



Q1

For the three months ended
March 29, 2014



Hammond Power
Solutions Inc.

Our Vision

To be the leader in our industry by delivering:

- ❖ Lead times as defined by our customers
- ❖ A broad range of competitive products
- ❖ Quality and service excellence in all that we do
- ❖ Technical expertise
- ❖ Strong financial performance

Our Mission

We are a growing and profitable global supplier of transformers and complementary products dedicated to satisfying the collective needs of our shareholders, customers, suppliers, employees and community.

Our Values

- ❖ We value **honesty, integrity** and **ethical behaviour** in our relationships with all stakeholders.
- ❖ We value **innovation** and a relentless pursuit of **continuous improvement** in all our processes.
- ❖ We value **timely decisions** based on **facts and knowledge**.
- ❖ We value a **team-oriented** approach.
- ❖ We value the personal **safety** of all stakeholders.
- ❖ We believe in treating all stakeholders with **dignity** and **respect**.

HPS is an unparalleled company – one of a kind.

What would co-founder Fred Hammond and his brothers think if they saw the industry leader that their small radio company has become? He would be proud that his family's 1917 vision has grown into the global company it is today. "Build the product like you were going to use it yourself" was their motto, one that you can see evident with the work ethic of each HPS employee.

Has growth been a challenge? At times it has, but the company has been able to weather economic storms due to the creation of a strong foundation that supports the future – a foundation that started in small town Guelph, Ontario, Canada with a focus on the people, a foundation that we continue to build on.

In 2001, CEO Bill Hammond (Fred's son) officially renamed the transformer division of Hammond Manufacturing to Hammond Power Solutions. Bill continues to steer the company his ancestors created with the same values that they began with.

ANNUAL GENERAL MEETING

Shareholders are cordially invited to attend the Annual General Meeting held:
Thursday, May 22, 2014 at 1:00 (EST)

The Cutten Club a/o Cutten Fields
(The Cutten Room)
190 College East,
Guelph, Ontario
N1G 3B9

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A Future of Growth and Expansion

Gaining Momentum

32%

Increase in booking rates compared to Q1, 2013

Market Resilience

23%

Consistency in margin rates

Expanding our global footprint

15%

Increase in International Sales

Strong Balance Sheet

9%

Increase in total assets compared to Q1, 2013

3

Fellow Shareholders,

Although our results are lower than planned, we are finally seeing concrete evidence that a more positive business environment lays ahead for HPS.

The first quarter of 2014 for Hammond Power Solutions Inc. ("HPS") has been challenging for several reasons: Severe winter weather conditions affected our construction-related business across most of Canada as well as the central and eastern regions of the United States ("U.S."). These conditions starting in late November of last year are responsible for the delay of construction projects from a matter of weeks to months. The Canadian economy continues to be weaker than expected. Our mining and export-related Original Equipment Manufacturer ("OEM") business has decelerated given the slowing emerging market economies. These factors, beyond our control, have contributed to a greater than expected decline in sales compared to a year ago.

Positively however, our total U.S. bookings in Q1 were the second highest we have ever experienced which indicates that better results should lie ahead. Much of this increase has come from a growing

number of commercial and industrial projects that have been secured for the coming quarters. We are seeing general activity in the U.S. moderately accelerating in most markets and regions, which is reflected in higher growth through our distributor channel. At the same time, we are beginning to see growth from our small European and Indian operations compared to 2013.

These times of great volatility and uncertainty continue to create challenging circumstances in which we have to prudently manage our factory loads and expenses. Despite this, we have been able to hold our margins relatively stable in this very competitive environment even with the significant volatility in our markets.

We are cautiously optimistic about our growth going forward which is supported by our growing bookings and backlog, and continue to expand our penetration of the geographies and diverse markets that we serve. We are confident that our financial strength, core competencies and long term strategies will accelerate our growth as markets start to improve.



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

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, cast resin and liquid filled 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.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended March 29, 2014, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of Fiscal 2014. This information is based on Management's knowledge as at May 13, 2014. 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 2013 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the Fiscal 2013 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 29, 2014 and March 30, 2013 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 29, 2014 were \$59,953, a decline of \$3,719 or 5.8% from Quarter 1, 2013 sales of \$63,672 and a decrease of \$2,851 from Quarter 4, 2013 sales of \$62,804.

