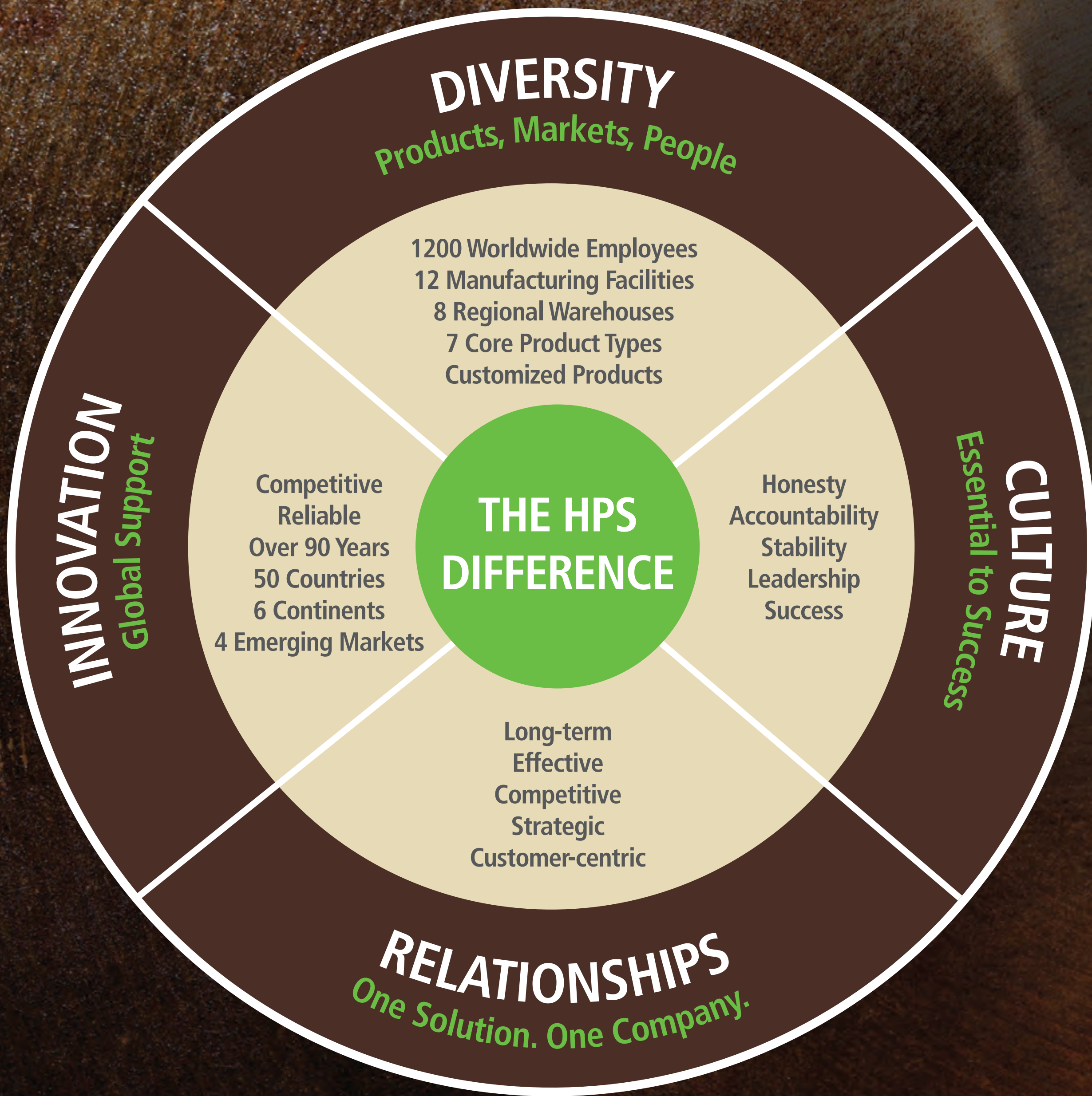
Q2

Report 2013

For the six months ended
June 29, 2013

Hammond Power
Solutions Inc.

we know
Our strengths



continuing to grow

Market Share

Fellow Shareholders,

Our expectation of a difficult first half in 2013 as discussed in our Quarter 1, 2013 communication has turned out to be the reality. I believe that it is fair to say that growth rates in almost all global economies are lower than was predicted even six months ago. In some cases, business has actually receded in a manner not seen since the beginning of the recession five years ago.

Our Canadian business has experienced the biggest drop. The decline is related to a number of factors: institutional and infrastructure projects supported by government funding is down, new condominium construction in Toronto has stalled, investment in mining projects and equipment has also declined with the drop in resource prices as well as falling consumption in China and abroad. These factors coupled with the abrupt slowdown in the Alberta oil patch and the threat of a construction strike in Quebec, have had a combined affect on the Canadian economy which in total grew more slowly than planned at the beginning of the year.

