Q2 Report 2012

For the six months ended June 30, 2012

Hammond Power Solutions Inc.

Inside

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Fellow Shareholders,

> I am pleased to report a robust Quarter 2, 2012 in terms of both sales and profit growth for Hammond Power Solutions Inc.

I am pleased to report a robust Quarter 2, 2012 in terms of both sales and profit growth for Hammond Power Solutions Inc. ("HPS"). Overall, compared to the same quarter in 2011, sales were higher by 25% and gross margin dollars grew by 33%.

As we know, the global economy has become increasingly challenging as the year has progressed making our financial and market share performance even more gratifying. Our growth rate was attained while managing our expenses carefully. As a result, we generated very positive cash flow during the quarter which will help to reduce our already low levels of debt while we continue to invest in the growth of our business globally.

In North America we continued to see strong growth from the resource and utility sectors as well as distributor channel expansion in both Canada and the United States. Original Equipment Manufacturer ("OEM") bookings are slowing as one might expect with the global slowdown, but remain on a strong growing trend over 2011. We have been working on a number of new OEM opportunities that reach across multiple markets such as the drive industry, solar, and oil and gas, as well as the commercial market and; all of which will be very positive for us going forward.

The European market understandably remains challenging given the ongoing economic and fiscal woes of the region. Nonetheless, we are working diligently to expand our sales base across Europe and North Africa looking at ways to broaden our product offering and capabilities.

At the same time, our most recent acquisition, Pan-Electro Technic Private Limited ("PETE") located in Hyderabad, India, has given HPS access to Asian markets. Year-over-year GDP may be lower in India compared to a year ago, yet this growth rate is still several times greater than what we are seeing in North America. We have begun work on expanding our network of agents and integrators that will sell our products throughout India, the Middle East, Africa, Southeast Asia, as well as Australia.

Also in this Quarter, the Board of Directors declared a semi-annual cash dividend of $0.09 per share for the shareholders of Hammond Power Solutions Inc. We remain committed to delivering consistent value for our shareholders.

Going forward, we are cautiously optimistic about the next several quarters. Booking rates are strong from almost all markets and we continue to expand our penetration of the geographies we serve. Yet given the reported slowing of the U.S. economy leading up to the American elections as well as the continuing global risks, we believe that it is prudent to remain cautious and conservative in how we manage and grow our Company.

WGH

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

Dollars are in thousands unless otherwise stated.

Overview

Hammond Power Solutions Inc. ("HPS" or the "Company") is the North American leader for the design and manufacture of custom electrical engineered magnetics, as well as a leading manufacturer of standard electrical dry-type 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 ("U.S."), Mexico, Italy and India.

The following is Management's Discussion and Analysis of the Company's consolidated operating results for the six months ended June 30, 2012, and should be read in conjunction with the unaudited interim Condensed Consolidated Financial Statements of the Company for the Second Quarter of fiscal 2012. This information is based on Management's knowledge as at July 26, 2012. 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 2011 Annual Report, and accordingly, the purpose of this document is to provide a second quarter update to the information contained in the Fiscal 2011 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars except share information and unless otherwise noted. These documents and other information relating to the Company may be found on SEDAR's website at www.sedar.com.

Caution regarding forward-looking information

Our MD&A contains forward-looking information that reflects the current expectations of Management about the future results, performance, achievements, prospects or opportunities for HPS and the transformer business. These statements generally can be identified by use of forward looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond Company control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

We do not have an intention to update any forward-looking information, except as required by applicable securities laws. Any forward-looking information contained in our MD&A represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. There can be no assurance that any forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on any such forward-looking information. For a list of factors that could affect HPS see "risk factors" highlighted in materials filed with the securities regulatory authorities in Canada from time to time.

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before other income and expenses 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 June 30, 2012 and July 2, 2011 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with GAAP. "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 GAAP and therefore may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended June 30, 2012 were $65,486, up $13,156 or 25.1% from the comparative quarter last year, and were higher by $26,033 or 24.8% year-to-date, finishing at $131,140 compared to $105,107 last year. Due to an increase in new order booking activity from the same quarter last year, sales in the U.S. stated in U.S. dollars ("USD") were $37,735 in Quarter 2, 2012 an increase of $8,488 or 29.0% from Quarter 2, 2011. Year-to-date sales in the U.S. were $74,306; an increase of $14,542 or 24.3% when compared to $59,764 last year-to-date.

A 5.2% weaker Canadian dollar ("CAD") ($1.00 USD = $1.01 CAD in Quarter 2, 2012 compared against $1.00 USD = $0.96 CAD in Quarter 2, 2011) had a favourable impact on the amount of stated sales for the U.S. this quarter as compared to Quarter 2, 2011. On a year-to-date comparison basis, the

U.S. dollar is higher by 3.0% ($1.00 USD = $1.01 CAD versus $1.00 USD = $0.98 CAD) over the first six months of last year.

Canadian sales were $23,146 for the quarter, an increase over Quarter 2, 2011 of $4,135 or 21.8% attributed to higher booking activity in the previous quarters. Canadian sales increased $8,622 or 21.8% year-to-date, finishing at $48,116.

Quarter 2, 2012 sales include international derived sales of $4,927 versus $3,065 in Quarter 2, 2011 an increase of $1,862 or 60.8%. Quarter 2, 2012 sales were $9,109 year-to-date versus $4,409 in 2011, a change of $4,700 or 106.6%.

The Company continues to realize sales growth in its strategic markets, geographically and as well has seen improvement in overall market activity in the electrical industry in the U.S. and Canada as evidenced by increased quotation and order booking activities. The sales from the North American Electrical Distributors ("NAED") channel, motor control, mining, capital equipment, switchgear and utility markets in both Canada and the U.S. grew significantly in Quarter 2, 2012 compared to Quarter 2, 2011. Quotation and order activity in the OEM market segment has also increased. Quarter 2, 2012 percentage of total sales by geographic segment include U.S. 57.1%, Canadian 35.3%, European 4.0%, and Indian 3.6%. Year-to-date, 56.4% of the Company's sales were generated in the U.S., 36.7% in Canada, 3.7% within Europe and 3.2% within India. The European market continues to be pounded by the poor economic conditions while the Indian market has slowed slightly to an annual growth rate of approximately 5%.

