Hammond Power Solutions

Q3 Report Nine months ended October 2, 2010

Growing momentum

Hammond Power Solutions Inc.

Fellow Investor:

Hammond Power Solutions Inc. ("HPS") is pleased to present our third quarter financial results for 2010.

As we move into the last months of the year it is becoming more and more apparent, at least in the markets we serve, that the likelihood of a double-dip recession is fading. This is reflected in our third quarter results where our sales numbers continue to show positive momentum compared to the same quarter in 2009 and to the first half of this year.

HPS continues to expand its footprint in the North American electrical market, especially in the U.S. distributor channel, and some of our traditional engines of growth have picked up in activity over the last six months. This would include the mining and oil drilling sectors, export oriented Original Equipment Manufacturer ("OEM") customers, as well as funding to replace and repair our aging public infrastructure.

However it is also clear that this recovery is much slower and less robust than previous economic recoveries and that the feeling of uncertainty remains high. In particular the U.S. commercial construction market remains slow with few people expecting it to turn around until late 2011 and perhaps beyond. The slower overall economy has also increased the level of competition, which makes it more difficult to achieve the ideal level of gross margins in some markets.

Through all of this we continue to manage the Company in a conservative manner while prudently investing in longer term strategic projects to increase our market share in North America and to expand HPS globally. We also remain confident that as the economy slowly improves over the next several years, the plans and actions that we implemented during the past recession to broaden our market and channel coverage will result in greater growth going forward.

Lastly, demonstrating confidence in our longer term success and solid financial performance, the Board of directors has decided to initiate an annual dividend program to reward existing shareholders for their investment in the Company as well as to enhance our attractiveness to an expanded investor base. We believe that HPS has reached a point where we can offer shareholders a solid combination of income and share appreciation as a result of continued future growth in sales and profits.

William G. Hammond
Chairman and Chief Executive Officer

Management's Discussion & Analysis
Third Quarter 2010

Overview

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three and nine months ended October 2, 2010, and should be read in conjunction with the unaudited interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2010. 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 2009 Annual Report, and the unaudited interim consolidated financial statements and MD&A for the three months ended April 3, 2010, and the six months ended July 3, 2010, and, accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2009 MD&A. All amounts in this report are expressed in thousands of Canadian dollars except share information and unless otherwise noted. These documents and other information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before other income and expenses and income taxes. EBITDA is also used and is defined as "earnings before interest, taxes, depreciation and amortization." Order bookings represent confirmed purchase orders for goods or services received from our customers. Backlog represents all unshipped customer orders. The terms "earnings from operations", "EBITDA", "adjusted EBITDA", and "order bookings and backlog" do not have any standardized meaning prescribed within Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies. 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 non-GAAP financial measures such as operating earnings and EBITDA in making investment decisions about the Company and in measuring its operational results. A reconciliation of EBITDA to net earnings for the third quarter and year-to date for fiscal 2010 and 2009 is contained in the MD&A. Earnings from operations, EBITDA, and adjusted EBITDA should not be construed as a substitute for net income determined in accordance with GAAP.

Sales

The Company delivered a significant increase in sales this quarter. Sales for Quarter 3, 2010 were $47,903, an increase of $4,135 or 9.4% from the comparative quarter last year, and are lower by $3,820 or 2.6% year-to-date, finishing at $142,996 compared to $146,816 last year. The main difference for the decline when comparing year-to-date was the impact of backlog carryover from 2008 into 2009, which resulted in the abnormally large sales in Quarter 1, 2009, and the economic recession which was just starting to impact the industry. Sales in the United States finished at $30,916, an increase of $3,770 or 13.9% from Quarter 3, 2009 and were only $364 or 1.2% lower from Quarter 2, 2010. Consolidated sales are negatively impacted by U.S. foreign exchange translation.

Stated in Canadian dollars, year-to-date sales in the U.S. were $88,520, a decrease of $4,793 or 5.1%, compared to $93,313 last year-to-date. U.S. sales, stated in U.S. dollars, were higher by $3,384 or 13.7% when compared to Quarter 3, 2009 and increased on a year-to-date basis by $4,584 or 5.8% finishing at $83,729 as compared to $79,145 last year-to-date. Canadian sales were $16,987 for Quarter 3, 2010 increasing by $369 or 2.2% over Quarter 3, 2009. Year-to-date Canadian sales were $54,476, an increase of $974 or 1.8% as compared to sales of $53,502 last year.

