved this quarter is notable as the Company continues to experience selling price pressures from many of our competitors and was unfavourably impacted by the effect that lower production has on the absorption of factory costs. Despite this, gross margins were favourably impacted by strategic price increases, cost containment and improving labour efficiencies. Gross margins were also positively impacted by material procurement cost reductions, which contributed approximately 0.5% to margin rates.

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Despite the unpredictable economic climate, the Company continues to invest in its manufacturing infrastructure supporting future growth. In the short-term, the additional fixed costs associated with the expansion are dilutive to our net margin rates. However, as sales grow, the favourable impact that higher manufacturing throughput will have on absorption of our factory overheads will positively affect margin rates. This will better match manufacturing capacity requirements to anticipated future booking rates and is focused on productivity improvements, cost reductions and lead-time improvements for the entire organization. The Company is confident, that these actions combined with increased sales and higher manufacturing throughput will advance margin rates.

Selling and distribution expenses

Total selling and distribution expenses were $6,542 in Quarter 1, 2013 versus $6,259 in Quarter 1, 2012, an increase of $283 or 4.5%. These expenses represent 10.2% of sales in Quarter 1, 2013 and 9.5% of sales in Quarter 1, 2012. The Quarter 1, 2013 selling and distribution expenses include international operation expenses of $307 versus $258 in Quarter 1, 2012.

Included in selling and distribution expenses is $80 related to Marnate. Comparing on a normalized basis, excluding Marnate, Quarter 1, 2013 expenses were $6,462 in Quarter 1, 2013 versus $6,259 in Quarter 1, 2012, an increase of $203 or 3.2%.

Commission expenses were consistent quarter-over-quarter given the sales levels were steady. Freight expenses for the quarter increased $86 due to increased transportation costs caused by higher fuel costs.

General and administrative expense

The general and administrative expenses for Quarter 1, 2013 totaled $5,395, a decrease of $143 or 2.6% when compared to Quarter 1, 2012 expenses of $5,538. This represents 8.5% of sales in Quarter 1, 2013 as compared to 8.4% of sales in Quarter 1, 2012. The Quarter 1, 2013 general and administrative expenses include international operation expenses of $729 versus $538 in Quarter 1, 2012.

General and administrative expenses include $43 relating to Marnate. On a normalized basis, excluding Marnate, Quarter 1, 2013 expenses were $5,352 in Quarter 1, 2013 versus $5,538 in Quarter 1, 2012 a decrease of $186 or 3.4%.

Quarter 1, 2013 general and administrative expenses were lowered as a result of $127K reduced quarter stock option expense from Quarter 1, 2012 and reduced bad debt provisions.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The Company continues to invest in its people resources, specifically in the areas of information services and engineering, but remains very cognizant of prudent general and administrative expense management.

Earnings from operations

Quarter 1, 2013 earnings from operations decreased by $398 or 10.6% from the same quarter last year, finishing at $3,359 compared to $3,757 in Quarter 1, 2012. The bulk of this reduction was a result of the decrease in sales, which were partially offset by the increased margin rates – a result of the realization of market specific selling price increases and manufacturing cost reductions.

The Company's solid earnings from operations are a product of aggressive strategic growth initiatives, geographic expansion and gross margin realization and are reflective of a company in transitional growth.

Earnings from operations are calculated as outlined in the following table:

		Quarter 1, 2013		Quarter 1, 2012
Net earnings	$	**1,907**	$	2,518
Add:				
Income tax expense		**1,257**		1,480
Net finance and other costs		**195**		(241)
Earnings from operations	$	**3,359**	$	3,757

Interest expense

The interest expense for Quarter 1, 2013 finished at $169 compared to $124 in Quarter 1, 2012, an increase of $45. The increase in interest expense for the quarter and year-to-date was a result of higher operating debt levels related to the assumption of debt associated with the purchase of Marnate. Interest expense includes all bank fees.

Foreign exchange gain/loss

The foreign exchange gain in Quarter 1, 2013 was $8. This relates primarily to the transactional exchange gain pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange gain of $22 in Quarter 1, 2012.

At March 30, 2013, the Company had outstanding foreign exchange contracts in place for 10,100 Euros ("EUR") and $7,000 U.S. – both implemented as a hedge against translation gains and losses on inter-company loans as well as $11,000 U.S. to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Income taxes

Quarter 1, 2013 income tax expense was $1,257 as compared to $1,480 in Quarter 1, 2012, a decrease of $223.

The consolidated effective tax rate for Quarter 1, 2013 was 39.7% versus 37.0% for Quarter 1, 2012, an increase of 2.7%. The changes in the effective tax rates between the current and prior year is due to a change in the earnings mix of the Company which is being generated from different tax jurisdictions and are subject to different tax rates.

Deferred tax assets and liabilities, consisting mainly of reserves and allowances, are related to temporary differences on current assets and liabilities, which are not deductible against current year earnings. Deferred tax assets and liabilities relate to temporary differences resulting from intangible assets and the difference between the net book value and un-depreciated capital cost of property, plant and equipment.

