Q2

For the six months ended
June 28, 2014

Hammond Power
Solutions Inc.

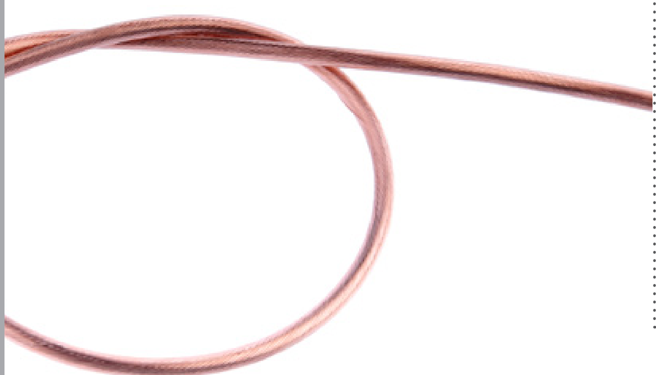
Our Vision

To be the leader in our industry by delivering:

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

Our Mission

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



Our Values

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

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

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

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

CONTENTS

A Future of Growth and Expansion

Continued Momentum	Market Resilience	Expanding our global footprint	Net Operating Lines
13%	11%	83%	$1.3M
Increase in booking rates compared to Q2, 2013	Increase in earnings from operations compared to Q2, 2013	Increase in International sales compared to Q2, 2013	Reduction in net operating lines from Q1, 2014

Fellow Shareholders,

Hammond Power Solutions Inc. ("HPS") is pleased to report rising Quarter 2, 2014 sales and profits amid a slower-than-expected recovery in the North American economy. Many companies including HPS have experienced a slow start to 2014 due in part to a long and severe winter. Based on the continuing sluggish state of both Canada and the United States, there appears to be a broader underlying weakness than can be rationalized by the weather alone.

Canada in particular, has been slower over the past 18 months than we have seen since the 2008 recession. A number of major North American markets for HPS including mining, drive systems and Canadian construction projects, have declined since the beginning of 2013 affecting both our sales and profits. We have been able to replace this business with growth from the distributor channel, alternative energy, oil and gas, as well as the U.S. construction project markets, due to our geographic market and channel diversity.

Over the last two months we have seen the U.S. economy begin to gain momentum as well as positive signs from our international markets. Quotation and booking activity in Europe is rising compared to a year ago. Despite the Indian economy slowdown this quarter, which is typical due to the start of the monsoon season, business confidence and enquiries are the strongest they have been in two years since the recent national elections and change in government.

Gross margins for the quarter were slightly lower due to our product mix as well as continued price competition in this slow economic environment. We do however, see these pressures easing as the U.S. economy gradually strengthens in the second half of the year and our cost reduction efforts start to impact on the bottom line.

In closing, the slower-than-expected opening quarters in the U.S. and especially Canada have dampened the outlook for 2014 in the minds of many economists and companies. HPS is adjusting to this unexpected volatility, by continuing with our strategic investment in long-term projects and through building on our diversification and competitive advantages to grow our sales. We anticipate business momentum to build as the year unfolds and the U.S. economy finally moves into a stronger growth phase.

WGH

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

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the six months ended June 28, 2014, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the second quarter of Fiscal 2014. This information is based on Management's knowledge as at August 6, 2014. The Company assumes that the reader of this MD&A has access to and has read the audited Annual Consolidated Financial Statements and MD&A of the Company, contained in our 2013 Annual Report and accordingly, the purpose of this document is to provide a second quarter update to the information contained in the Fiscal 2013 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com, or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward looking information

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

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings and EBITDA, in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending June 28, 2014 and June 29, 2013 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS. "Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended June 28, 2014 were $61,716, an increase of $2,644 or 4.5% from Quarter 2, 2013 sales of $59,072 and an increase of $1,763 or 2.9% from Quarter 1, 2014 sales of $59,953. Year-to-date sales were $121,669 in 2014 and $122,744 in 2013, a slight decrease of $1,075 or 0.9%.

Sales in the U.S. were $34,936 in Quarter 2, 2014 a decrease of $1,080 or 3.0% from Quarter 2, 2013 and an increase of $1,189 from Quarter 1, 2014 sales of $33,747. Year-to-date U.S. sales were $68,683 in 2014 and were $71,201 in 2013, a decrease of $2,518 or 3.5%. The decline in the U.S. year-to-date sales are a result of a continuing softness in Original Equipment Manufacturers ("OEM") order booking and sales activity, mainly in the drives systems, mining and capital equipment market segments. The Company continues to increase both its market share and sales through distributor conversions and has been buoyed by a modestly improved U.S. North American Electrical Distributor ("NAED") market, construction, alternative energy and oil and gas market segments in the quarter. Stated in U.S. dollars ("USD"), sales in the U.S. were $31,992 in Quarter 2, 2014, a decrease of $3,242 or 9.2% from Quarter 2, 2013. These sales were also favourably affected by a swing of an 8% weaker Canadian dollar ("CAD"), ($1.00 USD = $1.10 CAD in Quarter 2, 2014 compared against $1.00 USD = $1.02 CAD in Quarter 2, 2013). This exchange rate change had a favourable impact on the amount of stated U.S. sales for this quarter as compared to Quarter 2, 2013.

Canadian sales were $18,635 for the quarter, consistent with Quarter 2, 2013 Canadian sales of $18,610. Sales in Canada have increased $705 or 3.9% from Quarter 1, 2014 of $17,930. Year-to-date Canadian sales were $36,565 in 2014 compared to $39,882 in 2013, a decrease of $3,317 or 8.3%. Canadian sales have been negatively impacted by lower leading quarter booking rates in several market segments, particularly institutional construction projects and mining. Also the utility market and distributor channel continue to remain softer than anticipated in 2014.