Geographically stated, U.S. based sales were 64.5% of our total sales, while 35.5% of the sales were derived in Canada in the quarter.

HPS realized significant growth in the U.S. and Canadian electrical markets. This is evidenced by our elevated booking rates, sales growth, increased backlog and significantly improved financial performance. Specifically, the North American Electrical Distributor ("NAED"), capital equipment, power conditioning, mining, panel building and utility markets in both Canada and the U.S. resulted in increased sales in Quarter 3, 2010. This diverse market participation provides a business hedge as the Company is not single market or industry dependent. As a result, the Company's sales momentum continues to outpace the electrical industry average.

The Company is focused on market expansion and channel growth in its strategic market segments in the U.S. and Canada. We expect our focus on custom and competitive product design, product breadth and improved service will support this growth.

Additionally our organic and new customer development strategies, manufacturing agility, cycle time reduction, and our multi-national operations capabilities, will ensure continued market share growth and uphold our revenue and profitability trends.

Order bookings and backlog

Our Quarter 3, 2010 sales growth strategies along with slightly improved market conditions have produced healthy booking rates this quarter. These factors were essential in our success in delivering a 20.6% increase in bookings over the same quarter last year and a 9.8% increase compared on a year-to-date basis. By channel, booking levels were higher by 6.7% on a direct basis and 37.4% through our distributor channel, as compared to Quarter 3, 2009. Although the company had higher capacity and achieved productivity improvements, order backlog increased by 4.2% from the prior quarter.

Some of our customers have seen a slight pickup in their business activity and are replenishing their inventory investment levels. As a result, we anticipate seeing an upward lift of new order bookings.

Gross margins

Quarter 3, 2010 gross margin dollars increased by $1,391 or 13.9% compared to Quarter 3, 2009. Gross margin rates finished at 23.8% versus 22.9% in Quarter 3, 2009 and were 25.1% for the year compared to 26.2% in 2009, down 1.1% of sales.

Quarter 3, 2010 gross margin rates were hampered by a 4.6% stronger Canadian dollar as compared to Quarter 3, 2009. This negatively impacts gross margin rates on Canadian manufactured products sold in the U.S. The Company continues to experience negative selling price pressures from many of our competitors due to the available excess capacity in the industry. Margins were positively impacted through internally driven design and material procurement cost reductions, factory expense management, product mix and our ability to obtain market specific selling price increases. Despite the economic slowdown, the Company has implemented several capacity expansion projects during the past 18 months. 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 favourably affect margin rates. This will better match manufacturing capacity requirements to booking rates. The Company is focused on productivity improvements, cost reductions and lead-time improvements throughout the organization. These actions will help improve margin rates.

The Company continues to target gross margin rate improvement.

Selling general & administrative expense

Total selling, general and administrative ("SG&A") expenses amounted to $8,962 in Quarter 3, 2010 versus $7,814 in Quarter 3, 2009, an increase of $1,148 or 14.7% and were relatively flat finishing at $26,406 year-to-date versus $26,227 in 2009, an increase of $179 or 0.7%.

Stated as a percentage of sales, SG&A expenses increased from 17.9% in Quarter 3, 2009 to 18.7% in Quarter 3, 2010 an increase of 0.8% and on a year-to-date basis increased by 0.6% to finish at 18.5%.

The increase in costs was due to stock option compensation expense and higher variable freight and commission expenses associated with the increase in sales.

HPS continues to invest in information systems infrastructure and strategic engineering initiatives.

The Company is very mindful of managing and containing selling and administration expenses through strong SG&A expense management and cost control.

Earnings from operations

The Quarter 3, 2010 earnings from operations increased by $243 or 11.0% from the same quarter last year, finishing at $2,461 in the quarter, as compared to $2,218 in Quarter 3, 2009. On a year-to-date basis results were lower by $2,795 or 22.8% finishing at $9,461 compared to $12,256 for the same period last year.

Earnings from operations for the quarter and the year were hampered by the detrimental effects of a higher Canadian dollar on our resale margins in the U.S. and gross margin rate decline resulting from competitive pricing pressure and costs associated with excess manufacturing capacity.

The Company is focused on market expansion strategies in Canada and the U.S., improving gross margin rates and cost reduction initiatives, all of which will help improve future earnings from operations.