Our business in the U.S. is also down so far this year, but certainly not as much as in Canada. Our Original Equipment Manufacturer ("OEM") business has been hit the hardest with large declines in the mining equipment market. The unexpected deterioration of the Chinese economy has been blamed both directly and indirectly on this decline, as a significant portion of this equipment is shipped to China. The slashing of federal and state funding is hurting institutional and defence projects across the U.S. which in turn has an effect on our business. In addition, our international business was impacted by the continuing recession in Europe as well as a slower than expected economy in India.

The above circumstances, the timing and magnitude of which were hard to predict, have contributed to lower first half results than expected.

On a positive note, U.S. distributor sales are growing and are higher than 2012, even in a slow U.S. economy. We continue to grow market share with our existing distributors through the expansion of our network in the western and southern parts of the U.S. On the OEM side, we have added new business. Even though their ordering activity has started out slower than expected, it is accelerating and will contribute more positively to our performance in the second half of the year. There are a large number of activities that have been happening with our international operations that will result in higher sales abroad. HPS is expanding our network of agents in both Europe and India; our growing international sales organization is expanding our relationships and geographical coverage of OEM's, integrators, and electrical distributors which in turn is increasing our opportunities to quote and win business. We are also looking at taking advantage of our broad product offering of VPI, cast and oil transformers, to expand our sales in India, Europe and even North America, where one or more of these technologies have not been manufactured by our operations up until now.

The first half has indeed been more challenging than anticipated. A wide variety of circumstances – many of them beyond our ability to predict and control – have impacted our business and financial performance. We are still optimistic about a better second half in terms of improved economic conditions in both the U.S. and India. And it's important to note, that in both the U.S. and Canada where our sales have declined, HPS is not losing share in our dominant markets. So when the economy does turn around, as it will, we will see growth resume. During the second quarter we have also seen an improved trend in both bookings and backlog not only compared to Quarter 1, 2013 but over the same quarter in 2012. In fact, our U.S. bookings for example are at the highest level since Quarter 3, 2011 which we believe bodes well for our sales in the second half of this year. In addition to this, we continue to grow our market share through the U.S. distributor channel as well as with selective OEM's in markets that are still growing despite the slow global economy.

We are disappointed with our performance so far in 2013. However, we firmly believe that the majority of this shortfall is related to the worse-than-expected performance of the global economy and its impact on some of our major markets, as opposed to gaps in implementing our business plan. We are dealing with a challenging economy and with our strategic initiatives and growth in market share, we look forward to improving results in the second half of the year and into 2014.

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

unwavering in our
Strategy for Growth

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the six months ended June 29, 2013, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the Second Quarter of fiscal 2013. This information is based on Management's knowledge as at July 24, 2013. The Company assumes that the reader of this MD&A has access to and has read the audited annual consolidated financial statements and MD&A of the Company, contained in our 2012 Annual Report, and accordingly, the purpose of this document is to provide a second quarter update to the information contained in the Fiscal 2012 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward looking information

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

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/ (income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings and EBITDA, in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending June 29, 2013 and June 30, 2012 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS. "Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended June 29, 2013 were $59,072, a decline of $6,414 or 9.8% from the Quarter 2, 2012 sales of $65,486. Year-to-date sales were $122,744 in 2013 and $131,140 in 2012, a decrease of $8,396 or 6.4%.

As a result of a slowdown in OEM order booking and sales activity particularly in the mining, power conditioning and switchgear market segments, sales in the United States ("U.S."), were $36,016 in Quarter 2, 2013 a decrease of $1,397 or 3.7% from Quarter 2, 2012. U.S. sales were favourably affected by a swing of a 1% weaker Canadian dollar ("CAD"), ($1.00 USD = $1.02 CAD in Quarter 2, 2013 and $1.01 CAD in Quarter 2, 2012). This exchange rate change had a slightly favourable impact on the amount of stated U.S. sales for this quarter as compared to Quarter 2, 2012.

Sales in the U.S., stated in U.S. dollars ("USD"), were $36,816 in Quarter 2, 2013 a decrease of $919 or 2.4% from Quarter 2, 2012. Year-to-date U.S. sales were $72,229 in 2013 and $74,306 in 2012, a decrease of $2,077 or 2.8%.

Canadian sales were $18,610 for the quarter, a decrease over Quarter 2, 2012, of $4,536 or 19.6%, due to a weakening in booking rates particularly in the institutional construction project business and the mining, motor control and utility markets. Year-to-date Canadian sales were $39,882 in 2013 compared to $48,116 in 2012, a decrease of $8,234 or 17.1%. The decrease in year-to-date Canadian sales is a result of the deterioration of the Canadian project market particularly in new construction projects and reduced the North American Electrical Distributor ("NAED") channel activity.

Although the Company maintained its relative sales levels in many of its strategic markets, it has seen instability in overall market activity in the electrical industry in the U.S. and Canada as evidenced by the lower than planned order bookings and sales. The NAED channel continues to grow in the U.S., while the mining, capital equipment, utility and switchgear markets in both Canada and the U.S. suffered in Quarter 2, 2013.

