

Hammond Power Solutions
Q2 Report Six months ended July 3, 2010

Continued growth



Hammond Power
Solutions Inc.

Fellow Investor:

Hammond Power Solutions Inc. ("HPS") is pleased to report our second quarter results for 2010. These results are a significant improvement from the same quarter a year ago when the Company and the North American economy were mired in a severe recession. Since September 2009 we have seen a steady improvement in quotation activity as well as bookings, and our results year-to-date reflect this continuing trend.

HPS continues to show growth in the U.S. and Canadian electrical markets. This is evidenced by our elevated booking rates, sales growth and solid financial performance. In reality, our growth varies from market to market. A number of key market segments have improved over the past six months including mining, offshore drilling, public infrastructure projects, Canadian utilities, export-oriented original equipment manufacturers, as well as industrial retrofit projects. Some sectors of the U.S. economy such as commercial construction, remain very weak, with little hope for renewed growth until 2012 or 2013. However, we also continue to increase our market share in the North American Electrical Distributor ("NAED") channel. It is fair to say that HPS has come through this very tough economy in relatively good shape due to our broad diversity of products, channels, markets, and strong position in both Canada and the United States.

Our business environment is still very challenging; the slow economy has fuelled a very competitive marketplace and our domestic markets, as well as our own financial results, continue to be buffeted by the negative impact of the higher Canadian dollar. Yet we are showing solid financial resilience for a Canadian based manufacturer. We have also been able to hold our margins very close to 2009 levels through productivity improvements and cost-cutting measures.

Even with the positive upswing in our momentum, we remain cautious about the economy going forward. Many economists predict slower growth both in North America and Asia during the

second half of 2010. The European sovereign debt and credit crisis continues to play out creating more uncertainty and as stated earlier, some U.S. markets are expected to show little growth for several years to come.

We are confident though about our ability to grow and deliver improving financial results over the next five years even with the expected bumps along the road. Our efforts to increase our market share will result in sales growth as the economy regains strength. Our plans to expand our global presence will help the Company tap into faster growing markets. We have also implemented a wide variety of actions to reduce our costs through improved productivity, global material sourcing and product redesigns which will add to our bottom line even in this highly competitive environment. Last but not least, we are in sound financial shape with solid earnings and no debt, and are generating strong cash flow allowing HPS to not only grow but if necessary weather any storms that might lie ahead.



William G. Hammond

Chairman and Chief Executive Officer

Management's Discussion & Analysis

Second Quarter 2010

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 has 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 six months ended July 3, 2010, and should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the second 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, accordingly, the purpose of this document is to provide a second quarter update to the information contained in the fiscal 2009 MD&A. All amounts in this report are expressed in thousand 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 its 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 second 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 is pleased to report that it has attained sales growth in the quarter. Sales for the quarter ended July 3, 2010, were \$50,820, an increase of \$2,617 or 5.4% from the comparative quarter last year, and were \$6,547 or 14.8% higher than Quarter 1, 2010, and were lower by \$7,955 or 7.7% year-to-date, finishing at \$95,093 compared to \$103,048 last year.

Sales in the U.S. were \$31,280, an increase of \$2,311 or 8.0% from Quarter 2, 2009 and were up \$4,956 or 18.8% from Quarter 1, 2010. Year-to-date sales in the U.S. were \$57,604 a decrease of \$8,563 or 12.9%, when compared to \$66,167 last year-to-date. U.S. sales, stated in U.S. dollars were higher by \$5,776 or 23.4% from Quarter 2, 2009, and increased by \$5,134 or 20.3% from Quarter 1, 2010 and are higher by \$1,200 or 2.2% year-to-date finishing at \$55,723 as compared to \$54,523 in 2009.

Canadian sales for the quarter were \$19,540, higher by \$304 or 1.6% over Quarter 2, 2009 and 8.9% higher or \$1,591 from Quarter 1, 2010. Year-to-date Canadian sales were \$37,489, an increase of \$605 or 1.6% as compared to sales of \$36,884 last year.