The Company is adamant that it will continue to benefit from its market expansion strategies in Canada and the U.S., improve its gross margin rates, and is unwavering in its implementation of its material procurement, manufacturing and engineering cost reduction initiatives. The cumulative result will drive earnings from operations improvement and growth.

Interest expense

The interest expense for the quarter ended October 2, 2010 amounted to $19 compared to $56 in Quarter 3, 2009, a decrease of $37 or 66.1% and was $80 year-to-date versus $128 last year, down $48 or 37.5%.

Gain/loss on foreign exchange

The effectiveness of the Company's hedging strategy has significantly reduced its U.S. dollar Balance Sheet translation exposure.

The foreign exchange gain in Quarter 3, 2010 was $125 compared to a foreign exchange loss of $944 in Quarter 3, 2009 and there was a year-to-date foreign exchange gain of $166 compared to a loss of $2,584 in 2009. The majority of the foreign exchange gains and losses are as a result of realized and unrealized gains and losses from U.S. Balance Sheet translation and the Company's settled U.S. dollar hedge contracts.

Income taxes

As a result of the increase in income before income tax in Quarter 3, 2010, income tax expense was $1,038 as compared to $1,129 in Quarter 3, 2009, a decrease of $91, and was $3,321 year-to-date, versus $4,675 last year a decrease of $1,354. The consolidated income tax rate approximated 30.7% in Quarter 3, 2010 versus a rate of 34.5 % for the same quarter last year and on a year-to-date basis was 33.4% for 2010 versus 36.6% in 2009. Income tax expense is impacted by foreign exchange losses from Balance Sheet translation, which is not recognized for income tax purposes.

The long-term future tax assets and liabilities relate to temporary differences primarily resulting from the difference between net book value and undepreciated capital cost of capital assets and other provisions and expenses recognized for accounting but not currently deductible for tax purposes.

Net earnings

The Company reports a significant increase in its net earnings in the quarter as compared to last year.

As a result of increased sales and higher margin dollars net earnings for Quarter 3, 2010 increased by $1,440, concluding at $1,497 compared to $57 in Quarter 3, 2009, and was $6,122 year-to-date versus $4,771 last year, an increase of $1,351 or 28.3%.

EBITDA for Quarter 3, 2010 was $3,749 versus $2,125 in Quarter 3, 2009, an increase of $1,624 or 76.4% and year-to-date was $13,052 versus $12,802 an increase of $250 or 2.0%. Although there is not a standard definition of this term, the Company uses EBITDA as a non-GAAP financial measure as one of its indicators of operational profitability.

EBITDA is calculated as outlined in the following table:

	Quarter 3 2010	Quarter 3 2009	**YTD 2010**	YTD 2009
Net earnings	$ 1,497	$ 57	$ 6,122	$ 4,771
Add:				
Interest Expense	$ 19	$ 56	$ 80	$ 128
Income Tax Expense	$ 1,038	$ 1,129	$ 3,321	$ 4,675
Depreciation & Amortization	$ 1,195	$ 883	$ 3,529	$ 3,228
EBITDA	$ 3,749	$ 2,125	$ 13,052	$ 12,802
Add (Deduct):				
Foreign Exchange (Gains)/Losses	$ (125)	$ 944	$ (166)	$ 2,584
Adjusted EBITDA	$ 3,624	$ 3,069	$ 12,886	$ 15,386

Adjusted EBITDA:

Excluding foreign exchange gains/losses, Adjusted EBITDA was $3,624 for Quarter 3, 2010 compared to $3,069 in Quarter 3, 2009 an increase of $555 or 18.1%. On a year-to-date basis adjusted EBITDA was $12,886, lower by $2,500 or 16.3%, when compared to $15,386 year-to-date for 2009.

Capital resources and liquidity

Cash provided by operations for Quarter 3, 2010 was $7,202 versus $5,341, in Quarter 3, 2009, an increase of $1,861. Cash provided by operations year-to-date was $10,699 versus cash provided by operations of $15,359 in 2009, a decrease in cash provided by operations of $4,660.

The Quarter 3, 2010 net working capital decreased $4,457 from the prior quarter due to lower accounts receivable of $571 as a result of very effective collections management, reduced income taxes recoverable of $1,750 due to a 2009 tax payment refund, lower inventory investment of $562 as well a rise in accounts payable and accruals of $1,426. The Company remains focused on its customer accounts receivable collections, inventory turnover velocity and careful management of accounts payable.

