

ANNUAL REPORT



Hammond Power
Solutions Inc.

2006

Company attains record sales growth in Canada and the United States

U.S. market sales increase by 38%

1.2% increase in gross margin rates

Unprecedented booking and backlog levels

Overall bank indebtedness drops by 97%

125% increase in net earnings

Share price grows 400% year-over-year

Continuous product, process, and service improvements drive growth

2005

Double-digit sales growth in Canada and the United States

22% sales growth, increased sales to \$99M

5th consecutive year of elevated gross margin rates

56% increase in earnings from operations

\$4.9M reduction in total bank indebtedness

Net earnings increase 166%

Continuous product, process, and service improvements drive growth

2004

Aggressive product and market development contribute to improved financial performance

13% U.S. sales growth

Gross margin rates increase 2.5%

\$586,000 reduction in selling and administrative costs

\$4M reduction in total bank indebtedness

Net earnings increase \$2.3M

Continuous product, process, and service improvements drive growth

2003

Aggressive cost reduction initiatives implemented

15% increase in U.S. sales

Increased gross margin

\$400,000 reduction in selling and administrative costs

\$2.7M reduction in total bank indebtedness

Continuous product, process, and service improvements drive growth

2002

Increased marketing focus and sales to the United States

Gross margin increased by 2%

Over \$2M decrease in total bank indebtedness

Earnings from operations double over 2001

Continuous product, process, and service improvements drive growth

2001

HPS becomes a new public company

Unprecedented capital investment to support growth

Sales of \$86M

Established a new manufacturing facility in Monterrey, Mexico

Continuous product, process, and service improvements drive growth

LOOKS LIKE THE SAME OLD STORY

CONTINUOUS PRODUCT, PROCESS, AND SERVICE IMPROVEMENTS DRIVE GROWTH

Hammond Power Solutions Inc., has experienced expansive growth since its inception. Its unwavering focus on increasing market share through expansion in markets that are growing at accelerated rates has benefited the Company and its Shareholders.

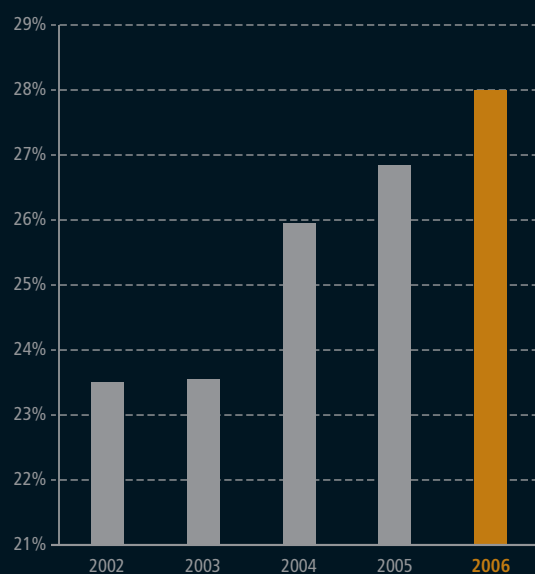
Emerging clean energy markets and aggressive global demands, for both natural resources and growing infrastructure, require quality, innovative power solutions.

The Company leads the industry in these markets through its technical design strength, breadth of product, and manufacturing capabilities, making HPS a stronger company both fundamentally and financially.

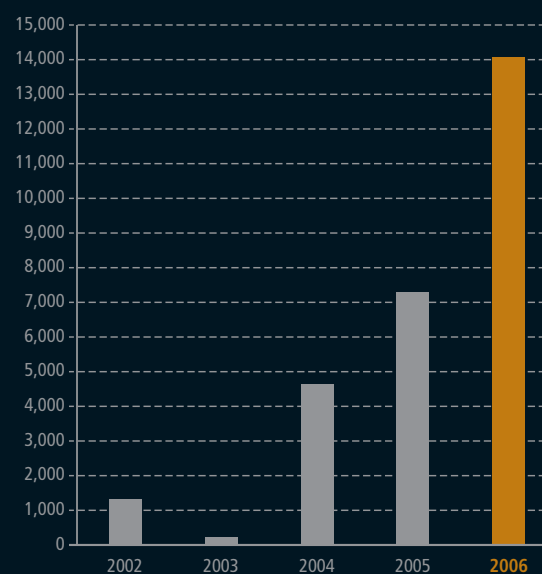
HPS has the power to transform.

(in thousands of dollars, except earnings per share)	2005	2006
Sales	\$ 98,896	\$ 131,978
Earnings from operations	7,231	14,067
Net earnings	3,857	8,674
Cash provided by operations	4,280	7,661
Overall bank indebtedness	5,463	180
Basic earnings per share	\$ 0.34	\$ 0.76

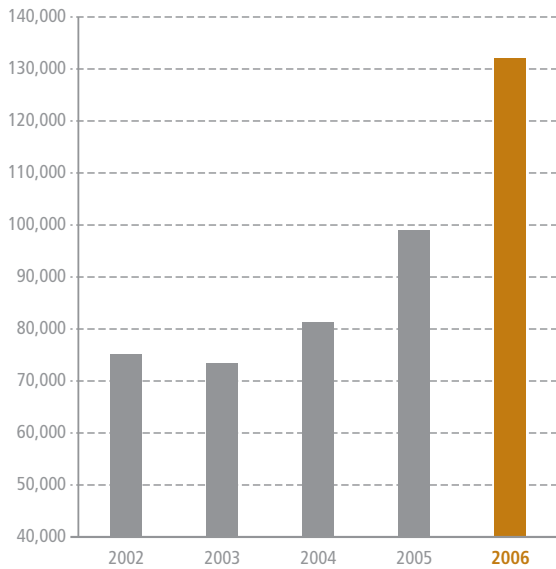
GROSS MARGIN (% of Sales)



EARNINGS FROM OPERATIONS (\$000)



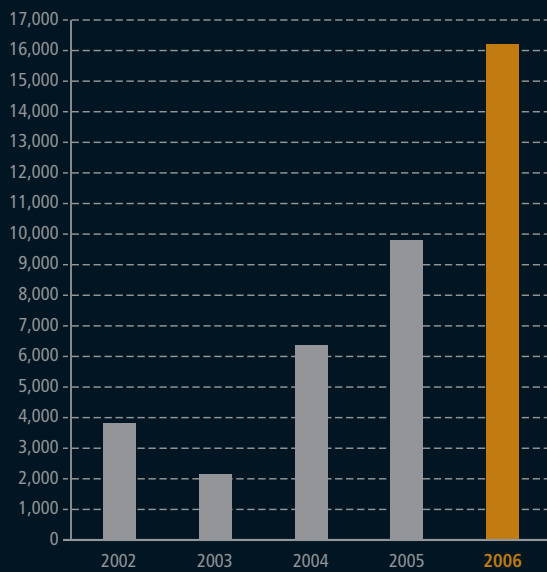
CONSOLIDATED SALES (\$000)



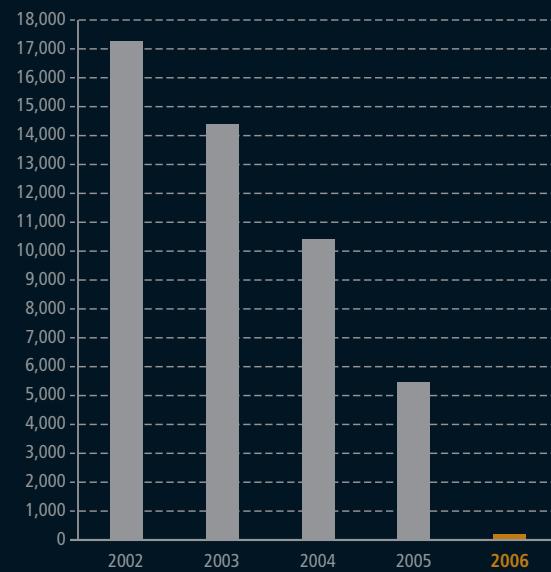
2006 ACHIEVEMENTS


- Sales growth of 34%
- 49% increase in U.S. sales (in U.S. dollars)
- 36% rise in order booking rates
- 81% growth in backlog levels
- 6th consecutive year of gross margin rate gain
- SG&A expense rate reduced by 2.2%
- 125% increase in net earnings
- EBITDA growth of over \$6M
- Cash provided by operations up 79%
- \$5.3M reduction in total bank indebtedness
- Earnings per share up 124%

EBITDA (\$000)



TOTAL BANK INDEBTEDNESS (\$000)





DEMANDING INDUSTRIAL MARKETS

In extreme conditions, our customers need equipment that can survive and perform demanding, complex applications. Powerful HPS transformers are best suited to these environments. HPS specialty transformers help power off-shore rigs and mining shovels, while encapsulated transformers like the HPS Titan series keep dust, moisture, and corrosive contaminants from affecting the transformers. HPS continues to provide high quality, dependable transformers that can withstand harsh elements and demanding applications.





An aerial night photograph of a city, likely New York City, showing a dense grid of lights and buildings. A large body of water, possibly the Hudson River, is visible in the middle ground, reflecting the city lights. The overall scene is illuminated by the warm glow of city lights against a dark night sky.