Geographically stated, U.S. based sales were 61.6% of our total sales, while 38.4% of the sales in the quarter were derived in Canada.

HPS continues to show growth in the U.S. and Canadian electrical markets. This is evidenced by our elevated booking rates, sales growth, increase in backlog and solid financial performance. Specifically, the North American Electrical Distributor ("NAED"), specialty transformer, power conditioning, oil and gas pumping, maintenance repair and overhaul ("MRO") and excitation markets in both Canada and the U.S. were much stronger in Quarter 2, 2010. This diverse market participation provides a business hedge as the Company is not single market dependent. As a result, the Company's sales momentum is stronger than the electrical industry average.

The Company will pursue market expansion and channel growth initiatives in strategic market segments in the U.S. and Canada. We expect our focus on custom and competitive product design, product breadth and service will continue to fuel growth.

Additionally, our organic and new customer sales expansion strategies, manufacturing agility, and our multinational operations capabilities will provide a solid footing for continued market share and sales growth and sustain revenue and profitability trends.

Order bookings and backlog

In Quarter 2, 2010 sales growth strategies and moderately improved market conditions have produced strong bookings rates. These factors were fundamental in our ability to deliver a 15.8% increase in bookings over the same quarter last year and an 8.2% increase over Quarter 1, 2010. On a year-to-date basis, bookings are up 4.8% over last year. By channel, booking rates grew 16.1% on a direct basis and increased 15.1% through our distributor channel as compared to Quarter 2, 2009.

Many of our customers have seen increases in their bookings levels during the quarter with the moderately improved electrical industry market conditions. However, due to the drop in booking rates in the second half of 2009, our backlog was down 17.0% from Quarter 2, 2009 and despite the increase in the second quarter bookings, backlog declined 2.9% from Quarter 1, 2010 due to improvements in manufacturing cycle times.

Gross margins

Gross margin rates for the quarter finished at 24.8%, versus 26.0% in Quarter 2, 2009 a decrease of 1.2%. On a year-to-date basis, gross margin rates were 25.7% compared to 27.6% in 2009, down 1.9%. Quarter 2, 2010 gross margin dollars further increased as a result of our rising sales levels, compounded with selling price increases and a favourable product mix.

Quarter 2, 2010 gross margin rates were burdened with an 11% stronger Canadian dollar as compared to Quarter 2, 2009. This negatively impacts gross margin rates on Canadian manufactured products sold in the United States. The Company continues to see downward selling prices from many of our competitors due to the available excess capacity in the industry. Margins were positively impacted through internally driven material procurement and product design cost reduction initiatives, product mix and our ability to implement market specific selling price increases. Despite the recession, the Company has implemented several capacity expansion projects during the past 18 months. In the short-term, the additional costs associated with the expansion are dilutive to our net margin rates. As sales grow the favourable impact that higher manufacturing throughput has on absorption of our factory overheads will positively affect margin rates. This will better match manufacturing capacity requirements to booking rates. The Company is focused on productivity improvement and cost reduction throughout the organization. These actions will help improve margin rates.

Obtaining growth in our gross margin rates continues to be a key focus area for our Company.

Selling general & administrative expense

Total selling, general and administrative ("SG&A") expenses amounted to \$9,199 in Quarter 2, 2010 versus \$8,554 in Quarter 2, 2009, an increase of \$645 or 7.5%. The increase in costs was due to \$266 of stock option compensation expense, and higher freight and commission expenses resulting from the higher quarter sales. Year-to-date, SG&A was \$17,444 versus \$18,413 in 2009, a decrease of \$969 or 5.3%. The decrease in SG&A expenses is due to lower freight and commission expenses resulting from the lower year-to-date sales and cost containment.