Sales in the U.S., were \$33,747 in Quarter 1, 2014 a slight decrease of \$1,438 or 4.1% from Quarter 1, 2013 and a decrease of \$1,454 from Quarter 4, 2013 sales of \$35,201. This decline in the U.S. was a result of a slowdown in OEM order booking and sales activity, particularly in the motor control, mining, and capital equipment market segments. Conversely, the power conversion, and U.S. North American Electrical Distributor ("NAED") markets were both strong in the quarter. Stated in U.S. dollars ("USD") sales in the U.S. were \$30,648 in Quarter 1, 2014 a decrease of \$4,310 or 12.3% from Quarter 1, 2013. These sales were favourably affected by a swing of a 9.9% weaker Canadian dollar ("CAD"), (\$1.00 USD = \$1.11 CAD in Quarter 1, 2014 compared against \$1.00 USD = \$1.01 CAD in Quarter 1, 2013). This exchange rate change had a favourable impact on the amount of stated U.S. sales for this quarter as compared to Quarter 1, 2013.

Canadian sales were \$17,930 for the quarter, a decrease over Quarter 1, 2013 of \$3,342 or 15.7% and a decrease from Quarter 4, 2013 of \$2,151 or 10.7%. This decline was largely due to lower Quarter 4, 2013 booking rates in several market segments particularly in the institutional construction project business as well as the mining and utility markets. The Canadian market was impacted by low Canadian project market activity particularly in project delays due to weather in new construction and sluggish NAED channel activity.

International sales in Quarter 1, 2014 were \$8,276 versus \$7,222 in Quarter 1, 2013, an increase of \$1,054 or 14.6%. An increase in international sales was impacted by a full quarter of sales for Marnate Trasformatori s.r.l. ("Marnate"), our Quarter 1, 2013 acquisition in Italy, which contributed \$2,264 international sales in Quarter 1, 2014 compared to \$1,068 in Quarter 1, 2013.

Quarter 1, 2014 sales stated by geographic segment were derived from U.S. sales of 56.3% of total sales, Canadian sales of 29.9%, European sales of 7.0%, and Indian sales of 6.8%.

The Company has an intense focus on market development and offering a broad and varying product range of premium quality transformers. Recent acquisitions over the past number of years have built the foundation to achieve this goal by expansion of the Company's geographic footprint. These global perspectives, partnered with the Company's growth initiatives in strategic market segments are the keys to future company growth. The Company is committed to these strategies.

The Company's other strategic success factors include our capabilities in custom product design, product breadth, manufacturing agility, uncompromised quality, competitive lead-times, and geographically diverse manufacturing capabilities. The Company expects it will produce sales opportunities leading to moderate growth through existing and new customer sales.

Management is confident that future sales growth will be achieved through the combination of our market expansion initiatives, our solid position in the distributor channel and new product development. This is the key to the foundation of our revenue and profit expansion plans.

Order bookings and backlog

The Company realized an increase in bookings of 13.3% over Quarter 4, 2013 as a result of higher direct bookings. The Company also realized an increase of 31.5% as compared against Quarter 1, 2013 due to a significant increase in bookings in both the direct and distributor channels in North America.

By channel, booking levels were 32.9% higher due to increased bookings in both Canada and U.S. on a direct customer basis and 2.6% lower on a distributor basis due to lower distributor bookings in Canada as compared to Quarter 4, 2013. Compared to Quarter 1, 2013 direct bookings were higher by 42.8% and distributor bookings were up by 20.9% due to improvement in the North American electrical industry for the same period a year ago.

Due to higher bookings our backlog finished 2.0% higher than Quarter 4, 2013 and 3.4% higher than the end of Quarter 1, 2013.

Despite soft general world economies and lackluster electrical market conditions, U.S. quotation activity increased significantly in the quarter. As a result, the Company is now seeing a longer term booking horizon.

It is expected that the Company's sales development initiatives will deliver escalating improvement in our booking rates. We are cognizant that although we may experience booking rate volatility, HPS will see momentum increase late in Quarter 2, 2014 and onward.

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

Gross Margin

Despite lower manufacturing volumes in Quarter 1, 2014, the Company maintained reasonable gross margin rates this quarter as compared to the same quarter last year. Gross margin rates for Quarter 1, 2014 were 23.2% and Quarter 1, 2013 finished at 24.0%. The consistency in margin rates can be attributed to a number of factors including product mix, market specific pricing strategies and materials and engineering cost reductions.

While the Company has made progress in these factors, margin rates are eroded by selling price pressures and the effect that lower production has on the absorption of factory costs. Despite this, gross margins were favourably impacted by the maintenance of market specific price increases, engineering and manufacturing cost reduction initiatives and material procurement cost reduction initiatives which contributed approximately 0.7% to margin rates.

Despite the lethargic global recovery and vacillating economic environment, the Company continues to advance its geographic footprint, manufacturing capabilities and new product development. This supports anticipated growth from implemented market strategies and eventual economic improvement. In the short-term, the additional fixed costs associated with the expansion are dilutive to net margin rates, however as sales grow, the favourable impact that higher manufacturing throughput will have on the 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 certain that these actions combined with increased sales and higher manufacturing throughput will also advance margin rates.