Capital expenditures for property, plant and equipment were higher by $124 or 10.0%, finishing at $1,365 this quarter compared to $1,241 for Quarter 3, 2009, and decreased 48.2% or $3,641 year-to-date, finishing at $3,924 compared to $7,565 in 2009. Capital investments in Quarter 3, 2010 were primarily for manufacturing capacity expansion initiatives in several of our locations, productivity improvement projects and information technology infrastructure.

Bank operating lines decreased by $264 in Quarter 3, 2010 as compared to a decrease in Quarter 3, 2009 of $2,241.

Net overall bank operating lines of credit and long-term debt, net of cash balances was a $16,030 cash balance as at October 2, 2010, an increase of $14,704 when compared to a cash balance of $1,326 as at September 26, 2009, and year-to-date was $6,217 higher than December 31, 2009. This increase can be attributed to increased net income and reduced working capital requirements.

All scheduled payments of principal and interest have been made by the Company on the applicable due dates.

All bank covenants continue to be met as at October 2, 2010.

Contractual obligations

(in thousands of dollars)	2010	2011	2012	2013	2014	2015	Thereafter	Total
Operating Leases	352	1,319	890	803	482	203	–	4,049
Accounts payable and accrued liabilities	23,595	–	–	–	–	–	–	23,595
Capital expenditure purchase commitments	497	–	–	–	–	–	–	497
Total	**24,444**	**1,319**	**890**	**803**	**482**	**203**	**–**	**28,141**

Contingent liabilities

Management is not aware of any contingent liabilities

Normal course issuer bid

On July 16, 2009, the Board of Directors authorized the repurchase of up to 400,000 of its Class A Subordinate Voting Shares ("Class A Shares"), representing 4.47% of the 8,948,000 Class A Shares outstanding as of July 14, 2009, by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange ("TSX"). Daily purchases were limited to 2,582 Class A Shares, other than block purchase exceptions, which is 25% of the average daily trading volume of 10,327 Class A Shares of HPS on the TSX in the preceding six calendar months.

Per the terms of the normal course issuer bid, the Class A Shares repurchase program was terminated as at July 20, 2010.

There were no purchases made under this program in Quarter 3, 2010.

The Company purchased a total 108,174 Class A Shares at a cost of $915 in 2009 and purchased 51,202 Class A Shares at a cost of $239 in 2010 for a cumulative total of 159,376 Class A shares at a cost of $1,504 (includes commissions) under the plan.

Decisions regarding the timing of repurchases were based on market conditions, share price and other factors. Class A Shares repurchased under the bid were cancelled.

The Board of Directors of HPS authorized the NCIB as it believed market conditions provided opportunities for HPS to acquire Class A Shares at attractive prices and were an appropriate use of HPS funds enhancing shareholder value.

Controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Framework). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with 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, 2010, 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.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") affirmed its intention to replace Canadian GAAP with IFRS. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies and additional required disclosures will need to be addressed. The Company will adopt IFRS commencing the first quarter reporting of 2011 with comparative data from 2010.

The Company's IFRS transition project is in progress and a transition plan is being formed. The project will be completed in 3 phases; Phase One - Scoping and Diagnostics, Phase Two - Analysis and Development and Phase Three - Implementation and Review.

Phase One – Scoping and Diagnostics:

This phase consisted of a high-level assessment to identify key areas of Canadian GAAP and IFRS differences that were most likely to impact the Company. This assessment was completed by Management and external advisers in the third quarter of 2009 and was integral in prioritizing subsequent steps. Until accounting policy choices are made during the Analysis and Diagnostics Phase, the Company will be unable to quantify the impact of IFRS on its Consolidated Financial Statements.

Phase Two – Analysis and Development:

This phase involves the detailed assessment, from an accounting, reporting and business perspective, of the changes that will be caused by the conversion to IFRS. During this phase any applicable accounting policy choices permissible under IFRS will be assessed for the most appropriate application. Areas identified in Phase One are analyzed in detail to assess if any changes to policy are required and what if any impact this will have. During this phase our key finance staff will be trained on IFRS. Management and Audit Committee members will be educated regarding IFRS implications.

