Q1 Report 2011

For the three months ended April 2, 2011

Hammond Power Solutions Inc.

Powered by Our People

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Fellow Shareholders,

The first quarter of 2011 for Hammond Power Solutions Inc., ("HPS") has been more interesting than we expected in a number of ways. Overall our operational and strategic momentum exceeded expectations. Overall sales were up 19%, compared to a year ago, driven in part by strong OEM sales as well as continued distributor growth in the United States. We delivered improved performance in service and productivity across our plants and acquired the Italian transformer company Euroelettro S.p.A., ("EE"), as announced in March. This opens up growth opportunities in Europe and the Middle East as well as opening the door for HPS into cast coil technology.

On the other hand, HPS profits were on plan, however were lower than the same quarter in 2010, yet still on target with our annual planning. Some of this variation was due to one-time expenses related to our Italian acquisition as well as "paper" adjustments attributed to our copper future contracts. Our U.S. marketing margins suffered as a result of intense competitive pressures in commercial markets and the negative impact of a higher than expected Canadian Dollar.

It is fair to say that business confidence changed for many in March of this year after the world was impacted by the unrest in Libya and North Africa, the Japanese earthquake and tsunami, the resurface of serious sovereign debt issues in Europe, a near shutdown of the U.S. government due to partisan politics, as well as the growing concern over the impact of rising inflation. We have also seen the return of marked volatility presumably as a result of these uncontrollable events affecting material costs, market pricing, and even booking activity from certain markets.

In spite of these unexpected challenges, we are optimistic about our sales and profit performance especially for the second half of the year. Most of our OEM customer base is enjoying near record levels of business due in part to rising commodity prices and strong economic activity in the BRIC nations. There are sizeable infrastructure and institutional projects underway or planned throughout the year. Industrial activity is strong and should be for some time to come. We expect continued growth from our North American distributor channels coming from new product lines launched over the last twelve months as well as increased market share. And lastly, we see opportunities to grow the sales of EE in Europe and elsewhere going forward.

In closing, we have seen the return of volatility and cautiousness in 2011 that has impacted some of our financial results in the first quarter. In spite of this new business environment, we remain confident that our strong position in a diversity of markets, channels and geography as well as our global expansion strategy will generate growth in both sales and profits in the year ahead.

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

Overview

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

The following is Management's Discussion and Analysis of the Company's consolidated operating results for the three months ended April 2, 2011, and should be read in conjunction with the unaudited interim Consolidated Financial Statements of the Company for the first quarter of Fiscal 2011. 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 2010 Annual Report, and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the Fiscal 2010 MD&A. Starting Quarter 1, 2011, all amounts for 2011 and 2010 are reported under IFRS ("International Financial Reporting Standards") All amounts in this report are expressed in thousands of Canadian dollars except share information and unless otherwise noted. These documents and other information relating to the Company may be found on SEDAR's website at www.sedar.com.

Caution regarding forward looking information

Our MD&A contains forward-looking information that reflects the current expectations of Management about the future results, performance, achievements, prospects or opportunities for HPS and the transformer business. These statements generally can be identified by use of forward looking words such as "may", "will", "expect", "estimate", "anticipate", "believe", "project", "should" or "continue" or the negative thereof or similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond Company control that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

We do not have an intention to update any forward-looking information, except as required by applicable securities laws. Any forward-looking information contained in our MD&A represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. There can be no assurance that any forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on any such forward-looking information. For a list of factors that could affect HPS see "risk factors" highlighted in materials filed with the securities regulatory authorities in Canada from time to time.

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. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use non-GAAP financial measures, such as operating earnings and EBITDA, in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending April 2, 2011 and April 3, 2010 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with GAAP. "Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within GAAP and therefore may not be comparable to similar measures presented by other companies.

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"). The Company has now adopted IFRS effective the Quarter 1, 2011 Interim Financial Statements and 2010 comparative data.

