Q1 Report 2012

For the three months ended March 31, 2012

Hammond Power Solutions Inc.

Inside

Fellow Shareholders,

> “I am pleased to report record sales results for Hammond Power Solutions Inc, for the first quarter of 2012.”

I am pleased to report record sales results for Hammond Power Solutions Inc. (“HPS”) for the first quarter of 2012. The strong momentum of growth that has been building over the last eight months has generated much improved financial results compared to the same quarter in 2011.

Our North American Original Equipment Manufacturer (“OEM”) markets, along with our distributor channel, continue to drive solid organic growth. Our U.S. sales increased by 18% over Quarter 1, 2011, while our Canadian sales increased by 21%.

During the quarter, we have taken important strides in transforming HPS into a global company with the purchase of Pan-Electro Technic Enterprise (“PETE”) located in Hyderabad, India. PETE has been manufacturing high quality oil-filled transformers for the Indian industrial and MRO markets since 1988. This acquisition along with the purchase of the Italian transformer company Euroelettro (“EH”) one year ago, gives HPS two manufacturing locations to serve the markets of Europe, India, Africa, the Middle East, Southeast Asia, as well as Australia. These companies will not only open the door to many new growth opportunities for HPS, they also enable us to better serve the expanding global needs of our major North American OEM customers.

Our growth in sales, both organic and through acquisition helped to drive stronger net income in the quarter as well. Pretax income was up 75% compared to Q1, 2011 giving us earnings of 22 cents per share compared to 14 cents in the same quarter last year. Higher margin rates and better capacity utilization also contributed to improved profitability.

Going forward, we expect the U.S. and Canadian economies to continue their gradual but steady ascent. The European economic picture is more clouded as a whole and may lag the rest of the world. Despite this, we are confident that our market expansion plans will generate growing sales and profits. Recently published data indicates that the Indian economy has slowed from previous years, but its annual rate of growth is still significantly higher than either Europe or North America.

2012 has started out with a decidedly positive momentum for both sales and profits. We are indeed mindful of the uncertainties hanging over the global economy, and believe that our strategic efforts to expand our channels in North America, as well as expansion of our business globally, have created a market diversity that will improve HPS’ ability to weather these lingering risks. In closing, we guardedly believe that the worst is behind us and the dawn of more prosperous times for HPS in a global marketplace is emerging.

WGH

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

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, cast coil and oil 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 ("U.S."), Mexico, Italy and India.

The following is Management's Discussion and Analysis of the Company's consolidated operating results for the three months ended March 31, 2012, and should be read in conjunction with the unaudited interim Consolidated Financial Statements of the Company for the first quarter of Fiscal 2012. This information is based on Management's knowledge as at April 27, 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 first quarter update to the information contained in the Fiscal 2011 MD&A. All amounts are reported under IFRS ("International Financial Reporting Standards"). 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 March 31, 2012 and April 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 controlling 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 March 31, 2012, were $65,654 up $12,877 or 24.4% from the comparative quarter last year, and were $4,927 higher or 8.1% from Quarter 4, 2011. Due to increased order booking activity from one year ago, sales in the United States in U.S. dollars were $36,571 in Quarter 1, 2012, an increase of $6,055 or 19.8% from Quarter 1, 2011, and increased by $1,175 or 3.3% from Quarter 4, 2011. Canadian sales were $24,970 for the quarter, an increase over Quarter 1, 2011, of $4,487 or 21.9% and were up by $2,819 or 12.7% from Quarter 4, 2011. International sales including acquisition derived sales in Quarter 1 2012, were $4,182 versus Quarter 1, 2011 sales of $ 1,344, an increase of $2,838 or 211%.

The Company sales momentum continues to exceed the electrical industry average.

HPS continues to grow sales in its strategic markets, geographically and saw a moderate improvement in overall market activity in the electrical industry in the U.S. and Canada. The European market continued to remain soft during the quarter. Although lower than the past few years, the Indian market still indicates growth at approximately a 6% growth rate. Our consolidated growth is evidenced by overall increased quotation and order booking activities. The Company's strategies relating to its expertise in custom engineered products, global presence, product breadth, competitive product design and consistent quality fuelled this sales and market growth.