International sales in Quarter 2, 2013 were $4,446 versus $4,927 in Quarter 2, 2012, a decrease of $481 or 9.8%. Marnate Trasformatori s.r.l. ("Marnate"), our recent Italian acquisition, contributed $1,404 in international sales for the quarter. Year-to-date international sales were $11,661 in 2013 compared to $9,109 in 2012, an increase of $2,552 or 28%.

Sales for the quarter by geographic segment include U.S. sales of 61.0% of total sales, Canadian sales of 31.5%, European sales of 5.4%, and Indian sales of 2.1%. Year-to-date, 58% of the Company's sales were generated in the U.S., 32.5% in Canada, 5.3% within Europe and 4.2% within India.

The Company continues with its growth initiatives in strategic market segments in the U.S., Canada, and internationally and is unwavering in the implementation of these strategies. The Company is committed to offering a broad and varying product range of premium quality transformers and expanding its footprint geographically.

By combining this with our capabilities in custom product design, manufacturing agility, competitive lead-times, product breadth, uncompromised quality and geographically diverse manufacturing capabilities, the Company expects it will produce sales opportunities leading to moderate growth through existing and new customer sales.

We feel that our market expansion initiatives, solid position in the distributor channel and new product development, will generate sales growth and is the keystone to our revenue and profit advancement.

Order bookings and backlog

The Company realized an increase in bookings of 17.6% over Quarter 1, 2013 and also increased 3.4% as compared against Quarter 2, 2012. Due to the sluggishness of the North American, European and Asian economies, year-to-date bookings were lower by 5.3%.

Adjusting for Marnate, bookings increased 3.9% Quarter 2, 2013 compared to Quarter 2, 2012 and decreased by 3.4% year-to-date when compared to 2012. Quarter 2, 2013 bookings were 4.4% higher than Quarter 1, 2013.

HPS realized an increase in bookings of 17.6% over Quarter 1, 2013 and also increased 3.4% as compared against Quarter 2, 2012.

By channel, booking levels were 24.9% higher on a direct basis and 16.3% lower through our distributor channel, as compared to Quarter 2, 2012. On a year-to-date basis we achieved a 1.9% increase in bookings through the direct channel and were 8.8% lower through the distributor channel when compared to 2012 year-to-date. The majority of the distribution channel decline was a result of softer Canadian market conditions. Direct channel growth was inclusive of bookings for Marnate, which had a 3.9% quarterly impact on the bookings increase as compared to Quarter 2, 2012 and a 2.0% impact on the year-to-date increase.

Due to the acquisition of Marnate and higher bookings in the American direct channel our backlog finished 10.3% higher than Quarter 1, 2013. The change in backlog related to the Marnate purchase is 3.1%.

Despite the lethargic general world economies and resultant softer electrical market conditions the U.S. quotation activity increased in the quarter. The Company is also seeing a shorter term booking horizon.

Contrastingly, many of our customers are feeling more positive about current medium-term market trends and prospects. It is expected that the Company's sales development initiatives will deliver further improvement in our booking rates, gaining momentum through the balance of the year. The Company is very cognizant that it may see some month-to-month fluctuations in booking rates, and as a result, will experience some volatility in booking rates. Despite this expected activity, the Company still anticipates realizing higher order bookings year-over-year.

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

Gross margin

The Company saw a slight decrease its overall margin rates this quarter as compared to the same quarter last year. Gross margin rates for Quarter 2, 2013 finished at 23.9% versus 24.5% in Quarter 2, 2012, a decrease of 0.6% of sales. Year-to-date the margin rate was 24.0% in 2013, which was comparable to the 2012 rate of 24.1%.

While gross margin rates did decline slightly, it is notable that the Company was able to minimize the decrease in margins given the continued negative selling price pressures from many of our competitors, particularly in the OEM market segment.

The company did realize gains in its NAED sector when compared to Quarter 1, 2013 and the same quarter last year.

Gross margin rates have also been hurt by the effect that lower production has on the absorption of factory costs. Despite this, gross margins were favourably impacted by the implementation of market specific price increases, cost reduction initiatives and improving labour efficiencies. Gross margins were also positively impacted by material procurement cost reductions, which contributed approximately 0.4% to margin rates.

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Selling and distribution expenses

Total selling and distribution expenses were $6,617 in Quarter 2, 2013 versus $6,525 in Quarter 2, 2012, an increase of $92 or 1.4%. These expenses represent 11.2% of sales in Quarter 2, 2013 and 10.0% of sales in Quarter 2, 2012. Year-to-date selling and distribution expenses were $13,159 or 10.7% of sales in 2013, compared to $12,784 or 9.7% of sales in 2012.

Selling and distribution expenses relating to Marnate were $147 in Quarter 2, 2013 and $226 year-to-date. Excluding Marnate, Quarter 2, 2013 expenses were $6,470 versus $6,525 in Quarter 2, 2012, a decrease of $55 or 0.8% and on a year-to-date basis were $12,933 compared to $12,784, an increase of $149 or 1.2%

Increased sales salaries have been partially offset by a decrease in commission expense due to lower sales. Freight expenses are consistent as a percentage of sales for both the quarter and year-to-date when comparing 2013 to 2012.