International sales continued to increase in Quarter 2, 2014 finishing at $8,145 versus $4,446 in Quarter 2, 2013, an increase of $3,699 or 83.2%. The increase in international sales was largely due to higher OEM sales in India for Quarter 2, 2014 compared to Quarter 2, 2013. Year-to-date international sales were $16,421 in 2014 compared to $11,661 in 2013, an increase of $4,760 or 40.8%.

Quarter 2, 2014 sales stated by geographic segment were derived from U.S. sales of 56.6% of total sales, Canadian sales of 30.2%, European sales of 8.0% and Indian sales of 5.2%. Year-to-date, 56.5% of the Company's sales were generated in the U.S., 30.1% in Canada, 7.5% within Europe and 6.0% in India.

The Company has continued to focus intensely on market development and offering a broad and varying product range of premium quality transformers. Strategic acquisitions over the past several years have built a foundation for global expansion and broader product offerings. This combined with the Company's growth initiatives in strategic market segments are paramount to future company growth. The Company is unwavering in the execution of these strategies.

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

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

Order bookings and backlog

The Company realized an increase in bookings of 13.0% over Quarter 2, 2013 and 3.6% over Quarter 1, 2014 due to a lift in bookings in the U.S. distributor channel. Year-to-date bookings were 17.9% higher due to increased U.S. distributor and European and Indian OEM market bookings.

By channel, booking levels dropped slightly by 0.3% due to decreased bookings in the U.S. on a direct customer basis. Bookings were 7.9% higher on a distributor basis as the Company continues to gain market share in the NAED channel as compared to Quarter 1, 2014. Compared to Quarter 2, 2013, direct bookings were higher by 2.6% and distributor bookings were up by 26.2% due to an improvement in the North American electrical industry for the same period a year ago. On a year-to-date basis, bookings increased 16.4%, in the direct channel due to stronger bookings in the European and Indian markets and by 19.5% in our distribution channels due to increased activity in the U.S.

Backlog finished marginally lower by 1.3% when compared to Quarter 1, 2014 and 8.3% lower than the end of Quarter 2, 2013.

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

It is expected that the Company's sales development initiatives will deliver escalating improvement in our booking rates. We are cognizant that although we may experience booking rate volatility, HPS will see momentum increase in the second half of the year.

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

Gross Margin

Gross margin rates for Quarter 2, 2014 were 23.3% compared to Quarter 2, 2013 which finished at 23.9%, a decrease of 0.6%.

Year-to-date, the margin rate was 23.3% in 2014, which is a decrease of 0.7% from the 2013 rate of 24.0%.

Gross margin rates are still negatively impacted by selling price pressures due to weak market conditions as well as the effect that lower manufacturing throughput has on the absorption of factory costs. Inversely, gross margin rates were supported by the maintenance of market price combined with engineering and manufacturing material procurement cost reduction. These initiatives contributed to an approximately 0.4% increase in margin rates.

This quarter has shown very moderate signs of economic improvement. With the slow global recovery and vacillating economic environment, the Company continues to advance its geographic footprint, manufacturing capabilities and new product development. Our diversified geographic approach supports anticipated growth through implemented market strategies and eventual economic improvement. In the short-term, the additional fixed costs associated with the expansion are dilutive to net margin rates, however as sales grow, the favourable impact that higher manufacturing throughput will have on the absorption of our factory overheads will positively affect margin rates. This strategy will support 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.

Selling and distribution expenses

Total selling and distribution expenses were $6,973 in Quarter 2, 2014 or 11.3% of sales versus $6,617 in Quarter 2, 2013 or 11.2% of sales, an increase of $356 or 5.4%. Year-to-date selling and distribution expenses were $14,031 or 11.5% of sales in 2014, compared to $13,159 or 10.7% in 2013.

Freight continues to be a volatile cost that has increased as a percentage of sales from Quarter 2, 2013 due to increased gasoline prices. The increase in freight expenses from Quarter 2, 2013 to Quarter 2, 2014 was $80.

General and administrative expense

The general and administrative expenses for Quarter 2, 2014 totaled $5,658 or 9.2% of sales, a decrease of $258 or 4.4% when compared to Quarter 2, 2013 expenses of $5,916 or 10.0% of sales. Year-to-date general and administrative expenses were $11,204 or 9.2% of sales in 2014, compared to $11,311 or 9.2% of sales in 2013, a decrease of $107 or 0.9%.

The quarter and year-to-date decline in general and administrative expenses is a result of lower stock option expense and reduced bad debt provisions. The Company continues to remain cognizant of general and administrative expense management.

Earnings from operations

Quarter 2, 2014 earnings from operations increased by $171 or 10.7% from the same quarter last year, finishing at $1,770 compared to $1,599 in Quarter 2, 2013. Improvement in the quarter is a result of higher sales and increased gross margin contribution. The year-to-date earnings from operations were $3,073 in 2014 compared to $4,958 in 2013, a decrease of $1,885 or 38.0% resulting from decreased sales, decline in gross margin contribution and an increase in selling and general and administrative expenses.