Sales

Sales for the quarter-ended April 2, 2011, were $52,777 up $8,504 or 19.2% from the comparative quarter last year, and were $5,169 higher or 10.9% from Quarter 4, 2010. Due to increased order booking activity from one year ago, sales in the United States in U.S. dollars were $30,189 in Quarter 1, 2011, an increase of $4,294 or 16.3% from Quarter 1, 2010, and increased by $5,758 or 22.8% from Quarter 4, 2010. A 5.5% stronger Canadian dollar ($1.00 U.S. = $.986 compared against $1.0407) had a an impact on the amount of stated sales for the U.S. this quarter as compared to Quarter 1, 2010.

Sales stated in constant dollars were higher by $5,993 or 22.3% from the same quarter last year. Canadian sales were $20,816 for the quarter, an increase over Quarter 1, 2010, of $2,867 or 16% and were up by $3,613 or 21.0% from Quarter 4, 2010. The Quarter 1, 2011 sales include sales of $1,343 for the month of March derived from the Company's acquisition, Euroelettro S.p.A, in Vicenza, Italy ("EE").

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 U.S. and Canada. We expect our focus on custom and competitive product design and uncompromised quality will fuel growth.

Quarter 1, 2011 sales by geographic segment include U.S. sales of 58.0% of our total sales, while 39.5% of the segment sales were derived in Canada and 2.5% were European sales.

HPS sales dollars increased in both Canada and the U.S. electrical markets. Markets that showed increased sales in Quarter 1, 2011 compared against Quarter 1, 2010 include the NAED ("North American Electrical Distributor") channel, motor control, mining, capital equipment and power conditioning markets in both Canada and the U.S. There is an increase in overall order activity in the OEM market segment as well. It appears that customers have stabilized their inventory levels as indicated by slightly improved booking levels.

Despite the negative effects of a stronger Canadian dollar, HPS delivered a solid quarter of sales growth and financial performance.

The Company is steadfast in its implementation of channel growth initiatives in strategic market segments in the U.S., Canada, and Europe. The Company is committed to producing premium quality transformers, competitive custom engineered designs and to offer a broad and evolving product range. We expect that this combined with our capabilities in custom product design; manufacturing agility, competitive lead-times, product breadth, uncompromised quality, and geographically diverse manufacturing capabilities will generate further growth in organic and new customer sales.

The Company continues to aggressively focus on all market share growth and channel expansion opportunities in identified strategic market segments in the U.S., Canada and Europe.

We expect that this, combined with our distribution channels and our manufacturing agility, will be a competitive advantage during the year and will be a foundation to successful revenue growth.

Order Bookings and Backlog

Our sales growth strategies along with slightly improved market conditions have produced healthy booking rates in Quarter 1, 2011. These factors were conducive in delivering a 33.8% increase in bookings as compared to Quarter 1, 2010. By channel, booking levels were 33.7% higher on a direct basis and grew 33.9% through our distributor channel, as compared to Quarter 1, 2010. Due to improved manufacturing cycle times, order backlog decreased by 1.2% from the Quarter 4, 2010.

Our sales development initiatives supported strong booking rates during the Quarter. The impact of a modest improvement in general world economies and somewhat improving electrical market condition is now evidenced with increased quotation activity and new order bookings, as many of our customers are experiencing an increase in their business activity and seeing a longer booking horizon. Currently, many of our customers are feeling more positive about market trends, however, the Company is very cognizant that it may see some month to month fluctuations in booking rates.

As a result, HPS will see some volatility in booking rates but anticipate realizing higher order bookings year-over-year.

Gross Margins

The Company's gross margin rates were primarily impacted by selling price pressures, and the negative impact that a stronger Canadian dollar has on U.S. margins. This resulted with Quarter 1, 2011 gross margin rates finishing at 24.3% versus 26.7% in Quarter 1, 2010, a decrease of 2.4%. First Quarter 2011 gross margin rates were further eroded by higher copper raw material costs and increased labour costs. As price increases were introduced in the latter part of Quarter 1, 2011, these cost increases were not totally offset by corresponding selling price increases within the Quarter. Margin rates will benefit from implemented market specific price increases in the following quarters.