SG&A as a percentage of sales was relatively flat on a year-to-date basis at 18.3% in 2010 and 17.9% in 2009. As a percentage of sales, SG&A expenses in Quarter 2, 2010 were 18.1%, slightly lower than the 18.6% in Quarter 1, 2010.

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

Although SG&A costs have risen at less than inflationary rates, the Company is very mindful of managing and containing selling and administration expenses through strong SG&A expense management.

Earnings from operations

The Quarter 2, 2010 earnings from operations were \$546 or 13.8% lower than the same quarter last year, finishing at \$3,420 as compared to \$3,966 in Quarter 2, 2009. 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 United States and gross margin rate decline resulting from competitive pricing pressure, and costs associated with excess manufacturing capacity. Earnings from operations on a year-to-date basis were lower by \$3,038 or 30.3% finishing at \$7,000 compared to \$10,038 for the same period last year.

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

Interest expense

The Company continues to incur very low interest and banking expenses. The interest expense for the quarter ended July 3, 2010, amounted to \$24 compared to \$10 in Quarter 2, 2009 and was \$61 year-to-date versus \$72 last year.

Gain/loss on foreign exchange

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

The foreign exchange loss in Quarter 2, 2010 was \$206 compared to a foreign exchange loss of \$2,180 in Quarter 2, 2009 and there was a year-to-date foreign exchange gain of \$41 compared to a loss of \$1,640 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

Quarter 2, 2010 income tax expense was \$750 as compared to \$1,271 in Quarter 2, 2009, a decrease of \$521 or 41.0% and was \$2,283 year-to-date versus \$3,546 last year, a decrease of \$1,263 or 35.6%. The Quarter 2, 2010 effective income tax rate of 23.8% is positively impacted by a foreign exchange gain from Balance Sheet translation of \$1,173, which is not recognized as a gain for 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 delivered much improved net earnings in the quarter as compared to last year. As a result of increased sales and reduced foreign exchange losses, net earnings for Quarter 2, 2010 were higher by \$1,929 or 408.7% concluding at \$2,401 compared to \$472 in Quarter 2, 2009. Despite lower sales in the first quarter of 2010, the Company's net earnings were down a nominal \$89 or 1.9% year-to-date, finishing at \$4,625 versus \$4,714 last year.

EBITDA (earnings before interest, taxes, depreciation and amortization) for Quarter 2, 2010 was \$4,319 versus \$2,900 in Quarter 2, 2009, an increase of \$1,419 or 48.9% and year-to-date was \$9,303 versus \$10,677 a decrease of \$1,374 or 12.9% from last year-to-date. 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 2 2010	Quarter 2 2009	YTD 2010	YTD 2009
Net earnings for the quarter	\$ 2,401	\$ 472	\$ 4,625	\$ 4,714
Add:				
Interest expense	\$ 24	\$ 10	\$ 61	\$ 72
Income tax expense	\$ 750	\$ 1,271	\$ 2,283	\$ 3,546
Depreciation and amortization	\$ 1,144	\$ 1,147	\$ 2,334	\$ 2,345
EBITDA	\$ 4,319	\$ 2,900	\$ 9,303	\$ 10,677
Add (Deduct):				
Foreign Exchange (Gains)/Losses	\$ 206	\$ 2,180	\$ (41)	\$ 1,640
Adjusted EBITDA	\$ 4,525	\$ 5,080	\$ 9,262	\$ 12,317

Adjusted EBITDA:

Excluding foreign exchange (gains)/losses Adjusted EBITDA was \$4,525 for Quarter 2, 2010 versus \$5,080 for Quarter 2, 2009, a decrease of \$555 or 10.9%. Year-to-date, Adjusted EBITDA was \$9,262 for 2010 compared to \$12,317 for 2009, down by \$3,055 or 24.8%.

Capital resources and liquidity

There was a rise in business activity in Quarter 2, 2010 from Quarter 1, 2010, increasing our working capital investment particularly in Accounts Receivable. During the same period last year the opposite occurred; business activity was on a decline thus dropping working capital investment.