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

	Quarter 2, 2014	Quarter 2, 2013	**YTD 2014**	YTD 2013
Net earnings	**$ $ 936**	$ 510	**$ 1,456**	$ 2,417
Add:				
Income tax expense	**508**	641	**1,098**	1,898
Net finance and other costs	**326**	448	**519**	643
Earnings from operations	**$ 1,770**	$ 1,599	**$ 3,073**	$ 4,958

Interest expense

Interest expense for Quarter 2, 2014 finished at $259, a decrease of $34 or 11.6% compared to Quarter 2, 2013 expense of $293. Year-to-date interest cost was $516, an increase of $54 when compared to the 2013 year-to-date expense of $462. Interest expense is being generated as a result of higher operating debt levels related to the assumption of debt associated with the 2013 acquisition of Marnate as well as working capital requirements. Interest expense includes all bank fees.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Foreign exchange gain/loss

Foreign exchange loss in Quarter 2, 2014 was $34, relating primarily to the transactional exchange of the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange loss of $122 in Quarter 2, 2013. For the first six months of 2014, the Company realized a foreign exchange gain of $63 compared to a foreign exchange loss of $114 for the same period in 2013.

As at June 28, 2014, the Company had outstanding foreign exchange contracts in place for 10,100 Euros ("EUR") and $8,000 USD – both implemented as a hedge against translation gains and losses on inter-company loans as well as $12,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Income taxes

Quarter 2, 2014 income tax expense was $508 as compared to $641 in Quarter 2, 2013, a decrease of $133 or 20.7%. Year-to-date income tax expense was $1,098 in 2014 and $1,898 in 2013 a decrease of $800 or 42.1%.

The consolidated effective tax rate for Quarter 2, 2014 was 35.2% versus 55.7% for Quarter 2, 2013, a decrease of 20.5%. Changes in the effective tax rates between the current and prior year is due to a change in the earnings mix of the Company. This change is being generated from different tax jurisdictions and is subject to different tax rates and regulations. The effect of minimum tax regulations in Italy contributed to the elevated effective tax rate in the prior year.

Deferred tax assets and liabilities, consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities and 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, 2014 increased by $426 or 83.5% and finished at $936 compared to net earnings of $510 in Quarter 2, 2013. The increase in sales, consistent margin rates and lower general and administrative costs coupled with a lower foreign exchange loss were the main contributing factors to the quarterly improvement. Year-to-date net earnings were $1,456 in 2014 and $2,417 in 2013, a decrease of $961 or 39.8%. The year-to-date results were impacted by decreased sales, lower gross margin rate dollars and slightly higher selling and distribution expenses. The Company continues to anticipate further improvements in the latter part of the year as it increases traction with its operational initiatives.

EBITDA

EBITDA for Quarter 2, 2014 was $3,262 versus $3,254 in Quarter 2, 2013 an increase of $8. Adjusted for foreign exchange gains, EBITDA for Quarter 2, 2014 was $3,296 versus $3,376 in Quarter 2, 2013, a decrease of $80 or 2.4%.

Year-to-date EBITDA was $6,572 in 2014 and $8,367 in 2013, a decrease of $1,795 or 21.4%. Adjusted year-to-date EBITDA was $6,509 in the current year, a decrease of $1,972 or 23.2% from $8,481 in 2013.

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

	Quarter 2, 2014	Quarter 2, 2013	**YTD 2014**	YTD 2013
Net earnings	**$ 936**	$ 510	**$ 1,456**	$ 2,417
Add:				
Interest expense	**259**	293	**516**	462
Income tax expense	**508**	641	**1,098**	1,898
Depreciation and amortization	**1,559**	1,810	**3,502**	3,590
EBITDA	**$ 3,262**	3,254	**6,572**	8,367
Deduct:				
Foreign exchange gain	**34**	122	**(63)**	114
Adjusted EBITDA	**$ 3,296**	$ 3,376	**$ 6,509**	$ 8,481

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2014 Quarters (Stated Per IFRS)	Quarter 1, 2014	Quarter 2, 2014	YTD Total
Sales	**$ 59,953**	$ 61,716	$ 121,669
Net earnings	**$ 520**	$ 936	$ 1,456
Net income per share – basic	**$ 0.04**	$ 0.08	$ 0.12
Net income per share – diluted	**$ 0.04**	$ 0.08	$ 0.12
Average U.S. to Canadian exchange rate	**$ 1.101**	$ 1.092	$ 1.097

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

Historically, the first quarter of the Company's fiscal year experiences lower revenues due to a general decline in Quarter 1 activity in the construction industry and overall electrical markets as many projects are just getting underway. Sales in Quarter 2, 2014 have shown an increase from the prior year due to a small improvement in general economic conditions and commercial construction projects that have come to fruition. The year-over-year quarterly fluctuations in both sales and income are affected by the changes in Canadian foreign exchange rates, changing economic conditions and competitive pricing pressures.

Capital resources and liquidity

Net cash provided by operating activities for Quarter 2, 2014 was $3,892 versus $1,429 in Quarter 2, 2013, an increase of $2,463 as a result of lower income tax payments and a decline in provisions. Year-to-date cash generated by operating activities was $2,247 in 2014 and $418 in 2013, a difference of $1,829.

During the quarter, non-cash working capital used cash of $1,233 compared to $608 for the same quarter last year. The year-to-date change in non-cash working capital was a usage of cash of $3,453 in 2014 compared to $3,493 in 2013. The working capital changes are primarily related to a decrease in trade accounts payable, which decreased by $5,309 when comparing Quarter 2, 2014 to Quarter 4, 2013. The decrease in accounts payable is attributable to the decrease in sales and production.

Capital expenditures were $2,003 in Quarter 2, 2014 compared to $1,637 for Quarter 2, 2013, an increase of $366. Year-to-date capital expenditures were $2,677 in the current year compared to $3,771 in 2013, as the Company continues to invest in the areas of manufacturing processes and capabilities, new product development and information technology.