This phase is underway and is scheduled for completion early in the Fourth Quarter of 2010. In this regard the Company has considered the following aspects of the transitional provisions to be effective on January 1, 2010. This is not an exhaustive list and relates only to those areas where Management considers the likely impact to be more significant.

- Property, plant and equipment: The Company intends to utilize the IFRS 1 election to recognize certain parcels of land at fair value at January 1, 2010. All other property, plant and equipment will retain its historical cost on transition and will reflect the application of componentization, which is expected to have an insignificant impact on the opening financial position at January 1, 2010. The Company is currently in the process of obtaining and finalizing fair value assessments for its properties and it is anticipated that the resulting adjustment will be an increase to property, plant and equipment and a corresponding increase to retained earnings at January 1, 2010, net of any related future tax implications.
- Employee future benefits: The Company plans to recognize all unamortized actuarial gains and losses through equity. This will result in an increase in an accrued benefit obligation of $245 and a corresponding decrease in retained earnings at January 1, 2010, net of any related future tax implications.
- Functional currency: The Company has performed an analysis of the functional currency of each of its operations located in Canada, the U.S. and Mexico, in accordance with the requirements of IAS 21 - The Effects of Changes in Foreign Exchange Rates. Under Canadian GAAP it had previously been concluded that the functional currency of all the Company's operations was the Canadian dollar. Under IAS 21 it has been concluded that the operations in Canada have the Canadian dollar as their functional currency, the operations in the U.S. have the U.S. dollar as their functional currency and that the operations in Mexico have the Mexican Peso as their functional currency. The Company is in the process of calculating the impact of this change in functional currencies as at January 1, 2010, and preliminary estimates suggest that it will result in a small decrease in retained earnings at January 1, 2010. Going forward, translation adjustments related to the operations in the U.S. and Mexico will be recognized in shareholders' equity rather than through the statement of earnings as is currently the case under Canadian GAAP.

The Company expects that the net impact of the above items and any related future tax implications to result in a small increase in shareholders' equity at January 1, 2010, with such increase not expected to exceed $2,000.

Phase Three – Implementation and Review:

This phase involves executing the work completed in Phase Two by making changes to business and accounting processes and supporting information systems. It will also include the review of all internal controls that may have been impacted by any of the changes. 2010 comparative data will be collected for comparative disclosure starting in the first quarter of 2011.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in the Notes to the Consolidated Financial Statements as at the end of the of the 2009 fiscal year.

Transactions with related parties

The Company had no transactions with related parties in Quarter 3, 2010.

Proposed transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm proposed transactions as at October 2, 2010.

Financial instruments

The Company utilizes foreign exchange forwards to hedge the risk associated with currency fluctuations as a result of U.S. Balance Sheet translation. The Company does not enter into foreign exchange forwards for speculative purposes. Realized and unrealized losses and gains associated with foreign exchange forwards are included in "foreign exchange loss/gain" in the Consolidated Statements.

Critical accounting estimates

The preparation of the Company's consolidated financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Outstanding share data

Details of the Company's outstanding share data as of October 2, 2010 are as follows:

8,792,624	Class A Shares
2,778,300	Class B common Shares
11,570,924	Total Class A and B Shares

Risk factors

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

These risks include:

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

Strategic outlook

Consistent Strength. Continued Growth. Continued Performance.

- Sales and market share growth.
- Another solid quarter of financial results.
- A strengthened Balance Sheet.

HPS continues to deliver consistent and solid profit performance as further evidenced in Quarter 3, 2010.

The Company has implemented strategies to increase its sales and manufacturing capacities despite the lethargic global and North American economies. HPS utilizes forward contracts to hedge against the negative impact of a stronger Canadian dollar and fluctuating copper commodity costs.

The Company is not immune to the business and profitability pressures it must endure from these influences but is confident that the business fundamentals that it has built and the strategic plans it implements will sustain and breed growth opportunities as HPS moves forward. We continue to see signs of moderate market condition improvement but the Company believes that this is still a time to be cautious but not complacent and to be very calculating in the risks and opportunities of its strategies. We do, however, still expect sales growth in some of our market segments but will see decline 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.

The Company is determined to deliver industry leading financial results. HPS will be steadfast in its pursuit of continuous productivity improvement, organic sales growth, new product development, geographic diversification, manufacturing cycle time reductions and market share expansion. Management is committed to the execution of its operational and strategic initiatives.