The Company is steadfast in its implementation of channel growth initiatives in strategic market segments in the U.S., Canada, and internationally. The Company is committed to producing premium quality transformers, and competitive custom engineered designs and to offering a broad and evolving product range.

We expect that this, collectively with our capabilities in custom product design, manufacturing agility, competitive lead-times, product breadth, industry leading quality, and geographically diverse manufacturing capabilities will produce sales growth through existing and new customer sales. This combination is the Company's strength and the cornerstone to our revenue and profit growth.

Order Bookings and Backlog

Our strategic sales initiatives produced bookings growth resulting in an increase of 8.8% over Quarter 1, 2012 and 8.5% from Quarter 2, 2011. Bookings in Quarter 2, 2012 trended higher in North America and internationally, which benefitted from the additional bookings from the newly acquired Indian company, Pan- Electro Technic Private Limited ("PETE").

By channel, booking levels were 0.8% lower on a direct basis and 19.6% higher through our distributor channel, as compared to Quarter 2, 2011. On a year-to-date basis we experienced 7.5% increased bookings through the direct channel and 0.7% higher through the distributor channel when compared to 2011 year-to-date. The growth above is inclusive of bookings for our newly acquired company, PETE, which had a 3.1% quarterly impact on the bookings increase and a 2.7% impact on the year-to-date increase, almost all through the direct channel. The value of unfilled orders from the newly acquired PETE, higher booking activity in Italy, and increased bookings through the North American distribution channels led to an increase in our order backlog of 5.6% from Quarter 1, 2012, an increase of 19.3% from Quarter 2, 2011.

Our sales development initiatives will continue to deliver strong booking rates. The impact of a slight improvement in general world economies and modestly improving electrical market conditions is evidenced with increased quotation activity. Much of our customer base is experiencing an increase in their business activity and seeing a longer booking horizon. Currently, many of our customers are feeling more positive about market trends, however, the Company is very cognizant that it may see some month-to-month fluctuations in booking rates. As a result, HPS will see some volatility in booking rates but anticipate 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.

Gross Margins

The Company delivered stronger gross margin rates in Quarter 2, 2012 finishing at 24.5% versus 23.1% in Quarter 2, 2011, an increase of 1.4% of sales. On a year-to-date basis, gross margin rates were 24.1% compared to 23.8% in 2011, an increase of 0.3% of sales.

The Company continues to experience selling price pressures from many of our competitors due to the available excess capacity in the industry. Gross margins were favourably impacted by higher U.S. to Canadian exchange rate on U.S. dollar sales, favourable product mix, the accretive effect that increased manufacturing throughput has had on the absorption of our fixed factory cost structures, cost containment and improving labour efficiencies. Gross margins were also positively impacted by a material procurement cost reductions, which contributed approximately 0.5% to margin rates.

Despite the economic instability, the Company is committed to its capacity expansion projects during the year. In the short-term, the additional fixed costs associated with the expansion are dilutive to our net margin rates. 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. The Company is confident that these actions, combined with increased sales and higher manufacturing throughput will enhance margin rates.

Dollars are in thousands unless otherwise stated.

Selling and Distribution Expenses

Total selling and distribution expenses were $6,525 in Quarter 2, 2012 versus $5,506 in Quarter 2, 2011, an increase of $1,019 or 18.5%. Year-to-date, selling and distribution costs were $12,784 versus $10,893 in 2011, an increase of $1,891 or 17.4%. The Quarter 2, 2012 selling and distribution expenses also include an additional $85 or 0.1% of total sales, pertaining to PETE. On a year-to-date basis, total selling costs related to PETE were $155 or 0.1% of total sales. Excluding PETE, Quarter 2, 2012 selling and distribution expenses were $6,440 versus $5,506 in Quarter 2, 2011, an increase of $934 or 17.0% and year-to-date. Selling costs were $12,629 versus $10,893 in 2011, an increase of $1,736 or 15.9%.

Commission expenses for the quarter were higher by $250 and year-to-date increased $535. The higher commission expense is due to increased sales. There was also an increase in salaries of $85 for the quarter and $257 year-to-date, associated with strategic hires to support our sales strategies. Freight expenses for the quarter increased $465 up $609 year-to-date due to higher sales, increased transportation costs due to higher gasoline prices and improved customer service levels. Warehousing costs also increased $99 in the quarter and $125 year-to-date as a result of increased sales.

General and Administrative Expense

The general and administrative expenses for Quarter 2, 2012 totaled $4,886, an increase of $122 or 2.6% when compared to Quarter 2, 2011 expenses of $4,764. Year-to-date, general and administrative costs are higher by $913 or 9.6%, totaling $10,424 when compared to $9,511 for 2011. The increase can be attributed to additional general and administrative costs relating to PETE of $105 for the quarter, and $192 year-to-date. Excluding PETE, Quarter 2, 2012 expenses were $4,781 versus $4,764 in Quarter 2, 2011 an increase of $17 or 0.4%. Year-to-date general and administrative expenses were $10,232 versus $9,511 in 2011, an increase of $721 or 7.6%. On a year-to-date basis, the major expenditure increases were $236 related to International business development and acquisition activities, increased engineering costs of $129, $76 for information systems and higher bad debt provisions of $75.

The Company continues with its people resource investment, specifically in the areas of information services and engineering.

HPS is in a growth period and is increasing its general and administrative expense investment in support of its strategic growth initiatives, but remains very cognizant of prudent general and administrative expense management.

Earnings from Operations

The Company delivered another strong quarter of sales and gross margin contribution. This resulted in increased earnings from operations of $2,844 or 156.3% from the same quarter last year, finishing at $4,663 in the quarter, as compared to $1,819 in Quarter 2, 2011. On a year-to-date basis, earnings from operations were $8,420 versus $4,646 for the same period of 2011, an increase of $3,774 or 81.2%.