Total cash used in financing activities for Quarter 2, 2014 was $2,620 as compared to $306 in Quarter 2, 2013. Year-to-date financing activities have used cash of $1,979, compared to cash generated of $5,284 for the first six months of 2013. Year-to-date, the bank operating lines have remained consistent.

Bank operating lines of credit, net of cash, have increased from prior year levels finishing Quarter 2, 2014 at $18,599 compared to $14,613 at the end of Quarter 2, 2013, an increase of $3,986. Net bank operating lines have decreased by $1,259 from Quarter 1, 2014 balance of $19,858.

The Company's overall debt, net of cash was $23,419 in Quarter 2, 2014 compared to a net debt position of $20,552 in Quarter 2, 2013, an increase in debt position of $2,867 due to the change in non-cash working capital. All bank covenants continue to be met as at June 28, 2014.

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

Accumulated other comprehensive income

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

Contractual obligations

(tabular amounts in thousands of dollars)	2014	2015	2016	2017	2018	Thereafter	Total
Operating leases	$ 2,147	$ 1,467	$ 856	$ 145	$ 99	$ –	**$ 4,714**
Accounts payable and accrued liabilities	33,907	–	–	–	–	–	**$ 33,907**
Capital expenditure purchase commitments	6,989	5,550	–	–	–	–	**$ 12,539**
Bank operating lines	27,135	–	–	–	–	–	**$ 27,135**
Long term debt	819	360	3,641	–	–	–	**$ 4,820**
Total	$ 70,997	$ 7,377	$ 4,497	$ 145	$ 99	$ –	**$ 83,115**

Contingent liabilities

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

Management is not aware of any contingent liabilities.

Controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting, is the 1992 internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During Quarter 2, 2014 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

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

Regular quarterly dividend declaration

The Board of Directors of HPS declared a quarterly cash dividend of six cents ($0.06) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of six cents ($0.06) per Class B Common Share of HPS payable on June 25, 2014 to shareholders of record at the close of business on June 18, 2014. The ex-dividend date was June 16, 2014. Year-to-date, the Company has paid a cash dividend of twelve cents ($0.12) per Class A Subordinate Voting Share and twelve cents ($0.12) per Class B Common Share.

Risks and uncertainties

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

- The volatility, unpredictability and cyclical effects of market costs and supply pressures for commodities including, but not limited to, copper, insulation and electrical grain oriented steel;
- A significant global unexpected change in demand for resources;
- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Global economic decline or recession;
- Fluctuations in interest rates;
- Unpredictable weather trends and conditions;
- Government protectionism or regulation changes;
- Competition;
- Credit risk; and
- Global political unrest.

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

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

Commodity prices

An area that has an impact on the Company's costs and earnings is the cyclical effects and market cost pressures of copper commodity and steel pricing in the global markets. In the past the Company had utilized a future hedging strategy, which was later discontinued due to the unprecedented volatility of the financial impact of unrealized gains and losses. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign exchange

As the Company expands its global footprint, the impact of foreign currency fluctuations has continued to be an area of focus. HPS operating results are reported in Canadian dollars, however the majority of our sales and material purchases are denominated in U.S. dollars. There is a natural hedge with sales denominated in U.S. dollars partially offset by the cost of raw materials purchased from the U.S., as well as commodities tied to U.S. dollar pricing. Even with this natural hedge, a change in the value of the Canadian dollar against the U.S. dollar will impact earnings. The Company's results in general, show a beneficial impact with a lower value for the Canadian dollar compared to the U.S. dollar. Inversely, a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

The Company has a U.S. operating subsidiary and U.S. dollar assets as the exchange rate between the Canadian and U.S. dollar can vary significantly from year-to-year.

The recent acquisitions in Italy and India have created assets to be denominated in Euros and Indian Rupees. There is a corresponding positive or negative impact to the Company's Statement of Comprehensive Income solely related to the foreign exchange translation of its entities Balance Sheets.

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

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

Unpredictable weather/natural disasters

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

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

Interest rates

There has been an increase in the operating line balances relating to our recent acquisitions and therefore an increase in interest costs. The Company has structured its debt financing to take advantage of the current lower interest rates, but is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

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

Credit

A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk, which is partially mitigated by progress payments. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevates this exposure.

Global/North American economy

The current economic conditions require the Company to be agile in order to continue to be successful. HPS is able to respond quickly to both unexpected opportunities and challenges. We also believe that the growing access to a variety of global and domestic markets through our OEM and distributor channels will help HPS expand market share during this economic slowdown.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in Notes to the Consolidated Financial Statements contained in our 2013 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2014, other than transactions disclosed in Note 9 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 2, 2014 Report.

Proposed transactions

The Company continues to evaluate potential business expansion initiatives, and has no firm transactions as at June 28, 2014.

Financial instruments

As at June 28, 2014 the Company had outstanding foreign exchange contracts in place for 10,100 EUR and $8,000 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $12,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

The preparation of the Company's condensed consolidated interim financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances.

Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Outstanding share data

Details of the Company's outstanding share data:

8,916,624	Class A Shares
2,778,300	Class B Common Shares
11,694,924	Total Class A and B Shares

New accounting pronouncements

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

Financial instruments

In October 2010, the International Accounting Standards Board ("IASB") issued IFRS 9, Financial Instruments ("IFRS 9"). This standard is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. In 2013, the IASB issued under IFRS 9 a more principles based general hedging model that aligns hedge accounting more closely with risk management. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 that proposes to introduce another measurement category, fair value through comprehensive income, for financial assets that are held for both the collection of cash flows and for sale and add new requirements to address the impairment of financial assets and macro hedge accounting. The mandatory effective date is not yet determined; however, early adoption is still permitted. When an entity adopts IFRS 9, it will have an accounting policy change to defer application of the general hedge accounting model until the standard from the IASB's project on macro hedge accounting is effective.