Cash provided by operations for Quarter 2, 2010 was \$1,852 versus \$8,006 in Quarter 2, 2009, a decrease in cash provided by operations of \$6,154. Cash provided by operations year-to-date was \$3,497 versus \$10,018 in 2009, a decrease in cash provided by operations of \$6,521. The change in non-cash operating working capital was an increase of \$1,965 compared to a reduction of \$6,335 for the same quarter last year.

The Company continues its focus on its customer accounts receivable collections cycle time and inventory turnover rates in 2010.

The Company also purchased \$350 of shares under its share repurchase and cancellation program in the quarter and year-to-date while it did not have the program in place at the end of the quarter in 2009.

Capital expenditures for property, plant and equipment, and intangible assets were lower by \$2,657 finishing at \$1,553 this quarter compared to \$4,210 for Quarter 2, 2009, and decreased \$3,765 year-to-date, finishing at \$2,559 compared to \$6,324 in 2009. Our committed manufacturing capacity

expansion and product mandate projects at our Guelph, Ontario and Granby, Quebec facilities, productivity improvement initiatives and information technology infrastructure continue to be investment areas.

Bank operating lines decreased by \$928 in Quarter 2, 2010, as compared to an increase of \$3,194 in Quarter 2, 2009, a decrease of \$4,122 and on a year-to-date basis, decreased by \$2,784 in 2010, as compared to an increase of \$2,962 in 2009.

The Company's overall cash balances, net of bank indebtedness, resulted in a net cash position of \$10,415 as at July 3, 2010, a net improvement of \$11,385 when compared to a net debt position of \$970 as at June 27, 2009.

All bank covenants continue to be met as at July 3, 2010.

Contractual obligations

(in thousands of dollars)	2010	2011	2012	2013	2014	2015	Thereafter	Total
Operating Leases	704	1,319	890	803	482	203	-	4,401
Accounts payable and accrued liabilities	22,169	-	-	-	-	-	-	22,169
Capital expenditure purchase commitments	630	-	-	-	-	-	-	630
Total	23,503	1,319	890	803	482	203	-	27,200

Contingent liabilities

Management is not aware of any contingent liabilities

Normal course issuer bid

On March 4, 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 ("NCIB") through the facilities of the Toronto Stock Exchange ("TSX"). Daily purchases will be 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.

The purchases commenced in July 2009, and will terminate July 20, 2010. Purchases will be made in open market transactions on the TSX.

The Company purchased 108,174 Class A Shares at a cost of \$915 in 2009 and purchased 30,556 Class A shares at a cost of \$350 in Quarter 2, 2010 for a cumulative total of 138,730 Class A shares at a cost of \$1,265 under this plan to date.

Decisions regarding the timing of future repurchases will be based on market conditions, share price and other factors. HPS may elect to suspend or discontinue

the bid at any time. Class A Shares repurchased under the bid will be cancelled.

The Board of Directors of HPS authorized the NCIB as it believes that current market conditions provide opportunities for HPS to acquire Class A Shares at attractive prices, is an appropriate use of HPS funds and will enhance 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 GAAP. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During Quarter 2, 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 International Financial Reporting Standards (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 and Audit Committee members have been trained on IFRS. Management and Audit Committee members will review IFRS implications. This phase is substantially underway and is scheduled for completion in the third quarter of 2010.

Phase Three – Implementation and Review:

This phase involves executing the work completed in Phase Two. Management and Audit Committee members will select the adapted IFRS accounting policy and the Company will implement changes to business and accounting processes and supporting information systems. Management will also include the review of all internal controls that may have been impacted by any of the changes. Comparative data for 2010 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 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 2, 2010.

Proposed transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm proposed transactions as at July 3, 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 July 3, 2010 are as follows:

8,795,206	Class A shares
2,778,300	Class B common shares
11,573,506	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.