Earnings from operations are reflective of aggressive strategic growth initiatives, geographic expansion and gross margin realization and are reflective of a company in transitional growth. Earnings from operations for the quarter were also impacted by favourable gross margin rate mix, increased manufacturing capacity utilization and cost reductions.

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

	Quarter 2, 2012	Quarter 2, 2011
Net earnings for the year	$ **2,811**	$ 682
Add:		
Income tax expense	**1,610**	754
Net finance and other costs	**242**	383
Earnings from operations	$ **4,663**	$ 1,819

Interest Expense

The interest expense for Quarter 2, 2012 finished at $176 compared to $77 in Quarter 2, 2011, an increase of $99. Year-to-date interest cost was $300, an increase of $193 when compared to the 2011 year-to-date expense of $107. The increase in interest expense for the quarter and year-to-date is a result of higher operating debt levels related to the assumption of debt as a result of the purchase of PETE. Interest expense includes all bank fees.

Foreign Exchange Gain / Loss

The foreign exchange gain in Quarter 2, 2012 was $46, relating primarily to the transactional exchange gain pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange loss of $180 in Quarter 2, 2011. For the first six months of 2012, the Company realized an exchange gain of $68 as compared to a foreign exchange loss of $482 for the same period of 2011.

At June 30, 2012, the Company had outstanding foreign exchange contracts in place for 8500 Euros ("EUR") and $5,500 U.S., both implemented as a hedge against translation gains and losses on inter-company loans and $5,377 U.S. to hedge the U.S. dollar accounts payable in the Canadian operations of HPS.

Derivative instruments-Copper Forwards Gain / Loss

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 pricing in the global market. Due to this unpredictability, HPS had utilized a future contracts hedging strategy. The Company had entered copper forwards for approximately 40% of its normal annual requirements in order to reduce the Company's exposure to changes in the price of copper. Due to the volatility of copper pricing and the timing of recognizing gains and losses which caused large income swings, the Company suspended its utilization of copper forwards contracts at the end of the second quarter of 2011 and let the remaining copper forward contracts wind down. The last contract was settled in May 2012.

In Quarter 2, 2012 the Company experienced a realized loss on copper contracts of $75. In Quarter 2, 2011 the Company had a net copper hedging loss of $93. On a year-to-date basis total realized copper futures contract gains were $301 compared to a year-to-date loss of $251 for the same time period of 2011.

At June 30, 2012, the Company has no outstanding forward copper contracts.

Income Taxes

Quarter 2, 2012 income tax expense was $1,610 as compared to $754 in Quarter 2, 2011, an increase of $856 or 113.5% . Year-to-date income tax expense was $3,090 compared to $1,488 in 2011, an increase of $1,602 or 107.7%, as a result of higher pretax income.

Deferred tax assets and liabilities are related to temporary differences on current assets and liabilities, which are not deductible against current year earnings. Deferred tax assets and liabilities consist mainly of reserves and allowances 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 surged in Quarter 2, 2012 increasing $2,129 or 312.1% and finished at $2,811 compared to $682 in Quarter 2, 2011. On a year-to-date basis, net earnings finished at $5,329, an increase of $3,076 or 136.5% when compared to net earnings of $2,253 in 2011. Net earnings were positively impacted by the 25.1% growth in sales, increased gross margin rates and a 26.2% increase in gross margin dollars as compared to Quarter 2, 2011. Net earnings were also positively impacted by slightly lower Quarter 2, 2012 effective tax rates.

EBITDA for Quarter 2, 2012 was $6,099 versus $2,876 in Quarter 2, 2011, an increase of $3,223 or 112.1%. Year-to-date totaled $11,869 versus $6,456 for the first six months of 2011, a change of $5,413 or 83.8%. Adjusted for foreign exchange gains or losses and copper hedging gains or losses, EBITDA for Quarter 2, 2012 was $6,128 versus $3,149 in Quarter 2, 2011, an increase of $2,979 or 94.6%. Year-to-date adjusted EBITDA totaled $11,500 compared to $7,189, an increase of $4,311 or 60.0%

Net Earnings (continued)

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

(tabular amounts in thousands of dollars)	**Quarter 2, 2012**	Quarter 2, 2011	**Year-to-date 2012**	Year-to-date 2011
Net earnings	**$ 2,811**	$ 682	**$ 5,329**	$ 2,253
Add:				
Interest expense	**$ 176**	$ 77	**$ 300**	$ 107
Income tax expense	**$ 1,610**	$ 754	**$ 3,090**	$ 1,488
Depreciation and amortization	**$ 1,502**	$ 1,363	**$ 3,150**	$ 2,608
EBITDA	**$ 6,099**	$ 2,876	**$ 11,869**	$ 6,456
Add (Deduct):				
(Gain)/Loss on foreign exchange	**$ (46)**	$ 180	**$ (68)**	$ 482
(Gain)/Loss on copper hedging	**$ 75**	$ 93	**$ (301)**	$ 251
Adjusted EBITDA	**$ 6,128**	$ 3,149	**$ 11,500**	$ 7,189

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2012 Quarters	Q1	**Q2**	Year-to-date Total
Sales	$ 65,654	**$ 65,486**	$ 131,140
Net income attributable to owners of the parent company	$ 2,492	**$ 2,750**	$ 5,242
Net income per share – basic	$ 0.22	**$ 0.24**	$ 0.46
Net income per share – diluted	$ 0.22	**$ 0.24**	$ 0.46
Average U.S. to Canadian exchange rate	$ 1.002	**$ 1.009**	$ 1.006

Fiscal 2011 Quarters	Q1	Q2	Q3	Q4	**Total**
Sales	$ 52,777	$ 52,330	$ 55,489	$ 60,727	**$ 221,323**
Net income	$ 1,571	$ 682	$ 171	$ 3,569	**$ 5,993**
Net income per share – basic	$ 0.14	$ 0.06	$ 0.01	$ 0.31	**$ 0.52**
Net income per share – diluted	$ 0.14	$ 0.06	$ 0.01	$ 0.31	**$ 0.52**
Average U.S. to Canadian exchange rate	$ 0.986	$ 0.967	$ 0.980	$ 1.023	**$ 0.989**