Selling and distribution expenses

Total selling and distribution expenses were \$7,058 in Quarter 1, 2014 versus \$6,542 in Quarter 1, 2013, an increase of \$516 or 7.9%. These expenses represent 11.8% of sales in Quarter 1, 2014 and 10.2% of sales in Quarter 1, 2013.

Selling and distribution expenses relating to Marnate were \$169 in Quarter 1, 2014 and \$80 in Quarter 1, 2013. Excluding Marnate, Quarter 1, 2014 expenses were \$6,889 versus \$6,462 in Quarter 1, 2013, an increase of \$427 or 6.6%.

Increased global sales salaries of \$150 have been partially offset by a decrease in commission expense of \$242 due to lower sales. Freight continues to be a volatile cost that has increased as a percentage of sales from Quarter 1, 2013 due to increased gasoline prices. The increase in freight expenses from Quarter 1, 2013 to Quarter 1, 2014 was \$90.

General and administrative expense

The general and administrative expenses for Quarter 1, 2014 totaled \$5,546, a slight increase of \$151 or 2.8% when compared to Quarter 1, 2013 expenses of \$5,395. This represents 9.3% of sales in Quarter 1, 2014 as compared to 8.5% of sales in Quarter 1, 2013. The Quarter 1, 2014 general and administrative expenses include international operation expenses of \$922 versus \$649 in Quarter 1, 2013 as a result of an entire quarter of expenses for Marnate.

General and administrative expenses include \$84 for the quarter and \$43 for Quarter 1, 2013 relating to Marnate. Excluding Marnate, Quarter 1, 2014 expenses were \$5,462 versus \$5,352 in Quarter 1, 2013, an increase of \$110 or 2.1%.

General and administrative costs have been impacted by post implementation consulting costs of \$74 associated with the Company's Enterprise Resources Planning ("ERP") system. Quarter 1, 2014 general and administrative expenses were lowered as a result of \$81 reduced quarter stock option expense from Quarter 1, 2013 and reduced bad debt provisions.

The Company continues to remain cognizant of general and administrative expense management.

Earnings from operations

Quarter 1, 2014 earnings from operations decreased by \$2,056 or 61.2% from the same quarter last year, finishing at \$1,303 compared to \$3,359 in Quarter 1, 2013. This reduction was a result of the decrease in sales, resultant reduction of margin contribution and the decline in margins.

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

	Quarter 1, 2014	Quarter 1, 2013
Net earnings	\$ 520	\$ 1,907
Add:		
Income tax expense	590	1,257
Net finance and other costs	193	195
Earnings from operations	\$ 1,303	\$ 3,359

Interest expense

The interest expense for Quarter 1, 2014 finished at \$257, an increase of \$88 or 52.1% compared to the Quarter 1, 2013 expense of \$169. The increase in interest expense for the quarter 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, 2014 was \$97, relating primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange gain of \$8 in Quarter 1, 2013.

As at March 29, 2014, the Company had outstanding foreign exchange contracts in place for 10,100 Euros ("EUR") and \$8,000 USD – both implemented as a hedge against translation gains and losses on inter-company loans as well as \$12,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Income taxes

Quarter 1, 2014 income tax expense was \$590 as compared to \$1,257 in Quarter 1, 2013, a decrease of \$667 or 53.1%. The consolidated effective tax rate for Quarter 1, 2014 was 53.2% versus 39.7% for Quarter 1, 2013, an increase of 13.5%. 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. This change is being generated from different tax jurisdictions and is subject to different tax rates and regulations. The effect of minimum tax regulations in Italy contributed to the elevated effective tax rate in the quarter.

Deferred tax assets and liabilities, consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities 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, 2014 decreased by \$1,387 or 72.7% and finished at \$520 compared to net earnings of \$1,907 in Quarter 1, 2013. Decreased sales, lower gross margin rate dollars, increased interest costs, higher general and administrative expenses and selling and distribution expenses were the main contributing factors to the quarter decline. The Company continues to anticipate improvement in the later part of the year as it gains traction with its operational initiatives.

EBITDA

EBITDA for Quarter 1, 2014 was \$3,310 versus \$5,442 in Quarter 1, 2013 a decrease of \$2,132 or 39.2%. Adjusted for foreign exchange gains, EBITDA for Quarter 1, 2014 was \$3,213 versus \$5,434 in Quarter 1, 2013 a decrease of \$2,221 or 40.9%.