The Company has a strong Balance Sheet, is well capitalized, has a net cash position and has a long-term committed credit facility available to implement its business strategies.

We continue to build a company that can be relied upon in all we do, for the goals we set, and in the commitments we undertake.

Hammond Power Solutions Inc. will deliver solid financial performance, provide a sustainable return to our shareholders and maintain the Balance Sheet strength of the Company.

Forward-looking information

Certain information in this MD&A is forward-looking and is subject to risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

Selected Annual and Quarterly Financial Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous ten quarters up to, and including the Third Quarter of 2010.

The quarterly information has been extracted from our unaudited consolidated financial statements which, in the opinion of Management, are prepared in accordance with Canadian generally accepted accounting principles.

Annual Information

(in thousands of dollars except earnings per share, dividends paid and exchange rates)

	2005	2006	2007	2008	2009
Sales	$ 98,896	$ 131,978	$ 160,606	$ 226,358	$ 195,437
Earnings from operations	7,231	14,067	19,575	**26,558	18,943
EBITDA	9,789	16,190	22,704	34,742	19,816
Net earnings (loss) for the year	3,857	8,674	12,403	22,829	9,631
Total assets	45,260	57,688	70,264	110,891	106,925
Total liabilities	22,242	25,907	25,784	41,107	29,422
Total cash (debt)	(5,463)	(180)	4,395	(4,100)	9,813
Cash provided from operations	4,280	7,661	7,611	6,254	25,404
Basic earnings (loss) per share	0.34	0.76	1.08	1.95	0.82
Diluted earnings (loss) per share	0.34	0.75	1.06	1.93	0.82
Dividends declared and paid	–	–	–	–	1,173
Average Exchange Rate (USD$=CAN$)	$ 1.2121	$ 1.1342	$ 1.0747	$ 1.0644	$ 1.1451

Quarterly Information

(in thousands of dollars except earnings per share, dividends and exchange rates)

			2008				2009			2010
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	$ 54,936	$ 57,940	$ 65,126	$ 54,845	$ 48,203	$ 43,768	$ 48,621	$ 44,273	$ 50,820	**$ 47,903**
Earnings from operations	**6,161	**6,483	**8,999	6,072	3,966	2,218	6,687	3,580	3,420	**2,461**
EBITDA	6,954	7,379	12,071	7,777	2,900	2,125	7,014	4,984	4,319	**3,749**
Net earnings	3,623	4,335	9,751	4,242	472	57	4,860	2,224	2,401	**1,497**
Total assets	93,467	99,669	110,891	107,200	107,446	105,302	106,925	105,339	107,450	**110,083**
Total liabilities	37,811	39,645	41,107	33,087	33,981	30,965	29,422	25,582	25,359	**26,678**
Total cash (debt)	(9,610)	(9,884)	(4,100)	(4,527)	970	1,326	9,813	10,464	10,415	**16,030**
Cash provided (used) by operations	(2,179)	3,735	7,522	2,012	8,006	5,341	10,045	1,645	1,852	**7,202**
Basic earnings per share	0.31	0.37	0.83	0.36	0.04	0.01	0.41	0.19	0.21	**0.13**
Diluted earnings per share	0.30	0.37	0.82	0.36	0.04	0.01	0.41	0.19	0.21	**0.13**
Dividends declared and paid	–	–	–	–	–	1,173	–	–	–	**–**
Average Exchange Rate (USD$=CAN$)	$ 1.0100	$ 1.0390	$ 1.2041	$ 1.2453	$ 1.1751	$ 1.1025	$ 1.0575	$ 1.0407	$ 1.0280	**$ 1.0350**

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

Consolidated Balance Sheet

(unaudited) (tabular amounts in thousands of dollars)

	As at October 2, 2010	As at December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 17,177	$ 13,838
Accounts receivable	30,398	27,705
Income taxes recoverable	1,833	3,006
Inventories	23,699	25,722
Prepaid expenses	462	514
Future income taxes	630	643
	74,199	71,428
Property, plant and equipment	26,964	26,452
Investment in properties	1,044	1,044
Long-term investments	654	654
Future income taxes	42	42
Intangible assets	5,000	5,125
Goodwill	2,180	2,180
	$ 110,083	$ 106,925
Liabilities & Shareholders' Equity		
Current liabilities:		
Bank operating lines of credit	$ 977	$ 4,025
Accounts payable and accrued liabilities	23,595	23,388
Income taxes payable	17	85
Notes payable	443	443
Future income taxes	180	180
	25,212	28,121
Accrued pension benefit obligation	5	5
Long-term debt	170	–
Environmental reserve, net of current portion	139	139
Future income taxes	1,152	1,157
Shareholders' equity:		
Share capital	12,922	12,959
Contributed surplus	950	626
Retained earnings	69,533	63,918
	83,405	77,503
Contingent liabilities	$ 110,083	$ 106,925