Net earnings

Net earnings for Quarter 1, 2013 decreased by $611, finishing at $1,907 compared to net earnings of $2,518 in Quarter 1, 2012.

EBITDA for Quarter 1, 2013 was $5,442 versus $5,770 in Quarter 1, 2012 a decrease of $328 or 6.0%. Adjusted for both foreign exchange and copper hedging gains and losses, EBITDA for Quarter 1, 2013 was $5,434 versus $5,372 in Quarter 1, 2012, an increase of $62 or 1.2%.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

EBITDA and adjusted EBITDA are calculated as outlined in the following table:

		Quarter 1, 2013		Quarter 1, 2012
Net earnings	**$**	**1,907**	$	2,518
Add:				
Interest expense		**169**		124
Income tax expense		**1,257**		1,408
Depreciation and amortization		**2,109**		1,648
EBITDA	**$**	**5,442**	$	5,770
Deduct:				
Foreign exchange gain		**(8)**		(22)
Copper hedging gain		**–**		(376)
Adjusted EBITDA	**$**	**5,434**	$	5,372

Summary of Quarterly Financial Information (Unaudited)

		Quarter 1, 2013		Year-to-date Total
Sales	**$**	**63,672**	$	63,672
Net earnings	**$**	**1,907**	$	1,907
Net income per share – basic	**$**	**0.16**	$	0.16
Net income per share - diluted	**$**	**0.16**	$	0.16
Average U.S. to Canadian exchange rate	**$**	**1.007**	$	1.007

		Q1, 2012		Q2, 2012		Q3, 2012		Q4, 2012		Total
Sales	$	65,654	$	65,486	$	63,703	$	62,533	**$**	**257,376**
Net earnings	$	2,518	$	2,811	$	2,552	$	4,730	**$**	**12,611**
Net income per share – basic	$	0.22	$	0.24	$	0.21	$	0.41	**$**	**1.08**
Net income per share – diluted	$	0.22	$	0.24	$	0.21	$	0.41	**$**	**1.08**
Average U.S. to Canadian exchange rate	$	1.002	$	1.009	$	1.000	$	0.9913	**$**	**1.0005**

Historically the first quarter of the Company's fiscal year has lower revenues due to a general decline in Quarter 1 activity in the construction industry and overall electrical markets, as many projects are just getting underway. Sales in Quarter 1, 2013 have shown a decrease from the prior year due to a general economic decline and softer business in Quarter 4, 2012 and Quarter 1, 2013. There was also a full quarter of sales compared to just two month of sales for Quarter 1, 2012 of PETE as well as two months additional sales from the acquisition of Marnate. The year-to-year quarterly fluctuations in both sales and income are affected by the changes in the U.S. to Canadian foreign exchange rates, changing economic conditions, and competitive pricing pressures.

Capital Resources and Liquidity

Net cash used in operating activities for Quarter 1, 2013 was $1,011 versus cash used of $3,330 in Quarter 1, 2012, a decrease of $2,319 as a result of a decrease in non-cash working capital and lower net earnings.

Change in non-cash operating working capital resulted in a decrease in usage of cash of $3,238 compared to the same quarter last year. Accounts receivable has decreased by $1,837 due to decreased sales and increased collection activities. Inventories increased by $1,218 and trade accounts payable increased by $938 when comparing Quarter 1, 2013 to Quarter 1, 2012. The Company is attentive to its customer accounts receivable collections cycle time and current inventory turnover rates.

Capital expenditures were $2,134 in Quarter 1, 2013 compared to $976 for Quarter 1, 2012 an increase of $1,158. Expanded manufacturing capacity, new product development and information technology infrastructure were areas of capital expenditure spending in the first quarter.

Total cash provided by financing activities for Quarter 1, 2013 was $5,590 as compared to cash provided of $14,330 in Quarter 1, 2012. There was a Quarter 1, 2013 increase in bank operating lines of $6,675 versus an increase of $14,705 in Quarter 1, 2012. The increase in bank indebtedness levels is a result of the acquisition activity in 2012 and the acquisition of Marnate in 2013.

Bank operating lines of credit finished Quarter 1, 2013 at $19,243 compared to $16,778 at the end of Quarter 1, 2012, an increase of $2,465.

The Company's overall debt, net of cash was $18,934 in Quarter 1, 2013 compared to a net debt position of $19,338 in Quarter 1, 2012, a reduction in debt position of $404. This debt position change was a result of the purchase of Marnate and the change in non-cash working capital.

All bank covenants continue to be met as at March 30, 2013.

The Company will utilize its cash generated from operations combined with the existing available credit facilities to finance the ongoing business operational cash requirements for working capital, capital expenditures and investing activities going forward.