GROWING INFRASTRUCTURE

With growing infrastructure comes a greater demand for efficient, dependable power. Customers expect greater performance and longer life expectancies to power integrated power systems and telecommunications. HPS Three phase line reactors are one example of a transformer providing increased efficiencies and energy savings. HPS continues to grow as they concentrate on providing customers with quality power as aging structures are updated to meet commercial and institutional requirements.

ALTERNATIVE ENERGY



There is a global recognition of the need for investments in efficient, clean power solutions. As the demand increases for energy-efficient products, HPS continues to invest in R&D. HPS builds custom transformers for alternative energy systems such as wind power and co-generation systems, and its dry-type transformers provide environmentally compatible solutions. HPS is dedicated to building its reputation for continuous improvement to meet the demands of this emerging market.



2006 was a very rewarding year for HPS, as we attained significant market expansion, sales growth, and healthy financial performance.



TO OUR SHAREHOLDERS

We are pleased to present our 2006 financial results. For the third consecutive year, Hammond Power Solutions Inc. (HPS), has delivered significant increases in sales and profits over the previous year and made continued improvements in the Company's Balance Sheet.

HPS is benefiting like many other companies from the positive global economic environment. In particular, we are benefiting from our strong position in the oil and gas pumping, mining equipment, and alternative energy markets. We are also benefiting indirectly from the continuing expansion of China's economic infrastructure through the sales of custom products to our OEM customers in Canada and the United States who export their equipment and systems to Asia.

In addition to this, we are significantly expanding our share of the U.S. and Canadian distributor channels. These channels have allowed HPS to increase its direct participation in the North American commercial and industrial markets for standard and custom transformers.

And finally, we have increased the sales of private branded products to major electrical equipment manufactures in North America, including many Fortune 500 companies, who recognize the value, expertise, and custom product capabilities of Hammond Power Solutions Inc.

We are very proud of our continued growth in sales and profits in light of the sizeable challenges we've faced over the last three years including the rising Canadian dollar, escalating material costs, and the competitive nature of our industry.

But even with our success, we are not satisfied with the status quo. We are taking advantage of our company liquidity to invest in new plants and equipment to reduce our manufacturing costs and to improve our levels of productivity. This will also allow us to expand our capacities in order to grow our sales to higher levels and to improve our service. At the same time, we will continue to be fiscally prudent and manage our Balance Sheet judiciously.

Looking into the future, we are mindful that the North American economic cycle is slowing and some uncertainty is creeping into business forecasts one or two years down the road. Nonetheless, we are buoyed by the positive views of our customers who are involved in the resource and export sectors as well as the ongoing growth momentum through the U.S. distributor channel.

In closing, we will continue to manage HPS in a conservative manner while taking advantage of all of these opportunities to grow our sales and profits. 2007 is the 90th anniversary of the founding of our Company and we are very proud of our history. HPS has evolved from a tiny, two-man operation in the basement of a farmhouse in Guelph, Ontario, into the largest dry-type transformer company in North America with plants in Canada, the United States, and Mexico, with a strong global presence.

A handwritten signature in black ink, appearing to read 'WGH' followed by a stylized flourish.

William G. Hammond
Chairman and Chief Executive Officer



POWER TRANSFORMERS

HPS designs and engineers cost effective power solutions for indoor commercial, industrial and manufacturing processes, as well as extreme outdoor environments, such as mines and off-shore drilling platforms.



DISTRIBUTION TRANSFORMERS

Our distribution transformers can be found in wind power systems, commercial or institutional buildings, pulp and paper plants, mines, and marine and shipboard installations to supply widely varied power loads.



ENERGY-EFFICIENT TRANSFORMERS

To reduce the consumption of power, governments are encouraging industries to use energy-efficient products like our dry-type transformers.



CONTROL TRANSFORMERS

HPS offers a complete line of control transformer products as a cost effective approach for controlled voltage. These products are suited for such applications as machine control and power panels.



MOTOR STARTS

Paper and steel mills depend on HPS motor starting transformers for applications requiring heavy-duty service with voltage fluctuations, frequent starts or jogging, and other unusual demands.



REACTORS

HPS reactors reduce or control currents, significantly increasing savings and efficiencies, as well as enhance the performance and life expectancy of sensitive electronic equipment and systems.



ENCAPSULATED TRANSFORMERS

"HPS Titan" transformers are engineered for rugged environments where dust, moisture, and corrosive contaminants are present including oil pumping, petrochemical, marine, and mining.



CUSTOM/SPECIALTY TRANSFORMERS

HPS custom designs suit demanding and complex applications such as steel mills, earth moving equipment, mining power centers and shovels, co-generation systems, medical equipment, and refineries.



DRIVE ISOLATION TRANSFORMERS

HPS Drive transformers are designed for such applications as conveyers, robotics, machine tools, and other production-line equipment.

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REVIEW OF OPERATIONS

CONTINUING GROWTH

During the last three years, HPS has benefited like many companies in the electrical industry from the strong global growth that has ensued since 2003. Much of this is related directly, and indirectly, to the rise of China and India in particular as major economic power houses on the world stage. The strong expansion of their economies has increased the consumption of all sorts of raw materials, as well as the demand for industrial equipment and systems. This in turn has stimulated many North American manufacturers of equipment used in oil and gas pumping, open pit and under ground mining, steel mills, water and sewage treatment, crane systems used to load and unload ships, machines and automation systems for mass production, and systems for the generation of power to name a few.

This strong economic rebound has also caused many companies to expand their production facilities here in North America in order to handle this growth, which in turn has increased the demand for equipment and power systems used in new or expanded factories. In addition to this, the booming residential housing market over the last four years has stimulated the subsequent construction of retail and commercial development to service the new neighbourhoods. This has increased the demand for transformers used to power big box retail centres, strip malls, and office buildings. A third area of growth fuelled by both public and private investment has been the construction of new hospitals, schools, waste water treatment facilities, as well as university and government buildings – all requiring transformers.

A final area of growth for HPS has been the expansion of power generating facilities all over North America to try and keep up with increasing demand for electricity caused by all of this residential, industrial, and commercial growth. Much of the North American generating capacity was put in place 25–30 years ago, and has not kept pace with increasing demand. As a result, public and private power companies are scrambling to expand existing generating stations and build new ones. Utilities are also replacing older, less energy-efficient equipment, and are now willing to look at dry-type transformers as an eco-friendlier alternative to oil filled transformers. In addition to the traditional forms of power generation, there has also been a rapid increase in the use of alternative energy systems, and in particular wind power with installations springing up coast to coast in North America.

MARKET POSITION AND DIFFERENTIATION

HPS is the largest dry-type transformer manufacturer in North America and as a result enjoys a dominant position in many of its markets. This position has been built up and nurtured over many years of serving the largest companies in the electrical industry. Most of our growth has come from these organic relationships that have been in place for years. At the same time, our Sales and Engineering organizations have also focused considerable time on developing relationships and opportunities with new and prospective customers. A sizeable percentage of our new sales have come from using our product and engineering advantages to take business and market share away from smaller competitors, both through electrical distributors as well as directly to OEM customers. Over the last three years, we have also brought on new customers that have developed emerging products and technology themselves, sometimes with HPS heavily involved from the beginning in terms of designing custom transformers to meet their specific needs. Strategically, we work very hard at developing and serving a wide range of markets and channels to not only participate in a larger number of growth opportunities, but also to limit our exposure as much as possible to any one market or business cycle.

Through it all, we try to take advantage, as much as possible, of our strategic and operational strengths compared to other transformer manufacturers. These include the broadest offering of custom and standard electrical transformers in our business, the largest, and in our opinion, best engineering group in the transformer industry, four manufacturing plants and seven regional warehouses across North America, and the benefits of our scale.

OPERATIONAL CAPACITY AND EFFECTIVENESS

Over the last year, HPS has spent considerable time and money on expanding and improving our transformer operations. Faced with significant and in some cases unpredicted growth, we aggressively increased employment levels, expanded our manufacturing capacities, and improved our service. During 2006, we expanded our capacity in all four plants – Monterrey, Mexico; Guelph and Walkerton, Ontario; as well as Compton, California. Unlike almost all of our competitors, we have the flexibility of being able to move production of certain products from one plant to another to meet customer demands. Furthermore, in response to the negative affects of the rising Canadian dollar, we implemented a variety of actions in our Canadian plants to try and improve the productivity of our employees and operations. All of these efforts will be accelerated to take advantage of the many growth opportunities that we see today and down the road.

MANAGEMENT'S DISCUSSION AND ANALYSIS – 2006

LOOKING FORWARD

HPS is well positioned to take advantage of the global economic growth that many predict will continue in the years ahead. Commodity prices will go up and down, but through all of this, commodity consumption will continue to increase as the economies of China, India, and other developing countries keep growing. This in turn will fuel the momentum of many of our customers who build equipment for export or to be used in the extraction of resources. We are also very confident about our ability to increase our market share through the electrical distributor channel, with the biggest growth opportunities coming from the United States.

At the same time however, we are very conscious of the challenges created by a rising Canadian Dollar, volatile material costs, and a competitive marketplace. We are also mindful that the current economic cycle in North America is slowing, and must go through the uncertainties of the U.S. Presidential election in late 2008.

