Q3

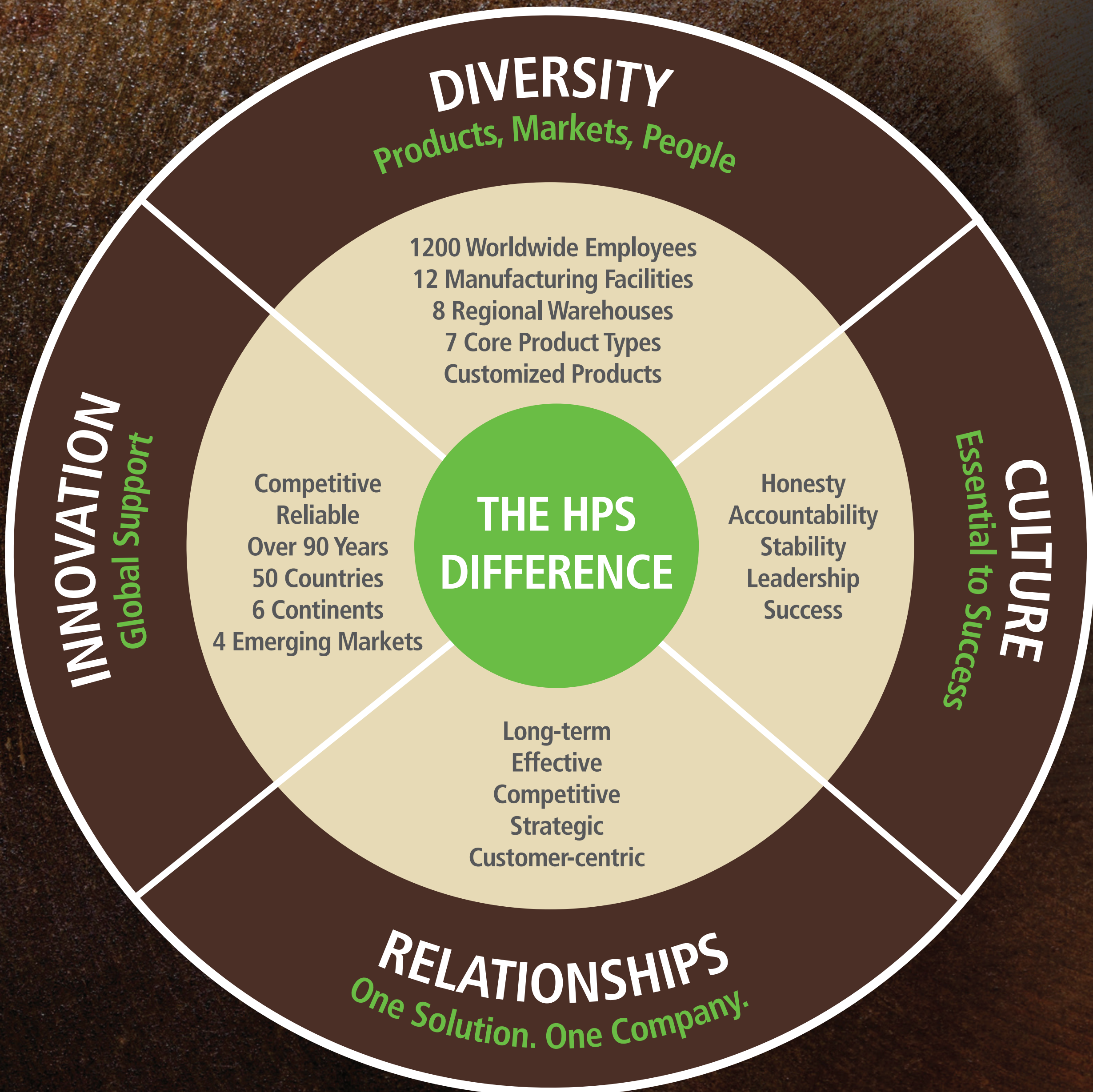
Report 2013

For the nine months ended
September 28, 2013

Hammond Power
Solutions Inc.

we know

Our strengths



continuing to grow

Market Share

Fellow Shareholders,

The year 2013 continues to be a more challenging year than expected, and we see this reflected in our Quarter 3, 2013 interim financial results.