Quarter 1, 2011 gross margin rates were hampered by a 5.5% stronger Canadian dollar as compared to Quarter 1, 2010. This negatively impacts gross margin rates on Canadian manufactured products sold in the U.S.. The Company continues to experience negative selling price pressures from many of our competitors due to the available excess capacity in the industry. Margins were positively impacted through internally driven design and material procurement cost reductions and increased manufacturing throughput, which contributed approximately 1.4% to margin rates. Despite the unpredictable economic climate, the Company continues to implement its capacity expansion projects during the year. In the short-term, the additional fixed costs associated with the expansion are dilutive to our net margin rates. As sales grow the favourable impact that higher manufacturing throughput will have on absorption of our factory overheads will positively affect margin rates. This will better match manufacturing capacity requirements to anticipated future booking rates. The Company is focused on productivity improvements, cost reductions and lead-time improvements throughout the organization.

The Company is confident that these actions will help advance margin rates.

Selling, General & Administrative Expense

Total selling, general and administrative ("SG&A") expenses were $10,134 in Quarter 1, 2011, versus $8,319 in Quarter 1, 2010, an increase of $1,815 or 21.8%. There was an increase of the variable component of SG&A expenses from the sales growth of $173 sales commission expense and $394 additional freight costs when compared to Quarter 1, 2010. There were also increases in stock option expense $350 in stock option expense resulting from increased compensation expenses due to a higher underlying stock value attributed to stock options granted in the quarter, information services and engineering costs of $154 , Human Resource expenses of $100 and $124 acquisition costs in the current quarter. The Quarter 1, 2011 SG&A expense also include an additional $277 in SG&A costs pertaining to the newly acquired company, Euroelettro S.p.A..

As a percentage of sales, SG&A expenses in Quarter 1, 2011 were 19.2%, slightly higher than Quarter 1, 2010 of 18.8%.

The Company continues with its people resource investment, specifically in the areas of information services and engineering.

The Company is in a growth period and is increasing its SG&A investment in support of its strategic growth initiatives, but remains very cognizant of prudent SG&A expense management.

Earnings from Operations

The earnings from operations are reflective of a period of extreme volatility and of a company in transitional growth. Earnings from operations for the quarter continue to be impacted by lower gross margin rates due to the lower U.S. dollar, competitive price pressures and increased S,G&A expenses.

This resulted in a decrease in earnings from operations of $837 or 23.9% from the same quarter last year, finishing at $2,669 in the quarter, as compared to $3,506 in Quarter 1, 2010.

Interest Expense

The interest expense for Quarter 1, 2011, finished at $30 compared to $37 in Quarter 1, 2010, a decrease of $7 or 18.9%. The reduction of interest expense for the Quarter was as a result of low operating debt levels and lower interest rates. Interest expense includes all bank fees.

Foreign Exchange Gain / Loss

The foreign exchange loss in Quarter 1, 2011 was $302 compared to a foreign exchange gain of $1,073 in Quarter 1, 2010. The Company's hedging strategy for 2010 included forward foreign exchange contracts to hedge Balance Sheet translational losses. Quarter 1, 2010 was restated using IFRS. The Balance Sheet translational sheet losses are now classified under Other Comprehensive Income in retained earnings, and the transactional gains derived from forward exchange contracts of $867 remain in the consolidated statement of income. Due to this change in accounting treatment in that those gains and losses are now recorded under Other Comprehensive Income under IFRS, HPS' hedging strategy for 2011 does not include the utilization of forward foreign exchange contracts to hedge against U.S. dollar Balance Sheet translational gains and losses.

Income Taxes

Quarter 1, 2011, income tax expense was $734 as compared to $1,533 in Quarter 1, 2010, a decrease of $799 or 52.1% as a result of lower income before income tax.