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

	Quarter 1, 2014	Quarter 1, 2013
Net earnings	\$ 520	\$ 1,907
Add:		
Interest expense	257	169
Income tax expense	590	1,257
Depreciation and amortization	1,943	2,109
EBITDA	\$ 3,310	\$ 5,442
Deduct:		
Foreign exchange gain	(97)	(8)
Adjusted EBITDA	\$ 3,213	\$ 5,434

Summary of Quarterly Financial Information (Unaudited)

	Quarter 1, 2014	Quarter 1, 2013
Sales	\$ 59,953	\$ 63,672
Net earnings	\$ 520	\$ 1,907
Net income per share – basic	\$ 0.04	\$ 0.16
Net income per share - diluted	\$ 0.04	\$ 0.16
Average U.S. to Canadian exchange rate	\$ 1.092	\$ 1.007

	Q1, 2013	Q2, 2013	Q3, 2013	Q4, 2013	Total
Sales	\$ 63,672	\$ 59,072	\$ 57,393	\$ 62,804	\$ 242,941
Net earnings	\$ 1,907	\$ 510	\$ 792	\$ 2,895	\$ 6,104
Net income per share – basic	\$ 0.16	\$ 0.04	\$ 0.07	\$ 0.25	\$ 0.52
Net income per share – diluted	\$ 0.16	\$ 0.04	\$ 0.07	\$ 0.25	\$ 0.52
Average U.S. to Canadian exchange rate	\$ 1.007	\$ 1.022	\$ 1.038	\$ 1.026	\$ 1.0290

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, 2014 have shown a decrease from the prior year due to a general economic decline and deferred timing in commercial construction projects due to the severe weather conditions experienced in North America. The lower market activity has continued to produce decreased revenue. 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, 2014 was \$1,645 versus \$1,011 in Quarter 1, 2013, an increase of \$634 as a result of lower net earnings.

During the quarter, non-cash working capital used cash of \$4,686 compared to \$4,101 for the same quarter last year. The working capital changes are primarily related to a decrease in trade accounts payable, which decreased by \$6,628 when comparing Quarter 1, 2014 to Quarter 4, 2013. The decrease in accounts payable is attributable to the decrease in sales and production.

Capital expenditures were \$674 in Quarter 1, 2014 compared to \$2,134 for Quarter 1, 2013, a decrease of \$1,460. Expanded manufacturing capacity, new product development and information technology infrastructure were areas of capital expenditure in previous quarters.

Total cash provided by financing activities for Quarter 1, 2014 was \$641 as compared to \$5,590 in Quarter 1, 2013. Bank operating lines of credit have increased from prior year levels finishing Quarter 1, 2014 at \$28,999 compared to \$19,243 at the end of Quarter 1, 2013, an increase of \$9,756. The increase in bank indebtedness levels is a result of the acquisition of Marnate in 2013.

The Company's overall debt, net of cash was \$24,965 in Quarter 1, 2014 compared to a net debt position of \$18,934 in Quarter 1, 2013, an increase in debt position of \$6,031 due to the change in non-cash working capital. All bank covenants continue to be met as at March 29, 2014.

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.

Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations.

Contractual obligations

(tabular amounts in thousands of dollars)	2014	2015	2016	2017	2018	Thereafter	Total
Operating leases	\$ 2,147	\$ 1,467	\$ 856	\$ 145	\$ 99	\$ —	\$ 4,714
Accounts payable and accrued liabilities	32,588	—	—	—	—	—	\$ 32,588
Capital expenditure purchase commitments	1,077	—	—	—	—	—	\$ 1,077
Bank operating lines	28,999	—	—	—	—	—	\$ 28,999
Derivative liabilities	70	—	—	—	—	—	\$ 70
Long term debt	859	360	3,888	—	—	—	\$ 5,107
Total	\$ 65,740	\$ 1,827	\$ 4,744	\$ 145	\$ 99	\$ —	\$ 72,555

Contingent liabilities

In December 2013, the Company received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by the Corporation. At this time the Company feels that there is no merit to the claim.

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 1992 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, 2014 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.

On May 14, 2013 the COSO Framework released an updated version of the 1992 internal control integrated framework, referred to as "2014 COSO". The original framework will be available through December 15, 2014, at which time the 1992 framework will be superseded. The Company is in the process of reviewing the changes to the framework and developing a transition plan to adopt the new framework for the fiscal year ending December 31, 2014.

Regular quarterly dividend declaration

The Board of Directors of HPS declared a quarterly cash dividend of six cents (\$0.06) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of six cents (\$0.06) per Class B Common Share of HPS payable on March 27, 2014 to shareholders of record at the close of business on March 20, 2014. The ex-dividend date was March 18, 2014.