Contractual Obligations

(tabular amounts in thousands of dollars)	2013	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 1,806	$ 1,451	$ 811	$ 307	$ 39	$ –	**$ 4,414**
Accounts payable and accrued liabilities	34,312	–	–	–	–	–	**$ 34,312**
Capital expenditure purchase commitments	2,165	–	–	–	–	–	**$ 2,165**
Bank operating lines	19,243	–	–	–	–	–	**$ 19,243**
Derivative liabilities	90	–	–	–	–	–	**$ 90**
Note payable	161	161	161	3,450	–	–	**$ 3,933**
Long term debt	875	933	–	–	–	–	**$ 1,808**
Total	$ 58,652	$ 2,545	$ 972	$ 3,757	$ 39	$ –	**$ 65,965**

Contingent Liabilities

Management is not aware of any contingent liabilities.

Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting, is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be effective, can provide only reasonable assurance with respect to financial statement preparation and presentation.

During Quarter 1, 2013 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect, HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

The Company acquired Marnate on February 12, 2013 and has included the financial results of Marnate as part of HPS' consolidated financial results as of February 1, 2013. Management is currently assessing the design or operating effectiveness of Marnate's disclosure controls and procedures and internal controls over financial reporting.

Regular Quarterly Dividend Declaration

The Board of Directors of Hammond Power Solutions Inc. ("HPS") declared a quarterly cash dividend of five cents ($0.05) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of five cents ($0.05) per Class B Common Share of HPS payable on March 28, 2013 to shareholders of record at the close of business on the 21st day of March 2013. The ex-dividend date is March 19, 2013.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Purchase of Marnate Trasformatori s.r.l. ("Marnate")

On February 12, 2013, Hammond Power Solutions Inc. signed an agreement for the acquisition of Marnate Trasformatori s.r.l. ("Marnate") in Italy, acquiring a 100% equity ownership of its cast resin transformer business for 7,300 Euro ($9,785 CAD). Marnate is involved in the design and manufacture of standard and custom cast resin transformers and has an excellent reputation in the industry for product quality and reliability. Marnate's annual revenues for the year ended December 31, 2012 were approximately $8,000 CAD. The Company will operate as Marnate Trasformatori s.r.l. – a subsidiary of HPS.

The definitive agreement includes a deferred payment provision of $671 due in semi-annual installments of equal amount during the two years following the closing, subject to the condition of continued employment of the majority shareholder.

The acquisition cost of 100% equity ownership of Marnate is expected to be approximately $9,785 CAD, subject to post-closing adjustments. Under the terms of the definitive agreement with Marnate, HPS will also commit to the purchase of certain real properties that are currently used by Marnate to carry out its business for additional payment of approximately $3,600 CAD. The acquisition costs attributed to Marnate incurred during Quarter 1, 2013 were $78 CAD, which are included in general and administrative expense.

Total purchase consideration is comprised of the following:

Cash	$	9,785

The preliminary allocation of the acquisition costs for Marnate as at February 1, 2013 is as follows:

Cash	$	273
Accounts receivable		1,634
Inventory		1,319
Prepaid assets		113
Property, plant and equipment		5,803
Intangible assets		2,346
Goodwill		4,017
Total assets	$	15,505
Accounts payable	$	(1,080)
Provisions and other liabilities		(867)
Deferred tax liabilities		(422)
Note payable		(3,351)
Total liabilities	$	(5,720)
Net Consideration for net assets acquired	$	9,785

Marnate not only expands HPS' European presence, but also broadens our product offering and manufacturing capabilities in cast resin technology. The acquisition also supports HPS' global growth strategies and product offering in new global markets. Marnate has a reputation in the electrical industry for its standard and engineered to order capabilities and quality. Management feels that by building on the strengths of both companies, this acquisition will enhance HPS' market share strategies and performance going forward.

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Risks and uncertainties

As with most businesses, HPS is subject to a number of market-place, industry and economic related business risks which could have some material impact on our operating results.

These risks include:

- The cyclical effects, unpredictability and volatility of market costs and supply pressures for commodities such as copper, insulation and electrical grain oriented steel;
- A significant, unexpected change in the global demand for resources;
- The extreme variability of the Canadian dollar versus the U.S. dollar;
- Global economic recession;
- Interest rates;
- Unpredictable weather trends;
- Government protectionism;
- Competition;
- Credit risk; and
- Global political unrest.

The Company is very cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously works to lessen the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

There are, however, several risks that deserve particular attention:

Commodity prices

An area that has had a definite impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper commodity and steel pricing in the global market. Due to this unpredictability, particularly with copper pricing, HPS had utilized a future contracts hedging strategy. Due to the unprecedented volatility of the financial impact of unrealized gains and losses, HPS discontinued its hedging program. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign exchange

HPS operating results are reported in Canadian dollars. Nonetheless, the majority of our sales and material purchases are denominated in U.S. dollars. While there is a natural hedge with sales denominated in U.S. dollars partially offset by the cost of raw materials purchased from the U.S., as well as commodities tied to U.S. dollar pricing – a change in the value of the Canadian dollar against the U.S. dollar will impact earnings. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results. Inversely, a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

The Company also has a U.S. operating subsidiary and U.S. dollar assets. The exchange rate between the Canadian and U.S. dollar can vary significantly from year-to-year. There is a corresponding positive or negative impact to the Company's Statement of Comprehensive Income solely related to the foreign exchange translation of its U.S. Balance Sheet.