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

Strategic outlook

Consistent Strength:

- Another solid quarter of financial results.
- A stronger Balance Sheet.
- Continued market share growth.

HPS has demonstrated a reliable record of delivering consistent and solid profit performance as further evidenced in Quarter 2, 2010.

The Company has implemented strategies to increase its sales and manufacturing capacities despite the lethargic global and North American economies. HPS has also utilized 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 due to currency fluctuations and general economic conditions, 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 have seen signs of moderate market improvements but the Company believes that this remains a time to be cautious of the risk and diligent in the execution of its strategies. We 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 not untouchable 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 have seen some signs of some moderate market condition improvements 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 no net debt 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.

We 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 Corporation 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 Second 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 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 per share	0.34	0.76	1.08	1.95	0.82
Diluted earnings per share	0.34	0.75	1.06	1.93	0.82
Dividends declared and paid	–	–	–	–	1,173
Average Exchange Rate (\$1 U.S.= \$ CAD)	\$ 1.212	\$ 1.134	\$ 1.075	\$ 1.064	\$ 1.145

Quarterly Information

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

	2008				2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	\$ 48,356	\$ 54,936	\$ 57,940	\$ 65,126	\$ 54,845	\$ 48,203	\$ 43,768	\$ 48,621	\$ 44,273	\$ 50,820
Earnings from operations	**4,915	**6,161	**6,483	**8,999	6,072	3,966	2,218	6,687	3,580	3,420
EBITDA	8,338	6,954	7,379	12,071	7,777	2,900	2,125	7,014	4,984	4,319
Net earnings	5,120	3,623	4,335	9,751	4,242	472	57	4,860	2,224	2,401
Total assets	86,688	93,467	99,669	110,891	107,200	107,446	105,302	106,925	105,339	107,450
Total liabilities	34,688	37,811	39,645	41,107	33,087	33,981	30,965	29,422	25,582	25,359
Total cash (debt)	(5,481)	(9,610)	(9,884)	(4,100)	(4,527)	970	1,326	9,813	10,464	10,415
Cash provided (used) by operations	(2,824)	(2,179)	3,735	7,522	2,012	8,006	5,341	10,045	1,645	1,852
Basic earnings per share	0.44	0.31	0.37	0.83	0.36	0.04	0.01	0.41	0.19	0.21
Diluted earnings per share	0.43	0.30	0.37	0.82	0.36	0.04	0.01	0.41	0.19	0.21
Dividends declared and paid	–	–	–	–	–	–	1,173	–	–	–
Average Exchange Rate (\$1 U.S.= \$ CAD)	\$ 1.005	\$ 1.010	\$ 1.039	\$ 1.204	\$ 1.245	\$ 1.175	\$ 1.103	\$ 1.058	\$ 1.041	\$ 1.028