General and administrative expense

The general and administrative expenses for Quarter 2, 2013 totaled $5,916, an increase of $1,030 or 21.1% when compared to Quarter 2, 2012 expenses of $4,886. This represents 10.0% of sales in Quarter 2, 2013 as compared to 7.5% of sales in Quarter 2, 2012. The Quarter 2, 2013 general and administrative expenses include international operation expenses of $905 versus $516 in Quarter 2, 2012. Year-to-date general and administrative expenses were $11,311 or 9.2% of sales in 2013, compared to $10,424 or 7.9% of sales in 2012.

General and administrative expenses include $79 for the quarter and $122 year-to-date relating to Marnate. On a normalized basis, excluding Marnate, Quarter 2, 2013 expenses were $5,837 in Quarter 2, 2013 versus $4,886 in Quarter 2, 2012 an increase of $951 or 19.5% and on a year-to-date basis were $11,189 compared to $10,302, an increase of $887 or 8.6%.

Year-to-date general and administrative costs have been impacted by increased information services costs associated with the ERP implementation of $126 and increased maintenance contracts of $94. The Company continues to invest in its people resources particularly in the area of engineering and Information services. While the Company values the importance of this investment, it remains very cognizant of prudent general and administrative expense management.

Earnings from operations

Quarter 2, 2013 earnings from operations decreased by $3,064 or 65.8% from the same quarter last year, finishing at $1,599 compared to $4,663 in Quarter 2, 2012. The year-to-date earnings from operations were $4,958 in 2013 compared to $8,420 in 2012, a decrease of $3,462 or 41.1 %. The bulk of this reduction was a result of the decrease in sales, a slight decrease in margin rates and higher general and administrative expense levels.

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

		Quarter 2, 2013		Quarter 2, 2012		**YTD 2013**		YTD 2012
Net earnings	$	**510**	$	2,811	$	**2,417**	$	5,329
Add:								
Income tax expense		**641**		1,610		**1,898**		3,090
Net finance and other costs		**448**		242		**643**		1
Earnings from operations	$	**1,599**	$	4,663	$	**4,958**	$	8,420

Interest expense

The interest expense for Quarter 2, 2013 finished at $293 compared to $176 in Quarter 2, 2012, an increase of $117 or 66.5%. Year-to-date interest cost was $462, an increase of $162 when compared to the 2012 year-to-date expense of $300. The increase in interest expense for the quarter and year-to-date was a result of higher operating debt levels related to the assumption of debt associated with the purchase of Marnate. Interest expense includes all bank fees.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Foreign exchange gain/loss

The foreign exchange loss in Quarter 2, 2013 was $122, 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 gain of $46 in Quarter 2, 2012. For the first six months of 2013, the Company realized a foreign exchange loss of $114 as compared to a foreign exchange gain of $68 for the same period of 2012.

At June 29, 2013, the Company had outstanding foreign exchange contracts in place for 10,100 Euros ("EUR") and $7,000 USD – both implemented as a hedge against translation gains and losses on inter-company loans as well as $11,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Income taxes

Quarter 2, 2013 income tax expense was $641 as compared to $1,610 in Quarter 2, 2012, a decrease of $969. Year-to-date the income tax expense was $1,898 in 2013 and $3,090 in 2012, a decrease of $1,192.

The consolidated effective tax rate for Quarter 2, 2013 was 55.9% versus 36.4% for Quarter 2, 2012, an increase of 19.5%. The changes in the effective tax rates between the current and prior year is due to a change in the earnings mix of the Company which is being generated from different tax jurisdictions and are subject to different tax rates and regulations. The effect of minimum tax regulations in Italy contributed to the elevated effective tax rate in the quarter.

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

Net earnings

Net earnings for Quarter 2, 2013 decreased by $2,301, finishing at $510 compared to net earnings of $2,811 in Quarter 2, 2012 or 81.9%. Year-to-date net earnings were $2,417 in 2013 and $5,329 in 2012, a decrease of $2,912 or 54.7%. Decreased sales, softer margins, increased interest costs, higher general and administrative expenses and slightly higher foreign exchange losses in 2013 were the main contributing factors to the quarter and year-to-date decline. The Company anticipates improvement in the second half of the year as it gains traction with initiatives.

EBITDA for Quarter 2, 2013 was $3,254 versus $6,099 in Quarter 2, 2012 a decrease of $2,845 or 46.7%. Adjusted for both foreign exchange and copper hedging gains and losses, EBITDA for Quarter 2, 2013 was $3,376 versus $6,128 in Quarter 2, 2012, a decrease of $2,752 or 44.9%.

Year-to-date EBITDA was $8,367 in 2013 and $11,869 in 2012, a decrease of $3,502 or 29.5%. Adjusted year-to-date EBITDA was $8,481 in the current year, a decrease of $3,019 or 26.3% from $11,500 in 2012.