Our performance this year continues to be impacted by three major influences. The unexpected slowing economies of emerging nations around the globe have reduced the demand for resources as well as equipment and machinery. This has affected a number of key niche markets for Hammond Power Solutions Inc. ("HPS") in North America as well as India in the mining equipment, electrical machinery (used in offshore oil drilling), steel mills, new concrete plants and alternative energy generation. The Canadian economy is also struggling through its worst year since 2009 with expenditures in mining, heavy oil production and publicly funded infrastructure which are down significantly from previous years. The inability of the United States ("U.S.") government to reach an agreement on a number of key fiscal issues has created uncertainty amongst businesses in the U.S. which has hurt their economy in the second half of 2013.

On the positive side, we are expanding our market share and have held our margins even in a very competitive market environment. We are also growing our sales through the U.S. distributor channel and in the commercial power business; unfortunately this growth has not been enough to offset the declines in other markets.

There is little consensus at the current time as to when the global economy will show more robust signs of growth. Resolution of the fiscal problems in the U.S. has been pushed out a few months which will temper business confidence and investment. It appears that the Chinese economy is showing some signs of growth, however this rate is still not enough to significantly boost resource consumption and commodity prices at least in the short term. Even though the need for infrastructure expansion and improvement is great in North America, governments are too indebted to fund all of the potential projects. On the other hand, it seems Europe is slowly crawling out of the serious recession that has gripped it for almost five years. India also appears to have bottomed after the slowest period of industrial production in over a decade and the dynamic U.S. economy, despite the problems in Washington, is giving us some opportunities for growth.

During this period of economic uncertainty and slow global growth, we are actively engaged in a broad variety of projects to take advantage of the upswing in momentum as forecasted in 2014. We are expanding our sales network in Europe, India and other parts of the emerging world. We are broadening our product capabilities in North America as well as in our international operations in order to grow our commercial power, industrial, and Original Equipment Manufacturer ("OEM") sales and we continue to see opportunities for growth through our U.S. and Canadian distributor network. At the same time, we are reducing our spending and continue to look for additional ways to reduce costs across the organization in order to maintain margins in this competitive environment.

This year has indeed been a challenging one with unexpected slowdowns in the global economy and our business. We do believe however, that the strategic actions we have taken over the last three years in terms of acquisitions, product development and channel expansion puts HPS in a better position to take advantage of growth when it resumes around the world.

WGH

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

we are an
Industry Leader

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.

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The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the nine months ended September 28, 2013, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the Third Quarter of fiscal 2013. This information is based on Management's knowledge as at October 23, 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 third 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 September 28, 2013 and September 29, 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 September 28, 2013 were $57,393, a decline of $6,310 or 9.9% from Quarter 3, 2012 sales of $63,703. Year-to-date sales were $180,137 in 2013 and $194,843 in 2012, a decrease of $14,706 or 7.5%.

As a result of a slowdown in OEM order booking and sales activity, particularly in the motor control, mining, and capital equipment market segments, sales in the United States ("U.S.") , stated in U.S. dollars ("USD") were $33,324 in Quarter 3, 2013 a decrease of $3,284 or 9.0% from Quarter 3, 2012 and year-to-date were $105,553 in 2013 versus $110,914 in 2012, a decline of $5,361 or 4.8%. U.S. sales were favourably affected by a swing of a 4.0% weaker Canadian dollar ("CAD"), ($1.00 USD = $1.04 CAD in Quarter 3, 2013 and $1.00 CAD in Quarter 3, 2012). This exchange rate change had a favourable impact on the amount of stated U.S. sales for this quarter as compared to Quarter 3, 2012.

Sales in the U.S., were $32,079 in Quarter 3, 2013 a decrease of $4,527 or 12.4% from Quarter 3, 2012. Year-to-date U.S. sales were $103,280 in 2013 and $110,521 in 2012, a decrease of $7,241 or 6.6%.

Canadian sales were $19,803 for the quarter, a decrease over Quarter 3, 2012, of $3,415 or 14.7%. This decline was largely due to a weakening in booking rates in several market segments particularly in the institutional construction project business as well as and the mining, motor control and utility markets. Year-to-date Canadian sales were $59,685 in 2013 compared to $71,334 in 2012, a decrease of $11,649 or 16.3%. The Canadian market was impacted by low Canadian project market activity particularly in new construction, mining, excitation markets and slow 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 order bookings and resultant 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. continued to be weak in Quarter 3, 2013.