The current future tax assets and liabilities, consisting mainly of reserves and allowances, are related to temporary differences on 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 intangible assets and the difference between the net book value and undepreciated capital cost of property, plant and equipment.

Net Earnings

Net earnings for Quarter 1, 2011, restated for IFRS, decreased by $1,405 or 47.2%, finishing at $1,571 compared to $2,976 in Quarter 1, 2010. The major cause of this difference is exchange. In Quarter 1, 2011 there was a transactional exchange loss of $302 compared to a transactional exchange gain of $1,073 in Quarter 1, 2010. This impact to income before income taxes was $1,375 or 87.5% of the quarter over quarter change in net earnings. Included in the exchange gain for Quarter 1, 2010 was a gain on forward foreign exchange contracts of $867, These contracts were used as a hedging strategy that were in place to offset foreign Balance Sheet translation adjustments, which before the implementation of IFRS were being expensed as part of the gain or loss from foreign exchange on the income statement. HPS did not have any U.S. dollar forward contracts in place in Quarter 1, 2011.

EBITDA for Quarter 1, 2011, was $3,580 versus $5,614 in Quarter 1, 2010 a decrease of $2,034 or 36.2 %.

EBITDA is calculated as outlined in the following table:

(tabular amounts in thousands of dollars)	Quarter 1, 2011	Quarter 1, 2010
Net earnings	$ 1,571	$ 2,976
Add:		
Interest expense	$ 30	$ 37
Income tax expense	$ 734	$ 1,533
Depreciation and amortization	$ 1,245	$ 1,068
EBITDA	$ 3,580	$ 5,614

Adjusted EBITDA:

Excluding foreign exchange gains, adjusted EBITDA was $3,882 for Quarter 1, 2011 versus $4,541 for Quarter 1 2010, a decrease of $659 or 14.5%.

Adjusted EBITDA is calculated as outlined in the following table:

(tabular amounts in thousands of dollars)	Quarter 1, 2011	Quarter 1, 2010
EBITDA for the quarter	$ 3,580	$ 5,614
Reverse:		
(Gain)/Loss on foreign exchange	$ 302	$ (1,073)
Adjusted EBITDA	$ 3,882	$ 4,541

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2011 Quarters (Stated Per IFRS)	Quarter 1, 2011	Year to Date Total
Sales	$ 52,777	$ 52,777
Net earnings	$ 1,571	$ 1,571
Earnings per share – basic	$ 0.14	$ 0.14
Average U.S. to Canadian exchange rate	$ 0.986	$ 0.986

Fiscal 2010 Quarters (Stated Per IFRS)	Q1, 2010	Q2, 2010	Q3, 2010	Q4, 2010	Total
Sales	$ 44,273	$ 50,820	$ 47,903	$ 47,608	$ 190,604
Net earnings	$ 2,976	$ 1,170	$ 2,250	$ 4,256	$ 10,652
Earnings per share – basic	$ 0.25	$ 0.10	$ 0.20	$ 0.37	$ 0.92
Average U.S. to Canadian exchange rate	1.041	1.028	1.039	1.013	1.030

Fiscal 2009 Quarters (Stated Per GAAP)	Q1, 2009	Q2, 2009	Q3, 2009	Q4, 2009	Total
Sales	$ 54,845	$ 48,203	$ 43,768	$ 48,621	$ 195,437
Net earnings	$ 4,242	$ 472	$ 57	$ 4,860	$ 9,631
Net earnings per share – basic	$ 0.36	$ 0.04	$ 0.01	$ 0.41	$ 0.82
Average U.S. to Canadian exchange rate	1.245	1.175	1.103	1.058	1.145

Historically the first quarter of the Company's fiscal year has lower revenues due to a general decline in activity in the construction industry and overall electrical markets as many projects are just getting underway at the start of the year. There was an exception in Quarter 1, 2009, as the Company ended a very robust 2008, and there was an unusually high order backlog just prior to the collapse of the electrical markets in North America. The sales decline can be noted starting in Quarter 2, 2009. Sales in Quarter 1, 2011 have shown an increase over the prior year as general business activity was moderately improved over 2010 and includes the March 2011 sales and financial results of Euroelettro S.p.A. The year-to-year quarterly fluctuations in both sales and income are affected by the changes in the U.S. to Canadian foreign exchange rates, changing economic conditions, and competitive pricing pressures.