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 visible impact on our operating results. These risks include:

- The volatility, unpredictability and cyclical effects of market costs and supply pressures for commodities including, but not limited to, copper, insulation and electrical grain oriented steel;
- A significant global unexpected change in demand for resources;
- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Global economic decline or recession;
- Fluctuations in interest rates;
- Unpredictable weather trends and conditions;
- Government protectionism or regulation changes;
- 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 strives to minimize or eliminate 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 an impact on the Company's costs and earnings is the cyclical effects and market cost pressures of copper commodity and steel pricing in the global markets. In the past the Company had utilized a future hedging strategy, which was later discontinued due to the unprecedented volatility of the financial impact of unrealized gains and losses. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign exchange

As the Company has expanded their global footprint the impact of foreign currency fluctuations has continued to be an area of focus. HPS' operating results are reported in Canadian dollars, however the majority of our sales and material purchases are denominated in U.S. dollars. 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. Even with this natural hedge, a change in the value of the Canadian dollar against the U.S. dollar will impact earnings. The Company's results in general, show a beneficial impact with a lower value for the Canadian dollar compared to the U.S. dollar. 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.

The recent acquisitions in Italy and India have created assets to be denominated in Euros and Indian Rupees. 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 entities Balance Sheets.

We can hedge the impact of foreign exchange fluctuations through a change in our U.S. dollar driven manufacturing output. The Company has lessened its intercompany loan transactional exchange rate risk by entering into forward foreign exchange contracts.

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 as 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

There has been an increase in the operating line balances relating to our recent acquisitions and therefore an increase in interest costs. 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. The Company's expansion into emerging markets increases credit risk, which is partially mitigated by progress payments. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevates this exposure.

Global/North American economy

The current economic conditions require the Company to be agile in order to continue to be successful. HPS is able 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.

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

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 2013 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2014, other than transactions disclosed in Note 9 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2014 Report

Proposed transactions

The Company continues to evaluate potential business expansion initiatives, and has no firm transactions as at March 29, 2014.

Financial instruments

As at March 29, 2014 the Company had outstanding foreign exchange contracts in place for 10,100 EUR and \$8,000 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as \$12,000 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 value 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:

8,891,624	Class A Shares
2,778,300	Class B Common Shares
11,669,924	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 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. In 2013, the IASB issued under IFRS 9 a more principles based general hedging model that aligns hedge accounting more closely with risk management. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 that proposes to introduce another measurement category, fair value through comprehensive income, for financial assets that are held for both the collection of cash flows and for sale and add new requirements to address the impairment of financial assets and macro hedge accounting. The mandatory effective date is not yet determined; however, early adoption is still permitted. When an entity adopts IFRS 9, it will have an accounting policy change to defer application of the general hedge accounting model until the standard from the IASB's project on macro hedge accounting is effective.

The Company does not intend to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2014. 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.

Strategic direction and outlook

HPS is dedicated to its strategic investment in growth initiatives in Canada, the U.S., India and Europe. This commitment is evidenced by the recent execution of an aggressive acquisition strategy.

The Company is very aware 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. These deterrents are being managed in a deliberate and forthright manner through the Company's operational plans and strategic projects. While the Company is not immune to the challenges it faces from these negative influences, we are confident that the business fundamentals that have been 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 will be determined in its pursuit of improved productivity gains, sales growth from new product development, geographic diversification, capacity expansion and escalation of market share.

Despite a disappointing first quarter, the Company continues to show promising performance in many of its financial and operational metrics, continues to be an industry leader, and remains strong and capable of enduring economic uncertainty. We are proud of these accomplishments and look forward to more opportunities that the future holds.

Selective selling price increases, sales growth, geographic manufacturing dispersion, global expansion, productivity gains, new product development and market share penetration will continue to be our focus in an effort to improve profitability.

We expect sales growth to 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, decades of experience, 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
- Bringing quality and value to all stakeholders of the Company
- Identifying and pursuing additional sales opportunities with both existing as well as new customers
- Cash flow generation

HPS will deliver improvement in our results through the second half of 2014. We believe in the strength of HPS' strategies and are confident in the Company's future. We are firmly committed to deliver long-term value to our shareholders while delivering profitable growth and staying focused on the success of our customers and partners. •

Selected Annual and Quarterly 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 2014. 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)	2009	2010 IFRS Restated	2011	2012	2013
Sales	195,437	190,604	221,323	257,376	242,941
Earnings from operations	18,943	13,642	13,039	18,180	11,036
EBITDA	19,816	19,500	15,538	24,352	16,924
Net earnings	9,631	10,652	5,993	12,611	6,104
Total assets	106,597	118,643	137,520	160,049	186,878
Total liabilities	29,094	32,360	46,072	58,404	77,827
Total cash (debt)	10,024	17,694	1,681	(990)	(21,104)
Cash provided (used) from operations	26,418	14,109	6,592	21,371	765
Basic earnings per share	0.82	0.92	0.52	1.08	0.52
Diluted earnings per share	0.82	0.91	0.51	1.08	0.52
Dividends declared and paid	1,173	1,504	1,738	2,098	2,328
Average Exchange Rate (USD\$=CAD\$)	1.145	1.030	0.989	1.0005	1.029
Book value per share	6.57	7.45	7.89	8.54	9.17