Nonetheless, HPS is working on a number of major internal initiatives to reduce our production costs and improve our cost effectiveness. These actions will help HPS in a number of ways. First of all, they will improve our cost structures relative to our competition and position us better in a more competitive market. These initiatives will also give the Company more capacity to take advantage of the continuing growth opportunities we see in our existing and new markets. And thirdly, they will give HPS the ability to more aggressively use faster service as an advantage to grow our sales and margins to meet customers' lead-time requirements.

As always, we will proceed in a cautious and conservative manner, growing our sales and profits, being cognizant of our bottom line while looking out five years at the many business opportunities that we see in North America and globally.

OVERVIEW

Hammond Power Solutions Inc. ("HPS" or the "Company"), is a 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 of the Company's consolidated operating results for the years ended December 31, 2006 and 2005, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2006, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this report are expressed in 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.

Hammond Power Solutions Inc., achieved record financial performance in 2006, making this year our best year yet. Our unparalleled financial performance and strong Balance Sheet was achieved through a combination of operational and strategic initiatives that continue to focus on market expansion and operational profitability. HPS is well positioned to take advantage of the vigorous electrical industry conditions in the United States, Canada, and offshore markets. Numerous economic indicators validate the global economy should continue to sustain its growth rates which has facilitated the positive momentum enjoyed by the Company. We are nicely positioned to continue our growth and strengthened financial performance going forward.

Our financial results for 2006 reinforce the effectiveness of our strategic initiatives demonstrated by our market share expansion, cost reduction gains, and productivity improvement. This is evidenced by consistent, year-over-year sales growth, margin growth, and profit growth.

The Company has been successful at seeking and cultivating market share opportunities through both our U.S. and Canadian distributor channels, by developing supplier relationships with new OEM (Original Equipment Manufacturer) customers, by exploring new markets, and expanding our sales of custom transformers to manufacturers of alternative energy systems.

We are pleased with the increase in sales and booking rates, which are attributed to our concentration on strategic target markets and market share penetration, through new account expansion, and organic sales growth. The electrical distributor, capital equipment, mining equipment, power conditioning, and motor control markets in Canada and the United States were very strong in 2006. Capital spending on new equipment in resource industries, mining, wind power, and offshore gas and oil increased at solid rates during the year.

The Company's ability to concentrate its efforts on producing premium quality transformers, competitive custom engineering designs, and providing a broad and evolving product range, combined with our market channel growth and manufacturing agility was integral to the success of HPS in 2006.

Significant gains were made with respect to the Company's financial performance in 2006, despite the detrimental effects a stronger Canadian dollar had on our U.S. margins, the foreign currency translation losses derived from our net U.S. dollar asset position, unprecedented raw material cost escalation, and competitor selling price pressures. These economic challenges have been addressed through aggressive market expansion, market specific selling price increases, and a successful cost reduction program.

SALES

The Company is pleased to report 2006 sales of \$131,978,000 versus sales of \$98,896,000 in 2005, an increase of \$33,082,000 or 33.5%. Sales initiatives and continuous focus on key market segments resulted in increased market share, bookings, and sales. This was further supported by more favourable market conditions in Canada and the United States, especially in the OEM equipment, mining equipment, and power conditioning markets. This year, HPS was also faced with ongoing selling price pressures due to the stronger Canadian dollar and unprecedented escalation of raw material costs. In response to the deteriorating effects this has on its financial performance, the Company focused on strategic sales growth, market specific selling price increases, and price maximization.

In 2006, sales to the U.S. market (stated in Canadian dollars) increased by 38% compared to 2005. This is the fourth consecutive year of double-digit sales increases (20% in 2005, 18% in 2004, and 22% in 2003). This growth was led by the expansion of sales in our U.S. electrical distributor channel and our OEM customer base. Our ability to provide premium engineered-to-order product designs and a diverse product range, were key to the success of this growth.

The Canadian electrical industry markets also improved appreciably in 2006, particularly in the North American Electrical Distributor (NAED), power conditioning, and utility and excitation market segments. As a result, HPS was able to realize sales increases in the Canadian market of 23.7% in 2006 compared to 2005.

The Company continues to expand sales by focusing on strategic target markets, assisted by the improvement in market conditions in the electrical industry in the United States and Canada. We expect our focus on custom and competitive product design and uncompromised quality will fuel this continued growth.

Our geographic dispersion of sales in 2006 has evolved to 70% of our total sales in the United States, while Canadian market segment sales accounted for 30% total sales.

HPS continues to concentrate much of its efforts on producing premium quality transformers, competitive custom engineered designs, and by providing a broad and evolving product range. We expect that this, combined with our market channel growth and our manufacturing agility, will be conducive to sales growth going forward.

ORDER BOOKINGS AND BACKLOG

Our sales expansion initiatives combined with strong electrical industry market conditions produced extremely strong bookings rates in 2006, resulting in a 36% increase in bookings over 2005. By channel, bookings on a direct basis, increased 41.9% over the prior year and were up 21.0% through our distributor channel as compared to 2005. This escalation in booking rates resulted in a backlog rise of 81.2% from the end of last year.

GROSS MARGINS

Increased sales volumes positively impacted our gross margin rates in 2006 as well. This, combined with our operational and strategic initiatives to reduce production/manufacturing costs, delivered a sixth consecutive year of elevated gross margin levels for the Company, finishing at 28.0% in 2006, compared to 26.8% in 2005. This increase in gross margin was a result of the favourable impact that higher manufacturing throughput has on our factory cost structures/resource utilization, selling price gains, cost effective product designs, manufacturing cost improvements, and sales mix. Margins were also positively augmented through material procurement cost reductions and our ability to maximize margin rates through short lead-time order opportunities. We are pleased with the margin gains achieved despite the strain on gross margin rates from the upward pressure of electrical grain oriented steel and copper commodity prices, competition, and the weakened U.S. dollar.

SELLING, GENERAL, & ADMINISTRATIVE EXPENSE

Total selling, general, and administrative ("SG&A") expenses amounted to \$22,882,000 in 2006 versus \$19,314,000 in 2005, an increase of \$3,568,000 or 18.5%. However, as a percentage of sales, SG&A expenses decreased from 19.5% in 2005 to 17.3% in 2006. Although there is a natural rise in freight costs and sales commission expense from the increased sales volumes as well as foreign exchange losses, we were able to reduce our SG&A expenses as a percent of sales through controlled expense management and sales mix. SG&A expenses include foreign currency exchange losses of \$514,000 in 2006, as compared to foreign currency exchange losses of \$487,000 in 2005.

INTEREST EXPENSE

The interest expense for the year ended December 31, 2006, finished at \$671,000 for the year, as compared to \$1,136,000 in 2005, a decrease of \$465,000 or 41.0%. The reduction of interest expense for the year was as a result of a decrease of \$5,283,000 or 96.7% in overall bank indebtedness as at December 31, 2006, compared to December 31, 2005, and further interest rate reductions from our principal lender. A breakdown of interest costs on bank indebtedness and long-term debt instruments are detailed in Note 9 to the Consolidated Financial Statements of the Company.

CO-TENANCY EXPENSE

The property at 2 Glen Road, Georgetown, Ontario, is owned equally as a co-tenancy agreement with Hammond Manufacturing Company Limited, and expenses in respect to the property are shared equally. Our total expenses booked relating to the co-tenancy were \$524,000 in 2006, which includes a provision of \$383,000 which has been established for future costs of environmental remediation at this site, as compared to \$72,000 in 2005. Refer to Notes 5 and 20(b) to the Consolidated Financial Statements for further details regarding the co-tenancy arrangement.

EQUITY INVESTMENT – MOLONEY ELECTRIC INC.

Hammond Power Solutions Inc., holds a 45% equity ownership in Moloney Electric Inc. Our investment in Moloney Electric Inc., is accounted for using the equity method, resulted in a noncash profit of \$694,000 for the year ended December 31, 2006, compared to a noncash profit of \$86,000 for the year ended December 31, 2005. Moloney Electric Inc., has been successful at increasing its sales by over 24.7% and expanding their margin rates by 3.1% over 2005. Moloney Electric Inc., profitability improvement was realized through sales growth, market specific selling price increases, and lower selling, general, and administrative expense rates. See Note 4(a) to the Consolidated Financial Statements for details of our equity investment in Moloney Electric Inc.

INCOME TAXES

As a result of our profitability increase in 2006, income tax expense increased to \$4,879,000, as compared to \$2,558,000 in 2005. The consolidated tax rate for 2006 reduced to 36.0% versus 40.0% in 2005 as a result of lower federal and provincial tax rates and the utilization of tax loss carryforwards in the United States. The current future tax assets and liabilities consist mainly of reserves and allowances, and are related to current assets and liabilities, which are not deductible against current year earnings. The long-term future tax assets and liabilities relate to temporary differences resulting from losses carried forward, capital leases (the lease payments are expensed for tax purposes), foreign

exchange losses (recognized for tax purposes only on the actual debt repayments), and the difference between net book value and undepreciated capital cost of capital assets. Our income tax provision is explained further in Note 11 to the Consolidated Financial Statements.

NET EARNINGS

Earnings from operations in 2006 soared to \$14,067,000, compared to \$7,231,000 in 2005, an increase of \$6,836,000 or 94.5%, as a result of the increased sales, margin growth, reduced selling, general, and administration expense rates, and lower interest expense. The income before income taxes escalated to \$13,553,000 for 2006, compared to \$6,415,000 in 2005, up \$7,138,000 or an increase of 111.3%. Our 2006 net earnings finished at \$8,674,000, as compared to \$3,857,000 in 2005, an increase of \$4,817,000 or 124.9%.