Fiscal 2010 Quarters	Q1	Q2	Q3	Q4	**Total**
Sales	$ 44,273	$ 50,820	$ 47,903	$ 47,608	**$ 190,604**
Net income	$ 2,976	$ 1,170	$ 2,250	$ 4,256	**$ 10,652**
Net income per share – basic	$ 0.25	$ 0.10	$ 0.20	$ 0.37	**$ 0.92**
Net income per share – diluted	$ 0.25	$ 0.09	$ 0.20	$ 0.37	**$ 0.91**
Average U.S. to Canadian exchange rate	$ 1.041	$ 1.028	$ 1.039	$ 1.013	**$ 1.030**

Historically, the first quarter of the Company's fiscal year has lower revenues generally due to lower business activity in the construction industry and overall electrical markets at the start of the year as many projects are just getting underway. Sales in Quarter 1, 2012 have shown an increase over the prior year as general business activity was improved over Quarter 4, 2011. There was also a full quarter of sales compared to just one month of sales for Quarter 1, 2011 of Euroelettro S.p.A ("EH") as well as additional sales from PETE. Sales in Quarter 1, 2012 have continued the trend of Quarter 1, 2011, as a result of higher bookings in Quarter 1, 2012 and later 2011. 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. Quarter 2, 2012 sales have also continued the trend of higher sales similar to, Quarter 2, 2011 and Quarter 2, 2010. This was brought about by higher project activity with the warmer weather and specifically in Quarter 2, 2012 having one complete quarter of sales from PETE.

Capital Resources and Liquidity

Net cash generated by operating activities for Quarter 2, 2012 was $10,476 versus cash used of $6,504 in Quarter 2, 2011 a difference of $16,980. Year-to-date cash generated from operations was $7,146 compared to 2011 cash used of $8,846, a change of $15,992.

Non-cash operating working capital generated cash of $6,455 compared to a usage of cash of $8,394 for the same quarter last year resulting in an overall increase difference of $14,849. Quarter 2, 2012 cash generation was primarily a net result of a decrease in inventory of $1,795, a decrease in accounts receivable of $1,971 and an increase in accounts payable of $1,743. For the first six months of 2012, the change in non-cash working capital was a net usage of cash of $884, as compared to a net usage of cash in working capital of $14,188 in the first six months of 2011, a decrease in cash usage of $13,304. For comparison purposes on a year-to-date basis excluding the working capital impact of PETE, accounts receivable has increased by $3,065, inventories decreased by $5,485 and accounts payable decreased by $3,715.

The Company will continue to focus on its customer accounts receivable collections cycle time and inventory turnover rates in 2012.

Capital expenditures were $1,290 in Quarter 2, 2012 compared to $1,260 for Quarter 2, 2011 a slight increase of $30. On a year-to-date basis, capital expenditures were $2,611 compared to $1,667 in 2011 an increase of $944. Expanded manufacturing capacity, new product development and information technology infrastructure are areas of capital expenditure spending in the quarter.

Total cash used in financing activities for Quarter 2, 2012 was $9,633 as compared to cash provided of $3,074 in Quarter 2, 2011. There was a Quarter 2, 2012 decrease in advances from bank operating lines of $7,771 versus an increase of $3,642 in Quarter 2, 2011. During the first six months of 2012, cash provided from financing activities totaled $4,697 versus cash provided in 2011 of $2,159. In 2012, year-to-date bank operating lines increased $6,934 compared to 2011 where they increased by $2,137.

Bank operating lines of credit finished Quarter 2, 2012 at $9,007 compared to $6,594 at the end of Quarter 2, 2011, an increase of $2,413.

The Company's overall debt, net of cash was $11,369 in Quarter 2, 2012 compared to a net debt position of $7,520 in Quarter 2, 2011, a reduction in cash position of $3,849. The major contributing factors to this were the purchase of PETE for $15,410 and the change in non-cash working capital.

All bank covenants continue to be met as at June 30, 2012.

Late in Quarter 1, 2012, the Company completed a new financing arrangement with JP Morgan Chase Bank, N.A. for a $25,000 U.S. revolving credit facility; a $5,000 U.S. overdraft facility; a $4,000 EUR overdraft facility; and a $10,000 U.S. delayed draw credit facility. This is an unsecured 5-year committed facility that provides financing certainty for the future. The new financing better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies, provides financing for our operational requirements and capital for our strategic initiatives.

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)	2012	2013	2014	2015	2016	Thereafter	Total
Operating leases	$ 1,678	$ 1,679	$ 1,372	$ 1,236	$ 636	$ –	**$ 6,601**
Accounts payable and accrued liabilities	$ 35,117	–	–	–	–	–	**$ 35,117**
Capital expenditure purchase commitments	$ 1,161	–	–	–	–	–	**$ 1,161**
Bank operating lines	$ 9,007	–	–	–	–	–	**$ 9,007**
Derivative liabilities	$ 82	–	–	–	–	–	**$ 82**
Long term debt	$ 1,761	$ 2,115	–	–	–	–	**$ 3,876**
Total	$ 48,806	$ 3,794	$ 1,372	$ 1,236	$ 636	–	**$ 55,844**

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 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 2, 2012 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 PETE on March 1, 2012 and has included the financial results of PETE as part of HPS' consolidated financial results as of March 1, 2012. Management has not yet fully assessed the design or operating effectiveness of PETE's disclosure controls and procedures and internal controls over financial reporting.

Normal Course Issuer Bid

On March 15, 2012, the Board of Directors authorized the repurchase of up to 50,000 of its Class A Subordinate Voting Shares ("Class A Shares"), representing .57% of the 8,806,624 Class A Shares outstanding as of March 9, 2009, by way of a normal course issuer bid ("NCIB") through the facilities of the Toronto Stock Exchange (the "TSX"). Daily purchases will be limited to 2,099 Class A Shares, other than block purchase exceptions, which is 25% of the average daily trading volume of 8,398 Class A Shares of HPS on the TSX in the preceding six calendar months.

The purchases commenced on May 11, 2012 and will terminate no later than March 18, 2013. Purchases will be made in open market transactions on the TSX.