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Earnings and Comprehensive Earnings

(unaudited) (tabular amounts in thousands of dollars except earnings per share)

	Quarter Ending		Nine Months Ending	
	Oct 2, 2010	Sep 26, 2009	**Oct 2, 2010**	Sep 26, 2009
Sales	**$ 47,903**	$ 43,768	**$ 142,996**	$ 146,816
Cost of Sales	**36,480**	33,736	**107,129**	108,333
Gross Margin	**11,423**	10,032	**35,867**	38,483
	23.8%	22.9%	**25.1%**	26.2%
Selling, general, and administrative	**8,962**	7,814	**26,406**	26,227
Earnings from operations	**2,461**	2,218	**9,461**	12,256
Other (income) and expense:				
Interest expense	**19**	56	**80**	128
Foreign exchange loss (gain)	**(125)**	944	**(166)**	2,584
Loss on disposal of property, plant and equipment	**–**	–	**6**	–
Co-tenancy expense	**32**	32	**98**	98
Income before income taxes	**2,535**	1,186	**9,443**	9,446
Income tax expense	**1,038**	1,129	**3,321**	4,675
Net earnings and comprehensive earnings	**1,497**	57	**6,122**	4,771
Earnings per share for the period				
Basic	**$ 0.13**	$ 0.01	**$ 0.53**	$ 0.41
Diluted	**$ 0.13**	$ 0.01	**$ 0.53**	$ 0.41

See accompanying Notes to Interim Consolidated Financial Statements

Disclosure

In the opinion of Management, these unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and use the same accounting policies used in the preparation of the Company's annual financial statements. These interim statements and notes have not been independently reviewed by the external auditors and should be read in conjunction with the December 31, 2009, Notes to Consolidated Financial Statements.

Segment Sales

Consistent with the prior year, HPS reflects its results under a single reportable operating segment.

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Quarter Ending		Nine Months Ending	
	Oct 2, 2010	Sep 26, 2009	**Oct 2, 2010**	Sep 26, 2009
Cash provided by (used in):				
Operations:				
Net earnings	**$ 1,497**	$ 57	**$ 6,122**	$ 4,771
Add (deduct) items not involving cash:				
Amortization of property, plant and equipment	**1,042**	732	**3,071**	2,775
Amortization of intangible assets	**153**	151	**458**	453
Loss on disposal of property, plant, and equipment	**–**	–	**6**	–
Accrued pension obligation	**(1)**	(1)	**–**	(3)
Future income taxes	**15**	35	**8**	69
Stock based compensation expense	**39**	18	**340**	122
	2,745	992	**10,005**	8,187
Change in non-cash operating working capital	**4,457**	4,349	**694**	7,172
Cash provided by operations	**7,202**	5,341	**10,699**	15,359
Financing:				
(Repayment of) advances from bank operating lines	**(264)**	(2,241)	**(3,048)**	721
Issue of common shares	**12**	–	**24**	36
Share repurchase and cancellation	**(234)**	(341)	**(584)**	(341)
Cash dividends paid	**–**	(1,173)	**–**	(1,173)
Principal repayment of notes payable	**–**	(290)	**–**	(890)
Principal advance of long term debt	**170**	–	**170**	–
Cash used in financing activities	**(316)**	(4,045)	**(3,438)**	(1.647)
Investments:				
Proceeds on disposal of property, plant and equipment	**–**	–	**2**	–
Purchase of intangible assets	**(131)**	(34)	**(333)**	(142)
Purchase of property, plant, and equipment	**(1,234)**	(1,207)	**(3,591)**	(7,423)
Cash used in investment activities	**(1,365)**	(1,241)	**(3,922)**	(7,565)
Increase (decrease) in cash	**5,521**	55	**3,339**	6,147
Cash and cash equivalents, beginning of period	**11,656**	8,465	**13,838**	2,373
Cash and cash equivalents, end of period	**$ 17,177**	$ 8,520	**$ 17,177**	$ 8,520
Cash (received) paid for taxes	**$ (571)**	$ 1,106	**$ 2,275**	$ 7,361
Cash paid for interest	**$ 15**	$ 35	**$ 28**	$ 35

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(unaudited) (tabular amounts in thousands of dollars)

Nine month period ended October 2, 2010, and September 26, 2009.