We have partially reduced the impact of foreign exchange fluctuations through increasing our U.S. dollar driven manufacturing output and have further enhanced our geographic manufacturing hedge through the acquisition of Delta Transformers Inc. in 2009 located in the province of Quebec. This operation is a buyer of raw materials priced in U.S. dollars and essentially has all of its sales in Canada.

The Company had also lessened its intercompany loan transactional exchange rate risk by entering into forward foreign exchange contracts.

Finally, HPS periodically institutes price increases to help offset the negative impact of changes in foreign exchange and product cost increases.

Unpredictable weather/natural disasters

Extreme weather conditions such a heavy rains, flooding, snowfall, tornadoes and hurricanes may negatively impact the Company's order booking and sales trends.

The Company may see short-term effects of such occurrences due their unpredictability. This may impact delivery and capacity requirements.

Interest rates

The Company has structured its debt financing to take advantage of the current lower interest rates, but is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

As part of hedging this risk, the Company may enter into fixed long-term rates on part of its total debt. The Company believes that a more significant impact of a rise in interest rates would apply to our customers' investment decisions and financing capabilities.

Credit

A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. Although the Company has historically incurred very low bad debt expense, the current economic conditions increase this exposure.

Global/North American economy

Given the negative economic environment, particularly in North America, we are focusing our efforts over the next twelve months on projects that will increase our cost competitiveness, capacity and improve our manufacturing flexibility.

The Company believes that by remaining an agile organization, it will allow HPS to respond quickly to both unexpected opportunities and challenges. We also believe that the growing access to a variety of global and domestic markets through our OEM and distributor channels will help HPS expand market share during this economic slowdown.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Off-Balance Sheet Arrangements

The Company has no off-Balance Sheet arrangements, other than operating leases disclosed in Notes to the Consolidated Financial Statements contained in our 2012 Annual Report.

Transactions with Related Parties

The Company had no transactions with related parties in 2013, other than transactions disclosed in note 8 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2013 Report.

Proposed Transactions

The Company continues to evaluate potential business expansion initiatives, and has no firm transactions as at March 30, 2013.

Financial Instruments

At March 30, 2013 the Company had outstanding foreign exchange contracts in place for 10,100 EUR and $7,000 USD, both implemented as a hedge against translation gains and losses on inter-company loans as well as $11,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical Accounting Estimates

The preparation of the Company's condensed consolidated interim financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary, if it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Outstanding Share Data

Details of the Company's outstanding share data:

8,857,624	Class A Shares
2,778,300	Class B Common Shares
11,635,924	Total Class A and B Shares

New Accounting Pronouncements

The International Accounting Standards Board has issued the following Standards, Interpretations and amendments to Standards that are not yet effective and while considered relevant to the Company. These Standards have not yet been adopted by the Company.

Financial instruments

In October 2010, the International Accounting Standards Board ("IASB") issued IFRS 9, Financial Instruments ("IFRS 9"). This standard is effective for annual periods beginning on or after January 1, 2015 and is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The classification and measurement of the Company's financial assets and financial liabilities is not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial assets and liabilities that it holds.

Consolidated financial statements

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"). This standard is effective for annual periods beginning on or after January 1, 2013 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

Joint arrangements

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"). This standard is effective for annual periods beginning on or after January 1, 2013 and establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 requires a party to assess the rights and obligations arising from an arrangement in determining whether an arrangement is either a joint venture or a joint operation. Joint ventures are to be accounted for using the equity method while joint operations will continue to be accounted for using proportionate consolidation. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 11 to have a material impact on the financial statements.

Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). This standard is effective for annual periods beginning on or after January 1, 2013 and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 integrates and makes consistent the disclosure requirements for a reporting entity's interest in other entities and presents those requirements in a single standard. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. When applied, it is expected that IFRS 12 will increase the current level of disclosure of interests in other entities.

Fair value measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). This standard is effective for annual periods beginning on or after January 1, 2013 and provides additional guidance where IFRS requires fair value to be used. IFRS 13 defines fair value, sets out in a single standard a framework for measuring fair value and establishes the required disclosures about fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

Employee benefits

In June 2011, the IASB issued an amended version of IAS 19, Employee Benefits ("IAS 19"). This amendment is effective for annual periods beginning on or after January 1, 2013 and requires the recognition of actuarial gains and losses immediately in other comprehensive income and full recognition of past service costs immediately in profit or loss. Revised IAS 19 also streamlines the presentation of changes in assets and liabilities arising from defined benefit plans and enhances the disclosure requirements for defined benefit plans. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect the amendments to IAS 19 to have a material impact on the financial statements.