Additionally, the Company's market diversification strategies provide a business hedge, as the Company is not single market or industry dependent. HPS continues to grow in the NAED (North American Electrical Distributor) channel attaining increased sales as compared to the same quarter last year. The mining market continues to be very strong and increases in the motor control, excitation, capital equipment and power control markets in both Canada and the U.S. delivered increased sales year-over-year. Quotation and order activity in the OEM market segment has also gained momentum through the quarter. Despite the negative effects of a stronger Canadian dollar, HPS delivered significantly increased sales in the quarter. We expect our focus on custom and competitive product design and uncompromised quality will support our growth strategies.

Quarter 1, 2012 sales by geographic segment include U.S. sales of 55.6% of our total sales, while 38.0% of the segment sales were derived in Canada, 3.4% in Europe and 3.0% in India.

The Company is steadfast in its implementation of channel growth initiatives in strategic market segments in the U.S., Canada, Europe and India. The Company is committed to producing premium quality transformers, competitive custom engineered designs and to offer a broad and evolving product range. We expect that this combined with our capabilities in custom product design; manufacturing agility, competitive lead-times, product breadth, uncompromised quality, and geographically diverse manufacturing capabilities will generate further growth in organic and new customer sales.

The Company continues to aggressively focus on all market share growth and channel expansion opportunities in its identified strategic market segments. We expect that this, combined with our distribution channels and our manufacturing agility, will be a competitive advantage during the year and will be a foundation to successful revenue growth.

Order Bookings and Backlog

Our domestic and foreign sales growth strategies along with moderately improved market conditions produced healthy booking rates in Quarter 1, 2012. These factors were key elements in delivering an 11.1% increase in bookings as compared to Quarter 1, 2011. By channel, booking levels were 14.6% higher on a direct basis and grew 7.3% through our distributor channel, as compared to Quarter 1, 2011. Even though the Company continues to implement manufacturing throughput improvements, our high booking rate generated a 37.1% increase in our order backlog over Quarter 1, 2011, of which PETE had an impact of 12.5%. Compared to Quarter 4, 2011 the backlog increase was 1.5%, due mostly to the acquisition of PETE.

Our sales development initiatives supported strong booking rates during the Quarter. The impact of a slight improvement in general world economies and modestly improving electrical market conditions is evidenced with increased quotation activity and new order bookings, as many of our customers are 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, Europe and India. This, combined with our strong distribution channel, broad product offering and our multi-national manufacturing capabilities, will continue to be a competitive advantage and the foundation to our revenue and profit growth.

Gross Margins

Due to increased sales, gross margin dollar contribution increased $2,593 or 20.0% finishing Quarter 1, 2012 at $15,554 versus $12,961 in Quarter 1, 2011. The Company's gross margin rates were favorably impacted by selling price realization but were also negatively affected by the stronger Canadian dollar on U.S. margins, a lower margin rate market and product mix which resulted in Quarter 1, 2012 gross margin rates finishing at 23.7% versus 24.6% in Quarter 1, 2011, a decrease of 0.9%. First quarter 2012 gross margin rates compared against Quarter 1, 2011 gross margin rates were further hurt by higher raw material costs and increased labour costs. The Company continues to experience negative selling price pressures from many of our competitors due to the available excess capacity in the industry.

However, gross margin rates did benefit through internally driven design and material procurement cost reductions, increased manufacturing throughput and efficiencies, which contributed approximately 0.5% to margin rates in the quarter. Despite the unsettled economic climate, the Company continues to expand its manufacturing capacities to support its higher booking rates and trend projections. In the short-term, the additional fixed and managed costs associated with the expansion are dilutive to our net margin rates. However, as sales grow the favourable impact that higher manufacturing throughput will have on absorption of our factory overheads will positively affect margin rates and the increased sales will grow our gross margin contribution dollars. This will better match manufacturing capacity requirements to our future booking rates.

The Company is focused on its continuous improvement activities in the areas of productivity, waste elimination, cost reduction and lead-time improvements throughout the organization.

The Company is confident that these actions will help advance margin rates.

Selling and Distribution Expenses

Total selling and distribution expenses were $6,259 in Quarter 1, 2012 versus $5,387 in Quarter 1, 2011, an increase of $872 or 16.2%. The Quarter 1, 2012 selling and distribution expenses include international operations expenses of $258 versus $91 in Quarter 1, 2011.