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Quarterly Information

(tabular amounts in thousands of dollars)	Q2	2012 Q3	Q4	Q1	2013 Q2	Q3	Q4	2014 Q1
Sales	65,486	63,703	62,533	63,672	59,072	57,393	62,804	59,953
Earnings from operations	4,663	4,215	5,545	3,359	1,599	1,921	4,157	1,303
EBITDA	6,099	5,999	6,484	5,442	3,254	3,380	4,848	3,310
Net earnings	2,811	2,552	4,730	1,907	510	792	2,895	520
Total assets	148,646	151,018	160,049	170,729	170,131	169,261	186,878	185,863
Total liabilities	52,218	53,178	58,404	65,830	64,359	65,364	77,827	73,169
Total cash (debt)	(11,369)	(9,255)	(990)	(18,934)	(20,552)	(19,823)	(21,104)	(24,965)
Cash provided (used) by operations	10,476	3,763	10,461	(1,011)	1,429	3,439	(3,092)	(1,645)
Basic earnings per share	0.24	0.21	0.41	0.16	0.04	0.07	0.25	0.04
Diluted earnings per share	0.24	0.21	0.41	0.16	0.04	0.07	0.25	0.04
Dividends declared and paid	1,049	—	1,049	582	582	582	582	700
Average Exchange Rate (USD\$=CAD\$)	1.009	1.000	0.9913	1.0065	1.014	1.038	1.048	1.101
Book value per share	8.12	8.24	8.54	8.82	8.91	8.75	9.17	9.47

Condensed Consolidated Statements of Financial Position

(unaudited)

As at

(tabular amounts in thousands of dollars)

March 29, 2014

December 31, 2013

Assets		
Current assets		
Cash	\$ 9,141	\$ 11,224
Accounts receivable	49,264	49,302
Inventories	39,147	39,327
Income taxes recoverable	2,852	2,887
Prepaid expenses and other assets	2,786	2,619
Total current assets	\$ 103,190	\$ 105,359
Non-current assets		
Property, plant and equipment	47,460	47,264
Investment in properties	1,044	1,044
Deferred tax assets	377	363
Goodwill	18,468	17,557
Intangible assets	15,324	15,291
Total non-current assets	82,673	81,519
Total assets	\$ 185,863	\$ 186,878
Liabilities		
Current liabilities		
Bank operating lines of credit	\$ 28,999	\$ 27,183
Accounts payable and accrued liabilities	32,588	39,216
Income tax liabilities	—	25
Provisions	350	307
Derivative liabilities	70	19
Current portion of long-term debt (note 6)	859	857
Total current liabilities	\$ 62,866	\$ 67,607
Non-current liabilities		
Employee future benefits	\$ 226	\$ 204
Provisions	100	100
Long-term debt (note 6)	4,248	4,288
Deferred tax liabilities	5,729	5,628
Total non-current liabilities	10,303	10,220
Total liabilities	\$ 73,169	\$ 77,827
Shareholders' Equity		
Share capital (note 7)	13,611	13,611
Contributed surplus	2,303	2,133
Accumulated other comprehensive income (note 8)	2,977	(524)
Retained earnings	91,606	91,794
Total shareholders' equity attributable to equity holders of the Company	\$ 110,497	\$ 107,014
Non-controlling interests	2,197	2,037
Total shareholder's equity	112,694	109,051
Total liabilities and shareholders' equity	\$ 185,863	\$ 186,878

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 29, 2014	March 30, 2013
Sales	\$ 59,953	\$ 63,672
Cost of sales	46,046	48,376
Gross margin	13,907	15,296
Selling and distribution	7,058	6,542
General and administrative	5,546	5,395
Earnings from operations	1,303	3,359
Finance and other costs (income):		
Interest expense	257	169
Foreign exchange gain	(97)	(8)
Other	33	34
Net finance and other costs	193	195
Income before income taxes	1,110	3,164
Income tax expense	590	1,257
Net earnings	\$ 520	\$ 1,907
Non-controlling interests	\$ 8	\$ 78
Net income attributable to equity holders of the Company	512	1,829
Net earnings	\$ 520	\$ 1,907
Earnings per share		
Basic earnings per share (dollars)	\$ 0.04	\$ 0.16
Diluted earnings per share (dollars)	\$ 0.04	\$ 0.16