Capital Resources and Liquidity

Net cash used in operating activities for Quarter 1, 2011 was $2,578 versus cash provided of $1,607 in Quarter 1, 2010 – an increase of $4,185.

Change in non-cash operating working capital was an increase of $5,204 in cash usage compared to an increase of $3,280 for the same quarter last year an increase difference of $1,924. Quarter 1, 2011 usage was primarily a net result of an increase in inventory of $1,338, a decrease in accounts receivable of $482 and a decrease in accounts payable of $4,151. The Company continues to focus on its customer accounts receivable collections cycle time and inventory turnover rates in 2011.

Capital expenditures were $407 In Quarter 1, 2011 compared to $931 for Quarter 1, 2010. Expanded manufacturing capacity, a research and development test lab, productivity improvement projects and information technology infrastructure were focus areas of our capital expenditure program in the quarter.

In addition to the above capital expenditures, the Company utilized $7,786 to purchase Euroelettro S.p.A., a manufacturer of dry and cast oil transformers located in Vicenza, Italy.

Due to the receipt of a non-interest bearing loan from the Canadian Federal Government for the expansion of the Guelph manufacturing facility in the amount of $620, cash used in financing activities in Quarter 1, 2011 was lower by $979 when compared to the same quarter last year. Total cash used in financing activities for Quarter 1, 2011 was $895 as compared to $1,881 in Quarter 1, 2010.

Bank operating lines of credit finished Quarter 1, 2011 at $2,952 compared to $2,169 at the end of Quarter 1, 2010, an increase of $783.

The Company's overall cash balances, net of debt, resulted in a cash position of $320 in Quarter 1, 2011, a net decrease of $10,355 when compared to a net cash position of $10,675 in Quarter 1, 2010. The major contributor to this decrease in cash was the purchase of a wholly owned subsidiary, Euroelettro S.p.A. for $7,786 plus the assumption of the Company's net debt position of $6,573 made up of bank operating lines and long term debt. There was also greater usage of working capital due to increased inventories and lower accounts payable for the remaining operations described earlier.

All bank covenants continue to be met as at April 2, 2011.

HPS remains well financed, as it has a $25,000,000 U.S. revolving credit facility and a $15,000,000 U.S. delayed draw credit facility available to the Company with JP Morgan Chase Bank, N.A. which provides financing for our operational requirements, and capital for our strategic initiatives.

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

Contractual Obligations

(tabular amounts in thousands of dollars)	2011	2012	2013	2014	2015	Thereafter	Total
Operating Leases	$ 1,084	$ 923	$ 783	$ 455	$ 118	–	**$ 3,363**
Accounts payable and accrued liabilities	27,353	–	–	–	–	–	**27,353**
Capital expenditure purchase commitments	273	–	–	–	–	–	**273**
Total	$ 28,710	$ 923	$ 783	$ 455	$ 118	–	**$ 30,989**

Contingent Liabilities

Management is not aware of any contingent liabilities.

Controls and Procedures

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

During Quarter 1, 2011, 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

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over financial reporting but nothing considered at a material level.

The Company acquired EE on March 15, 2011 and has included the financial results of EE as part of HPS' consolidated financial results as of March 1, 2011 for administrative convenience. Management has not yet fully assessed the design or operating effectiveness of EE's disclosure controls and procedures and internal controls over financial reporting.

International Financial Reporting Standards

The following information is provided solely for the purpose of allowing investors and others to obtain a better understanding of the Company's IFRS changeover and the resulting effects on the Company's financial statements. Readers are cautioned that it may not be appropriate to use such information for any other purpose. The accounting policy differences identified in this MD&A should not be considered as complete or final as further changes, or other effects and other policy differences may be identified. In addition, the information provided reflects the Company's current assumptions, estimates and expectations, all of which are subject to change. Circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change these assumptions, estimates or expectations or the information provided.