The Company does not intend to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2014. The classification and measurement of the Company's financial assets and financial liabilities is not expected to change under IFRS 9 due to the nature of the Company's operations and the types of financial assets and liabilities that it holds.

Strategic direction and outlook

HPS continues to be dedicated to its strategic investment in growth initiatives in Canada, the U.S., India and Europe. This commitment is evidenced by the Company's steadfast acquisition strategy and increased capital spending for future strategic projects.

The Company is fully aware of the general global economic climate. The negative impact of an erratic and unpredictable economy, as well as the variability of manufacturing throughput, raw material commodity costs and market pricing pressures has affected HPS. These deterrents are being addressed through the Company's strategic projects and operational plans.

The Company's shorter term operational and financial performance has been hindered by these negative influences over the past few quarters, however we are confident that the business fundamentals that have been developed will sustain and grow HPS in the near future and over the long-term. The Company's reaction to these conditions continues to be prudent but not complacent, conservative but progressive. HPS will be unwavering in its pursuit of improving productivity gains, sales growth from new product development, geographic diversification, capacity expansion and escalation of market share.

HPS is beginning to show promising performance in many of its financial and operational metrics. We continue to be an industry leader and remain strong and capable of enduring economic uncertainty. We are proud of these accomplishments and look forward to taking advantage of future opportunities.

Our approach to improving profitability includes selective selling price increases, sales growth, geographic manufacturing dispersion, global expansion, productivity gains, new product development and market share penetration.

We expect sales growth to continue to be realized in several of our markets. 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.

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

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

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

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

Selected Annual and Quarterly Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the Second Quarter of 2014. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

Annual Information

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

Quarterly Information

	2012		2013				**2014**	
(tabular amounts in thousands of dollars)	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**
Sales	63,703	62,533	63,672	59,072	57,393	62,804	**59,953**	**61,716**
Earnings from operations	4,215	5,545	3,359	1,599	1,921	4,157	**1,303**	**1,770**
EBITDA	5,999	6,484	5,442	3,254	3,380	4,848	**3,310**	**3,262**
Net earnings	2,552	4,730	1,907	510	792	2,895	**520**	**936**
Total assets	151,018	160,049	170,729	170,131	169,261	186,878	**185,863**	**182,373**
Total liabilities	53,178	58,404	65,830	64,359	65,364	77,827	**73,169**	**72,155**
Total cash (debt)	(9,255)	(990)	(18,934)	(20,552)	(19,823)	(21,104)	**(24,965)**	**(23,419)**
Cash provided (used) by operations	3,763	10,461	(1,011)	1,429	3,439	(3,092)	**(1,645)**	**3,892**
Basic earnings per share	0.21	0.41	0.16	0.04	0.07	0.25	**0.04**	**0.08**
Diluted earnings per share	0.21	0.41	0.16	0.04	0.07	0.25	**0.04**	**0.08**
Dividends declared and paid	–	1,049	582	582	582	582	**700**	**700**
Average Exchange Rate (USD$=CAD$)	1.000	0.9913	1.0065	1.014	1.038	1.048	**1.101**	**1.097**
Book value per share	8.24	8.54	8.82	8.91	8.75	9.17	**9.47**	**9.24**

Condensed Consolidated Statements of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)		As at June 28, 2014		December 31, 2013
Assets				
Current assets				
Cash	$	8,536	$	11,224
Accounts receivable		50,072		49,302
Inventories		37,701		39,327
Income taxes recoverable		3,329		2,887
Prepaid expenses and other assets		1,409		2,619
Total current assets	$	101,047	$	105,359
Non-current assets				
Property, plant and equipment	$	47,331		47,264
Investment in properties		1,044		1,044
Deferred tax assets		365		363
Goodwill		17,815		17,557
Intangible assets		14,771		15,291
Total non-current assets		81,326		81,519
Total assets	$	182,373	$	186,878
Liabilities				
Current liabilities				
Bank operating lines of credit	$	27,135	$	27,183
Accounts payable and accrued liabilities		33,907		39,216
Income tax liabilities		15		25
Provisions		392		307
Derivative liabilities		–		19
Current portion of long-term debt (note 6)		819		857
Total current liabilities	$	62,268	$	67,607
Non-current liabilities				
Employee future benefits	$	233	$	204
Provisions		100		100
Long-term debt (note 6)		4,001		4,288
Deferred tax liabilities		5,553		5,628
Total non-current liabilities		9,887		10,220
Total liabilities	$	72,155	$	77,827
Shareholders' Equity				
Share capital (note 7)		13,800		13,611
Contributed surplus		2,293		2,133
Accumulated other comprehensive income (note 8)		169		(524)
Retained earnings		91,821		91,794
Total shareholders' equity attributable to equity holders of the Company	$	108,083	$	107,014
Non-controlling interests		2,135		2,037
Total shareholder's equity		110,218		109,051
Total liabilities and shareholders' equity	$	182,373	$	186,878