International sales in Quarter 3, 2013 were $5,511 versus $3,891 in Quarter 3, 2012, an increase of $1,620 or 41.6%. Year-to-date international sales were $17,172 in 2013 compared to $12,989 in 2012, an increase of $4,183 or 32.2%.

Marnate Trasformatori s.r.l. ("Marnate"), our Quarter 1, 2013 acquisition in Italy, contributed $1,715 in international sales for the quarter and $4,180 year-to-date.

Quarter 3, 2013 sales stated by geographic segment were derived from U.S. sales of 55.9% of total sales, Canadian sales of 34.5%, European sales of 6.1%, and Indian sales of 3.5%. Year-to-date 57.3% of the Company's sales were generated in the U.S., 33.1% in Canada, 5.6% within Europe and 4.0% within India.

The Company is unwavering in its market development, offering a broad and varying product range of premium quality transformers and the expansion of its geographic footprint. Part of this commitment is achieved through the Company's growth initiatives in strategic market segments in the U.S., Canada, and its acquisition strategy abroad. The Company is committed to these strategies.

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.

Management is confident that our market expansion initiatives, solid position in the distributor channel and new product development, going forward will generate sales growth and is the foundation to our revenue and profit expansion.

Order bookings and backlog

The Company realized an increase in bookings of 0.2% over Quarter 2, 2013 and an increase of 3.6% as compared against Quarter 3, 2012. Due to the softer North American, European and Asian economies, year-to-date bookings were lower by 2.4%.

Adjusting for Marnate, bookings remained unchanged in Quarter 3, 2013 compared to Quarter 3, 2012 and decreased by 4.9% year-to-date when compared to 2012. Quarter 3, 2013 bookings were 0.5% higher than Quarter 2, 2013.

By channel, booking levels were 1.0% higher on a direct basis and 5.9% higher through our distributor channel as compared to Quarter 3, 2012. On a year-to-date basis there was an increase in bookings through the direct channel of 1.0% and a 5.4% reduction through the distributor channel when compared to 2012 year-to-date. The majority of the direct and distribution channel declines was a result of poorer North American market conditions. Direct channel growth was inclusive of bookings for Marnate, which had a 7.6% quarterly impact on the bookings as compared to Quarter 3, 2012 and a 5.0% impact on year-to-date bookings.

Due to lower bookings in the North American direct and distributor channels our backlog finished 3.6% lower than Quarter 2, 2013. Backlog related to Marnate was 3.6%.

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

Many of our customers are feeling more positive about market trends and prospects into next year. It is expected that the Company's sales development initiatives will deliver improvement in our booking rates. We are cognizant that although we may experience booking rate volatility, HPS will realize higher bookings in the fourth quarter.

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

Gross margin

The Company achieved an increase in its overall margin rates this quarter as compared to the same quarter last year. Gross margin rates for Quarter 3, 2013 were 24.7% and Quarter 3, 2012 finished at 24.5%. Year-to-date the margin rate was 24.2% in 2013 and 2012.

The stable gross margin rate is significant to the Company given the continued negative selling price pressures from many of our competitors, particularly in the OEM market segment and lower than expected manufacturing volumes.

The company did realize gains in its NAED sector when compared to Quarter 2, 2013 and the same quarter last year.

Gross margin rates also continue to be negatively impacted by the effect that lower production has on the absorption of factory costs. Despite this, gross margins were favourably impacted by the maintenance of market specific price increases, engineering and manufacturing cost reduction initiatives and material procurement cost reduction initiatives which contributed approximately 0.3% 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, productivity 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 certain that these actions combined with increased sales and higher manufacturing throughput will also advance margin rates.

Many of our customers are feeling more positive about market trends and prospects into next year.

The Company continues to advance its manufacturing capabilities, productivity and infrastructure.

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Selling and distribution expenses

Total selling and distribution expenses were $6,536 in Quarter 3, 2013 versus $6,337 in Quarter 3, 2012, a slight increase of $199 or 3.1%. These expenses represent 11.4% of sales in Quarter 3, 2013 and 9.9% of sales in Quarter 3, 2012. Year-to-date selling and distribution expenses were $19,695 or 10.9% of sales in 2013, compared to $19,121 or 9.8% of sales in 2012.