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

The project was 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.

This phase is completed.

Phase Two – Analysis and Development:

This phase involved 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 were assessed for the most appropriate application. Areas identified in Phase One were analyzed in detail to assess if any changes to policies were required and what, if any, impact this would have. During this phase our key finance staffs were trained on IFRS. Management and Audit Committee members were educated regarding IFRS implications.

In this regard the Company has considered the following aspects of the transitional provisions to be effective on January 1, 2010. This is not an exhaustive list and relates only to those areas where Management considers the likely impact to be more significant. The unaudited financial statements for the three months ended April 2, 2011 include reconciliations and descriptions of the full impact of the adoption of IFRS on the financial position, financial results of operations and the cash flows of the Company in comparison to amounts previously recorded under Canadian Generally Accepted Accounting Principles.

Property, plant and equipment: The Company has utilized the IFRS 1 election to recognize certain parcels of land at fair value at January 1, 2010. All other property, plant and equipment retained its historical cost on transition and reflect the application of componentization, which had an insignificant impact on the opening financial position at January 1, 2010. The Company has finalized fair value assessments for its properties and the resulting adjustment is an increase to property of $2,240, and a $1,976 increase to retained earnings at January 1, 2010, net of future tax implications of $264.

Employee future benefits: The Company has utilized the IFRS 1 election and recognizes all unamortized actuarial gains and losses through equity. This has resulted in an increase in accrued benefit obligation of $245 and a corresponding decrease in retained earnings at January 1, 2010, net of any related future tax implications.

Functional currency: The Company has performed an analysis of the functional currency of each of its operations located in Canada, the U.S. and Mexico, in accordance with the requirements of IAS 21 - The Effects of Changes in Foreign Exchange Rates. Under Canadian GAAP it had previously been concluded that the functional currency of all the Company's operations was the Canadian dollar. Under IAS 21 it has been concluded that the operations in Canada have the Canadian dollar as their functional currency, the operations in the U.S. have the U.S. dollar as their functional currency and that the operations in Mexico have the Mexican Peso as their functional currency. HPS has utilized IFRS 1 election and has recognized the cumulative translation adjustment through retained earnings as of January 1, 2010. The net impact of the change in functional currency and the corresponding decision to utilize

the IFRS 1 election to zero out the cumulative translation adjustment at January 1, 2010, resulted in a in a decrease in retained earnings of $625. Going forward, translation adjustments related to the operations in the U.S. and Mexico will be recognized in shareholders' equity rather than through the statement of earnings as was previously the case under Canadian GAAP.

Business Combinations: The impact of adapting business combinations IFRS accounting at January 1, 2010, resulted in a decrease in retained earnings of $26.

The net impact of the above items and any related future tax implications resulted in an increase in shareholders' equity at January 1, 2011, of $1,080, which is detailed below.

Revaluation of property	$	2,240
Deferred tax		(264)
Acquisition related costs		(26)
Actuarial gains and losses		(245)
Cumulative translation		(625)
Net increase in retained earnings	$	1,080

This phase is completed.

Phase Three – Implementation and Review:

This phase involved executing the work completed in Phase Two by making changes to business and accounting processes and supporting information systems. Changes to policy and procedure resulting from transition to IFRS did not result in significant changes to IT.

This phase included the review of all internal controls that may have been impacted by any of the changes. 2010 comparative data has been collected for comparative disclosure starting in the first quarter of 2011.

This phase is completed.

The Company will ensure on-going compliance with IFRS and to take into account the changing IFRS landscape.

Purchase of Euroelettro S.p.A.

HPS announced on March 21, 2011 that the acquisition of Euroelettro S.p.A. was completed. The Company will operate as Euroelettro S.p.A. ("EE"), a wholly owned subsidiary of HPS.