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Quarter ending June 28, 2014	Quarter ending June 29, 2013	Six months ending June 28, 2014	Six months ending June 29, 2013
Sales	**$ 61,716**	$ 59,072	**$ 121,669**	$ 122,744
Cost of sales	**47,315**	44,940	**93,361**	93,316
Gross margin	**14,401**	14,132	**28,308**	29,428
Selling and distribution	**6,973**	6,617	**14,031**	13,159
General and administrative	**5,658**	5,916	**11,204**	11,311
Earnings from operations	**1,770**	1,599	**3,073**	4,958
Finance and other costs (income):				
Interest expense	**259**	293	**516**	462
Foreign exchange loss (gain)	**34**	122	**(63)**	114
Other	**33**	33	**66**	67
Net finance and other costs	**326**	448	**519**	643
Income before income taxes	**1,444**	1,151	**2,554**	4,315
Income tax expense	**508**	641	**1,098**	1,898
Net earnings	**$ 936**	$ 510	**$ 1,456**	$ 2,417
Non-controlling interests	**$ 21**	$ (4)	**$ 29**	$ 74
Net income attributable to equity holders of the Company	**915**	514	**1,427**	2,343
Net earnings	**$ 936**	$ 510	**$ 1,456**	$ 2,417
Earnings per share				
Basic earnings per share (dollars)	**$ 0.08**	$ 0.04	**$ 0.12**	$ 0.20
Diluted earnings per share (dollars)	**$ 0.08**	$ 0.04	**$ 0.12**	$ 0.20

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 28, 2014	Quarter ending June 29, 2013	Six months ending June 28, 2014	Six months ending June 29, 2013
Net earnings	$ 936	$ 510	$ 1,456	$ 2,417
Other comprehensive income				
Foreign currency translation differences for foreign operations	(2,891)	910	762	2,588
Other comprehensive income for the period net of income tax (note 8)	(2,891)	910	762	2,588
Total comprehensive income for the period	$ (1,955)	$ 1,420	$ 2,218	$ 5,005
Attributable to:				
Equity holders of the Company	$ (1,893)	$ 1,540	2,120	5,143
Non-controlling interest	(62)	(120)	98	(138)
Total comprehensive income for the period	$ (1,955)	$ 1,420	$ 2,218	$ 5,005

See accompanying notes to condensed consolidated interim financial statements.

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the six months ended June 28, 2014

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	**TOTAL SHAREHOLDERS' EQUITY**
Balance, as at January 1, 2014	$ 13,611	$ 2,133	$ (524)	$ 91,794	$2,037	**$ 109,051**
Total comprehensive income for the year						
Net earnings	–	–	–	1,427	29	**1,456**
Other comprehensive income						
Foreign currency translation differences (note 8)	–	–	693	–	69	**762**
Total other comprehensive income	–	–	693	–	69	**762**
Total comprehensive income for the year	–	–	693	1,427	98	**2,218**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	189	160	–	–	–	**349**
Dividends to equity holders (note 7)	–	–	–	(1,400)	–	**(1,400)**
Total transactions with shareholders	189	160	–	(1,400)	–	**(1,051)**
Balance at June 28, 2014	$ 13,800	$ 2,293	$ 169	$ 91,821	$ 2,135	**$ 110,218**

*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 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	$ 2,173	$ (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 Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Six months ending June 28, 2014	Six months ending June 29, 2013
Cash flows from operating activities	$ 1,456	$ 2,417
Net earnings		
Adjustments for:		
Amortization of property, plant and equipment	2,645	3,590
Amortization of intangible assets	857	682
Provisions	85	(408)
Interest expense	516	462
Income tax expense	1,098	1,898
Change in unrealized gain on derivatives	(19)	(23)
Stock based compensation expense	160	286
	6,798	8,904
Change in non-cash working capital (note 10)	(3,453)	(3,493)
Cash provided by operating activities	3,345	5,411
Income tax paid	(1,098)	(4,993)
Net cash provided from operating activities	2,247	418
Cash flows from investing activities		
Acquisition of subsidiary company net of cash acquired	–	(9,512)
Acquisition of property, plant and equipment	(2,677)	(3,771)
Acquisition of intangible assets	(207)	(635)
Cash used in investing activities	(2,884)	(13,918)
Cash flows from financing activities		
Advances from borrowings	48	7,418
Issue of common shares	189	–
Repayment of long term debt	(300)	(508)
Cash dividends paid (note 7)	(1,400)	(1,164)
Interest paid	(516)	(462)
Cash (used in) provided by financing activities	(1,979)	5,284
Foreign exchange on cash held in a foreign currency	(72)	(131)
Decrease in cash	(2,668)	(8,347)
Cash at beginning of period	11,224	13,720
Cash at end of period	$ 8,536	$ 5,373

See accompanying notes to condensed consolidated interim financial statements.

Quarters ended June 28, 2014 and June 29, 2013 (tabular amounts in thousands of dollars)

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of 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 28, 2014 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the design and manufacture of custom electrical engineered magnetics and standard electrical dry-type, cast resin, and liquid filled transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India, the latter being PETE Hammond Power Solutions Private Limited, a 70% equity ownership acquired through an acquisition during the second quarter of 2012.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements, were approved by the Board of Directors on July 24, 2014.

(b) Use of estimates and judgments

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

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2013.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2013 annual audited financial statements, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The significant accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2013.

Changes to accounting policies

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

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

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

Quarters ended June 28, 2014 and June 29, 2013 (tabular amounts in thousands of dollars)

4. Property, plant and equipment:

The Group had acquisitions of fixed assets for the six months ended June 28, 2014 in the amount of $2,677,000 of machinery and equipment (2013 - $3,771,000).

5. Intangible assets

The Group had acquisitions of intangible assets for the six months ended June 28, 2014 in the amount of $207,000 (2013 - $635,000), for the addition of software. None of the intangible assets have been developed internally.