The company purchased 20,900 Class A shares at a cost of $204,787 in Quarter 2, 2012.

Decisions regarding the timing of future repurchases will be based on market conditions, share price and other factors. HPS may elect to suspend or discontinue the bid at any time. Class A shares repurchased under the bid will be cancelled.

The Company authorized the NCIB as it believes that current market conditions provide opportunities for HPS to acquire Class A shares at attractive prices, are an appropriate use of HPS funds and will enhance shareholder value.

Dividend Declaration

The Board of Directors of HPS declared a semi-annual cash dividend of $0.09 per Class A Subordinate Voting Share of HPS and a semi-annual cash dividend of $0.09 per Class B Common Share of HPS payable on June 29, 2012 to shareholders of record at the close of business on June 15, 2012. The ex-dividend date is June 13, 2012.

Dollars are in thousands unless otherwise stated

Purchase of Pan-Electro Technic Private Limited ("PETE")

On February 23, 2012, HPS signed an agreement for the acquisition of Pan-Electro Technic Enterprises Private Limited ("PETE") in India, acquiring a 70% equity ownership of its transformer business for 776,945 Indian Rupees ($15,410 CAD). PETE's annual revenues approximate $16,000 CAD.

The Company will operate as PETE – Hammond Power Solutions Private Limited, a subsidiary of HPS ("PETE"). The purchase of PETE expands HPS' global presence and provides a platform for expansion into the Indian, Asian and African markets. PETE also increases the breadth of HPS' product offering with its design and manufacturing capabilities in cast coil, custom liquid filled distribution, and power transformers. PETE has a reputation in the transformer industry for its custom engineering capabilities, product reliability and quality.

Total purchase consideration is comprised of the following:

Cash (net of cash acquired)	$	15,410

The allocation of the acquisition costs for PETE as at March 1, 2012 is as follows:

Accounts receivable	$	2,581
Inventory		2,958
Property, plant & equipment		3,231
Intangible assets		2,042
Goodwill		11,569
Total assets	$	22,381
Bank operating lines of credit	$	(477)
Accounts payable and accrued liabilities		(3,313)
Income taxes payable		(321)
Deferred tax liabilities		(776)
Long-term debt		(242)
Total liabilities	$	(5,129)
Non-controlling interest	$	(1,842)
Net consideration for net assets acquired	$	(15,410)

Management feels that by building on the strengths of both companies, this acquisition will enhance HPS' marketshare strategies and performance going forward.

Risks and uncertainties

As with most businesses, HPS is subject to a number of marketplace, 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.

Risks and uncertainties (continued)

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, 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, sales denominated in U.S. dollars are partially offset by the cost of raw materials purchased from the U.S. and 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 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 a 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. With current lower short-term interest rates the Company 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.

Dollars are in thousands unless otherwise stated

Global/North American economy (continued)

The Company believes that by being an agile organization it will become even more important to respond quickly to both unexpected opportunities and challenges. We also believe that our 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.

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 2011 Annual Report.

Transactions with Related Parties

The Company had no transactions with related parties in Quarter 2, 2012.

Proposed Transactions

While the Company continues to evaluate potential business expansion initiatives and it has no firm transactions as at June 30, 2012.

Financial Instruments

At June 30, 2012, the Company had outstanding foreign exchange contracts in place for 8,500 EUR and $5,500 U.S., both implemented as a hedge against translation gains and losses on inter-company loans as well as $5,377 U.S. to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS. In Quarter 2, 2012 the Company also settled the remaining forward copper contracts that were for the purchase of a notional 200,000 pounds of copper at a fixed price.

Critical Accounting Estimates

The preparation of the Company's consolidated 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 as of June 30, 2012 are as follows:

8,875,724	Class A Shares
2,778,300	Class B Common Shares
11,654,024	Total Class A and B Shares

New accounting pronouncements

The International Accounting Standards Board ("IASB") has issued the following standards, interpretations and amendments to standards that are not yet effective but considered relevant to the Company. The Company has not yet adopted the following standards, interpretations and amendment to standards.

Financial instruments

In October 2010, the 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 extent of the impact of adoption of the amendments has not yet been determined.

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 continues to expand in Canada, the U.S. and Europe, and has now entered the Indian market through the acquisition of "PETE". The Company is very aware of the volatility of the general global economic climate particularly in North America and Europe, the potential negative impact of a stronger and unpredictable Canadian dollar as well as the variability of raw material commodity costs. The Company continues to manage these deterrents in a deliberate and forthright manner through its operational projects and strategic initiatives.

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 believes that this is a time to be prudent but not complacent, conservative but progressive.

It will be resolute in its pursuit of improved productivity gains, sales growth from new product development, geographic diversification, capacity expansion and escalation of market share.