	Quarter 2, 2013	Quarter 2, 2012	**YTD 2013**	YTD 2012
Net earnings	**$ 510**	$ 2,811	**$ 2,417**	$ 5,329
Add:				
Interest expense	**293**	176	**462**	300
Income tax expense	**641**	1,610	**1,898**	3,090
Depreciation and amortization	**1,810**	1,502	**3,590**	3,150
EBITDA	**$ 3,254**	$ 6,099	**$ 8,367**	$ 11,869
Deduct:				
Foreign exchange gain (loss)	**122**	(46)	**114**	(68)
Copper hedging gain (loss)	**–**	75	**–**	(301)
Adjusted EBITDA	**$ 3,376**	$ 6,128	**$ 8,481**	$ 11,500

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2013 Quarters (Stated Per IFRS)	Q1, 2013	Q2, 2013	Year-to-date Total
Sales	$ 63,672	$ 59,072	**$ 122,744**
Net earnings	$ 1,907	$ 510	**$ 2,417**
Net income per share – basic	$ 0.16	$ 0.04	**$ 0.20**
Net income per share – diluted	$ 0.16	$ 0.04	**$ 0.20**
Average U.S. to Canadian exchange rate	$ 1.007	$ 1.022	**$ 1.014**

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

Historically the first quarter of the Company's fiscal year has lower revenues due to a general decline in Quarter 1 activity in the construction industry and overall electrical markets, as many projects are just getting underway. This trend has continued into Quarter 2, 2013 and the decreased activity has continued to produce lower revenue. Sales in Quarter 2, 2013 have shown a decrease from the prior year due to a general economic decline and softer business starting in Quarter 4, 2012. 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 generated by operating activities for Quarter 2, 2013 was $1,429 versus $10,476 in Quarter 2, 2012, a decrease of $9,047 as a result of an increase in non-cash working capital and lower net earnings. Year-to-date cash generated by operating activities was $418 in 2013 and $7,146 in 2012, a difference of $6,728.

During the quarter, non-cash working capital generated cash of $608 compared to $6,455 for the same quarter last year. The year-to-date change in non-cash working capital was $3,493 in 2013 compared to $884 in 2012. Excluding the working capital changes related to Marnate, inventories decreased by $1,304 and trade accounts payable decreased by $5,837 when comparing Quarter 2, 2013 to Quarter 4, 2012. The decrease in both inventory and accounts payable is attributable to the decrease in sales and production.

Capital expenditures were $1,637 in Quarter 2, 2013 compared to $1,137 for Quarter 2, 2012 an increase of $500. Year-to-date capital expenditures were $3,771 in the current year compared to $2,113 in 2012. Expanded manufacturing capacity, new product development and information technology infrastructure were areas of capital expenditure spending in the quarter and the first half of the year.

Total cash used in financing activities for Quarter 2, 2013 was $306 as compared to cash provided of $9,633 in Quarter 2, 2012. Year-to-date financing activities have generated cash of $5,284, which was comparable to the $4,697 generated in the first six months of 2012. Year-to-date, there was an increase in bank operating lines of $7,418 compared to $6,934 in 2012. The increase in bank indebtedness levels is a result of the acquisition activity in 2012 and the acquisition of Marnate in 2013.

Bank operating lines of credit remained steady in Quarter 2, 2013 at $19,986 compared to $19,243 at the end of Quarter 1, 2012, an increase of $743.

The Company's overall debt, net of cash was $20,552 in Quarter 2, 2013 compared to a net debt position of $11,369 in Quarter 2, 2012, an increase in debt position of $9,183. This debt position change was a result of the purchase of Marnate and the change in non-cash working capital.

All bank covenants continue to be met as at June 29, 2013.

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

Contractual Obligations

(tabular amounts in thousands of dollars)	2013	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 1,806	$ 1,451	$ 811	$ 307	$ 39	$ –	**$ 4,414**
Accounts payable and accrued liabilities	32,933	–	–	–	–	–	**$ 32,933**
Capital expenditure purchase commitments	1,359	–	–	–	–	–	**$ 1,359**
Bank operating lines	19,986	–	–	–	–	–	**$ 19,986**
Derivative liabilities	24	–	–	–	–	–	**$ 24**
Note payable	161	161	161	3,822	–	–	**$ 4,305**
Long term debt	245	1,389	–	–	–	–	**$ 1,634**
Total	$ 56,514	$ 3,001	$ 972	$ 4,129	$ 39	$ –	**$ 64,655**

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 1992 internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During Quarter 2, 2013 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect, HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

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

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

Regular Quarterly Dividend Declaration

The Board of Directors of HPS declared a quarterly cash dividend of five cents ($0.05) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of five cents ($0.05) per Class B Common Share of HPS payable on June 27, 2013 to shareholders of record at the close of business on June 20, 2013. The ex-dividend date was June 18, 2013. Year-to-date, the Company has paid a quarterly cash dividend of ten cents ($0.10) per Class A Subordinate Voting Share and ten cents ($0.10) per Class B Common Share.