Commission expenses for the quarter were $285 higher than Quarter 1, 2011. The higher commission expense correlates to the increased sales. There was also an increase in salaries of $172 for the quarter, associated with strategic hires to support our sales strategies. Freight expenses for the quarter increased $144 due to higher sales and increased transportation costs due to higher gasoline prices.

General and Administrative Expenses

The general and administrative expenses for Quarter 1, 2012 totaled $5,538, an increase of $791 or 16.7% when compared to Quarter 1, 2011 costs of $4,747. The Quarter 1, 2012 general and administrative expenses include expenses relating to international operations of $538 versus $277 in Quarter 1, 2011, an increase of $261. There were also additional costs related to ongoing acquisition activities of $131, increased engineering costs of $77, expenses of $102 related to the International business development and acquisition activities and higher bad debt provisions of $97.

The Company continues to invest in its people resources, specifically in the areas of information services, engineering and international infrastructure. 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 a very strong quarter of sales and gross margin contribution. This resulted in increased earnings from operations of $930 or 32.9% higher from the same quarter last year, finishing at $3,757 in the quarter, as compared to $2,827 in Quarter 1, 2011.

The earnings from operations are reflective of aggressive strategic growth initiatives, geographic expansion and increased investment in selling, general and administrative expenses. The earnings from operations are reflective of a company in transitional growth. Earnings from operations for the quarter were also impacted by lower gross margin rate mix, competitive price pressures and increased SG&A expenses.

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

		Quarter 1, 2012		Quarter 1, 2011
Net earnings for the year	$	**2,518**	$	1,571
Add:				
Income tax expense		**1,480**		734
Net finance and other costs (income)		**(241)**		522
Earnings from operations	$	**3,757**	$	2,827

Interest Expense

The interest expense for Quarter 1, 2012, finished at $124 compared to $30 in Quarter 1, 2011, an increase of $94. The increase of interest expense for the Quarter was as a result of higher net debt levels relating to the purchase of "PETE" and capital expenditures. Interest expense also includes all bank fees.

Foreign Exchange Gain / Loss

The foreign exchange gain in Quarter 1, 2012 was $22, 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 $302 in Quarter 1, 2011.

At March 31, 2012, the Company had outstanding foreign exchange contracts in place for 8,500 EUR and $4,500 U.S., both implemented as a hedge against translation gains and losses on inter-company loans and $5,000 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 is to be settled in May, 2012.

In Quarter 1, 2012 the Company experienced a gain on future copper hedging contracts as the commodity future valuations increased as at the end of the quarter. The unrealized gain on future copper contracts for Quarter 1, 2012 was $718, which was offset by a loss on settled contracts of $342, resulting in a net gain for the quarter of $376. In Quarter 1, 2011 the Company had a net copper hedging loss of $158, which was made up of unrealized losses of $524 offset by a gain in settled contracts of $366.

At March 31, 2012, the Company had outstanding forward copper contracts for the purchase of a notional 200,000 pounds of copper at a fixed price ranging from $4.13 U.S. to $4.25 U.S. per pound with maturity dates in April and May 2012 of which market to market losses have been booked.

Income Taxes

Quarter 1, 2012, income tax expense was $1,480 as compared to $734 in Quarter 1, 2011, an increase of $746 as a result of higher income before income tax. The consolidated effective tax rate for Quarter 1, 2012 increased to 37.0% versus 31.8% in Quarter 1, 2011, a difference of 5.2%.

In Quarter 1, 2012 non-tax-deductible costs included expenses incurred for the Company's acquisition activities of $216, stock option expense of $225 and applicable minimum income tax relating to EH, increasing the effective tax expense rate by approximately 4.0%.

The Company's deferred tax assets and liabilities are related to temporary differences in various tax jurisdictions related primarily to reserves and allowances (which are not deductible in the current year) and a difference in the carrying value of property, plant and equipment and intangible assets for accounting purposes and for tax purposes as a result of business combination accounting and a different basis of depreciation utilized for tax purposes.

Net Earnings

Net earnings for Quarter 1, 2012, increased by $947 or 60.3%, finishing at $2,518 compared to $1,571 in Quarter 1, 2011. Net earnings were positively impacted by the 24% growth in sales and resultant 20% increase in gross margin dollars as compared to Quarter 1, 2011.