EBITDA (earnings before interest, taxes, depreciation, and amortization) was \$16,190,000 for 2006 versus \$9,789,000 in 2005, an increase of \$6,401,000 or 65.4%. 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:

	2006	2005
Net earnings for the year	\$ 8,674,000	\$ 3,857,000
Add:		
Income tax expense (recovery)	\$ 4,879,000	\$ 2,558,000
Interest expense (income)	\$ 671,000	\$ 1,136,000
Depreciation and amortization	\$ 1,966,000	\$ 2,238,000
EBITDA	\$ 16,190,000	\$ 9,789,000

CAPITAL RESOURCES AND LIQUIDITY

In 2006, the Company was very successful in the execution of its operational strategies delivering further debt reduction and further company liquidity improvements.

Cash provided by operations during 2006 was \$7,661,000 versus \$4,280,000 in 2005, an increase in cash generation from operations of \$3,381,000 or 79.0% over the prior year. The significant portion of this improvement in operating cash flow was delivered from the \$4,817,000 increase in net earnings in 2006 over 2005. Working capital requirements to support our sales growth resulted in increased accounts receivable and inventory which was partially offset by a corresponding rise in accounts payable. Accounts receivable finished the year at \$19,931,000, as compared to \$16,906,000 as at December 31, 2005, an increase of \$3,025,000, resulting from the record 4th quarter sales and higher selling prices in 2006. Our focused effort on customer accounts receivable collections resulted in a lower average days sales outstanding at the end of 2006 compared to 2005. Inventories amounted to \$16,406,000 as at December 31, 2006, versus \$12,658,000 as at December 31, 2005.

In alignment with our strategy to increase sales opportunities by having geographically dispersed finished goods inventory, the Company deliberately increased stocked finished good levels contributing to the rise in the inventory dollars of \$3,748,000 as at year end 2006 over 2005. Higher inventory levels combined with the significant cost increases in raw materials were the main contributing factors to our elevated inventory year end values. Inventory turnover velocity in 2006 approximated inventory turnover rates in 2005. Accounts payable and accrued liabilities increased by \$3,702,000, finishing at \$18,295,000 as at December 31, 2006, compared to \$14,593,000 at the end of 2005. This provided some natural financing of our working capital. Income taxes payable amounted to \$1,891,000 as at December 31, 2006, versus \$1,011,000 as at December 31, 2005, an increase of \$880,000 as a result of increased profitability and full utilization of U.S. state tax loss carryforwards.

Cash used in financing activities was \$1,177,000 in 2006, compared to \$4,659,000 in 2005, primarily used for the repayment of \$641,000 of long-term debt and reducing our bank operating lines of credit by \$536,000.

There was an increase in capital spending of \$1,199,000 over the prior year, finishing at \$2,428,000 in 2006, compared to \$1,229,000 for 2005, an increase of 97.6%. Manufacturing capacity expansion, productivity improvement projects, and information technology infrastructure were focus areas of our capital expenditure program in the year.

Bank operating lines of credit finished the year at \$1,475,000 as at December 31, 2006, compared to \$2,011,000 as at December 31, 2005, yielding a drop of \$536,000 in the year, or a 26.6% reduction in our bank operating lines of credit.

Overall bank indebtedness including bank operating lines of credit, current and long-term portion of long-term debt, net of cash balances dropped to \$180,000 as at December 31, 2006, a decrease of \$5,283,000 or 96.7%, as compared to \$5,463,000 as at December 31, 2005.

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

All bank covenants have been met throughout the year as well as at December 31, 2006.

Additional details of our change in working capital can be found in Note 16 to the Consolidated Financial Statements.

CONTINGENT LIABILITIES

As described in Note 20 to the Consolidated Financial Statements, we have two properties for which there are contingent liabilities.

Moloney Properties (1159714 Ontario Inc.):

The Company and Hammond Manufacturing Company Limited each own 50% of the shares of 1159714 Ontario Inc., which in turn owns the property at 213 Sterling Road, Toronto, occupied by Moloney Electric Inc. ("MEI").

The property has mineral oil contamination as well as some PCB contamination, although the source of such contamination (except for a spill in 1993 by MEI) has not been determined. The contamination does not result from the normal operations of the Company. It appears to predate the Company's ownership. The source or sources may include adjoining properties. As indirect owner and occupier, the Company and Hammond Manufacturing Company Limited may, without admitting any liability, have some responsibility to participate in the remediation of the property and adjacent properties. In this regard, the Company received a complaint in 1994 from Toronto Hydro, as an adjoining owner, to the effect that mineral oil and possibly PCB contaminants may have migrated to its property, which is an inactive substation. The Company has worked in conjunction with the Ontario Ministry of the Environment and with Toronto Hydro to remediate the properties. The Company has continued to hold meetings with Toronto Hydro to discuss further remediation activities. No determination as to the specifics of full remediation has been made, but the recovery period is expected to take several years.

Ongoing costs for legal, consulting, and remediation of the Sterling Road site incurred during the year, including an environmental accrual of \$50,000, totaled \$111,000, of which the HPS share of these costs was \$55,500 (2005 – \$66,500). These costs are funded within Moloney Properties through the rental income received from Moloney Electric Inc.

Glen Ewing Properties:

The property at 2 Glen Road, Georgetown, Ontario is owned equally as a co-tenant with Hammond Manufacturing Company Limited, and any expenses or liabilities in respect of the property have been agreed to be shared equally. In January 2002, the two owners were served with a statement of claim by an adjoining industrial property owner, in which the plaintiff has claimed damages in the amount of \$8,000,000 for negligence, breach of warranty, and other matters relating to alleged environmental contamination of the property. The Company intends to vigorously defend the action if it proceeds. In 2004, the Company and Hammond Manufacturing Company Limited served a counter-claim against the plaintiff in the amount of \$8,000,000. Both claims, by agreement between the parties, are in abeyance. The contamination does not result from the normal operations of the Company. The parties, under the direction of the Ontario Ministry of the Environment, are in the process of undertaking a coordinated and shared investigation of the condition of the property and remediation options. In 2006, although the exact approach for active remediation has not yet been finalized, progress has been made with respect to a determination of remediation alternatives and estimates of related costs to the Company. At this point in time, based on the Company's best estimate, a provision of \$383,000 has been established for future costs of environmental remediation at this site.

The HPS share of total expenses booked relating to the co-tenancy were \$524,000 in 2006, which includes the provision of \$383,000 which has been established for future costs of environmental remediation at this site, and \$141,000 ongoing legal and consulting costs pertaining to the Glen Road site, as compared expenses of \$72,000 in 2005.

Management is not aware of any other contingent liabilities.

RISKS AND UNCERTAINTIES

As with most businesses, Hammond Power Solutions Inc., 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 cost pressures of copper commodity and electrical grain oriented steel pricing and supply;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the U.S. dollar;
- Rising interest rates;
- Competition; and
- Global political unrest.

The Company continuously works to minimize the negative impact of these risks and strengthen its position through diversification of its core business, market channel expansion, geographic diversity of its operations, and hedging strategies.

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

Commodity Prices

An area that has had a definite effect on the Company's costs and earnings is the cyclical effects and unprecedented upward market cost pressures of copper commodity and steel pricing in the global market. Due to the unpredictability of copper pricing, HPS did not utilize future contracts. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

The Company does not have commodity forward contracts in place in 2007.

Foreign Exchange

HPS operating results are reported in Canadian dollars. Nonetheless, the majority of our sales and material purchases are denominated in U.S. dollars. A change in the value of the Canadian dollar against the U.S. dollar will impact earnings. There is a natural hedge as this is partially offset by a corresponding change in the cost of raw materials

purchased from the U.S. and commodities tied to U.S. dollar pricing. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results or inversely a higher value for the Canadian dollar compared to the U.S. dollar will have a negative impact on the Company's profitability.

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

We have partially reduced the impact of foreign exchange fluctuations through increasing our U.S. dollar driven manufacturing output and lessening exchange rate risk by entering into forward foreign exchange contracts.

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

Interest Rates

The Company has structured its debt financing to take advantage of the current lower interest rates, but is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews this strategy of hedging this risk by fixing interest rates on part of its total debt. A more significant impact on a rise in interest rates would apply to our customer's investment decisions.

STRATEGIC DIRECTION AND OUTLOOK

HPS has been faced with an uncertain and unpredictable economic environment through recent years. The Company continues to identify and respond to the challenges created by this economic uncertainty in a forthright and unwavering manner, through its implementation of operational and strategic profit enhancing initiatives that, management believes, will mitigate these challenges, deliver consistent financial performance, provide a sustainable return to its shareholders, and maintain Balance Sheet strength of the Company.

Hammond Power Solutions Inc., 2006 financial results demonstrate this commitment and success – making this our best year yet:

- We have produced another year of double-digit consolidated sales growth, resulting in increases of 34% over 2005.
- We have delivered another year of double-digit sales growth in the U.S. market (stated in U.S. dollars), resulting in increases of 49% over 2005.
- We have increased our gross margin rate by 1.2% over 2005, despite the negative effect of the stronger Canadian dollar on our U.S. margins and escalating raw material costs.
- We have reduced our SG&A expense rates by 2.2% from the prior year.