Selling and distribution expenses relating to Marnate were $155 in Quarter 3, 2013 and $381 year-to-date. Excluding Marnate, Quarter 3, 2013 expenses were $6,381 versus $6,337 in Quarter 3, 2012, an increase of $44 or 0.7% and on a year-to-date basis were $19,314 compared to $19,121, an increase of $193 or 1.0%

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 3, 2013 totaled $5,704, an increase of $637 or 12.6% when compared to Quarter 3, 2012 expenses of $5,067. This represents 9.9% of sales in Quarter 3, 2013 as compared to 8.0% of sales in Quarter 3, 2012. The Quarter 3, 2013 general and administrative expenses include international operation expenses of $878 versus $516 in Quarter 3, 2012. Year-to-date general and administrative expenses were $17,015 or 9.4% of sales in 2013, compared to $15,491 or 8.0% of sales in 2012.

General and administrative expenses include $84 for the quarter and $310 year-to-date relating to Marnate. Excluding Marnate, Quarter 3, 2013 expenses were $5,620 in Quarter 3, 2013 versus $5,067 in Quarter 3, 2012 an increase of $553 or 10.9% and on a year-to-date basis were $16,705 compared to $15,491, an increase of $1,214 or 7.8%.

Year-to-date general and administrative costs have been impacted by increased information services costs associated with the Company's ERP implementation. The Company continues to invest in its people resources particularly in the area of engineering, sales and information services. While the Company values the importance of this investment, which supports future growth and improved financial performance, it remains very cognizant of prudent general and administrative expense management.

Earnings from operations

Quarter 3, 2013 earnings from operations decreased by $2,294 or 54.4% from the same quarter last year, finishing at $1,921 compared to $4,215 in Quarter 3, 2012. The year-to-date earnings from operations were $6,879 in 2013 compared to $12,635 in 2012, a decrease of $5,756 or 45.6 %. The most significant impact of this reduction was a result of the decrease in sales. The increase in margin was offset by the increased selling and general and administrative expenses.

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

		Quarter 3, 2013		Quarter 3, 2012		**YTD 2013**		YTD 2012
Net earnings	**$**	**792**	$	2,552	**$**	**3,209**	$	7,881
Add:								
Income tax expense		**671**		1,696		**2,569**		4,786
Net finance and other costs		**458**		(33)		**1,101**		(32)
Earnings from operations	**$**	**1,921**	$	4,215	**$**	**6,879**	$	12,635

Interest expense

The interest expense for Quarter 3, 2013 finished at $243 and was comparable to the Quarter 3, 2012 expense of $249. Year-to-date interest cost was $705, an increase of $156 or 28.4% when compared to the 2012 year-to-date expense of $549. The increase in interest expense for the 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.

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Foreign exchange gain/loss

The foreign exchange loss in Quarter 3, 2013 was $183, relating primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange gain of $314 in Quarter 3, 2012. For the first nine months of 2013, the Company realized a foreign exchange loss of $297 as compared to a foreign exchange gain of $382 for the same period of 2012.

At September 28, 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 3, 2013 income tax expense was $671 as compared to $1,696 in Quarter 3, 2012, a decrease of $1,025. Year-to-date the income tax expense was $2,569 in 2013 and $4,786 in 2012, a decrease of $2,217.

The consolidated effective tax rate for Quarter 3, 2013 was 45.9% versus 39.9% for Quarter 3, 2012, an increase of 6.0%. 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 3, 2013 decreased by $1,760 or 69.0% and finished at $792 compared to net earnings of $2,552 in Quarter 3, 2012. Year-to-date net earnings were $3,209 in 2013 and $7,881 in 2012, a decrease of $4,672 or 59.3%. Decreased sales, flat gross margins, increased interest costs, higher general and administrative expenses and foreign exchange losses in 2013 were the main contributing factors to the quarter and year-to-date decline. The Company continues to anticipate improvement in the last quarter of the year as it gains traction with its operational initiatives.

EBITDA for Quarter 3, 2013 was $3,380 versus $5,999 in Quarter 3, 2012 a decrease of $2,619 or 43.7%. Adjusted for both foreign exchange and copper hedging gains and losses, EBITDA for Quarter 3, 2013 was $3,563 versus $5,685 in Quarter 3, 2012, a decrease of $2,122 or 37.3%.

Year-to-date EBITDA was $12,076 in 2013 and $17,868 in 2012, a decrease of $5,792 or 32.4%. Adjusted year-to-date EBITDA was $12,373 in the current year, a decrease of $4,812 or 28.0% from $17,185 in 2012.