Net earnings were also negatively impacted by increased Quarter 1, 2012 tax expenses and a higher effective tax rate when compared to Quarter 1, 2011.

EBITDA for Quarter 1, 2012 was $5,770 versus 3,580 in Quarter 1, 2011 an increase of $2,190 or 61.2%.

EBITDA is calculated as outlined in the following table:

(tabular amounts in thousands of dollars)		**Quarter 1, 2012**		Quarter 1, 2011
Net earnings	**$**	**2,518**	$	1,571
Add:				
Interest expense	**$**	**124**	$	30
Income tax expense	**$**	**1,480**	$	734
Depreciation and amortization	**$**	**1,648**	$	1,245
EBITDA	**$**	**5,770**	$	3,580

Net Earnings (continued)

Adjusted EBITDA:

Excluding foreign exchange gains and copper hedging gains and losses, adjusted EBITDA was $5,372 for Quarter 1, 2012 versus $4,040 for Quarter 1 2011, an increase of $1,332 or 33.0%.

Adjusted EBITDA is calculated as outlined in the following table:

(tabular amounts in thousands of dollars)		Quarter 1, 2012		Quarter 1, 2011
EBITDA for the quarter	$	5,770	$	3,580
Reverse:				
(Gain)/Loss on foreign exchange	$	(22)	$	302
(Gain)/Loss on Copper Hedging	$	(376)	$	158
Adjusted EBITDA	$	5,372	$	4,040

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2012		Q1		Year to Date Total
Sales	$	65,654	$	65,654
Net earnings attributable to owners of the parent	$	2,492	$	2,492
Earnings per share – basic	$	.22	$	.22
Earnings per share – diluted	$	.22	$	.22
Average U.S. to Canadian exchange rate	$	1.00	$	1.00

Fiscal 2011		Q1		Q2		Q3		Q4		Total
Sales	$	52,777	$	52,330	$	55,489	$	60,727	$	221,323
Net earnings attributable to the owners of the parent	$	1,571	$	682	$	171	$	3,569	$	5,993
Earnings per share – basic	$	0.14	$	0.06	$	0.01	$	0.31	$	0.52
Earnings 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		Q1		Q2		Q3		Q4		Total
Sales	$	44,273	$	50,820	$	47,903	$	47,608	$	190,604
Net earnings attributable to the owners of the parent	$	2,976	$	1,170	$	2,250	$	4,256	$	10,652
Earnings per share – basic	$	0.25	$	0.10	$	0.20	$	0.37	$	0.92
Earnings 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 due generally 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 and with a full quarter of sales compared to just one month of sales for Quarter 1, 2011 of Euroelettro S.p.A. and the additional sales of the newly acquired subsidiary "PETE" in India. Sales in Quarter 1, 2012 have continued the trend of Quarter 1, 2011 as a result of higher bookings at the end of Quarter 4, 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.

Capital Resources and Liquidity

Net cash used in operating activities for Quarter 1, 2012 was $3,330 versus cash used of $2,317 in Quarter 1, 2011, an increase of $1,013.

Change in non-cash operating working capital was an increase of $7,339 in cash usage compared to an increase of $5,794 for the same quarter last year an increase of $1,545. The Quarter 1, 2012 usage was primarily as a net result of an increase in accounts receivable of $7,458 a result of very high sales for the month of March 2012. The Company continues to focus on its customer accounts receivable collections cycle time.

Capital expenditures were $1,321 In Quarter 1, 2012 compared to $407 for Quarter 1, 2011.

Expanded manufacturing capacity and information technology infrastructure were focus areas of our capital expenditure program in the quarter.

During the quarter-ending March 31, 2012, the Company spent $15,410 for the purchase of 70% equity ownership of Pan-Electro Technic Enterprises Private Limited ("PETE"), in India. During Quarter 1, 2011 the Company utilized $7,784 to purchase EH a manufacturer of dry and cast coil transformers, located in Vicenza, Italy.

Total cash provided by financing activities for Quarter 1, 2012 was $14,330 as compared to $915 used in Quarter 1, 2011. The bulk of this change is related to advances from bank operating lines of 14,706, for the purchase of PETE.