- We have realized an increase in net earnings of 125% from 2005.
- We have increased our earnings per share by 124% basic and 121% diluted in 2006 over 2005.
- We have reduced our net overall bank indebtedness by \$5,283,000 or 97% from 2005.

We will continue our concentrated efforts on sustaining profit rates through selling price increases, productivity gains, and sales growth from new product development and market share penetration.

Both the Canadian and the U. S. economies continue to perform relatively well. We are anticipating continued global economy strength through 2007 as the Canadian and U.S. resource based markets continue to invest in new equipment and infrastructure. We expect sales growth will be realized in several of our market segments, but will remain at a lower level in others. A portion of our sales will come from major customer projects for which the exact timing is hard to predict, thus influencing quarterly sales fluctuations. In 2007, approximately 72% of our revenues will be generated in the U.S., and 28% will be in the Canadian market.

Management is committed to the achievement of its market growth goals, to the execution of its strategic and operational initiatives, to ensuring the Company is well capitalized, and is determined that Hammond Power Solutions Inc., will deliver consistently strong financial performance.

SIGNIFICANT AND NEW ACCOUNTING POLICIES

Note 1 to the Consolidated Financial Statements describes the basis of accounting and the Company's significant accounting policies.

Translation of Foreign Currency

The Company's subsidiary operations, located in the United States and Mexico, are deemed to be integrated foreign operations and, therefore, their financial statements are translated using the temporal method. Under this method all asset, liability, revenue, and expense items are translated at the exchange rate in effect at the transaction date. At the balance sheet dates, monetary assets and liabilities are adjusted to reflect the year end exchange rate. The gain or loss resulting from translation is included in the determination of income for the current period.

Revenue Recognition

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

Service revenue is recognized when the service is performed, or, in the case of maintenance contracts, is recognized as costs are incurred to fulfill the contract.

A provision for potential warranty claims is provided for at the same time of sale, based on warranty terms and prior claims experience.

Financial Instruments

The Company is party to derivative financial instruments in the form of forward foreign exchange contracts used to manage foreign currency exposures on export sales. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate. Unrealized gains on foreign exchange contracts in the case of contracts in a gain position are included as assets and in liabilities in the case of contracts in a loss position. Additional details can be found in Note 1(g) to the Consolidated Financial Statements.

Stock Based Compensation

In 2005 the Company adopted CICA handbook section 3870 – *Stock based compensation and other stock based payments*. The adoption of this accounting policy and the assumptions used to determine fair value are described in Notes 1(m) and 12(c) to the Consolidated Financial Statements.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles 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 items subject to such estimates and assumptions include the carrying amount of property, plant, and equipment; valuation allowances for receivables, inventories, and future income taxes; long-term investments; investment in properties; valuation of derivative financial instruments; obligations related to accrued pension benefit obligation, environmental liabilities, and stock options. Actual results could differ from those estimates.

Impairment of Long Lived Assets

In 2004, the Company adopted CICA handbook section 3063 – *Impairment of Long Lived Assets*. This section establishes standards for recognizing, measuring, and disclosing impairment of long lived assets held for use. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the sum of undiscounted cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount exceeds its fair value. Additional policy information can be found in Note 1(o) to the Consolidated Financial Statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Consolidated Financial Statements are the responsibility of the management of Hammond Power Solutions Inc. These statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the Consolidated Financial Statements, the Notes to the Consolidated Financial Statements, and other financial information contained in the report. In the preparation for these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgement and have been properly reflected in the accompanying Consolidated Financial Statements. Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurances that the assets are safeguarded and that accounting systems provide timely, accurate, and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities through the Audit Committee of the Board, which is composed of all the directors, of whom three are non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the Consolidated Financial Statements, and to recommend approval of the Consolidated Financial Statements to the Board of Directors.

KPMG LLP, the independent auditors appointed by the shareholders, has audited the Company's Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards, and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting process.



W.G. Hammond
Chairman & Chief Executive Officer



Chris R. Huether
Chief Financial Officer & Secretary

AUDITORS' REPORT

To the Shareholders of Hammond Power Solutions Inc.,

We have audited the Consolidated Balance Sheets of Hammond Power Solutions Inc., as at December 31, 2006 and December 31, 2005, and the Consolidated Statements of Earnings and Retained Earnings and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Waterloo, Canada, February 9, 2006

CONSOLIDATED BALANCE SHEETS

Years ended December 31, 2006 and 2005 (in thousands of dollars)

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,349	\$ 253
Accounts receivable	19,931	16,906
Income taxes recoverable	44	74
Inventories (Note 2)	16,406	12,658
Prepaid expenses	622	337
Future income taxes (Note 11)	668	465
	42,020	30,693
Property, plant, and equipment (Note 3)	10,349	9,519
Long-term investments (Note 4)	2,359	1,722
Investment in properties (Note 5)	1,044	1,044
Note receivable (Note 6)	1,674	1,674
Deferred costs, net (Note 7)	106	474
Future income taxes (Note 11)	136	134
	\$ 57,688	\$ 45,260
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank operating lines of credit (Note 8)	\$ 1,475	\$ 2,011
Accounts payable and accrued liabilities	18,295	14,593
Income taxes payable	1,891	1,011
Current portion of long-term debt (Note 9)	651	651
Future income taxes (Note 11)	-	3
	22,312	18,269
Accrued pension benefit obligation (Note 14)	33	84
Long-term debt (Note 9)	2,403	3,054
Environmental reserve, net of current portion (Note 20(b))	224	-
Future income taxes (Note 11)	935	835
Shareholders' equity:		
Share capital (Note 12)	10,613	10,613
Contributed surplus	284	195
Retained earnings	20,884	12,210
	31,781	23,018
Contingent liabilities (Notes 4(a) and 20)		
	\$ 57,688	\$ 45,260

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:



William G. Hammond
Chairman of the Board



Donald H. MacAdam
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31, 2006 and 2005 (in thousands of dollars except earnings per share)

	2006	2005
Sales	\$ 131,978	\$ 98,896
Costs of sales	95,029	72,351
	36,949	26,545
Selling, general, and administrative (Note 19)	22,882	19,314
Earnings from operations	14,067	7,231
Other income and expenses:		
Interest expense (Note 9)	671	1,136
Gain on disposal of property, plant, and equipment	-	(374)
Co-tenancy expense	520	72
Equity earnings, net of rental property investment	(677)	(18)
	514	816
Income before income taxes	13,553	6,415
Income tax expense (recovery) (Note 11):		
Current	4,989	1,799
Future	(110)	759
	4,879	2,558
Net earnings	8,674	3,857
Retained earnings, beginning of year	12,210	8,353
Retained earnings, end of year	\$ 20,884	\$ 12,210
Earnings per share (Note 13):		
Basic	\$ 0.76	\$ 0.34
Diluted	0.75	0.34

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005 (in thousands of dollars)

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings	\$ 8,674	\$ 3,857
Add (deduct) items not involving cash:		
Amortization of property, plant, and equipment	1,598	1,610
Amortization of deferred costs	368	628
Accrued pension benefit obligation	(51)	(77)
Future income taxes	(108)	759
Equity income on long-term investments	(677)	(18)
Gain on disposal of property, plant, and equipment	-	(374)
Foreign exchange gain on long-term debt	(10)	(6)
Provisions for environmental reserve	383	-
Stock option expense	89	195
	<u>10,266</u>	<u>6,574</u>
Change in noncash operating working capital (Note 16)	(2,605)	(2,294)
Cash provided by operations	7,661	4,280
Financing:		
Finance costs	-	(25)
Repayment of bank operating lines of credit	(536)	(2,542)
Issue of common shares	-	113
Principal repayment of sub-debt	-	(1,500)
Principal repayment of long-term debt	(641)	(741)
Cash used in financing activities	(1,177)	(4,695)
Investments:		
Repayment of note receivable	40	-
Proceeds on disposal of property, plant, and equipment	-	1,779
Additions to property, plant, and equipment	(2,428)	(1,229)
Cash provided by (used in) investment activities	(2,388)	550
Increase in cash	4,096	135
Cash, beginning of year	253	118
Cash, end of year	\$ 4,349	\$ 253

See Note 15 for supplemental cash flow information.

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005 (tabular amounts in thousands of dollars)

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:

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Principles of consolidation:

The Consolidated Financial Statements include the accounts of Hammond Power Solutions Inc., and its wholly-owned subsidiaries, Hammond Power Solutions, Inc., and Hammond Power Solutions, S.A. de C.V. All significant inter-company transactions and balances have been eliminated.

(b) Translation of foreign currencies:

The Company's subsidiary operations, located in the United States and Mexico are deemed to be integrated foreign operations and, therefore, their financial statements are translated using the temporal method. Under this method, all asset, liability, revenue, and expense items are translated at the exchange rate in effect at the transaction date. At the balance sheet dates, monetary assets and liabilities are adjusted to reflect the year end exchange rate. The gain or loss resulting from translation is included in the determination of income for the current period.

(c) Revenue recognition:

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

Service revenue is recognized when the service is performed, or in the case of maintenance contracts, is recognized as costs are incurred to fulfill the contract.