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

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

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

The acquisition cost of 100% equity ownership of Marnate is expected to be approximately $9,785 CAD, subject to post-closing adjustments. Under the terms of the definitive agreement with Marnate, HPS will also commit to the purchase of certain real properties that are currently used by Marnate to carry out its business for additional payment of approximately $3,600 CAD. The acquisition costs attributed to Marnate incurred during Quarter 2, 2013 were $233 CAD, which are included in general and administrative expense.

Total purchase consideration is comprised of the following:

Cash	$	9,785

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

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

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

Risks and uncertainties

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

These risks include:

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

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

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

Commodity prices

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

Foreign exchange

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

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

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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

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

Unpredictable weather/natural disasters

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

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

Interest rates

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

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

Credit

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

Global/North American economy

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

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

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

The Company had no transactions with related parties in 2013, other than transactions disclosed in note 9 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 2, 2013 Report.

Proposed Transactions

The Company continues to evaluate potential business expansion initiatives, and has no firm transactions as at June 29, 2013.

Financial Instruments

At June 29, 2013 the Company had outstanding foreign exchange contracts in place for 10,100 EUR and $7,000 USD, both implemented as a hedge against translation gains and losses on inter-company loans as well as $11,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical Accounting Estimates

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

Outstanding Share Data

Details of the Company's outstanding share data:

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

New Accounting Pronouncements

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

Financial instruments

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

Consolidated financial statements

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

Joint arrangements

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

Disclosure of interests in other entities

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

Fair value measurement

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

Employee benefits

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

Presentation of other comprehensive income (OCI)

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

Strategic Direction and Outlook

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

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

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

Despite a disappointing quarter, the Company continues to show promising performance in many of its financial and operational metrics, continues to be an industry leader, and stronger and more capable of enduring economic uncertainty.

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

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

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

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

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Bringing quality and value to all stakeholders of the Company; and
- Identifying and pursuing additional sales opportunities with both existing as well as new customers.

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

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

Selected Annual and Quarterly Information

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 of 2013. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

Annual Information*

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

Quarterly Information

(tabular amounts in thousands of dollars)	Q3	Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	**2013 Q1**	**2013 Q2**
	55,489	60,727	65,654	65,486	63,703	62,533	**63,672**	**59,072**
Earnings from operations	2,664	5,729	3,757	4,663	4,215	5,545	**3,359**	**1,599**
EBITDA	1,800	7,282	5,770	6,099	5,999	6,484	**5,442**	**3,254**
Net earnings	171	3,569	2,518	2,811	2,552	4,730	**1,907**	**510**
Total assets	135,271	137,520	154,596	148,646	151,018	160,049	**170,729**	**170,131**
Total liabilities	44,523	46,072	59,537	52,218	53,178	58,404	**65,830**	**64,359**
Total cash (debt)	(3,344)	1,681	(19,338)	(11,369)	(9,255)	(990)	**(18,934)**	**(20,552)**
Cash provided (used) by operations	4,923	10,741	(3,330)	10,476	3,763	10,461	**(1,011)**	**1,429**
Basic earnings per share	0.01	0.31	0.22	0.24	0.21	0.41	**0.16**	**0.04**
Diluted earnings per share	0.01	0.30	0.22	0.24	0.21	0.41	**0.16**	**0.04**
Dividends declared and paid	–	1,738	–	1,049	–	1,049	**582**	**582**
Average Exchange Rate (USD$=CAD$)	0.980	1.023	1.002	1.009	1.000	0.9913	**1.0065**	**1.014**
Book value per share	7.83	7.89	8.05	8.12	8.24	8.54	**8.82**	**8.91**

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

Condensed Consolidated Statements of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)		As at June 29, 2013		December 31, 2012
Assets				
Current assets				
Cash	$	**5,373**	$	13,720
Accounts receivable		**43,581**		41,607
Inventories		**37,795**		35,172
Income taxes recoverable		**2,489**		720
Prepaid expenses and other assets		**1,261**		1,300
Total current assets	$	**90,499**	$	92,519
Non-current assets				
Property, plant and equipment		**46,053**		40,029
Investment in properties		**1,044**		1,044
Deferred tax assets		**490**		463
Goodwill		**17,346**		13,643
Intangible assets		**14,699**		12,351
Total non-current assets		**79,632**		67,530
Total assets	$	**170,131**	$	160,049
Liabilities				
Current liabilities				
Bank operating lines of credit	$	**19,986**	$	12,568
Accounts payable and accrued liabilities		**32,933**		37,690
Income tax liabilities		**–**		1,327
Provisions		**507**		422
Current portion of note payable (note 10)		**161**		–
Derivative liabilities		**24**		47
Current portion of long-term debt (note 6)		**245**		926
Total current liabilities	$	**53,856**	$	52,980
Non-current liabilities				
Employee future benefits		**686**		312
Provisions		**100**		100
Note payable (note 10)		**4,144**		–
Long-term debt (note 6)		**1,389**		1,216
Deferred tax liabilities		**4,184**		3,796
Total non-current liabilities		**10,503**		5,424
Total liabilities	$	**64,359**	$	58,404
Shareholders' Equity				
Share capital		**13,295**		13,295
Contributed surplus		**2,173**		1,887
Accumulated other comprehensive income (note 8)		**(971)**		(3,771)
Retained earnings		**89,155**		87,976
Total shareholders' equity attributable to equity holders of the Company	$	**103,652**	$	99,387
Non-controlling interests		**2,120**		2,258
Total shareholder's equity		**105,772**		101,645
Total liabilities and shareholders' equity	$	**170,131**	$	160,049