Presentation of other comprehensive income (OCI)

In June 2011, the IASB issued an amended version of IAS 1, Presentation of Financial Statements ("IAS 1"). This amendment is effective for annual periods beginning on or after July 1, 2012 and requires companies preparing financial statements in accordance with IFRS to group together items within OCI that may be reclassified to the profit or loss section of the statement of earnings. Revised IAS 1 also reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. As the amendments only require changes in the presentation of items in other comprehensive income, the Company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

Strategic Direction and Outlook

HPS is steadfast in its strategic investment in growth initiatives in Canada, the U.S., India and Europe. This commitment is evidence by its Quarter 1, 2013 acquisition of Marnate Trasformatori s.r.l. in Italy.

The Company is very cognizant of the general global economic climate, the potential negative impact of a stronger and unpredictable Canadian dollar as well as the variability of raw material commodity costs and market pricing pressures. The Company continues to manage these deterrents in a deliberate and forthright manner through its operational plans and strategic projects.

The Company is not immune to the challenges it faces from these negative influences however is confident that the business fundamentals that it has built will sustain and grow the Company in the near future and over the long term. The Company continues to believe that this is a time to be prudent but not complacent, conservative but progressive.

The Company continues to show strong performance across all financial and operational metrics, is industry leading, and stronger and more capable of enduring economic uncertainty.

HPS looks forward to the many opportunities that lie ahead.

We will continue to focus our efforts on sustaining profit rates through selective selling price increases, sales growth, geographic manufacturing dispersion, global expansion, productivity gains, new product development and market share penetration.

We expect sales growth will be realized in several of our market segments however will remain at a lower level in others. A portion of our sales will come from major customer projects for which the exact timing is hard to predict, thus influencing quarterly sales fluctuations.

HPS is positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of market sectors. Our success lies in our resilience, drive and commitment, our decades of experience, our engineering expertise, solid supplier relationships, and a broad and unique business perspective gained through our diverse products, customers and markets.

The Company is committed to ensuring our strategic advantage going forward, by:

- Investing in capital and its employees;
- Disciplined cost management initiatives; and
- Bringing quality and value to all stakeholders of the Company.

We will make every effort to deliver solid financial performance, provide a sustainable return to our shareholders and maintain the financial strength of the Company. The Company will act in a conscientious and reliable manner and is determined and confident that its strategies will deliver financial consistency going forward.

We see a gradual escalating improvement in our results through the balance of 2013 and we believe in the strength of HPS' strategies and are confident in the Company's future. •

Selected Annual and Quarterly Information

Selected Annual and Quarterly Financial Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the First Quarter of 2013. The quarterly information has been extracted from our unaudited consolidated financial statements which in the opinion of Management, are prepared in accordance with the IFRS accounting framework as noted.

Annual Information*

(tabular amounts in thousands of dollars)	Canadian GAAP 2008	2009	2010 IFRS Restated	2011	**2012**
Sales	226,358	195,437	190,604	221,323	**257,376**
Earnings from operations	26,558 *	18,943	13,642	13,039	**18,180**
EBITDA	34,742	19,816	19,500	15,538	**24,352**
Net earnings for the year	22,829	9,631	10,652	5,993	**12,611**
Total assets	110,891	106,597	118,643	137,520	**160,049**
Total liabilities	41,107	29,094	32,360	46,072	**58,404**
Total cash (debt)	(4,100)	10,024	17,694	1,681	**(990)**
Cash provided from operations	6,254	26,418	4,109	6,592	**21,371**
Basic earnings per share	1.95	0.82	0.92	0.52	**1.08**
Diluted earnings per share	1.93	0.82	0.91	0.51	**1.08**
Dividends declared and paid	–	1,173	1,504	1,738	**2,098**
Average Exchange Rate (USD$=CAD$)	1.064	1.145	1.030	0.989	**1.0005**
Book value per share	5.91	6.57	7.45	7.89	**8.54**

Quarterly Information

(tabular amounts in thousands of dollars)	2011 IFRS Q2	Q3	Q4	2012 Q1	Q2	Q3	Q4	**2013 Q1**
Sales	52,330	55,489	60,727	65,654	65,486	63,703	62,533	**63,672**
Earnings from operations	1,819	2,664	5,729	3,757	4,663	4,215	5,545	**3,359**
EBITDA	2,876	1,800	7,282	5,770	6,099	5,999	6,484	**5,442**
Net earnings	682	171	3,569	2,518	2,811	2,552	4,730	**1,907**
Total assets	133,574	135,271	137,520	154,596	148,646	151,018	160,049	**170,729**
Total liabilities	45,481	44,523	46,072	59,537	52,218	53,178	58,404	**65,830**
Total cash (debt)	(7,520)	(3,344)	1,681	(19,338)	(11,369)	(9,255)	(990)	**(15,001)**
Cash provided (used) by operations	(6,494)	4,923	10,741	(3,330)	10,476	3,763	10,461	**(1,011)**
Basic earnings per share	0.06	0.01	0.31	0.22	0.24	0.21	0.41	**0.16**
Diluted earnings per share	0.06	0.01	0.31	0.22	0.24	0.21	0.41	**0.16**
Dividends declared and paid	–	–	1,738	–	1,049	–	1,049	**582**
Average Exchange Rate (USD$=CAD$)	0.967	0.980	1.023	1.002	1.009	1.000	0.9913	**1.0065**
Book value per share	7.60	7.83	7.89	8.05	8.12	8.24	8.54	**8.82**