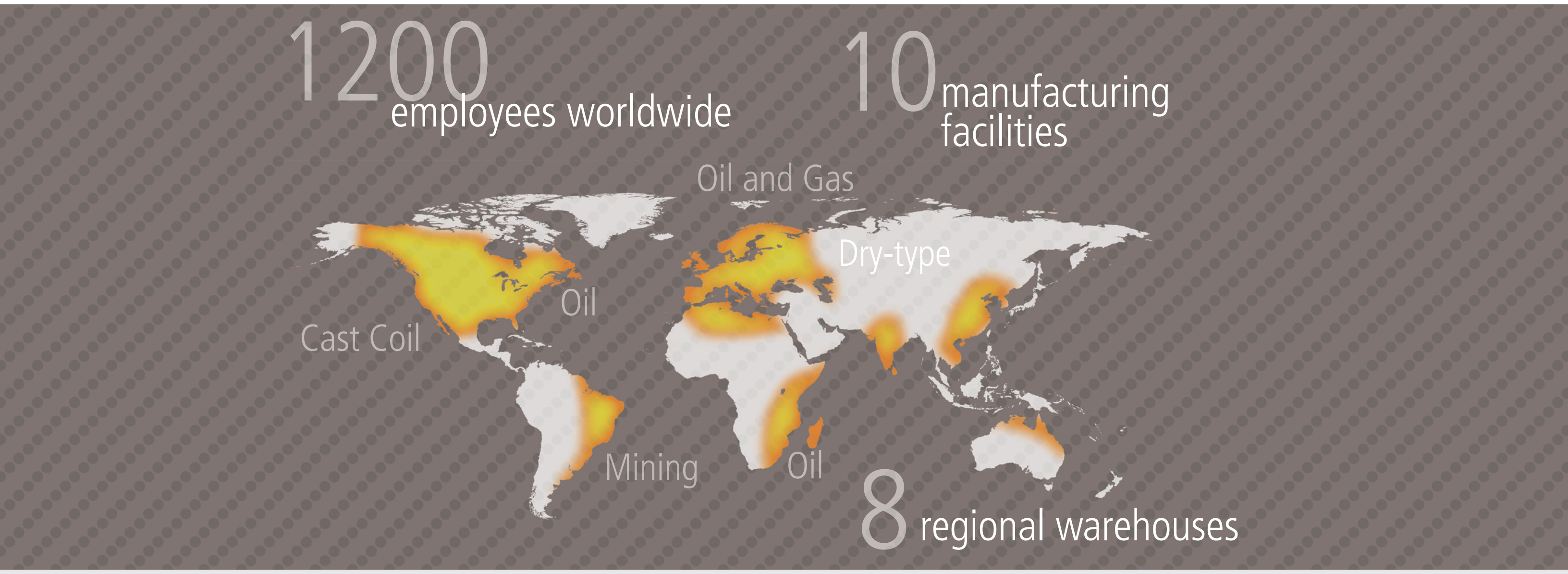
The Company showed strong performance across all financial and operational metrics and is proud of these accomplishments, is stronger and more capable of enduring economic uncertainty and looks forward to the many opportunities that lie ahead.

We will continue to focus our efforts on sustaining profit rates through 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 central player in a growing number of emerging sectors. Our success lies in our resilience, dedication and commitment, by taking advantage of our decades of experience, our engineering expertise, solid supplier relationships, and a unique business perspective gained through our diverse products, customers and markets. We are committed to investing in capital and integral recruits ensuring our strategic advantage going forward. We will continue to concentrate on our disciplined cost management initiatives and in 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.

As we look to the balance of 2012 and beyond, we believe in the strength of the HPS model and confident in the Company's future.



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 Second Quarter 2012. 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

	Canadian GAAP				IFRS
(tabular amounts in thousands of dollars)	2007	2008	2009	2010	**2011**
Sales	160,606	226,358	195,437	190,604	**221,323**
Earnings from operations	19,575	** 26,558	18,943	13,642	**13,039**
EBITDA	22,704	34,742	19,816	19,500	**15,538**
Net earnings for the year	12,403	22,829	9,631	10,652	**5,993**
Total assets	70,264	110,891	106,597	118,643	**137,520**
Total liabilities	25,784	41,107	29,094	32,360	**46,072**
Total cash (debt)	4,395	(4,100)	10,024	17,694	**1,681**
Cash provided from operations	7,611	6,254	26,418	4,109	**6,592**
Basic earnings per share	1.08	1.95	0.82	0.92	**0.52**
Diluted earnings per share	1.06	1.93	0.82	0.91	**0.51**
Dividends declared and paid	–	–	1,173	1,504	**1,738**
Average exchange rate (USD$=CAD$)	1.075	1.064	1.145	1.030	**0.989**
Book value per share	3.82	5.91	6.57	7.45	**7.89**

Quarterly Information

	2010		2011				**2012**	
(tabular amounts in thousands of dollars)	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**
Sales	47,903	47,608	52,777	52,330	55,489	60,727	**65,654**	**65,486**
Earnings from operations	2,089	4,315	2,827	1,819	2,664	5,729	**3,757**	**4,663**
EBITDA	4,399	6,440	3,580	2,876	1,800	7,282	**5,770**	**6,099**
Net earnings	2,250	4,256	1,571	682	171	3,569	**2,518**	**2,811**
Total assets	111,188	118,643	127,854	133,574	135,271	137,520	**154,596**	**148,646**
Total liabilities	26,738	32,360	40,603	45,481	44,523	46,072	**59,537**	**52,218**
Total cash (debt)	16,241	17,694	320	(7,520)	(3,344)	1,681	**(19,338)**	**(11,369)**
Cash provided (used) by operations	7,099	3,389	(2,317)	(6,755)	4,923	10,741	**(3,330)**	**10,476**
Basic earnings per share	0.20	0.37	0.14	0.06	0.01	0.31	**0.22**	**0.24**
Diluted earnings per share	0.20	0.37	0.14	0.06	0.01	0.30	**0.22**	**0.24**
Dividends declared and paid	–	1,504	–	–	–	1,738	**–**	**1,049**
Average Exchange Rate (USD$=CAD$)	1.039	1.013	0.986	0.967	0.980	1.023	**1.002**	**1.009**
Book value per share	7.30	7.45	7.53	7.60	7.83	7.89	**8.05**	**8.12**

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

Consolidated Statements of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)	As at June 30, 2012	As at December 31, 2011
Assets		
Current assets		
Cash	$ 1,514	$ 7,814
Accounts receivable	47,048	41,561
Inventories	31,988	34,515
Income taxes recoverable	1,372	1,253
Prepaid expenses	1,046	1,093
Total current assets	82,968	86,236
Non-current assets		
Property, plant and equipment	39,701	37,529
Investment in properties	1,044	1,044
Deferred tax assets	682	606
Goodwill	14,873	4,564
Intangible assets	9,378	7,541
Total non-current assets	65,678	51,284
Total assets	$ 148,646	$ 137,520
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 9,007	$ 1,596
Accounts payable and accrued liabilities	35,117	35,518
Income tax liabilities	404	467
Provisions	465	439
Derivative liabilities	82	1,018
Current portion of long-term debt (Note 6)	1,761	1,688
Total current liabilities	46,836	40,726
Non-current liabilities		
Employee future benefits	317	309
Provisions	165	165
Long-term debt (Note 6)	2,115	2,849
Deferred tax liabilities	2,785	2,023
Total non-current liabilities	5,382	5,346
Total liabilities	52,218	46,072
Shareholders' equity		
Share capital	13,199	12,987
Contributed surplus	1,819	1,525
Accumulated other comprehensive income	(2,271)	(935)
Retained earnings	81,941	77,871
Total shareholders' equity attributable to equity holders of the Company	94,688	91,448
Non-controlling interests	1,740	–
Total shareholders' equity	96,428	91,448
Total liabilities and shareholders' equity	$ 148,646	$ 137,520