6. Long-term debt

	Six months ending	
	June 28, 2014	June 29,2013
Opening balance	**$ 5,145**	$ 2,142
Repayments:		
Term loan CAD	**(91)**	(91)
Term loans EUR	**(191)**	(345)
Term loan INR	**(18)**	(123)
Exchange	**(25)**	51
	4,820	1,634
Less current portion of long-term debt	**819**	245
Total	**$ 4,001**	$ 1,389

7. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Six months ending	
	June 28, 2014	June 29, 2013
12 cents per Class A common share (2013: 10 cents)	**$ 1,066**	$ 886
12 cents per Class B common share (2013: 10 cents)	**334**	278
	$ 1,400	$ 1,164

Quarters ended June 28, 2014 and June 29, 2013 (tabular amounts in thousands of dollars)

7. Share capital (continued)

(b) Stock option plan

During the six months ended June 28, 2014, the Company granted 90,000 options (2013 – 150,000) of which 90,000 vested immediately (2013 – 90,000). Stock-based compensation recognized and the amount credited to contributed surplus during the period is $160,000 (2013 - $286,000) and relates to options granted during Quarter 1, 2014, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $1.52 (2013 - $2.37).

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

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

8. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations. Total other comprehensive income for the six months ended June 28, 2014 was $693,000 (2013 – $2,800,000), resulting in an ending balance of accumulated other comprehensive income of $169,000 (2013 – ($971,000)).

9. Related party transactions:

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2013 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,043,995 (2013 – 1,027,683) Class A subordinate voting shares of the Company, representing approximately 11.7% (2013 – 11.6%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $229,000 (Quarter 2 2013– $191,000).

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

	Note	2014	2013	Relationship
Purchase of goods and services	(i)	$ 747	$ 287	Companies in which key management personnel and/or their relatives have significant influence.

	2014	2013	Relationship
Amounts owed to related parties	$ 526	$ –	Companies in which key management personnel and/or their relatives have significant influence.

Quarters ended June 28, 2014 and June 29, 2013 (tabular amounts in thousands of dollars)

Transactions with key management personnel

During the six months ended June 28, 2014, the Company purchased $114,000 (2013 – $156,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $16,000 (2013 – $7,000), which is owed to this company.

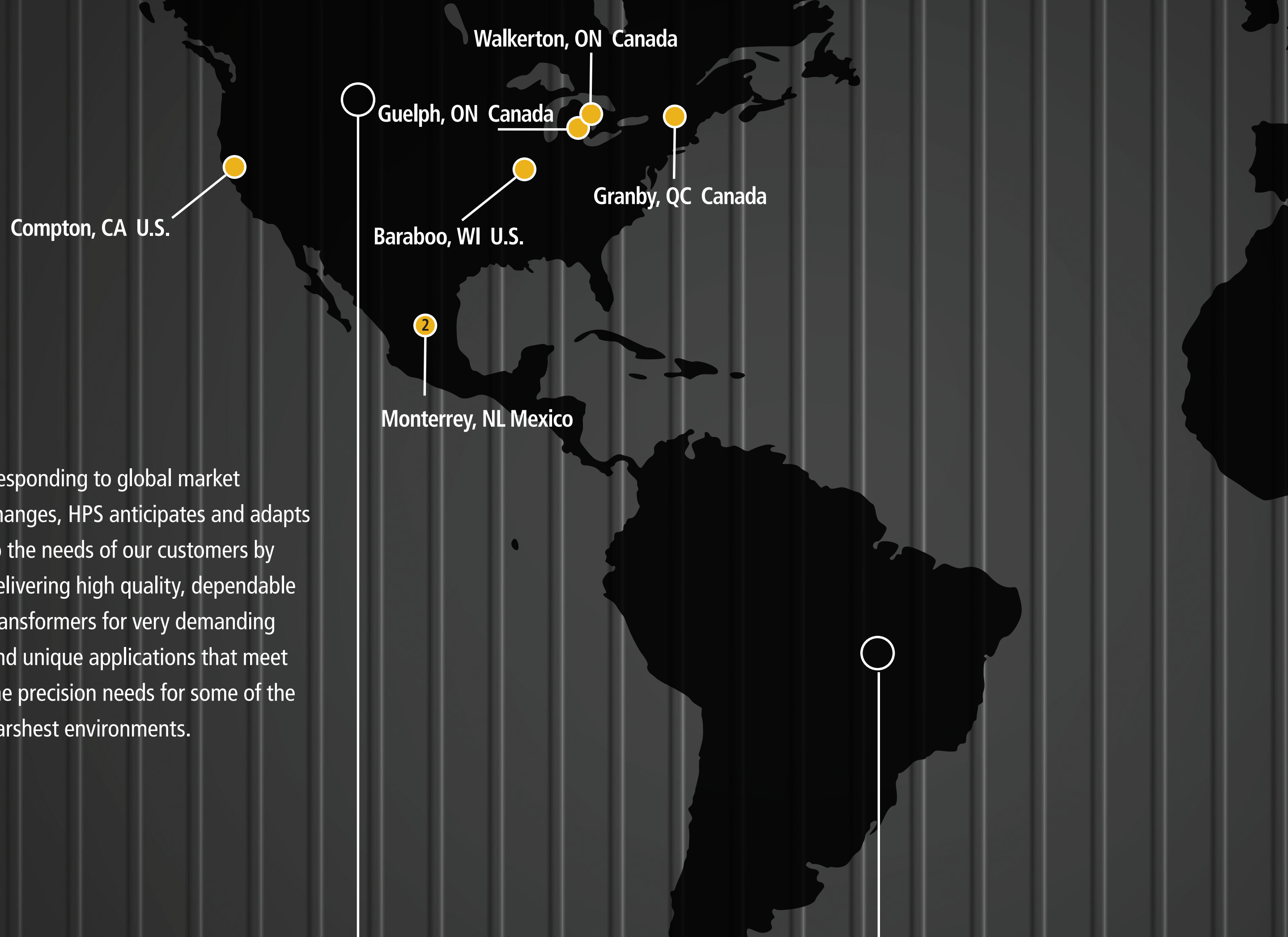
(i) During the six months ended June 28, 2014, the Company has paid $16,000 (2013 – $16,000) of payments in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE – Hammond Power Solutions Private Limited in India.