Bank operating lines of credit finished Quarter 1, 2012 at $16,778 compared to $2,952 at the end of Quarter 1, 2011, an increase of $13,826 due to the purchase of PETE for $15,410.

The Company's overall cash balances, net of debt, resulted in a debt position of $19,338 in Quarter 1, 2012, a net decrease of $19,658 when compared to a net cash position of $320 in Quarter 1, 2011. The major contributor to this decrease in cash was the purchase of a 70% share of PETE.

All bank covenants continue to be met as at March 31, 2012.

On March 22, 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 Euro 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, and 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	$ 33,374	–	–	–	–	–	**$ 33,374**
Capital expenditure purchase commitments	$ 1,297	–	–	–	–	–	**$ 1,297**
Bank operating lines	$ 16,778	–	–	–	–	–	**$ 16,778**
Derivative liabilities	$ 334	–	–	–	–	–	**$ 334**
Long term debt	$ 1,761	$ 2,767	–	–	–	–	**$ 4,528**
Total	$ 55,222	$ 4,446	$ 1,372	$ 1,236	$ 636	–	**$ 62,912**

Contingent Liabilities

Management is not aware of any contingent liabilities.

Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards. 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, 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 completed the acquisition of PETE on February 23, 2012 and has included the financial results of PETE as part of HPS' consolidated financial results as of March 1, 2012 for administrative convenience. Management has not yet fully assessed the design or operating effectiveness of PETE's disclosure controls and procedures and internal controls over financial reporting.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. 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 International Financial Reporting Standards.

Canadian Securities Administrators require that companies certify the effectiveness of internal controls over financial reporting. It also requires a company to use a control framework such as the Internal Control – Integrated Framework ("COSO Framework") to design internal controls over financial reporting. As well, the threshold for reporting a weakness of internal controls over financial reporting should be of a "material weakness" rather than "reportable deficiency." HPS has designed its internal controls in accordance with the COSO Framework and will carry out retesting in 2012, to be completed by the fourth quarter.

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

On February 23, 2012, Hammond Power Solutions Inc. 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 Canadian). PETE's annual revenues approximate CDN $16,000.

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.

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

The acquisition supports HPS' global growth strategies and product offering in new global markets. PETE is involved in the design and manufacture of cast coil, custom liquid-filled distribution, and power transformers and has an excellent reputation in the electrical industry for its engineered-to-order capabilities and quality. Management feels that by building on the strengths of both companies, this acquisition will enhance HPS' market share strategies and performance going forward.

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;
- Government protectionism;
- Competition;
- Credit risk; and
- Global political unrest.

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

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

Commodity prices

An area that has had a definite impact on the Company's costs and earnings is the cyclical effects and fluctuating costs of copper and steel pricing in the global market. Strategic supply line agreements and alliances are in place with our major copper and steel suppliers to ensure adequate supply and competitive market pricing.

Foreign exchange

HPS operating results are reported in Canadian dollars ("CDN"). The majority of the Company sales and material purchases are denominated in U.S. dollars. While there is a natural hedge, as 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-year. There is a corresponding positive or negative impact to the Company's Accumulated Other Comprehensive Income in the Consolidated Statement of Financial Position 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 2008. 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 inter-company loan transactional exchange rate risk by entering into forward foreign exchange contracts.

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

Unpredictable weather/natural disasters

The Company's order booking and sales trends may be negatively impacted by extreme weather conditions such a heavy rains, flooding, snowfall, tornadoes and hurricanes.

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

Interest rates

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

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

Credit

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

Global/North American economy

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

The Company believes that being agile as an organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. We also believe that through our OEM and distributor channels, our growing access to a variety of global and domestic markets 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 1, 2012.

Proposed Transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm transactions as at March 31, 2012.

Financial Instruments

At March 31, 2012, the Company had outstanding foreign exchange contracts in place for 8,500 EUR and $4,500 U.S., both implemented as a hedge against translation gains and losses on inter-company loans and $5,000 U.S. to hedge the U.S. dollar denominated accounts payable in the Canadian operations of HPS. The Company also has outstanding forward copper contracts for the purchase of a notional 200,000 pounds of copper at a fixed price ranging from $4.13 U.S. to $4.25 U.S. per pound with maturity dates in April and May 2012.