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending June 30, 2012	Quarter Ending July 2, 2011	Six Months Ending June 30, 2012	Six Months Ending July 2, 2011
Sales	$ **65,486**	$ 52,330	$ **131,140**	$ 105,107
Cost of sales	**49,412**	40,241	**99,512**	80,057
Gross Margin	**16,074**	12,089	**31,628**	25,050
Selling and distribution	**6,525**	5,506	**12,784**	10,893
General and administrative	**4,886**	4,764	**10,424**	9,511
Earnings from operations	**4,663**	1,819	**8,420**	4,646
Finance and other costs (income):				
Interest expense	**176**	77	**300**	107
Foreign exchange loss (gain)	**(46)**	180	**(68)**	482
Realized and unrealized losses (gains) on copper forward contracts	**75**	93	**(301)**	251
Other	**37**	33	**70**	65
Net finance and other costs	**242**	383	**1**	905
Income before income taxes	**4,421**	1,436	**8,419**	3,741
Income tax expense	**1,610**	754	**3,090**	1,488
Net earnings	$ **2,811**	$ 682	$ **5,329**	$ 2,253
Non-controlling interests	$ **61**	$ –	$ **87**	$ –
Net income attributable to equity holders of the Company	**2,750**	682	**5,242**	2,253
Net earnings	$ **2,811**	$ 682	$ **5,329**	$ 2,253
Earnings per share				
Basic earnings per share (dollars)	$ **0.24**	$ 0.06	$ **0.46**	$ 0.20
Diluted earnings per share (dollars)	$ **0.24**	$ 0.06	$ **0.46**	$ 0.20

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Comprehensive Income
(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending June 30, 2012	Quarter Ending July 2, 2011	Six Months Ending June 30, 2012	Six Months Ending July 2, 2011
Net earnings	**$ 2,811**	$ 682	**$ 5,329**	$ 2,253
Other comprehensive income				
Foreign currency translation differences for foreign operations	**(471)**	98	**(1,460)**	(883)
Other comprehensive income for the period, net of income tax	**(471)**	98	**(1,460)**	(883)
Total comprehensive income for the period	**$ 2,340**	$ 780	**$ 3,869**	$ 1,370
Attributable to:				
Non-controlling interests	**(19)**	–	**(37)**	–
Equity holders of the Company	**$ 2,359**	$ 780	**$ 3,906**	$ 1,370
Total comprehensive income for the period	**$ 2,340**	$ 780	**$ 3,869**	$ 1,370

See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Changes in Equity

(unaudited)
For the six months ended June 30, 2012

(tabular amounts in thousands of dollars)	Share capital	Contributed surplus	AOCI **	Retained earnings	Non-Controlling Interests	Total shareholders' equity
Balance at January 1, 2012	$ 12,987	$ 1,525	$ (935)	$ 77,871	$ –	$ 91,448
Total comprehensive income for the year						
Net Earnings	–	–	–	5,242	87	5,329
Other comprehensive income						
Foreign currency translation differences	–	–	(1,336)	–	(124)	(1,460)
Total other comprehensive income	–	–	(1,336)	–	(124)	(1,460)
Total comprehensive income for the year	–	–	(1,336)	5,242	(37)	3,869
Transactions with shareholders, recorded directly in equity						
Own shares acquired	(22)	(3)	–	(123)	–	(148)
Share options exercised	234	(71)	–	–	–	163
Share-based payment transactions	–	368	–	–	–	368
Acquisition of subsidiary with non-controlling interests (Note 8)	–	–	–	–	1,842	1,842
Dividends to equity holders	–	–	–	(1,049)	(65)	(1,114)
Total transactions with shareholders	212	294	–	(1,172)	1,777	1,111
Balance at June 30, 2012	$ 13,199	$ 1,819	$ (2,271)	$ 81,941	$ 1,740	$ 96,428

**AOCI = Accumulated other comprehensive income
See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Changes in Equity

(unaudited)
For the six months ended July 2, 2011

(tabular amounts in thousands of dollars)	Share capital	Contributed surplus	AOCI **	Retained earnings	Non-Controlling Interests	Total shareholders' equity
Balance at January 1, 2011	$ 12,968	$ 968	$ (1,267)	$ 73,614	$ –	$ 86,283
Total comprehensive income for the year						
Net Earnings	–	–	–	2,253	–	2,253
Other comprehensive income						
Foreign currency translation differences	–	–	(883)	–	–	(883)
Total other comprehensive income	–	–	(883)	–	–	(883)
Total comprehensive income for the year	–	–	(883)	2,253	–	1,370
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	440	–	–	–	440
Total transactions with shareholders	–	440	–	–	–	440
Balance at July 2, 2011	$ 12,968	$ 1,408	$ (2,150)	$ 75,867	$ –	$ 88,093

**AOCI = Accumulated other comprehensive income
See accompanying notes to consolidated interim financial statements.

Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Six Months Ending June 30, 2012	Six Months Ending July 2, 2011
Cash flows from operating activities		
Net earnings	$ 5,329	$ 2,253
Adjustments for:		
Amortization of property, plant and equipment	2,706	2,265
Amortization of intangible assets	444	343
Provisions	34	(375)
Interest expense	300	107
Income tax expense	3,090	1,488
Change in unrealized loss (gain) on derivatives	(936)	893
Stock based compensation expense	368	440
	11,335	7,414
Change in non-cash working capital	(884)	(14,188)
Cash provided by (used in) operating activities	10,451	(6,774)
Income tax paid	(3,305)	(2,072)
Net cash provided by (used in) operating activities	7,146	(8,846)
Cash flows from investing activities		
Acquisition of subsidiary company (Note 8)	(15,410)	(7,784)
Acquisition of property, plant and equipment	(2,113)	(1,042)
Acquisition of intangible assets	(498)	(625)
Cash used in investing activities	(18,021)	(9,451)
Cash flows from financing activities		
Advances of borrowings	6,934	2,137
Advances of long term debt	58	510
Repayment of long term debt	(961)	(381)
Proceeds from issue of share capital	163	–
Share repurchase	(148)	–
Cash dividends paid	(1,049)	–
Interest paid	(300)	(107)
Cash provided by financing activities	4,697	2,159
Foreign exchange on cash held in a foreign currency	(122)	(217)
Decrease in cash	(6,300)	(16,355)
Cash at beginning of period	7,814	19,536
Cash at end of period	$ 1,514	$ 3,181

See accompanying notes to consolidated interim financial statements.