* exchange gain/loss of the 2008 comparative figures has been reclassified to conform with the current period financial statement presentation

Condensed Consolidated Statements of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)	As at March 30, 2013	December 31, 2012
Assets		
Current assets		
Cash	$ 6,050	$ 13,720
Accounts receivable	47,182	41,607
Inventories	35,001	35,172
Income taxes recoverable	1,292	720
Prepaid expenses and other assets	1,259	1,300
Total current assets	$ 90,784	$ 92,519
Non-current assets		
Property, plant and equipment	45,986	40,029
Investment in properties	1,044	1,044
Deferred tax assets	477	463
Goodwill	17,815	13,643
Intangible assets	14,623	12,351
Total non-current assets	79,945	67,530
Total assets	$ 170,729	$ 160,049
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 19,243	$ 12,568
Accounts payable and accrued liabilities	34,312	37,690
Income tax liabilities	524	1,327
Provisions	945	422
Current portion of note payable (note 9)	161	–
Derivative liabilities	90	47
Current portion of long-term debt (note 6)	875	926
Total current liabilities	$ 59,922	$ 52,980
Non-current liabilities		
Employee future benefits	642	312
Provisions	100	100
Note payable (note 9)	3,772	–
Long-term debt (note 6)	933	1,216
Deferred tax liabilities	4,233	3,796
Total non-current liabilities	5,908	5,424
Total liabilities	$ 65,830	$ 58,404
Shareholders' Equity		
Share capital	13,295	13,295
Contributed surplus	2,138	1,887
Accumulated other comprehensive income	(1,997)	(3,771)
Retained earnings	89,223	87,976
Total shareholders' equity attributable to equity holders of the Company	$ 102,659	$ 99,387
Non-controlling interests	2,240	2,258
Total shareholder's equity	104,899	101,645
Total liabilities and shareholders' equity	$ 170,729	$ 160,049

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Three months ending March 30, 2013	March 31, 2012
Sales	$ 63,672	$ 65,654
Cost of sales	48,376	50,100
Gross margin	15,296	15,554
Selling and distribution	6,542	6,259
General and administrative	5,395	5,538
Earnings from operations	3,359	3,757
Finance and other costs (income):		
Interest expense	169	124
Foreign exchange gain	(8)	(22)
Realized and unrealized gain on copper forward contracts	–	(376)
Other	34	33
Net finance and other costs	195	(241)
Income before income taxes	3,164	3,998
Income tax expense	1,257	1,480
Net earnings	$ 1,907	$ 2,518
Non-controlling interests	$ 78	$ 26
Net income attributable to equity holders of the Company	1,829	2,492
Net earnings	$ 1,907	$ 2,518
Earnings per share		
Basic earnings per share (dollars)	$ 0.16	$ 0.22
Diluted earnings per share (dollars)	$ 0.16	$ 0.22

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)

	Three months ending March 30, 2013	Three months ending March 31, 2012
Net earnings	$ **1,907**	$ 2,518
Other comprehensive income		
Foreign currency translation differences for foreign operations	**1,678**	(989)
Other comprehensive income for the year, net of income tax	**1,678**	(989)
Total comprehensive income for the period	$ **3,585**	$ 1,529
Attributable to:		
Equity holders of the Company	**3,603**	1,547
Non-controlling interest	**(18)**	(18)
Total comprehensive income for the period	$ **3,585**	$ 1,529

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 30, 2013

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI**	RETAINED EARNINGS	NON-CONTROLLING INTEREST	**TOTAL SHAREHOLDERS' EQUITY**
Balance, as at January 1, 2013	$ 13,295	$ 1,887	$ (3,771)	$ 87,976	$2,258	**$ 101,645**
Total comprehensive income for the year						
Net earnings	–	–	–	1,829	78	**1,907**
Other comprehensive income						
Foreign currency translation differences	–	–	1,774	–	(96)	**1,678**
Total other comprehensive income	–	–	1,774	–	(96)	**1,678**
Total comprehensive income for the year	–	–	1,774	1,829	(18)	**3,585**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	251	–	–		**251**
Dividends to equity holders	–	–	–	(582)		**(582)**
Total transactions with shareholders	–	251	–	(582)	–	**(331)**
Balance at March 30, 2013	$ 13,295	$ 2,138	$ (1,997)	$ 89,223	$ 2,240	**$ 104,899**