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 March 31, 2012 are as follows:

8,806,624	Class A Shares
2,778,300	Class B Common Shares
11,584,924	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 have not yet been adopted by the Company.

Financial instruments

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

Consolidated financial statements

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

Joint arrangements

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

Disclosure of interests in other entities

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

Fair value measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"). This standard is effective for annual periods beginning on or after January 1, 2013 and provides additional guidance where IFRS requires fair value to be used. IFRS 13 defines fair value, sets out in a single standard 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 United States 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.

As we look to 2012 and beyond, we believe in the strength of the HPS model and the many reasons to continue to be 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 first 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

(tabular amounts in thousands of dollars)	2007	2008	2009	2010 IFRS Restated	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	14,109	**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 (U.S.$=CAN$)	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)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	50,820	47,903	47,608	52,777	52,330	55,489	60,727	**65,654**
Earnings from operations	3,711	2,089	4,315	2,827	1,819	2,664	5,729	**3,757**
EBITDA	3,047	4,399	6,440	3,580	2,876	1,800	7,282	**5,770**
Net earnings	1,170	2,250	4,256	1,571	682	171	3,569	**2,518**
Total assets	109,501	111,188	118,643	127,854	133,574	135,271	137,520	**154,596**
Total liabilities	25,725	26,738	32,360	40,603	45,481	44,523	46,072	**59,537**
Total cash (debt)	10,626	16,241	17,694	320	(7,520)	(3,344)	1,681	**(19,338)**
Cash provided (used) by operations	2,014	7,099	3,389	(2,317)	(6,755)	4,923	10,741	**(3,330)**
Basic earnings per share	0.10	0.20	0.37	0.14	0.06	0.01	0.31	**0.22**
Diluted earnings per share	0.09	0.20	0.37	0.14	0.06	0.01	0.30	**0.22**
Dividends declared and paid	–	–	1,504	–	–	–	1,738	**–**
Average Exchange Rate (USD$=CAN$)	1.028	1.039	1.013	0.986	0.967	0.980	1.023	**1.002**
Book value per share	7.23	7.30	7.45	7.53	7.60	7.83	7.89	**8.05**

**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 March 31, 2012	As at December 31, 2011
Assets		
Current assets		
Cash	**$ 1,968**	$ 7,814
Accounts receivable	**49,019**	41,561
Inventories	**33,783**	34,515
Income taxes recoverable	**1,491**	1,253
Prepaid expenses	**1,179**	1,093
Total current assets	**87,440**	**86,236**
Non-current assets		
Property, plant and equipment	**40,159**	37,529
Investment in properties	**1,044**	1,044
Deferred tax assets	**581**	606
Goodwill	**15,702**	4,564
Intangible assets	**9,670**	7,541
Total non-current assets	**67,156**	51,284
Total assets	**$ 154,596**	$ 137,520
Liabilities		
Current liabilities		
Bank operating lines of credit	**$ 16,778**	$ 1,596
Accounts payable and accrued liabilities	**33,374**	35,518
Income tax liabilities	**880**	467
Provisions	**412**	439
Derivative liabilities	**334**	1,018
Current portion of long-term debt (Note 6)	**1,761**	1,688
Total current liabilities	**53,539**	**40,726**
Non-current liabilities		
Employee future benefits	**307**	309
Provisions	**165**	165
Long-term debt (Note 6)	**2,767**	2,849
Deferred tax liabilities	**2,759**	2,023
Total non-current liabilities	**5,998**	5,346
Total liabilities	**59,537**	**46,072**
Shareholders' equity		
Share capital	**12,987**	12,987
Contributed surplus	**1,833**	1,525
Accumulated other comprehensive income	**(1,880)**	(935)
Retained earnings	**80,363**	77,871
Total shareholders' equity attributable to equity holders of the Company	**93,303**	91,448
Non-controlling interests	**1,756**	–
Total shareholders' equity	**95,059**	91,448
Total liabilities and shareholders' equity	**$ 154,596**	$ 137,520

The Notes on pages 23 to 25 are an integral part of these consolidated financial statements.