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

	Quarter 3, 2013	Quarter 3, 2012	**YTD 2013**	YTD 2012
Net earnings	**$ 792**	$ 2,552	**$ 3,209**	$ 7,881
Add:				
Interest expense	**243**	249	**705**	549
Income tax expense	**671**	1,696	**2,569**	4,786
Depreciation and amortization	**1,674**	1,502	**5,593**	4,652
EBITDA	**$ 3,380**	$ 5,999	**$ 12,076**	$ 17,868
Deduct:				
Foreign exchange gain (loss)	**183**	(314)	**297**	(382)
Copper hedging gain	**–**	–	**–**	(301)
Adjusted EBITDA	**$ 3,563**	$ 5,685	**$ 12,373**	$ 17,185

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2013 Quarters (Stated Per IFRS)	Q1, 2013	Q2, 2013	Q3, 2013	Year-to-date Total
Sales	$ 63,672	$ 59,072	$ 57,393	**$ 180,137**
Net earnings	$ 1,907	$ 510	$ 792	**$ 3,209**
Net income per share – basic	$ 0.16	$ 0.04	$ 0.07	**$ 0.27**
Net income per share – diluted	$ 0.16	$ 0.04	$ 0.07	**$ 0.27**
Average U.S. to Canadian exchange rate	$ 1.007	$ 1.022	$ 1.038	**$ 1.022**

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 3, 2013. The decreased market activity has continued to produce lower revenue. Sales in Quarter 3, 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 3, 2013 was $3,021 versus $3,763 in Quarter 3, 2012, a decrease of $742 as a result of lower net earnings. Year-to-date cash generated by operating activities was $3,439 in 2013 and $10,909 in 2012, a difference of $7,470 due to lower net earnings and higher working capital usage.

During the quarter, non-cash working capital generated cash of $438 compared to a use of cash of $1,249 for the same quarter last year. The year-to-date change in non-cash working capital was a use of cash of $3,055 in 2013 compared to $2,133 in 2012. Excluding the working capital changes related to Marnate, trade accounts payable decreased by $6,345 when comparing Quarter 3, 2013 to Quarter 4, 2012. The decrease in accounts payable is attributable to the decrease in sales and production.

Capital expenditures were $983 in Quarter 3, 2013 compared to $1,013 for Quarter 3, 2012 a decrease of $30. Year-to-date capital expenditures were $4,754 in the current year compared to $3,126 in 2012. Expanded manufacturing capacity, new product development and information technology infrastructure were areas of capital expenditure in the year.

Total cash provided by financing activities for Quarter 3, 2013 was $711 as compared to $411 in Quarter 3, 2012. Year-to-date financing activities have generated cash of $5,995, which was comparable to the $5,108 generated in the first nine months of 2012. Year-to-date, there was an increase in bank operating lines of $9,029 compared to $9,117 in 2012. Bank operating lines of credit have increased from prior year levels finishing Quarter 3, 2013 at $21,597 compared to $11,190 at the end of Quarter 3, 2012, an increase of $10,407. The increase in bank indebtedness levels is a result of the acquisition activity in 2012 and the acquisition of Marnate in 2013.

The Company's overall debt, net of cash was $19,823 in Quarter 3, 2013 compared to a net debt position of $9,255 in Quarter 3, 2012, an increase in debt position of $10,568. 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 September 28, 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	32,425	–	–	–	–	–	$ **32,425**
Capital expenditure purchase commitments	1,258	–	–	–	–	–	$ **1,258**
Bank operating lines	21,597	–	–	–	–	–	$ **21,597**
Derivative liabilities	22	–	–	–	–	–	$ **22**
Note payable	161	161	161	3,909	–	–	$ **4,392**
Long term debt	230	1,329	–	–	–	–	$ **1,559**
Total	$ 57,499	$ 2,941	$ 972	$ 4,216	$ 39	$ –	$ **65,667**

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 3, 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 COSO Framework 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 September 26, 2013 to shareholders of record at the close of business on September 19, 2013. The ex-dividend date was September 17, 2013. Year-to-date, the Company has paid a cash dividend of fifteen cents ($0.15) per Class A Subordinate Voting Share and fifteen cents ($0.15) 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

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December 31, 2012 were approximately $8,000 CAD. The Company will operate as Marnate Trasformatori s.r.l. – a subsidiary of HPS.