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 31, 2012

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI**	RETAINED EARNINGS	NON-CONTROLLING INTEREST	**TOTAL SHAREHOLDERS' EQUITY**
Balance, as at January 1, 2012	$ 12,987	$ 1,525	$ (935)	$ 77,871	$ –	**$ 91,448**
Total comprehensive income for the year						
Net earnings	–	–	–	2,492	26	**2,518**
Other comprehensive income						
Foreign currency translation differences	–	–	(945)	–	(44)	**(989)**
Total other comprehensive income	–	–	(945)	–	(44)	**(989)**
Total comprehensive income for the year	–	–	(945)	2,492	(18)	**1,529**
Transactions with shareholders recorded directly in equity						
Share-based payment transactions	–	308	–	–	–	**308**
Acquisition of subsidiary with non-controlling interests	–	–	–	–	1,842	**1,842**
Dividends declared to non-controlling interest	–	–	–	–	(68)	**(68)**
Total transactions with shareholders	–	308	–	–	1,774	**(2,082)**
Balance at March 31, 2012	$ 12,987	$ 1,833	$ (1,880)	$ 80,363	$ 1,756	**$ 95,059**

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Three months ending March 30, 2013	March 31, 2012
Cash flows from operating activities	$ 1,907	$ 2,518
Net earnings		
Adjustments for:		
Amortization of property, plant and equipment	1,780	1,443
Amortization of intangible assets	329	205
Provisions	(14)	(29)
Interest expense	169	124
Income tax expense	1,257	1,480
Change in unrealized loss (gain) on derivatives	43	(684)
Stock based compensation expense	251	308
	5,722	5,365
Change in non-cash working capital	(4,101)	(7,339)
Cash provided by (used in) operating activities	1,621	(1,974)
Income tax paid	(2,632)	(1,356)
Net cash used in operating activities	(1,011)	(3,330)
Cash flows from investing activities		
Acquisition of subsidiary company net of cash acquired (note 9)	(9,512)	(15,410)
Acquisition of property, plant and equipment	(2,134)	(976)
Acquisition of intangible assets	(322)	(345)
Cash used in investing activities	(11,968)	(16,731)
Cash flows from financing activities		
Advances from bank operating lines of credit	6,675	14,705
Advances of long term debt	–	58
Repayment of long term debt	(334)	(309)
Cash dividends paid (note 7)	(582)	–
Interest paid	(169)	(124)
Cash provided by financing activities	5,590	14,330
Foreign exchange on cash held in a foreign currency	(281)	(115)
Decrease in cash	(7,670)	(5,846)
Cash at beginning of period	13,720	7,814
Cash at end of period	$ 6,050	$ 1,968

See accompanying notes to condensed consolidated interim financial statements.

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Charted Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

1. Reporting entity

Hammond Power Solutions Inc. ("HPS" or "the Company") is a company domiciled in Canada. The address of the Company's registered office is 595 Southgate Rd. Guelph, Ontario. The Company's Class A subordinate voting shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

The condensed consolidated interim financial statements of the Company as at and for the first quarter ended March 30, 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group primarily is involved in the design and manufacture of custom electrical engineered magnetics and standard electrical dry-type transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India, the latter being PETE Hammond Power Solutions Private Limited, a 70% equity ownership acquired through an acquisition during the first quarter of 2012.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with requirements of IAS 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on April 25, 2013.

(b) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2012.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2012 annual audited financial statements which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR").

The significant accounting policies applied by the Company in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2012.

4. Property, plant and equipment:

The Group had acquisitions of fixed assets for the three months ended March 30, 2013 in the amount of $2,134,000 (2012 - $976,000). This was made up of office equipment additions of $43,000 and machinery and equipment $2,091,000.

5. Intangible assets

The Group had acquisitions of intangible assets for the three months ended March 30, 2013 in the amount of $322,000 (2012 - $345,000). This was all for the addition of software. None of the intangible assets have been developed internally.

Quarters ended March 30, 2013 and March 31, 2012 (tabular amounts in thousands of dollars)

6. Long-term debt

	March 30, 2013	March 31, 2012
Opening balance	$ 2,142	$ 4,537
New issues:		
Acquired through business acquisitions	–	242
Term loan INR	–	58
Repayments:		
Term loan CAD	(60)	(45)
Term loans EU	(171)	(147)
Term loan INR	(102)	(120)
Exchange	(1)	3
Closing balance	$ 1,808	$ 4,528

7. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Three months ending	
	March 30, 2013	March 31, 2012
5 cents per Class A common share (2012: 0 cents)	$ 443	$ –
5 cents per Class B common share (2012: 0 cents)	139	–
	$ 582	$ –

(b) Stock option plan

During the three months ended March 30, 2013, the Company granted 150,000 options (2012 – 129,000) of which 90,000 vested immediately (2012 – 83,000) and the remaining vest equally in 2013 and 2014. Stock-based compensation recognized and the amount credited to contributed surplus during the period is $251,000 (2012 - $308,000) and relates to options granted during Quarter 1, 2013 and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $2.37 (2012 - $3.05).