A provision for potential warranty claims is provided for at the same time of sale, based on warranty terms and prior claims experience.

(d) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and market, with market defined as net realizable value for finished goods and work-in-process, and replacement cost for raw materials.

(e) Long-term investments:

The investment in Moloney Electric Inc. (45%), is accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Company's share of post-acquisition earnings or losses less dividends received.

The investments in the co-tenancy of Glen Ewing Properties (50%) and in 1159714 Ontario Inc. (50%), the rental property investment, are accounted for using the proportionate consolidation method whereby the Company's proportionate share of the assets, liabilities, and the related revenues and expenses of the co-tenancy and rental property is included in the Consolidated Financial Statements.

(f) Property, plant, and equipment:

Property, plant, and equipment are stated at cost less accumulated amortization. Property, plant, and equipment under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease.

Amortization is provided using the following method and annual rates:

Asset	Basis	Rates
Buildings	Straight-line	3.3%
Leaseholds	Straight-line	20%
Machinery and equipment	Straight-line	10–25%
Office equipment	Straight-line	10–25%

(g) Derivative financial instruments:

The Company is party to derivative financial instruments in the form of forward foreign exchange contracts used to manage foreign currency exposures on export sales. These instruments are not recognized in the Consolidated Financial Statements on inception. Hedging accounting is applied when the derivative is designated and qualified as a hedge of a specific exposure and there is reasonable assurance that it will continue to be effective as a hedge based on an expectation of offsetting cash flow. Hedging accounting will not be applied when the derivative does not qualify as a hedge. Gains and losses on forward foreign exchange contracts designated as a hedge are recognized in revenues in the same period as the foreign currency revenues to which they relate. Derivative financial instruments that are not designated or qualified as hedges are carried at estimated fair values (quoted market price), with changes in fair value recognized through earnings. The carrying amount of foreign exchange contracts in a gain position and in accounts payable and accrued liabilities in the case of contracts in a loss position.

(h) Accrued pension benefit obligation:

The Company has a defined benefit pension plan covering the hourly employees at the Company's Baraboo, Wisconsin facility.

The Company accrues its obligations under the employee benefit plan as the employees render the services necessary to earn the pension. The Company has adopted the following policies:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages.
- For the purpose of calculating expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.
- The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees, which for the pension plan is 21.89 years (2005–23).
- When a restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

(i) Income taxes:

The Company provides for income taxes under the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(j) Deferred finance costs:

Deferred finance costs represent the unamortized cost of financing arrangements. Amortization is provided on a straight-line basis over the term of the related debt.

(k) Deferred start-up costs:

Costs associated with the start-up of the Mexican operation were deferred until the commencement of operations in August 2001 and are being amortized on a straight-line basis over five years. The net book value of deferred start-up costs will be written down if it is determined that there has been a permanent impairment in value.

(l) Deferred pre-production costs:

Costs associated with the set-up of an additional production line in Mexico were deferred and are being amortized on a straight-line basis over five years. The net book value of deferred pre-production costs will be written down if it were determined that there has been a permanent impairment in value.

(m) Stock based compensation:

The Company has a stock based compensation plan, which is described in Note 12(c). The Company accounts for all stock based payments using the fair value based method, in accordance with CICA Handbook Section 3870 – *Stock based compensation and other stock based payments*.

Under the fair value based method, compensation cost for stock options and direct awards of stock is measured at fair value at the grant date. Compensation cost is recognized in earnings on a straight-line basis over the relevant vesting period. The counterpart is recognized in contributed surplus. Upon exercise of a stock option, share capital is recorded at the sum of the proceeds received and the related amount of contributed surplus.

(n) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. The Company uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of warrants or stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(o) Impairment of long lived assets:

Long lived assets, including property, plant, and equipment, and certain other long lived assets, are amortized over their useful lives. The Company periodically reviews the useful lives and the carrying values of its long lived assets for continued appropriateness. The Company reviews for impairment of long lived assets, or asset groups, held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate corresponding with the risks associated with the recovery of the asset as an estimate of fair value.

(p) Use of estimates:

The preparation of the Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles 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 items subject to such estimates and assumptions include the carrying amount of property, plant, and equipment; valuation of receivables, inventories, future income taxes, long-term investments, investment in properties, and derivative financial instruments and obligations related to accrued pension benefit obligation and environmental liabilities. Actual results could differ from those estimates.

2. INVENTORIES:

	2006	2005
Raw materials and work-in-process	\$ 9,404	\$ 7,386
Finished goods	7,002	5,272
	\$ 16,406	\$ 12,658

3. PROPERTY, PLANT, AND EQUIPMENT:

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 951	\$ –	\$ 951	\$ 951
Buildings	4,689	2,101	2,588	2,728
Leaseholds	477	413	64	82
Machinery and equipment	19,725	14,581	5,144	4,958
Office equipment	5,510	4,242	1,268	515
Construction in progress	334	–	334	285
	\$ 31,686	\$ 21,337	\$ 10,349	\$ 9,519

Amortization expense for the year is \$1,598,000 (2005 - \$1,610,000).

4. LONG-TERM INVESTMENTS:**(a) Equity investment – Moloney Electric Inc.:**

	2006		2005
Investment in Moloney Electric Inc. (45% of common shares owned)	\$ 1,126	\$	1,126
Deficit at beginning of year	(166)		(252)
Share in net income for the year	694		86
	\$ 1,654	\$	960

The Company has guaranteed the debts owing by its equity investee Moloney Electric Inc. ("MEI"), to its bank to a maximum of \$1,000,000.

This guarantee was put in place as a result of the split and the reorganization agreement of the Company from Hammond Manufacturing Company Limited. The Company was required to provide a guarantee as a condition of the bank financing of Moloney Electric Inc. The Company has entered into this bank guarantee as it holds a 45% equity position in MEI. This general security guarantee enhances the credit worthiness of MEI with its principle lender. MEI has pledged its trade accounts receivable, inventory, and fixed assets as primary collateral of their loans. The Company has no recourse or specific collateral pledged as part of this guarantee.

(b) Rental property investment – 1159714 Ontario Inc.:

The Consolidated Financial Statements include the Company's proportionate share of the revenue, expenses, assets, and liabilities of 1159714 Ontario Inc. (the "Rental Property").

	2006		2005
Long-term notes receivable (no terms for repayment and bears no interest)	\$ 515	\$	555
Investment (50% common shares owned)	520		520
Deficit at beginning of year	(313)		(245)
Share of loss for the year	(17)		(68)
	\$ 705	\$	762
Total long-term investments	\$ 2,359	\$	1,722

5. INVESTMENT IN PROPERTIES:

The Consolidated Financial Statements include the Company's proportionate share (50%) of the revenue, expenses, assets, and liabilities of the co-tenancy called Glen Ewing Properties.

	2006	2005
Assets:		
Cash	\$ 13	\$ 4
Investment in properties	1,044	1,044
	\$ 1,057	\$ 1,048
Liabilities and deficiency:		
Accounts payable and accrued liabilities	\$ (159)	\$ (23)
Environmental reserve, net of current portion	(224)	-
Accumulated deficit	(1,001)	(481)
	\$ (1,384)	\$ (504)
Cash provided by (used in):		
Operations	\$ (161)	\$ (79)
Financing	170	75
Total increase (decrease) in cash	\$ 9	\$ (4)

The investment in properties is stated at the lower of carrying amount and estimated net realizable value. The final realized value will be dependent on the state of the real estate market and the approval of the residential rezoning. The proposed plan is in compliance with the Official Plan of the Region of Halton.

6. NOTE RECEIVABLE:

The note receivable from Moloney Electric Inc. ("MEI"), is to be repaid in quarterly principal installments of \$25,000. There is also a provision for additional annual installments in the amount of 12.5% of MEI's audited net earnings in excess of \$500,000 but less than \$750,000, and 25% of net earnings in excess of \$750,000. The note receivable is subject to the restrictive covenants of MEI's banking agreement. No principal amounts were paid in 2006, due to restrictions imposed by MEI's bank in the year. Accordingly, the entire note receivable is classified as long-term until such time that repayments can resume. The Company is currently in discussions with the bank in regards to recommencing quarterly principal installments in 2007. The note receivable is non-interest bearing to December 31, 2006, with interest thereafter at bank prime plus 0.5%, payable quarterly, with the first interest payment receivable on March 31, 2007.

7. DEFERRED COSTS:

	2006	2005
Deferred finance costs	\$ 531	\$ 531
Deferred start-up costs	1,338	1,338
Deferred pre-production costs	228	228
	\$ 2,097	\$ 2,097
Less accumulated amortization	(1,991)	(1,623)
	\$ 106	\$ 474

8. BANK OPERATING LINES OF CREDIT:

Bank operating lines of credit are secured by inventories, a general assignment of book debts, and a charge on defined assets of the Company with interest charged at the bank prime rate plus 0.25% (2005–prime plus 0.75%).