The definitive agreement includes a deferred payment provision of $671 due in semi-annual installments of equal amounts during the two years following the final price completion 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 3, 2013 were $2 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 these 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;
- Extreme currency variability, particularly 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 3, 2013 Report.

Proposed Transactions

The Company continues to evaluate potential business expansion initiatives, and has no firm transactions as at September 28, 2013.

Financial Instruments

At September 28, 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.

Strategic Direction and Outlook

HPS is unwavering with its strategic investment in growth initiatives in Canada, the U.S., India and Europe. This commitment is evidenced by its aggressive acquisition strategy.

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

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

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
- 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.

HPS will deliver improvement in our results through the last of quarter 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 Third 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*

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

Quarterly Information

	2011		2012				**2013**		
(tabular amounts in thousands of dollars)	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**
Sales	55,489	60,727	65,654	65,486	63,703	62,533	**63,672**	**59,072**	**57,393**
Earnings from operations	2,664	5,729	3,757	4,663	4,215	5,545	**3,359**	**1,599**	**1,921**
EBITDA	1,800	7,282	5,770	6,099	5,999	6,484	**5,442**	**3,254**	**3,380**
Net earnings	171	3,569	2,518	2,811	2,552	4,730	**1,907**	**510**	**792**
Total assets	135,271	137,520	154,596	148,646	151,018	160,049	**170,729**	**170,131**	**169,261**
Total liabilities	44,523	46,072	59,537	52,218	53,178	58,404	**65,830**	**64,359**	**65,364**
Total cash (debt)	(3,344)	1,681	(19,338)	(11,369)	(9,255)	(990)	**(18,934)**	**(20,552)**	**(19,823)**
Cash provided (used) by operations	4,923	10,741	(3,330)	10,476	3,763	10,461	**(1,011)**	**1,429**	**3,439**
Basic earnings per share	0.01	0.31	0.22	0.24	0.21	0.41	**0.16**	**0.04**	**0.07**
Diluted earnings per share	0.01	0.30	0.22	0.24	0.21	0.41	**0.16**	**0.04**	**0.07**
Dividends declared and paid	–	1,738	–	1,049	–	1,049	**582**	**582**	**582**
Average exchange rate (USD$=CAD$)	0.980	1.023	1.002	1.009	1.000	0.9913	**1.0065**	**1.014**	**1.038**
Book value per share	7.83	7.89	8.05	8.12	8.24	8.54	**8.82**	**8.91**	**8.75**

* 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 September 28, 2013	As at December 31, 2012
Assets		
Current assets		
Cash	$ 7,725	$ 13,720
Accounts receivable	43,306	41,607
Inventories	36,085	35,172
Income taxes recoverable	2,550	720
Prepaid expenses and other assets	912	1,300
Total current assets	$ 90,578	$ 92,519
Non-current assets		
Property, plant and equipment	45,684	40,029
Investment in properties	1,044	1,044
Deferred tax assets	402	463
Goodwill	14,643	13,643
Intangible assets	16,910	12,351
Total non-current assets	78,683	67,530
Total assets	$ 169,261	$ 160,049
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 21,597	$ 12,568
Accounts payable and accrued liabilities	32,425	37,690
Income tax liabilities	–	1,327
Provisions	535	422
Current portion of note payable	161	–
Derivative liabilities	22	47
Current portion of long-term debt (note 6)	230	926
Total current liabilities	$ 54,970	$ 52,980
Non-current liabilities		
Employee future benefits	706	312
Provisions	100	100
Note payable	4,231	–
Long-term debt (note 6)	1,329	1,216
Deferred tax liabilities	4,028	3,796
Total non-current liabilities	10,394	5,424
Total liabilities	$ 65,364	$ 58,404
Shareholders' Equity		
Share capital	13,295	13,295
Contributed surplus	2,209	1,887
Accumulated other comprehensive income (note 8)	(2,959)	(3,771)
Retained earnings	89,350	87,976
Total shareholders' equity attributable to equity holders of the Company	$ 101,895	$ 99,387
Non-controlling interests	2,002	2,258
Total shareholder's equity	103,897	101,645
Total liabilities and shareholders' equity	$ 169,261	$ 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 September 28, 2013	Quarter Ending September 29, 2012	Nine months ending September 28, 2013	Nine months ending September 29, 2012
Sales	$ **57,393**	$ 63,703	$ **180,137**	$ 194,843
Cost of sales	**43,232**	48,084	**136,548**	147,596
Gross margin	**14,161**	15,619	**43,589**	47,247
Selling and distribution	**6,536**	6,337	**19,695**	19,121
General and administrative	**5,704**	5,067	**17,015**	15,491
Earnings from operations	**1,921**	4,215	**6,879**	12,635
Finance and other costs (income):				
Interest expense	**243**	249	**705**	549
Foreign exchange loss (gain)	**183**	(314)	**297**	(382)
Realized and unrealized gain on copper forward contracts	**–**	–	**–**	(301)
Other	**32**	32	**99**	102
Net finance and other costs	**458**	(33)	**1,101**	(32)
Income before income taxes	**1,463**	4,248	**5,778**	12,667
Income tax expense	**671**	1,696	**2,569**	4,786
Net earnings	$ **792**	$ 2,552	$ **3,209**	$ 7,881
Non-controlling interests	$ **15**	$ 69	$ **89**	$ 155
Net income attributable to equity holders of the Company	**777**	2,483	**3,120**	7,726
Net earnings	$ **792**	$ 2,552	$ **3,209**	$ 7,881
Earnings per share				
Basic earnings per share (dollars)	$ **0.07**	$ 0.21	$ **0.27**	$ 0.67
Diluted earnings per share (dollars)	$ **0.07**	$ 0.21	$ **0.27**	$ 0.67