Consolidated Statements of Earnings
(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending March 31, 2012	Quarter Ending April 2, 2011
Sales	$ 65,654	$ 52,777
Cost of sales	50,100	39,816
Gross Margin	15,554	12,961
Selling and distribution	6,259	5,387
General and administrative	5,538	4,747
Earnings from operations	3,757	2,827
Finance and other costs (income):		
Interest expense	124	30
Foreign exchange loss (gain)	(22)	302
Realized and unrealized losses (gains) on copper forward contracts	(376)	158
Other	33	32
Net finance and other costs (income)	(241)	522
Income before income taxes	3,998	2,305
Income tax expense		
Current	1,480	734
Net earnings	$ 2,518	$ 1,571
Non-controlling interests	$ 26	$ –
Net income attributable to equity holders of the Company	2,492	1,571
Net earnings	$ 2,518	$ 1,571
Earnings per share		
Basic earnings per share (dollars)	$ 0.22	$ 0.14
Diluted earnings per share (dollars)	$ 0.22	$ 0.14

The Notes on pages 23 to 25 are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending March 31, 2012	April 2, 2011
Net earnings	$ **2,518**	$ 1,571
Other comprehensive income		
Foreign currency translation differences for foreign operations	**(989)**	(981)
Other comprehensive income for the period, net of income tax	**(989)**	(981)
Total comprehensive income for the period	$ **1,529**	$ 590
Attributable to:		
Equity holders of the Company	$ **1,547**	$ 590
Non-controlling interests	**(18)**	–
Total comprehensive income for the period	$ **1,529**	$ 590

The Notes on pages 23 to 25 are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

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

(tabular amounts in thousands of dollars)	Share capital	Contributed surplus	AOCI **	Retained earnings	Non-Controlling 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	–	–	–	2,492	26	2,518
Other comprehensive income						
Foreign currency translation differences	–	–	(945)	–	(44)	(989)
Total other comprehensive income	–	–	(945)	–	(44)	(989)
Total comprehensive income for the year	–	–	(945)	2,492	(18)	1,529
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	308	–	–	–	308
Acquisition of subsidiary with non-controlling interests (Note 8)	–	–	–	–	1,842	1,842
Dividends declared to non-controlling interest	–	–	–	–	(68)	(68)
Total transactions with shareholders	–	308	–	–	1,774	(2,082)
Balance at March 31, 2012	$ 12,987	$ 1,833	$ (1,880)	$ 80,363	$ 1,756	$ 95,059

**AOCI = Accumulated other comprehensive income

The Notes on pages 23 to 25 are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

(unaudited)
For the three months ended April 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)	$ 73,644	$ –	$ 86,313
Total comprehensive income for the year						
Net Earnings	–	–	–	1,571	–	1,571
Other comprehensive income						
Foreign currency translation differences	–	–	(981)	–	–	(981)
Total other comprehensive income	–	–	(981)	–	–	(981)
Total comprehensive income for the year	–	–	(981)	1,571	–	590
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	378	–	–	–	378
Total transactions with shareholders	–	378	–	–	–	(2,082)
Balance at April 2, 2011	$ 12,968	$ 1,346	$ (2,248)	$ 75,215	$ –	$ 87,281

**AOCI = Accumulated other comprehensive income
The Notes on pages 23 to 25 are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending March 31, 2012	Quarter Ending April 2, 2011
Cash flows from operating activities		
Net earnings	$ **2,518**	$ 1,571
Adjustments for:		
Amortization of property, plant and equipment	**1,443**	1,115
Amortization of intangible assets	**205**	130
Provisions	**(29)**	(418)
Interest expense	**124**	30
Income tax expense	**1,480**	734
Change in unrealized loss (gain) on derivatives	**(684)**	859
Stock based compensation expense	**308**	378
	5,365	4,399
Change in non-cash working capital	**(7,339)**	(5,794)
Cash (used in) from operating activities	**(1,974)**	(1,395)
Income tax paid	**(1,356)**	(922)
Net cash used in operating activities	**(3,330)**	(2,317)
Cash flows from investing activities		
Acquisition of subsidiary company net of cash acquired	**(15,410)**	(7,784)
Acquisition of property, plant and equipment	**(976)**	(397)
Acquisition of intangible assets	**(345)**	(10)
Cash used in investing activities	**(16,731)**	(8,191)
Cash flows from financing activities		
Advances (repayment) of bank operating lines of credit	**14,705**	(1,505)
Advances of long term debt	**58**	620
Repayment of long term debt	**(309)**	-
Interest paid	**(124)**	(30)
Cash provided by (used in) financing activities	**14,330**	(915)
Foreign exchange on cash held in a foreign currency	**(115)**	(243)
Decrease in cash	**(5,846)**	(11,666)
Cash at beginning of period	**7,814**	19,536
Cash at end of period	$ **1,968**	$ 7,870