9. LONG-TERM DEBT:

	2006	2005
Term loans, secured by a first priority security interest in all existing and future personal property:		
Term loan of US\$ 149,500 (2005–US\$ 219,300) with interest rate at U.S. base rate plus 0.50%, maturing in 2009	\$ 174	\$ 255
Term loan with interest at bank prime rate plus 0.50%, maturing in 2014	2,183	2,474
Term loan with interest at bank prime rate plus 0.50%, maturing in 2009	697	976
	3,054	3,705
Less current portion of long-term debt	651	651
	\$ 2,403	\$ 3,054

Hammond Power Solutions Inc. (the "Canadian" Company), and Hammond Power Solutions, Inc. (the "U.S." Company), have cross-debt guarantees between the two companies. Each Company guarantees the maximum credit facility available to each entity.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2006, and thereafter, are as follows:

2007	\$ 651
2008	651
2009	442
2010	291
2011	291
Thereafter	728
	\$ 3,054

Interest expense is comprised as follows:

	2006	2005
Long-term debt	\$ 225	\$ 347
Other	446	789
	\$ 671	\$ 1,136

10. LEASE OBLIGATIONS:

The Company has entered into various non-cancelable operating leases. The future minimum lease payments for each of the five years subsequent to December 31, 2006, are as follows:

2007	\$ 1,185
2008	562
2009	143
2010	143
2011	60
	\$ 2,093

11. INCOME TAXES:

The Company's provision for income tax is comprised of the following:

	2006	2005
Income taxes based on a combined Canadian federal and provincial income tax rate of 43.12% (2005–43.12%)	\$ 5,844	\$ 2,765
Increase (decrease) in income taxes resulting from:		
Reduced rate for active business and manufacturing and processing	(522)	(219)
Lower income tax rate on income of foreign subsidiaries	(446)	(268)
Foreign exchange translation loss	134	167
Permanent tax differences	(99)	103
Tax effected equity (gain) loss	–	(4)
Tax effect of government audit	–	42
Others	(32)	(28)
Income tax expense	\$ 4,879	\$ 2,558

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, are presented below:

Current future tax asset:		
Inventory provisions	\$ 219	\$ 163
Accounts receivable, allowance for doubtful accounts	134	168
Research and development expenses and credits deferred for tax purposes	(14)	–
Accounts payable and accrued liabilities not deductible currently	306	134
Unrealized foreign exchange losses on forward exchange contracts	23	–
	\$ 668	\$ 465
Long-term future tax asset:		
Property, plant, and equipment—differences in net book value and undepreciated capital cost	\$ 136	\$ 134
Current future tax liability:		
Inventory provisions	\$ –	\$ (13)
Accounts payable and accrued liabilities not currently deductible	–	(17)
Accounts receivable, allowance for doubtful accounts	–	(9)
Research development expenses and credits deferred for tax purposes	–	22
Unrealized foreign exchange gains on forward exchange contracts	–	20
	\$ –	\$ 3
Long-term future tax liability:		
Loss carryforwards	\$ (17)	\$ (133)
Property, plant, and equipment—differences in net book value and undepreciated capital cost	1,077	1,072
Equity investment—difference in net book value and tax basis	76	(38)
Accrued liabilities not currently deductible	(201)	(66)
	\$ 935	\$ 835

12. SHARE CAPITAL:**(a) Authorized:**

Unlimited number of special shares, discretionary dividends, non voting, redeemable, and retractable.

Unlimited number of Class A subordinate voting shares.

Unlimited number of Class B common shares with four votes per share, convertible into Class A subordinate voting shares on a one-for-one basis. Annual dividends on the Class B common shares may not exceed the annual dividends on the Class A subordinate voting shares.

(b) Issued:

	2006	2005
8,657,000 Class A shares (2005–8,507,000)	\$ 10,606	\$ 10,606
2,778,300 Class B common shares (2005–2,778,000)	7	7
11,435,300 Class A and B shares	\$ 10,613	\$ 10,613

(c) Stock option plan:

The Company uses a stock option plan to attract and retain key employees, officers, and directors. The shareholders have approved a maximum of 800,000 Class A shares for issuance under the Stock Option Plan, with the maximum reserved for issuance to any one person at 5% of the Class A shares outstanding calculated immediately prior to the time of the grant. As per the Stock Option Plan, the Board of Directors may, at its sole discretion, determine the time during which the Options shall vest and the method of vesting, or that no vesting restriction shall exist. The stock option exercise price is the price of the Company's common shares on the Toronto Stock Exchange at closing for the day prior to the grant date on which the Class A shares traded. The period during which an option will be outstanding shall be seven years, or such other time fixed by the Board of Directors, subject to earlier termination upon the optionee ceasing to be a director, officer, or employee of the Company. Options issued under the plan are non-transferable unless specifically provided in the Stock Option plan. Any option granted, which is cancelled or terminated for any reason prior to exercise, shall become available for future stock option grants.

During the year, the Company granted 75,000 options of which 25,000 vested immediately; the remaining over the following four years. The maximum period for which these options can be outstanding is seven years. The weighted average fair value of the options granted in the year was \$3.29 (2005 - \$0.85). The compensation expense recognized and amount contributed surplus in the year amounted to \$89,000 (2005 - \$195,000). The fair value of the options was calculated based on the following assumptions:

	2006	2005
Expected volatility	54%	53%
Risk-free interest rate	3.9%	3.3%
Expected life in years	6	4
Expected dividend yield	0%	0%

Summary of the Plan as at December 31, 2006 and 2005:

	2006		2005	
	Number of options	Weighted-Average exercise price	Number of options	Weighted-Average exercise price
Outstanding, beginning of year	220,000	\$ 1.93	–	\$ –
Granted	75,000	6.00	230,000	1.93
Exercised	–	–	–	–
Forfeited/expired	–	–	(10,000)	1.93
Outstanding, end of year	295,000	\$ 2.96	220,000	\$ 1.93
Exercisable, end of year	247,000	\$ 2.37	220,000	\$ 1.93

Options outstanding and exercisable at December 31, 2006:

Options outstanding			Option exercisable		
Range of exercise price	Number of options outstanding	Weighted-Average remaining contractual life (years)	Weighted-Average exercise price	Number of options exercisable	Weighted-Average exercise price
\$ 1.93	220,000	5.5	\$ 1.93	220,000	\$ 1.93
6.00	75,000	6.9	6.00	27,000	6.00
\$ 2.96	295,000	5.9	\$ 2.96	247,000	\$ 2.37

13. EARNINGS PER SHARE:

The computations for basic and diluted earnings per share are as follows:

	2006	2005
Net earnings	\$ 8,674	\$ 3,857
Weighted-Average number of common shares outstanding during the year	11,435,300	11,397,500
Incremental shares issued from assumed exercise of stock options	133,204	47,281
	11,568,504	11,444,781
Earnings per share:		
Basic	\$ 0.76	\$ 0.34
Diluted	0.75	0.34

14. PENSION PLANS:

(a) Defined contribution plan:

The Company has defined contribution pension plans that are available to virtually all of its employees with eligible employee contributions based on 2-4% of annual earnings. The Company's contribution of \$525,000 (2005 - \$485,000), matches the employee contribution.

(b) Defined benefit plan:

The Company maintains a contributory, defined pension plan covering all of its hourly employees in Baraboo, Wisconsin. The Company measures its accrued pension benefit obligations and the fair value of plan assets for accounting purposes as at October 1 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of August 1, 2006, and the next required valuation is August 1, 2009.

Information about the Company's defined benefit plan is as follows:

	2006	2005
Accrued benefit obligation:		
Balance, beginning of year	\$ (1,038)	\$ (992)
Current service cost	-	(2)
Interest cost	(52)	(53)
Benefits paid	31	31
Actuarial gain (loss)	24	(56)
Foreign exchange	1	34
Balance, end of year	\$ (1,034)	\$ (1,038)
Plan assets:		
Fair value, beginning of year	\$ 797	\$ 719
Actual return on plan assets	25	46
Employer contributions	45	90
Benefits paid	(31)	(31)
Foreign exchange	1	(27)
Fair value, end of year	\$ 837	\$ 797
Unfunded status deficit	\$ (197)	\$ (241)
Unamortized net actuarial loss	160	151
Unrecognized prior service cost	4	6
Accrued pension benefit obligation	\$ (33)	\$ (84)

Included in the accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of the benefit plan that are not fully funded as at December 31:

	2006	2005
Accrued benefit obligation	\$ (1,034)	\$ (1,038)
Fair value of plan assets	837	797
Balance, end of year	\$ (197)	\$ (241)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	2006	2005
Weighted-Average assumptions used to determine benefit obligations for years beginning:		
Discount rate	5.50%	5.25%
Weighted-Average assumptions used to determine net periodic benefit cost for years ending:		
Discount rate	5.50%	5.50%
Expected long-term rate of return on plan assets	7.00%	7.00%

The Company's plan consists of the following assets as at December 31:

	2006	2005
Equity securities	31%	31%
Debt securities	64%	64%
Real estate	5%	5%
	100%	100%

The Company's net pension plan expense is as follows:

	2006	2005
Current service costs	\$ —	\$ 2
Interest cost	52	54
Expected return on plan assets	(52)	(50)
Amortization of prior service costs	2	2
Foreign exchange and other	—	6
Net pension plan expense	\$ 2	\$ 14

15. SUPPLEMENTAL CASH FLOW INFORMATION:

	2006	2005
Cash paid for interest	\$ 306	\$ 566
Cash paid for income taxes	\$ 3,881	\$ 837

16. CHANGE IN NONCASH OPERATING WORKING CAPITAL:

	2006	2005
Accounts receivable	\$ (3,025)	\$ (3,486)
Income taxes recoverable	30	(74)
Inventories	(3,748)	(4,010)
Prepaid expenses	(285)	(28)
Accounts payable and accrued liabilities	3,543	4,846
Income taxes payable	880	458
	\$ (2,605)	\$ (2,294)

17. SEGMENT DISCLOSURES:

The Company operates in a single operating segment, being a manufacturer of transformers.