With over 20 years' of experience, EE has its corporate office and manufacturing plant in Meledo di Sarego, Italy. EE's business involves the design and manufacture of cast coil, standard and custom dry type distribution and power transformers with annual sales revenues of approximately Cdn $15 million. EE has a reputation in the industry for its custom design capabilities, product reliability and quality.

Total purchase consideration is comprised of the following:

Cash	$	7,786

The preliminary allocation of the acquisition costs for EE as at March 1, 2011 is as follows:

Accounts Receivable	$	5,699
Inventory	$	2,051
Property, Plant & Equipment	$	9,602
Intangible Assets	$	790
Customer Relationships	$	1,000
Goodwill	$	2,108
Total Assets		21,250
Bank Operating Lines of Credit	$	(2,990)
Accounts Payable and Accrued Liabilities	$	(6,209)
Deferred Tax Liabilities	$	(682)
Long-Term Debt	$	(3,583)
Total Liabilities		(13,464)
Net Consideration for net assets acquired	$	7,786

The purchase price allocation of the tangible and intangible assets is preliminary and may be adjusted as a result of the final 2011 Audited Financial Statements of EE and from additional information regarding preliminary estimates of fair values.

The purchase of EE expands HPS' global presence, provides a platform for expansion into the European market and increases its product breadth offering with design and manufacturing capabilities in cast coil transformer technology. The addition of cast coil product with HPS' already broad dry transformer product offering will support HPS' growth in North America as well as in other global markets.

The acquisition of EE also further strengthens HPS' transformer brands, supports North American and European market share expansion, provides increased manufacturing capacity and advances the Company's business hedging strategies.

Risks and uncertainties

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

These risks include:

- The cyclical effects, unpredictability and volatility of market costs and supply pressures for commodities such as copper, insulation and electrical grain oriented steel;
- A significant, unexpected change in the global demand for resources;
- The extreme variability 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.

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

Commodity prices

An area that has had a definite impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper commodity and steel pricing in the global market. Due to this unpredictability, particularly with copper pricing, HPS implemented a future contracts hedging strategy. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

The Company had forward commodity contracts in place for 2010 and has entered into contracts to the end of the year 2011.The details of the forward commodity contracts outstanding as at December 31, 2010, are discussed in Note 16 in the Notes to Consolidated Financial Statements contained in our 2010 Annual Report.

Foreign exchange

HPS operating results are reported in Canadian dollars. Nonetheless, the majority of our sales and material purchases are denominated in U.S. dollars. While there is a natural hedge, as sales denominated in U.S. dollars are partially offset by the cost of raw materials purchased from the U.S. and commodities tied to U.S. dollar pricing, a change in the value of the Canadian dollar against the U.S. dollar will impact earnings. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results. Inversely, a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

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

We have partially reduced the impact of foreign exchange fluctuations through increasing our U.S. dollar driven manufacturing output and have further enhanced our geographic manufacturing hedge through the acquisition of Delta Transformers Inc. This operation is a buyer of raw materials priced in U.S. dollars and essentially has all of its sales in Canada.

The Company had also lessened its intercompany loan transactional exchange rate risk by entering into a forward foreign exchange contract.

Finally, HPS periodically institutes 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 its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts. As part of hedging this risk, the Company may enter into fixed long-term rates on part of its total debt. The Company believes that a more significant impact of a rise in interest rates would apply to our customers' investment decisions and financing capabilities.

Credit

A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. Although the Company has historically incurred very low bad debt expense, the current economic conditions increase this exposure.

Global/North American economy

Given the negative economic environment, particularly in North America, we are focusing our efforts over the next twelve months on projects that will increase our cost competitiveness, capacity and improve our manufacturing flexibility. The Company believes that being agile as an organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. We also believe that through our OEM and distributor channels, our growing access to a variety of global and domestic markets will help HPS expand market share during this economic slowdown.