10. Change in non-cash operating working capital

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

	Six months ending	
	June 28, 2014	June 29,2013
Accounts receivable	**$ (770)**	$ (340)
Inventories	**1,626**	(1,304)
Prepaid expenses	**1,210**	152
Accounts payable and accrued liabilities	**(5,309)**	(5,837)
Foreign exchange	**(210)**	3,836
	$ (3,453)	$ (3,493)

Diversified Markets Global Presence



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

North America

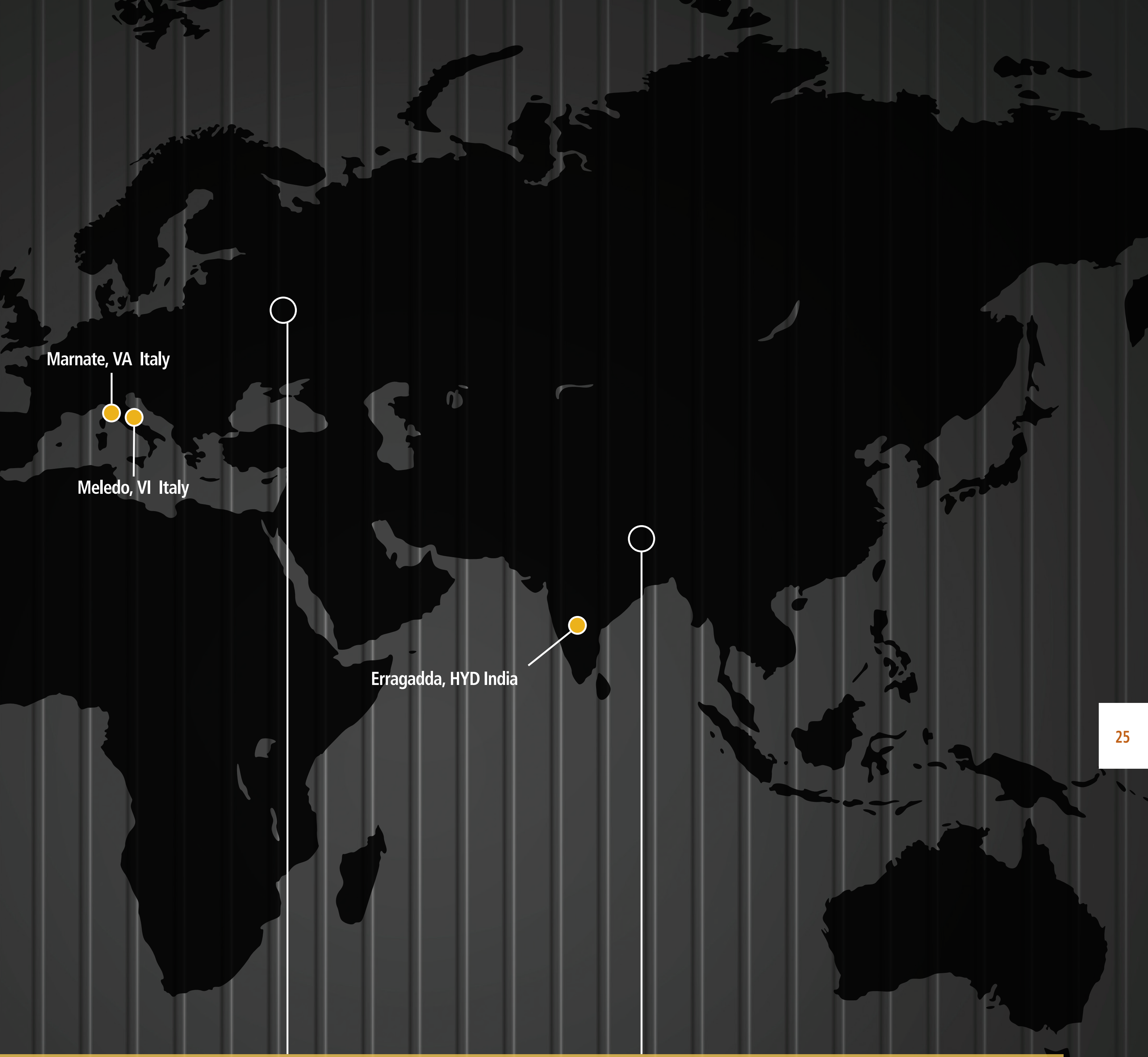
- Dominant dry transformer provider to the Canadian market served through both the HPS and Delta brands
- U.S. and Canadian electrical distributor channels continue to be growth markets for HPS
- Expansion into the Mexican market via brand label arrangement
- New technologies and product development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

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

South America

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

Industries: Oil and Gas, Wind Energy, Solar



Europe

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

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

Industries: Oil and Gas, Renewable Energy

India and Asia

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

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

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PETE – Hammond Power Solutions Private Limited
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Euroelettro Hammond s.p.a

The Hammond Museum of Radio is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment. Tours can be arranged by calling: 519-822-2441 x590.

Corporate Officers and Directors

William G. Hammond *
Chairman and Chief Executive Officer

Christopher R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Zoltan D. Simo *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Richard S. Waterman *+
Director

Frederick M. Jaques *+
Director

* Corporate Governance Committee
\+ Audit and Compensation Committee

Stock Exchange Listing

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

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Hammond Power Solutions Inc.

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