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending **September 28, 2013**	Quarter Ending September 29, 2012	Nine months ending **September 28, 2013**	Nine months ending September 29, 2012
Net earnings	$ **792**	$ 2,552	$ **3,209**	$ 7,881
Other comprehensive income				
Foreign currency translation differences for foreign operations	**(2,121)**	(1,087)	**467**	(2,547)
Other comprehensive income for the year, net of income tax (note 8)	**(2,121)**	(1,087)	**467**	(2,547)
Total comprehensive income for the period	$ **(1,329)**	$ 1,465	$ **3,676**	$ 5,334
Attributable to:				
Equity holders of the Company	**(1,211)**	1,377	**3,932**	5,283
Non-controlling interest	**(118)**	88	**(256)**	51
Total comprehensive income for the period	$ **(1,329)**	$ 1,465	$ **3,676**	$ 5,334

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 28, 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	–	–	–	3,120	89	**3,209**
Other comprehensive income						
Foreign currency translation differences (note 8)	–	–	812	–	(345)	**467**
Total other comprehensive income	–	–	812	–	(345)	**467**
Total comprehensive income for the year	–	–	812	3,120	(256)	**3,676**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	322	–	–		**322**
Dividends to equity holders (note 7)	–	–	–	(1,746)		**(1,746)**
Total transactions with shareholders	–	322	–	(1,746)	–	**(1,424)**
Balance at September28, 2013	$ 13,295	$ 2,209	$ (2,959)	$ 89,350	$ 2,002	**$ 103,897**

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 29, 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	–	–	–	7,726	155	7,881
Other comprehensive income						
Foreign currency translation differences (note 8)	–	–	(2,443)	–	(104)	(2,547)
Total other comprehensive income	–	–	(2,443)	–	(104)	(2,547)
Total comprehensive income for the year	–	–	(2,443)	7,726	51	5,334
Transactions with shareholders recorded directly in equity						
Own shares acquired	(61)	(8)	–	(318)	–	(387)
Share options exercised	322	(100)	–	–	–	222
Share-based payment transactions	–	430	–	–	–	430
Acquisition of subsidiary with non-controlling interests	–	–	–	–	1,842	1,842
Dividends declared to non-controlling interest	–	–	–	(1,049)	–	(1,049)
Total transactions with shareholders	261	322	–	(1,367)	1,842	1,058
Balance at September 29,2012	$ 13,248	$ 1,847	$ (3,378)	$ 84,230	$ 1,893	$ 97,840