The Notes on pages 23 to 25 are an integral part of these consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

Quarters ended March 31, 2012 and April 2, 2011
(tabular amounts in thousands of dollars)

The accompanying unaudited interim Condensed Consolidated 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 condensed consolidated interim financial statements of the Company as at and for the first quarter ended March 31, 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 quarter.

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 27, 2012

(b) Use of estimates and judgments

The preparation of the Condensed Consolidated 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 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 Condensed Consolidated 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 condensed 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 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 first quarter ended March 31, 2012 in the amount of $976,000 (2011 – $397,000). This was made up of building additions of $201,000, office equipment $306,000 and machinery and equipment $469,000.

5. Intangible assets

The Group had acquisitions of intangible assets for the first quarter ended March 31, 2012 in the amount of $345,000 (2011 - $10,000). This was all for the additions of software. None of the intangible assets have been developed internally.

6. Long-term debt

	March 31, 2012	April 2, 2011
Opening balance	$ 4,537	$ 395
New issues:	242	3,583
Acquired through business acquisitions		
Term loan Canada	–	451
Term loan INR	58	–
Repayments:		
Term loan CDN	(45)	–
Term loans EU	(147)	–
Finance lease obligation EU	(120)	–
Exchange	3	169
Closing balance	$ 4,528	$ 4,598

7. Stock option plan

During the quarter, 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 quarter is $308,000 (2011 – $378,000) 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 first quarter is $3.05 (2011 – $3.93).

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 in 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.

(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

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 first quarter, were $256,000 (2011 – $46,000) which are included in general and administrative expense.

Included in the Group's consolidated results for the period ended March 31, 2012 is revenue of $1,957,000 and net earnings of $88,000 recognized by PETE from the date of acquisition to March 31, 2012.

If the company had acquired PETE effective January 1, 2012, the revenue would have been approximately $5,393,000 and there would have been net income of approximately $415,000.

Hammond Power Solutions Inc. Canada

Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6
Phone: (519) 822-2441

15 Industrial Road
Walkerton, Ontario N0G 2V0
Phone: (519) 881-3552

Distribution Centre
10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.
795 Industriel Boul.
Granby, Quebec J2G 9A1
Phone (450) 378-3617

3850 place de Java
Suite 200
Brossard, Québec J4Y 0C4

PETE – Hammond Power Solutions Private Limited India

G-9 to 11, Bhavya's Sree Arcade,
D.No. 8-3-166/6&7
Erragadda, Hyderabad – 500 018

Phone +91 40 23812291

Euroelettro Hammond S.p.A Italy

Via A. Schiatti 12,
36040 Meledo di sarego (VI) ITALY
Phone: +39 0444 822 000

Hammond Power Solutions S.A. de C.V. Mexico

Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico
(011) 52-81-8479-7115

Ave. Avante #900
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Hammond Power Solutions, Inc. United States

1100 Lake Street
Baraboo, Wisconsin 53913
Phone (608) 356-3921

17715 Susana Road
Compton, California 90224
Phone (310) 537-4690

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

595 Southgate Drive
Guelph, Ontario N1G 3W6

Stock Exchange Listing

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

Registrar and Transfer Agent

Computershare Investor Share Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1

Auditors

KPMG, LLP
115 King Street South
Waterloo, Ontario N2J 5A3

Investor Relations

Contact: Dawn Henderson, Manager Investor Relations
Telephone: 519.822.2441
Email: ir@hammondpowersolutions.com

Annual General Meeting

Shareholders are cordially invited to attend the Annual General meeting held at:

The Toronto Stock Exchange
(The Gallery)
130 King Street West
Toronto, Ontario M5X 1J2

Wednesday, May 23, 2012, at 3:00 p.m.

hammondpowersolutions.com