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ending	
(tabular amounts in thousands of dollars)	March 29, 2014	March 30, 2013
Net earnings	\$ 520	\$ 1,907
Other comprehensive income		
Foreign currency translation differences for foreign operations	3,653	1,678
Other comprehensive income for the period net of income tax (note 8)	3,653	1,678
Total comprehensive income for the period	\$ 4,173	\$ 3,585
Attributable to:		
Equity holders of the Company	3,501	3,603
Non-controlling interest	152	(18)
Total comprehensive income for the period	\$ 3,653	\$ 3,585

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 29, 2014

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON- CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
(tabular amounts in thousands of dollars)						
Balance, as at January 1, 2014	\$ 13,611	\$ 2,133	\$ (524)	\$ 91,794	\$2,037	\$ 109,051
Total comprehensive income for the year						
Net earnings	—	—	—	512	8	520
Other comprehensive income						
Foreign currency translation differences (note 8)	—	—	3,501	—	152	3,653
Total other comprehensive income	—	—	3,501	—	152	3,653
Total comprehensive income for the year	—	—	3,501	512	160	4,173
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	—	170	—	—	—	170
Dividends to equity holders (note 7)	—	—	—	(700)	—	(700)
Total transactions with shareholders	—	170	—	(700)	—	(530)
Balance at March 29, 2014	\$ 13,611	\$ 2,303	\$ 2,977	\$ 91,606	\$ 2,197	\$ 112,694

*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 30, 2013

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON- CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
(tabular amounts in thousands of dollars)						
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 (note 8)	—	—	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 (note 7)	—	—	—	(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 Cash Flows

(unaudited)

Three months ending

(tabular amounts in thousands of dollars)

March 29, 2014

March 30, 2013

Cash flows from operating activities	\$ 520	\$ 1,907
Net earnings		
Adjustments for:		
Amortization of property, plant and equipment	1,487	1,780
Amortization of intangible assets	456	329
Provisions	43	(14)
Interest expense	257	169
Income tax expense	590	1,257
Change in unrealized gain on derivatives	51	43
Stock based compensation expense	170	251
	3,574	5,722
Change in non-cash working capital (note 10)	(4,686)	(4,101)
Cash (used in) provided by operating activities	(1,112)	1,621
Income tax paid	(533)	(2,632)
Net cash used in operating activities	(1,645)	(1,011)
Cash flows from investing activities		
Acquisition of subsidiary company net of cash acquired	—	(9,512)
Acquisition of property, plant and equipment	(674)	(2,134)
Acquisition of intangible assets	—	(322)
Cash used in investing activities	(674)	(11,968)
Cash flows from financing activities		
Advances from borrowings	1,816	6,675
Repayment of long term debt	(218)	(334)
Cash dividends paid (note 7)	(700)	(582)
Interest paid	(257)	(169)
Cash provided by financing activities	641	5,590
Foreign exchange on cash held in a foreign currency	(405)	(281)
Decrease in cash	(2,083)	(7,670)
Cash at beginning of period	11,224	13,720
Cash at end of period	\$ 9,141	\$ 6,050

See accompanying notes to condensed consolidated interim financial statements.

Quarters ended March 29, 2014 and March 30, 2013 (tabular amounts in thousands of dollars)

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 Chartered 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 29, 2014 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 is primarily involved in the design and manufacture of custom electrical engineered magnetics and standard electrical dry-type, cast resin and liquid filled 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 second 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 24, 2014.

(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, 2013.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2013 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, 2013.

Changes to accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2014.

- IAS 32 Offsetting financial assets and liabilities
- IAS 19 Defined benefit plans: employee contributions
- IAS 36 Recoverable amounts
- IFRIC 21, Levies

There was no significant impact of the adoption of these standards on the financial statements.

Quarters ended March 29, 2014 and March 30, 2013 (tabular amounts in thousands of dollars)

4. Property, plant and equipment:

The Group had acquisitions of fixed assets for the three months ended March 29, 2014 in the amount of \$674,000 of machinery and equipment (2013 - \$2,134,000).

5. Intangible assets

The Group had acquisitions of intangible assets for the three months ended March 29, 2014 in the amount of \$nil (2013 - \$322,000), for the addition of software. None of the intangible assets have been developed internally.