*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)	Nine months ending September 28, 2013	Nine months ending September 29, 2012
Cash flows from operating activities	$ 3,209	$ 7,881
Net earnings		
Adjustments for:		
Amortization of property, plant and equipment	4,987	3,970
Amortization of intangible assets	960	682
Provisions	(507)	9
Interest expense	705	549
Income tax expense	2,569	4,786
Change in unrealized gain on derivatives	(25)	(1,035)
Stock based compensation expense	322	430
	12,220	17,272
Change in non-cash working capital	(3,055)	(2,133)
Cash provided by operating activities	9,165	15,139
Income tax paid	(5,726)	(4,230)
Net cash provided by operating activities	3,439	10,909
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	(4,754)	(3,126)
Acquisition of intangible assets	(812)	(678)
Cash used in investing activities	(15,078)	(19,214)
Cash flows from financing activities		
Advances of borrowings	9,029	9,117
Advances of long term debt	–	58
Repayment of long term debt	(583)	(2,303)
Proceeds from issue of share capital	–	222
Share repurchase	–	(387)
Cash dividends paid (note 7)	(1,746)	(1,049)
Interest paid	(705)	(550)
Cash provided by financing activities	5,995	5,108
Foreign exchange on cash held in a foreign currency	(351)	(149)
Decrease in cash	(5,995)	(3,346)
Cash at beginning of period	13,720	7,814
Cash at end of period	$ 7,725	$ 4,468

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 third quarter ended September 28, 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 October 23, 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.

Changes to accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

- IFRS 10 Consolidated Financial Statements (2011)
- IFRS 11 Joint Arrangements
- IFRS 13 Fair Value Measurement
- Presentation of Items of other Comprehensive Income
- IAS 19 Employee Benefits (2011)

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

Quarters ended September 28, 2013 and September 29, 2012 (in thousands of dollars)

4. Property, plant and equipment:

The Group had acquisitions of fixed assets for the nine months ended September 28, 2013 in the amount of $4,754 (2012 - $3,126). This was made up of office equipment additions of $97 and machinery and equipment $4,657.

5. Intangible assets

The Group had acquisitions of intangible assets for the nine months ended September28, 2013 in the amount of $812 (2012 - $678), for the addition of software. None of the intangible assets have been developed internally.

6. Long-term debt

	Nine months ending	
	September 28, 2013	September 29, 2012
Opening balance	**$ 2,142**	$ 4,537
New issues:		
Acquired through business acquisitions	**–**	242
Term loan INR	**–**	58
Repayments:		
Term loan CAD	**(136)**	(136)
Term loans EUR	**(368)**	(1,936)
Term loan INR	**(143)**	(10)
Exchange	**64**	(222)
Closing balance	**$ 1,559**	$ 2,533

7. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Nine months ending	
	September 28, 2013	September 29, 2012
15 cents per Class A common share (2012: 9 cents)	**$ 1,329**	$ 798
15 cents per Class B common share (2012: 9 cents)	**417**	251
	$ 1,746	$ 1,049

Quarters ended September 28, 2013 and September 29, 2012 (in thousands of dollars)

(b) Stock option plan

During the nine months ended September 28, 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 $322 (2012 - $430) and relates to options granted during Quarter 1, 2013, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $2.37 (2012 - $3.05).

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

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

8. Accumulated Other Comprehensive Income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences. Total other comprehensive income for the nine months ended September 28, 2013 was $812 (2012 – ($2,443)), resulting in an ending balance of accumulated other comprehensive income of ($2,959) (2012 – ($3,378)).

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 1,027,802 (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 3 2012– $251).

In the ordinary course of business, the Company enters into transactions with affiliated entities. A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. All related party transactions in the normal course of operations are recorded at the exchange amount of consideration established by and agreed to by the related parties. The Group entered into the following trading transactions with other related parties:

	Note	**2013**	**2012**	**Relationship**
Purchase of goods and services	(i)	$ 409	$ 382	Companies in which key management personnel and/or their relatives have significant influence.

	2013	**2012**	**Relationship**
Amounts owed to related parties	$ **59**	$ –	Companies in which key management personnel and/or their relatives have significant influence.

Transactions with key management personnel

(i) During the nine months ended September 28, 2013, the Company purchased $232 (2012 – $190) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. The Company purchases a component part from ILSCO which is utilized the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $nil (2012 – $8), which is owed to this company.

During the nine months ended September 28, 2013, the Company has paid $177 (2012 – $192) of payments in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE – Hammond Power Solutions Private Limited in India.

10. 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. 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 third quarter were $2, which were included in general and administrative expense.

Included in the Group's consolidated results for the nine months ended September 28, 2013 is revenue of $4,180 and net earnings of $148 recognized by Marnate from the date of acquisition to September28, 2013. If the Company had acquired Marnate effective January 1, 2013, the revenue would have been approximately $4,531 and there would have been net earnings of approximately $141. •

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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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