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending June 29, 2013	Quarter Ending June 30, 2012	Six months ending June 29, 2013	Six months ending June 30, 2012
Sales	$ **59,072**	$ 65,486	$ **122,744**	$ 131,140
Cost of sales	**44,940**	49,412	**93,316**	99,512
Gross margin	**14,132**	16,074	**29,428**	31,628
Selling and distribution	**6,617**	6,525	**13,159**	12,784
General and administrative	**5,916**	4,886	**11,311**	10,424
Earnings from operations	**1,599**	4,663	**4,958**	8,420
Finance and other costs (income):				
Interest expense	**293**	176	**462**	300
Foreign exchange loss (gain)	**122**	(46)	**114**	(68)
Realized and unrealized loss (gain) on copper forward contracts	**–**	75	**–**	(301)
Other	**33**	37	**67**	70
Net finance and other costs	**448**	242	**643**	1
Income before income taxes	**1,151**	4,421	**4,315**	8,419
Income tax expense	**641**	1,610	**1,898**	3,090
Net earnings	$ **510**	$ 2,811	$ **2,417**	$ 5,329
Non-controlling interests	$ **(4)**	$ 61	$ **74**	$ 87
Net income attributable to equity holders of the Company	**514**	2,750	**2,343**	5,242
Net earnings	$ **510**	$ 2,811	$ **2,417**	$ 5,329
Earnings per share				
Basic earnings per share (dollars)	$ **0.04**	$ 0.24	$ **0.20**	$ 0.46
Diluted earnings per share (dollars)	$ **0.04**	$ 0.24	$ **0.20**	$ 0.46

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending June 29, 2013	Quarter Ending June 30, 2012	Six months ending June 29, 2013	Six months ending June 30, 2012
Net earnings	**$ 510**	$ 2,811	**$ 2,417**	$ 5,329
Other comprehensive income				
Foreign currency translation differences for foreign operations	**910**	(471)	**2,588**	(1,460)
Other comprehensive income for the year, net of income tax (note 8)	**910**	(471)	**2,588**	(1,460)
Total comprehensive income for the period	**$ 1,420**	$ 2,340	**$ 5,005**	$ 3,869
Attributable to:				
Equity holders of the Company	**1,540**	2,359	**5,143**	3,906
Non-controlling interest	**(120)**	(19)	**(138)**	(37)
Total comprehensive income for the period	**$ 1,420**	$ 2,340	**$ 5,005**	$ 3,869

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the six months ended June 29, 2013

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI**	RETAINED EARNINGS	NON-CONTROLLING INTEREST	**TOTAL SHAREHOLDERS' EQUITY**
Balance, as at January 1, 2013	$ 13,295	$ 1,887	$ (3,771)	$ 87,976	$2,258	**$ 101,645**
Total comprehensive income for the year						
Net earnings	–	–	–	2,343	74	**2,417**
Other comprehensive income						
Foreign currency translation differences (note 8)	–	–	2,800	–	(212)	**2,588**
Total other comprehensive income	–	–	2,800	–	(212)	**2,588**
Total comprehensive income for the year	–	–	2,800	2,343	(138)	**5,005**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	286	–	–		**286**
Dividends to equity holders (note 7)	–	–	–	(1,164)		**(1,164)**
Total transactions with shareholders	–	286	–	(1,164)	–	**(878)**
Balance at June 29, 2013	$ 13,295	$ 2,138	$ (971)	$ 89,155	$ 2,120	**$ 105,772**

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements.