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

	2013	2012
Fair value of share options and assumptions		
Fair value at grant date	$ 2.37	$ 3.05
Share price at grant date	$ 10.00	$ 9.74
Exercise price	$ 10.00	$ 9.74
Expected volatility (weighted average volatility)	43.6%	44.4%
Option life (expected weighted average life)	3.8 years	3.8 years
Expected dividends	1.1%	1.6%
Risk-free interest rate (based on government bonds)	1.79%	1.52%

8. Related party transactions:

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2012 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,027,321 (2012 – 1,026,770) Class A subordinate voting shares of the Company, representing approximately 11.6% (2012 – 11.6%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. All of the issued and outstanding shares of Arathorn Investments Inc. are owned by William G. Hammond, Chief Executive Officer and Chairman of the Company. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $139,000 (Quarter 1 2012 – $nil).

In the ordinary course of business, the Company enters into transactions with affiliated entities. All related party transactions in the normal course of operations are recorded at the exchange amount of consideration established by and agreed to by the related parties. The Group entered into the following trading transactions with other related parties:

	2013	2012	Relationship
Purchase of goods	$ 150	$ 145	Companies in which key management personnel and/or their relatives have significant influence.

	2013	2012	Relationship
Amounts owed to related parties	$ 33	$ 30	Companies in which key management personnel and/or their relatives have significant influence and key management personnel.

Transactions with key management personnel

During Quarter 1, 2012, the Group purchased $78,000 (2012 – $61,000) of inventory from a company in which a key employee has influence, as a director of the Company. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $6,000 (2012 – $11,000) which is owed to this company.

9. Business combination:

On February 12, 2013, Hammond Power Solutions Inc. signed an agreement for the acquisition of Marnate Trasformatori s.r.l. ("Marnate") in Italy, acquiring a 100% equity ownership of its cast resin transformer business for 7,300,000 Euro ($9,785,000 CAD). Marnate is involved in the design and manufacture of standard and custom cast resin transformers and has an excellent reputation in the industry for product quality and reliability.

Identifiable assets acquired and liabilities assumed consist of:
(in thousands of dollars)

Cash	$	273
Accounts receivable		1,634
Inventories		1,319
Prepaid assets		113
Property, plant and equipment		5,803
Intangible assets		2,346
Goodwill		4,017
Assets	$	15,505
Accounts payable	$	(1,080)
Provisions and other liabilities		(867)
Future income tax liability		(422)
Note payable		(3,351)
Liabilities		(5,720)
Total purchase consideration	$	9,785

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill, which represents the expected synergies to be realized from Marnate's complementary products. None of the goodwill recognized is deductible for income tax purposes.

The accounting for the acquisition is currently based on estimates and preliminary financial statements. The Company is awaiting final property, plant and equipment valuations and intangible asset valuations from external sources, and accordingly any changes may result in adjustments to goodwill; property, plant and equipment; and intangible assets and the future tax liability.

Marnate's annual revenues for the year ended December 31, 2012 were approximately $8,000,000 CAD. The Company will operate as Marnate Trasformatori s.r.l., a subsidiary of HPS ("Marnate").

The definitive agreement includes a deferred payment provision of $671,000 due in semiannual installments of equal amount during the two years following the closing, subject to the condition of continued employment of the majority shareholder.

As part of the acquisition, the Company entered into an agreement to purchase the building. This obligation consists of monthly interest instalments of 10 EUR at a rate of 4.5%, with the remaining balance being paid no later than February 2016. This note payable is secured by the value of the building.

The acquisition costs attributed to Marnate incurred during the first quarter, were $78,000 which were included in general and administrative expense.

Included in the Group's consolidated results for the three months ended March 30, 2013 is revenue of $1,068,000 and net earnings of $100,000 recognized by Marnate from the date of acquisition to March 30, 2013. If the Company had acquired Marnate effective January 1, 2013, the revenue would have been approximately $1,412,000 and there would have been net earnings of approximately $92,000.

our locations

Canada

Mexico


India


Italy


Italy

Hammond Power Solutions Inc.
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Delta Transformers Inc.

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3850 place de Java
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PETE – Hammond Power Solutions Private Limited – India

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1100 Lake Street
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17715 Susana Road
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The Hammond Museum of Radio is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment. Tours can be arranged by calling: 519-822-2441 x590.

Corporate Officers and Directors

William G. Hammond *
Chairman and Chief Executive Officer

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Zoltan D. Simo *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky **
Director

* Corporate Governance Committee
\+ Audit and Compensation Committee

Corporate Head Office

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Canada N1G 3W6

Stock Exchange Listing

Toronto Stock Exchange (TSX)
Trading Symbol: HPS.A

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Auditors

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Waterloo, Ontario
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Investor Relations

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U.S.A.

Hammond Power Solutions Inc.