Quarters ended June 30, 2012 and July 2, 2011
(tabular amounts in thousands of dollars)

The accompanying consolidated 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 in 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 consolidated interim financial statements of the Company as at and for the second quarter ended June 30, 2012 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 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 July 26, 2012.

(b) Use of estimates and judgments

The preparation of the 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, 2011.

3. Summary of significant accounting policies:

The consolidated interim financial statements as at and for the year ended December 31, 2011 are available on the System for Electronic Document Analysis and Retrieval ("SEDAR").

These consolidated interim financial statements should be read in conjunction with the Group's 2011 annual audited financial statements.

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, 2011

4. Property, plant and equipment:

The Group had acquisitions of fixed assets for the six months ended June 30, 2012 in the amount of $2,113,000 (2011 - $1,042,000). This was made up of building additions of $201,000, office equipment of $306,000 and machinery and equipment $1,606,000.

5. Intangible assets

The Group had acquisitions of intangible assets for the six months ended June 30, 2012 in the amount of $498,000 (2011 - $625,000). This was all for the additions of software. None of the intangible assets have been developed internally.

6. Long-term debt

	June 30, 2012	July 2, 2011
Opening balance	$ 4,537	$ 395
New issues:	242	3,583
Acquired through business acquisitions		
Term loan CAD	–	510
Term loan INR	58	–
Repayments:		
Term loan CAD	(90)	–
Term loans EUR	(473)	(282)
Finance lease obligation EUR	(267)	–
Term loan INR	(5)	–
Exchange	(126)	(99)
Closing balance	$ 3,876	$ 4,107

7. Share capital

(a) Share repurchase

During the first six months, the Company purchased and cancelled 14,900 Class A shares under a normal course issuer bid at a cost of $148,000 of which $22,000, $3,000 and $123,000 was applied against share capital, contributed surplus and retained earnings respectfully.

(b) Dividends

The following dividends were declared and paid by the Company:

	June 30, 2012	July 2, 2011
9 cents per Class A common share (2011)	$ 798	–
9 cents per Class B common share (2011)	251	–
	$ 1,049	–

(b) Stock option plan

During the six months ended June 30, 2012, the Company granted 129,000 options (2011 – 171,667) of which 83,000 vested immediately (2011 – 90,556) and the remaining vest equally in 2012 and 2014. Stock-based compensation recognized and the amount credited to contributed surplus during the period is $368,000 (2011 - $440,000) and relates to options granted during Quarter 1, 2012 and to options granted in prior years that vested during the year. The weighted average fair value of the options granted during the period is $3.05 (2011 - $3.93).

During the second quarter 84,000 options were exercised at an exercise price of $1.93.

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:

		2012		2011
Fair value of share options and assumptions				
Fair value at grant date	**$**	**3.05**	$	3.93
Share price at grant date	**$**	**9.74**	$	11.70
Exercise price	**$**	**9.74**	$	11.70
Expected volatility (weighted average volatility)		**44.4%**		47.3%
Option life (expected weighted average life)		**3.8 years**		3.8 years
Expected dividends		**1.6%**		1.1%
Risk-free interest rate (based on government bonds)		**1.52%**		2.13%

8. Business combination:

Effective March 1, 2012, the Company, acquired 70% equity ownership of PETE, India, a transformer business involved in the design and manufacture of standard and custom dry-type and cast coil distribution and power transformers and custom liquid filled distribution and power transformers, for cash consideration of $15,410,000.

The Company will operate as PETE – Hammond Power Solutions Private Limited, a subsidiary of HPS ("PETE"). The purchase of PETE expands HPS' global presence and provides a platform for expansion into the Indian, Asian and African markets. PETE also increases the breadth of HPS' product offering with its design and manufacturing capabilities in cast coil, custom liquid filled distribution, and power transformers. PETE has a reputation in the transformer industry for its custom engineering capabilities, product reliability and quality.

Identifiable assets acquired and liabilities assumed consist of:

(in thousands of dollars)

Accounts receivable	$	2,581
Inventories		2,958
Property, plant and equipment		3,231
Intangible assets		2,042
Goodwill		11,569
Assets	$	22,381
Bank operating line of credit		(477)
Accounts payable		(3,313)
Income taxes payable		(321)
Future income tax liability		(776)
Long-term debt		(242)
Liabilities		(5,129)
Non-controlling interest		(1,842)
Equity		(15,410)
Total liabilities and equity	$	(22,381)
Total purchase consideration	$	15,410

8. Business combination (continued):

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 PETE'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 deferred tax liability.

The acquisition costs attributed to PETE in the second quarter were $54,000 and $310,000 year-to-date (2011 - $51,000 in the second quarter and $97,000 year-to-date) which were included in general and administrative expense.

Included in the Group's consolidated results for the period ended June 30, 2012 is revenue of $4,236,059 and net earnings of $289,000 recognized by PETE from the date of acquisition to June 30, 2012.

If the company had acquired PETE effective January 1, 2012, the revenue would have been approximately $7,672,000 and there would have been net earnings of approximately $614,000.

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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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Stock Exchange Listing

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

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Annual General Meeting

Shareholders are cordially invited to attend
the Annual General meeting held annually.

Please contact Investor Relations for information.

hammondpowersolutions.com