The Company and its subsidiaries operate in Canada, the United States, and Mexico. Inter-segment sales are made at fair market values.

Geographic segments	2006	2005
Sales:		
Canada:		
Sales to customers	\$ 40,572	\$ 32,806
Inter-segment sales	42,369	30,668
United States and Mexico:		
Sales to customers	91,406	66,090
Inter-segment sales	15,266	13,933
Eliminations	(57,635)	(44,601)
	\$ 131,978	\$ 98,896
Earnings from operations:		
Canada	\$ 6,197	\$ 2,995
United States and Mexico	7,870	4,236
	\$ 14,067	\$ 7,231
Property, plant, and equipment—net:		
Canada	\$ 7,488	\$ 6,859
United States and Mexico	2,861	2,660
	\$ 10,349	\$ 9,519

18. FINANCIAL INSTRUMENTS:

The carrying values of cash and cash equivalents, accounts receivable, bank operating lines of credit, accounts payable, and accrued liabilities approximate their fair value due to the relatively short period to maturity of the instruments.

The carrying value of the Company's long-term debt is comparable to its fair market value. Fair value has been calculated using the estimated future cash flows of the actual outstanding debt instruments, discounted at current market rates available to the Company for the same or similar instruments.

The carrying value of the Company's long-term note receivable from its equity investee, Moloney Electric Inc. (Note 6), calculated using the estimated future cash flows, discounted at current market rates available to the Company for the same or similar instruments, is \$1,500,000 (2005 - \$1,500,000). The Company intends to hold this note to maturity.

The Company's accounts receivable are not subject to significant concentrations of credit risk. Accounts receivable include US\$ 10,921,000 (2005 – US\$ 7,489,000) and Mexican Pesos 3,794,000 (2005 – 3,599,000). Accounts payable include US\$ 9,156,000 (2005 – US\$ 6,903,000) and Mexican Pesos 5,197,000 (2005 – 4,460,000).

Changes in market interest rates directly affect cash flows associated with the Company's variable rate term loans.

Long-term debt includes loans denominated in U.S. funds totaling US\$ 149,500 (2005 – US\$ 219,300), which may affect the amount of principal and interest payments ultimately recorded.

The Company has entered into forward foreign exchange contracts in order to reduce the Company's exposure to changes in the exchange rate of the U.S. dollar as compared to the Canadian dollar. At December 31, 2006, the Company had outstanding forward foreign exchange contracts in the amount of US \$2,500,000 (2005 – US\$ 2,500,000) at rates ranging from 1.10-1.17 (2005 – 1.1665-1.2225), with maturity dates ranging from January 2007 to October 2007. As at December 31, 2006, the Company has recognized an unrealized loss of \$67,000 (December 31, 2005 – unrealized gain of \$59,000) representing the fair value of these forward foreign exchange contracts.

19. SELLING, GENERAL, AND ADMINISTRATIVE:

Selling, general, and administrative expense includes foreign exchange losses of \$514,000 (2005 – loss of \$487,000).

20. CONTINGENT LIABILITIES:

(a) Moloney Properties (1159714 Ontario Inc.):

The Company and Hammond Manufacturing Company Limited each own 50% of the shares of 1159714 Ontario Inc., which in turn owns the property at 213 Sterling Road, Toronto, occupied by Moloney Electric Inc. ("MEI"). The property has mineral oil contamination as well as some PCB contamination although the source of such contamination (except for a spill in 1993 by MEI) has not been determined. The contamination does not result from the normal operations of the Company, and it appears to predate the Company's ownership of the property. The source or sources may include adjoining properties. As indirect owner and occupier, the Company and Hammond Manufacturing Company Limited may, without admitting any liability, have some responsibility to participate in the remediation of the property and adjacent properties. In this regard, the Company received a complaint in 1994 from Toronto Hydro, as an adjoining owner, to the effect that mineral oil and possibly PCB contaminants may have migrated to its property, which is an inactive substation. The Company has worked in conjunction with the Ontario Ministry of the Environment and with Toronto Hydro to remediate the properties. The Company has continued to hold meetings with Toronto Hydro to discuss further remediation activities. 1159714 Ontario Inc., has established an environmental accrual of \$50,000 related to current recovery, monitoring, and reporting at this site. No determination as to the specifics of full remediation has been made, but the recovery period is expected to take several years.

(b) Glen Ewing Properties:

The property at 2 Glen Road, Georgetown, Ontario is owned equally as a co-tenant with Hammond Manufacturing Company Limited, and any expenses or liabilities in respect of the property have been agreed to be shared equally. In January 2002, the two owners were served with a statement of claim by an adjoining industrial property owner, in which the plaintiff has claimed damages in the amount of \$8,000,000 for negligence, breach of warranty, and other matters relating to alleged environmental contamination of the property. The Company intends to vigorously defend the action if it proceeds. In 2004, the Company and Hammond Manufacturing Company Limited served a counter-claim against the plaintiff in the amount of \$8,000,000. Both claims, by agreement between the parties, are in abeyance. The contamination does not result from the normal operations of the Company. The parties, under the direction of the Ontario Ministry of the Environment, are in the process of undertaking a coordinated and shared investigation of the condition of the property and remediation options. In 2006, although the exact approach for active remediation has not yet been finalized, progress has been made with respect to a determination of remediation alternatives and estimates of related costs to the Company. The Company has received and reviewed various quotations in regards to potential remediation activities that may be pursued. Based on this information, a provision of \$383,000 has been accrued at December 31, 2006 (December 31, 2005 – \$nil), for the Company's portion of the estimated environmental remediation costs at this site.

Ongoing legal and consulting costs pertaining to the Glen Road site incurred during the year, described above, totaled \$282,000, of which the HPS share of these costs was \$141,000 (2005 – \$72,000).

SELECTED ANNUAL AND QUARTERLY INFORMATION

(in thousands of dollars except earnings per share)

ANNUAL INFORMATION

	2002	2003	2004	2005	2006
Sales	75,170	73,408	81,349	98,896	131,978
Earnings from operations	1,298	209	4,627	7,231	14,067
EBITDA	3,797	2,152	6,361	9,789	16,190
Net earnings (loss) for the year	(168)	(875)	1,449	3,857	8,674
Total assets	45,978	41,821	40,760	45,260	57,688
Total liabilities	27,723	24,441	21,907	22,242	25,907
Total debt	17,268	14,395	10,387	5,463	180
Cash provided from operations from operations	3,768	3,514	5,042	4,280	7,661
Basic earnings (loss) per share	(0.01)	(0.08)	0.13	0.34	0.76
Diluted earnings (loss) per share	(0.01)	(0.08)	0.13	0.34	0.75

QUARTERLY INFORMATION

	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	22,063	24,673	24,678	27,482	29,715	32,020	33,397	36,846
Earnings from operations	1,472	1,552	1,719	2,488	2,124	2,653	3,125	6,165
EBITDA	1,982	2,583	2,359	2,865	2,705	3,236	3,680	6,569
Net earnings	532	934	957	1,434	1,172	1,338	1,815	4,349
Total assets	42,192	43,978	42,458	45,260	47,164	49,361	50,829	57,688
Total liabilities	22,807	23,546	21,069	22,242	22,974	23,833	23,488	25,907
Total debt	11,509	10,246	7,985	5,463	7,240	6,802	5,227	180
Cash provided (used) by operations from operations	(782)	(300)	2,454	2,908	(1,140)	1,068	2,162	5,571
Basic earnings per share	0.05	0.08	0.08	0.13	0.10	0.12	0.16	0.38
Diluted earnings per share	0.05	0.08	0.08	0.13	0.10	0.12	0.16	0.37

CORPORATE INFORMATION

CORPORATE OFFICERS AND DIRECTORS



William G. Hammond*
CHAIRMAN & CEO



F. Al Raftis*
PRESIDENT & DIRECTOR



Chris R. Huether
CORPORATE SECRETARY
& CFO



Donald H. MacAdam*†
DIRECTOR



Zoltan D. Simo*†
DIRECTOR



Douglas V. Baldwin*†
DIRECTOR

*Corporate Governance Committee
†Audit and Compensation Committee

CORPORATE HEAD OFFICE

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Guelph, Ontario, Canada N1G 3W6

STOCK EXCHANGE LISTING

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

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INVESTOR RELATIONS

Contact: William G. Hammond, Chairman & CEO
Chris R. Huether, Corporate Secretary & CFO

Telephone: 519-822-2441

Email: ir@hammondpowersolutions.com

ANNUAL MEETING

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

Toronto Stock Exchange
130 King Street West
Toronto, Ontario, Canada M5X 1J2
Wednesday, May 23, 2007, at 4:30 p.m.

The Hammond Museum of Radio

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 normal business hours Monday to Friday, and evenings and weekends by special appointment. Tours can be arranged by calling: 519-822-2441, Extension 590



The Power to Transform