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance as at January 1, 2010	$ 12,959	$ 626	$ 63,918	$ 77,503
Cash consideration on exercise of stock options	24	–	–	24
Ascribed value credited to share capital from exercise of stock options	13	(13)	–	–
Stock based compensation expense	–	340	–	340
Issue of shares	–	–	–	–
Share repurchase and cancellation	(74)	(3)	(507)	(584)
Net earnings	–	–	6,122	6,122
Dividends	–	–	–	–
Balance as at October 2, 2010	$ 12,922	$ 950	$ 69,533	$ 83,405

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance as at January 1, 2009	$ 13,061	$ 512	$ 56,211	$ 69,784
Cash consideration on exercise of stock options	36	–	–	36
Ascribed value credited to share capital from exercise of stock options	20	(20)	–	–
Stock based compensation expense	–	122	–	122
Share repurchase and cancellation	(64)	(2)	(275)	(341)
Net earnings	–	–	4,771	4,771
Dividends	–	–	(1,173)	(1,173)
Balance as at September 26, 2009	$ 13,053	$ 612	$ 59,534	$ 73,199

See accompanying Notes to Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of 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 the standards established by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

Hammond Power Solutions Inc. ("HPS" or the "Company") is a public company, traded on the Toronto Stock Exchange ("HPS.A"), and is incorporated under the Ontario Business Corporations Act. HPS designs and manufactures 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 and Mexico.

1. Summary of significant accounting policies:

(a) The accompanying interim consolidated financial statements of Hammond Power Solutions Inc. and its subsidiaries have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies and method of their application are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2009. These interim financial statements do not include all disclosures required by GAAP for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2009.

Certain of the comparative figures have been reclassified to conform with the current year's interim consolidated financial statement presentation.

(b) The preparation of the interim consolidated financial statements in conformity with GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used when accounting for items such as the determination of estimated useful lives of intangible assets and property, plant and equipment; valuation of receivables, inventories, future income taxes, long-term investments, investment in properties, derivative financial instruments, obligations related to accrued pension benefit, environmental liabilities, stock-based compensation costs, and reporting units and related goodwill. Actual results could differ from those estimates.

2. Recently Issued Accounting Pronouncements:

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, three new sections of the CICA Handbook were issued: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests. The main impacts of these standards are as follows:

Business combinations

On the date on which an acquirer obtains control of a business, the acquirer must measure the business acquired as a whole in order to determine its fair value. The acquirer must measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at their acquisition date fair value. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred. This new standard will be applicable prospectively for the Company for business combinations carried out on or after January 1, 2011. Earlier application is permitted provided Sections 1601 and 1602 are applied at the same time.

Consolidated financial statements and non-controlling interests

Section 1601 establishes standards for the preparation of consolidated financial statements after the acquisition date and certain aspects of consolidation on the acquisition date. Section 1602 establishes standards for the accounting and presentation of non-controlling interests subsequent to a business combination. These new standards are applicable to the Company effective January 1, 2011. Earlier application is permitted provided Section 1582 is applied.

Multiple deliverable revenue arrangements

In December 2009 the CICA issued Emerging Issues Committee ("EIC") Abstract 175 - Multiple Deliverable Revenue Arrangements, replacing EIC 142 - Revenue Arrangements with Multiple Deliverables. This abstract was amended to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated. The accounting changes summarized in EIC 175 are applicable to the Company effective January 1, 2011, with earlier adoption permitted.

International Financial Reporting Standards

In February 2008 the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. IFRS will replace GAAP. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company anticipates implementation of these standards in its first quarter of fiscal year 2011.

The Company is currently assessing the future impact of these new standards on its financial statements.

3. Segmented information:

The Company operates under a single reportable segment.

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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*+

* Corporate Governance Committee
\+ Audit and Compensation Committee

Corporate Head Office

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

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