6. Long-term debt

	Three months ending	
	March 29, 2014	March 30, 2013
Opening balance	\$ 5,145	\$ 2,142
Repayments:		
Term loan CAD	(45)	(60)
Term loans EUR	(164)	(171)
Term loan INR	(9)	(102)
Exchange	180	(1)
	5,107	1,808
Less current portion of long term debt	859	875
Total	\$ 4,248	\$ 933

7. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Three months ending	
	March 29, 2014	March 30, 2013
6 cents per Class A common share (2013: 5 cents)	\$ 533	\$ 443
6 cents per Class B common share (2013: 5 cents)	167	139
	\$ 700	\$ 582

Quarters ended March 29, 2014 and March 30, 2013 (tabular amounts in thousands of dollars)

7. Share capital (continued)

(b) Stock option plan

During the three months ended March 29, 2014, the Company granted 90,000 options (2013 – 150,000) of which 90,000 vested immediately (2013 – 90,000). Stock-based compensation recognized and the amount credited to, contributed surplus during the period is \$170,000 (2013 – \$251,000) and relates to options granted during Quarter 1, 2014, 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 \$1.52 (2013 – \$2.37).

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:

	2014	2013
Fair value of share options and assumptions		
Fair value at grant date	\$ 1.52	\$ 2.37
Share price at grant date	\$ 7.50	\$ 10.00
Exercise price	\$ 7.50	\$ 10.00
Expected volatility (weighted average volatility)	42.4%	43.6%
Option life (expected weighted average life)	3.8 years	3.8 years
Expected dividends	1.4%	1.1%
Risk-free interest rate (based on government bonds)	1.72%	1.79%

8. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations. Total other comprehensive income for the three months ended March 29, 2014 was \$3,501 (2013 – \$1,774), resulting in an ending balance of accumulated other comprehensive income of \$2,977 (2013 – (\$1,997)).

9. Related party transactions:

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2013 – 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 1,033,540 (2013 – 1,027,321) Class A subordinate voting shares of the Company, representing approximately 11.6% (2013 – 11.6%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were \$229,000 (Quarter 1 2013– \$190,000).

In the ordinary course of business, the Company enters into transactions with affiliated entities. A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these 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

	Note	2014	2013	Relationship
Purchase of goods and services	(i)	\$ 309	\$ 150	Companies in which key management personnel and/or their relatives have significant influence.

	2014	2013	Relationship
Amounts owed to related parties	\$ 677	\$ 33	Companies in which key management personnel and/or their relatives have significant influence.

Quarters ended March 29, 2014 and March 30, 2013 (tabular amounts in thousands of dollars)

Transactions with key management personnel

During the three months ended March 29, 2014, the Company purchased \$54,000 (2013 – \$78,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include \$10,000 (2013 – \$6,000), which is owed to this company.

- (i) During the three months ended March 29, 2014, the Company has paid \$4,000 (2013 – \$4,000) of payments in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE – Hammond Power Solutions Private Limited in India.

10. Change in non-cash operating working capital

The table below depicts the receipt of (use of) cash for working capital purposes by the Company:

	Three months ending	
	March 29, 2014	March 30, 2013
Accounts receivable	\$ 38	\$ (4,225)
Inventories	180	1,463
Prepaid expenses	(167)	153
Accounts payable and accrued liabilities	(6,628)	(4,598)
Foreign exchange	1,891	3,106
	\$ (4,686)	\$ (4,101)

Diversified Markets Global Presence



Responding to global market changes, HPS anticipates and adapts to the needs of our customers by delivering high quality, dependable transformers for very demanding and unique applications that meet the precision needs for some of the harshest environments.

North America

- » Dominant dry transformer provider to the Canadian market served through both the HPS and Delta brands
- » U.S. and Canadian electrical distributor channels continue to be growth markets for HPS
- » Expansion into the Mexican market via brand label arrangement
- » New technologies and product development to North America

Industries: Industrial, Institutional, Oil and Gas, Commercial Construction, Solar, Capital Projects

South America

South America provides opportunities in offshore oil exploration and development as well as wind energy.

Industries: Oil and Gas, Wind Energy, Solar



Europe

Acquisition and integration of Marnate with our existing Italian operation supports our global growth strategies and doubles our product offering in new global markets.

- » We anticipate greater market growth opportunities for cast product in Europe, Russia and India
- » New product development will also provide avenues for growth

Industries: Oil and Gas, Renewable Energy

India and Asia

- » Broadened product capabilities
- » New technologies to these markets
- » Domestic sales growth and new market opportunities in Europe, Russia, Africa, Ethiopia the Middle East, Israel, the Caribbean and Venezuela
- » China

Industries: Renewable Energy, Mining, Oil and Gas, Utilities

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Euroelettro Hammond s.p.a



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

Christopher 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

Stock Exchange Listing

Toronto Stock Exchange (TSX)

Trading Symbol: HPS.A

Registrar and Transfer Agent

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Toronto, Ontario

Canada M5J 2Y1

Auditors

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Waterloo, Ontario

Canada N2J 5A3

Legal Representation

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Scotia Plaza

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Toronto, Ontario

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JP Morgan Chase

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U.S.A.



Hammond Power
Solutions Inc.

THE FUTURE IS BRIGHT.