Condensed 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 INTEREST	**TOTAL SHAREHOLDERS' EQUITY**
Balance, as at January 1, 2012	$ 12,987	$ 1,525	$ (935)	$ 77,871	$ –	**$ 91,448**
Total comprehensive income for the year						
Net earnings	–	–	–	5,242	87	**5,329**
Other comprehensive income						
Foreign currency translation differences (note 8)	–	–	(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	–	–	–	–	1,842	**1,842**
Dividends declared to non-controlling interest	–	–	–	(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 condensed consolidated interim financial statements.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Six months ending June 29, 2013	June 30, 2012
Cash flows from operating activities	$ **2,417**	$ 5,329
Net earnings		
Adjustments for:		
Amortization of property, plant and equipment	**3,590**	2,706
Amortization of intangible assets	**682**	444
Provisions	**(408)**	34
Interest expense	**462**	300
Income tax expense	**1,898**	3,090
Change in unrealized gain on derivatives	**(23)**	(936)
Stock based compensation expense	**286**	368
	8,904	11,335
Change in non-cash working capital	**(3,493)**	(884)
Cash provided by operating activities	**5,411**	10,451
Income tax paid	**(4,993)**	(3,305)
Net cash provided by operating activities	**418**	7,146
Cash flows from investing activities		
Acquisition of subsidiary company net of cash acquired (note 10)	**(9,512)**	(15,410)
Acquisition of property, plant and equipment	**(3,771)**	(2,113)
Acquisition of intangible assets	**(635)**	(498)
Cash used in investing activities	**(13,918)**	(18,021)
Cash flows from financing activities		
Advances from bank operating lines of credit	**7,418**	6,934
Advances of long term debt	**–**	58
Repayment of long term debt	**(508)**	(961)
Proceeds from issue of share capital	**–**	163
Share repurchase	**–**	(148)
Cash dividends paid (note 7)	**(1,164)**	(1,049)
Interest paid	**(462)**	(300)
Cash provided by financing activities	**5,284**	4,697
Foreign exchange on cash held in a foreign currency	**(131)**	(122)
Decrease in cash	**(8,347)**	(6,300)
Cash at beginning of period	**13,720**	7,814
Cash at end of period	$ **5,373**	$ 1,514

See accompanying notes to condensed consolidated interim financial statements.

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

1. Reporting entity

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

The condensed consolidated interim financial statements of the Company as at and for the second quarter ended June 29, 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group primarily is involved in the design and manufacture of custom electrical engineered magnetics and standard electrical dry-type transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India, the latter being PETE Hammond Power Solutions Private Limited, a 70% equity ownership acquired through an acquisition during the second quarter of 2012.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements, were approved by the Board of Directors on July 24, 2013.

(b) Use of estimates and judgments

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

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

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

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2012 annual audited financial statements, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The significant accounting policies applied by the Company in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2012.

4. Property, plant and equipment:

The Group had acquisitions of fixed assets for the six months ended June 29, 2013 in the amount of $3,771 (2012 - $2,113). This was made up of office equipment additions of $55 and machinery and equipment $3,716.

5. Intangible assets

The Group had acquisitions of intangible assets for the six months ended June 29, 2013 in the amount of $635 (2012 - $498). This was for the addition of software. None of the intangible assets have been developed internally.

Quarters ended June 29, 2013 and June 30, 2012 (in thousands of dollars)

6. Long-term debt

	Six months ending June 29, 2013	Six months ending June 30, 2012
Opening balance	$ **2,142**	$ 4,537
New issues:		
Acquired through business acquisitions	**–**	242
Term loan INR	**–**	58
Repayments:		
Term loan CAD	**(91)**	(90)
Term loans EUR	**(345)**	(473)
Finance lease obligation EUR	**–**	(267)
Term loan INR	**(123)**	(5)
Exchange	**51**	(126)
Closing balance	$ **1,634**	$ 3,876

7. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Six months ending June 29, 2013	Six months ending June 30, 2012
10 cents per Class A common share (2012: 9 cents)	$ **886**	$ 798
10 cents per Class B common share (2012: 9 cents)	**278**	251
	$ **1,164**	$ 1,049

(b) Stock option plan

During the six months ended June 29, 2013, the Company granted 150,000 options (2012 – 129,000) of which 90,000 vested immediately (2012 – 83,000) and the remaining vest equally in 2013 and 2014. Stock-based compensation recognized and the amount credited to, contributed surplus during the period is $286 (2012 - $368) and relates to options granted during Quarter 1, 2013 and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $2.37 (2012 - $3.05).

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

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

Quarters ended June 29, 2013 and June 30, 2012 (in thousands of dollars)

8. Accumulated Other Comprehensive Income

Changes to the accumulated other comprehensive income ("AOCI") balance includes foreign currency translation differences. Total other comprehensive income for the six months ended June 29, 2013 was $2,800 (2012 – ($1,336)), resulting in and ending balance of accumulated other comprehensive income of ($971) (2012 – ($2,271)).

9. Related party transactions:

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2012 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,027,683 (2012 – 1,026,770) Class A subordinate voting shares of the Company, representing approximately 11.6% (2012 – 11.6%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $139 (Quarter 2 2012 – $251).

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

	2013	2012	Relationship
Purchase of goods	$ 287	$ 311	Companies in which key management personnel and/or their relatives have significant influence.

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

Transactions with key management personnel

During the six months ended June 29, 2013, the Group purchased $156 (2012 – $132) of inventory from a company in which a key employee has influence, as a director of the Company. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $7 (2012 – $11), which is owed to this company.

10. Business combination:

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

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

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

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

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

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

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

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

The acquisition costs attributed to Marnate incurred during the second quarter were $233, which were included in general and administrative expense.

Included in the Group's consolidated results for the six months ended June 29, 2013 is revenue of $2,464 and net earnings of $115 recognized by Marnate from the date of acquisition to June 29, 2013. If the Company had acquired Marnate effective January 1, 2013, the revenue would have been approximately $2,816 and there would have been net earnings of approximately $108.

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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

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