**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 July 3, 2010	As at December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,656	\$ 13,838
Accounts receivable	30,969	27,705
Income taxes recoverable	3,583	3,006
Inventories	24,261	25,722
Prepaid expenses	613	514
Future income taxes	654	643
	71,736	71,428
Property, plant and equipment	26,772	26,452
Investment in properties	1,044	1,044
Long-term investments	654	654
Future income taxes	42	42
Intangible assets	5,022	5,125
Goodwill	2,180	2,180
	\$ 107,450	\$ 106,925
Liabilities & Shareholders' Equity		
Current liabilities:		
Bank operating lines of credit	\$ 1,241	\$ 4,025
Accounts payable and accrued liabilities	22,169	23,388
Income taxes payable	20	85
Notes payable	443	443
Future income taxes	180	180
	24,053	28,121
Accrued pension benefit obligation	6	5
Environmental reserve, net of current portion	139	139
Future income taxes	1,161	1,157
Shareholders' equity:		
Share capital	12,934	12,959
Contributed surplus	918	626
Retained earnings	68,239	63,918
	82,091	77,503
	\$ 107,450	\$ 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		Six Months Ending	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Sales	\$ 50,820	\$ 48,203	\$ 95,093	\$ 103,048
Cost of Sales	38,201	35,683	70,649	74,597
Gross Margin	12,619	12,520	24,444	28,451
	24.8%	26.0%	25.7%	27.6%
Selling, general and administrative	9,199	8,554	17,444	18,413
Earnings from operations	3,420	3,966	7,000	10,038
Other (income) and expense:				
Interest expense	24	10	61	72
Foreign exchange loss (gain)	206	2,180	(41)	1,640
Loss on disposal of property, plant and equipment	6	–	6	–
Co-tenancy expense	33	33	66	66
Income before income taxes	3,151	1,743	6,908	8,260
Income tax expense	750	1,271	2,283	3,546
Net earnings and comprehensive earnings	\$ 2,401	\$ 472	\$ 4,625	\$ 4,714
Earnings per share for the period				
Basic	\$ 0.21	\$ 0.04	\$ 0.40	\$ 0.40
Diluted	\$ 0.21	\$ 0.04	\$ 0.40	\$ 0.40

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		Six Months Ending	
	July 3, 2010	June 27, 2009	July 3, 2010	June 27, 2009
Cash provided by (used in):				
Operations:				
Net earnings	\$ 2,401	\$ 472	\$ 4,625	\$ 4,714
Add (deduct) items not involving cash:				
Amortization of property, plant and equipment	971	996	2,029	2,043
Amortization of intangible assets	173	151	305	302
Loss on disposal of property, plant and equipment	6	–	6	–
Accrued pension obligation	1	(2)	1	(2)
Future income taxes	(18)	37	(7)	34
Stock based compensation expense	283	17	301	104
	3,817	1,671	7,260	7,195
Change in non-cash operating working capital	(1,965)	6,335	(3,763)	2,823
Cash provided by operations	1,852	8,006	3,497	10,018
Financing:				
(Repayment of) advances from bank operating lines	(928)	3,194	(2,784)	2,962
Issue of common shares	–	36	12	36
Share repurchase and cancellation	(350)	–	(350)	–
Principal repayment of notes payable	–	(275)	–	(600)
Cash provided by (used in) financing activities	(1,278)	2,955	(3,122)	2,398
Investments:				
Proceeds on disposal of property, plant and equipment	2	–	2	–
Purchase of intangible assets	(59)	(90)	(202)	(108)
Purchase of property, plant and equipment	(1,494)	(4,120)	(2,357)	(6,216)
Cash used in investment activities	(1,551)	(4,210)	(2,557)	(6,324)
Increase (decrease) in cash	(977)	6,751	(2,182)	6,092
Cash and cash equivalents, beginning of period	12,633	1,714	13,838	2,373
Cash and cash equivalents, end of period	\$ 11,656	\$ 8,465	\$ 11,656	\$ 8,465
Cash paid for taxes	\$ 1,958	\$ 4,216	\$ 2,846	\$ 6,255
Cash paid for interest	\$ 1	\$ (21)	\$ 13	\$ –

See accompanying Notes to Interim Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(unaudited) (tabular amounts in thousands of dollars)

Six month period ended July 3, 2010, and June 27, 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	12	–	–	12
Ascribed value credited to share capital from exercise of stock options	7	(7)	–	–
Stock based compensation expense	–	301	–	301
Share repurchase and cancellation	(44)	(2)	(304)	(350)
Net earnings	–	–	4,625	4,625
Balance as at April 3, 2010	\$ 12,934	\$ 918	\$ 68,239	\$ 82,091

	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	–	104	–	104
Net earnings	–	–	4,714	4,714
Dividends	–	–	(1,173)	(1,173)
Balance as at June 27, 2009	\$ 13,117	\$ 596	\$ 59,752	\$ 73,465

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 Information

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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Stock Exchange Listing

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

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Hammond Power
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