Off-Balance Sheet Arrangements

The Company has no off-Balance Sheet arrangements, other than operating leases disclosed in the Notes to the Consolidated Financial Statements contained in our 2010 Annual Report.

Transactions with Related Parties

The Company had no transactions with related parties in Quarter 1, 2011.

Proposed Transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm transactions as at April 2, 2011.

Financial Instruments

There is a foreign exchange contract in place as a hedge of the intercompany loan from Hammond Power Solutions, Inc., HPS' U.S. entity and EE. The forward exchange contract is to sell 8,000 Euros at a rate 1.3775 U.S., maturing July 1, 2011.

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. The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary, if it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Management's Discussion & Analysis – First Quarter 2011

Outstanding Share Data

Details of the Company's outstanding share data as of April 2, 2011 are as follows:

8,804,624	Class A Shares
2,778,300	Class B Common Shares
1,582,924	Total Class A and B Shares

Strategic Direction and Outlook

HPS continues to expand its core business in both Canada and the U.S. and has been successful at gaining a manufacturing presence in Italy. Although their economies and the electrical market are improving they are still somewhat unpredictable; the Company is very aware of the general global economic decline particularly in North America and Europe, the potential negative impact of a stronger and unpredictable Canadian dollar, and the variability of raw material commodity costs. The Company continues to deal with these deterrents in a deliberate and forthright manner through its operational projects and strategic initiatives.

The Company is not immune to the challenges it faces from these negative influences but is confident that the business fundamentals that it has built will sustain and grow the Company in the future. The Company believes that this is a time to be cautious but not complacent, conservative but progressive. It will be unwavering in its pursuit of improved productivity gains, sales growth from new product development, geographic diversification, capacity expansion and escalation of market share.

The Company is proud of our past achievements and is aware of the cloak of economic pessimism, but we are optimistic about our future opportunities. We are stronger and more capable of enduring economic uncertainty.

HPS showed strong performance across all financial and operational metrics and it is noteworthy that last year's solid financial performance was realized during a global economic decline.

We will continue to focus our efforts on sustaining profit rates through selling price increases, sales growth, geographic manufacturing dispersion, productivity gains, new product development and market share penetration.

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.

HPS is positioned to meet the evolving needs of our traditional markets while becoming a central player in a growing number of emerging and global markets. Our experience, engineering expertise, solid supplier relationships, as well as a unique business perspective gained through our diverse products, customers and markets will be the cornerstone to our success.

We remain attentive in continuing our disciplined cost management initiatives and in bringing quality and value to all stakeholders of the Company.

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

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 eight quarters up to, and including the First Quarter 2011. The quarterly information has been extracted from our unaudited consolidated financial statements which, in the opinion of Management, are prepared in accordance with the IFRS accounting framework as noted.

Annual Information

(tabular amounts in thousands of dollars)	2006	2007	2008	2009	2010 IFRS Restated
Sales	131,978	160,606	226,358	195,437	**190,604**
Earnings from operations	14,067	19,575	** 26,558	18,943	**14,783**
EBITDA	16,190	22,704	34,742	19,816	**19,500**
Net earnings (loss) for the year	8,674	12,403	22,829	9,631	**10,652**
Total assets	57,688	70,264	110,891	106,597	**118,643**
Total liabilities	25,907	25,784	41,107	29,094	**32,360**
Total cash (debt)	(180)	4,395	(4,100)	10,024	**17,694**
Cash provided from operations	7,661	7,611	6,254	26,418	**14,859**
Basic earnings (loss) per share	0.76	1.08	1.95	0.82	**0.92**
Diluted earnings (loss) per share	0.75	1.06	1.93	0.82	**0.91**
Dividends declared and paid	–	–	–	1,173	**1,504**
Average Exchange Rate (USD$=CAN$)	1.134	1.075	1.064	1.145	**1.030**
Book value per share	2.75	3.82	5.91	6.57	**7.45**

Quarterly Information

	2009			2010 IFRS Restated				2011 IFRS
(tabular amounts in thousands of dollars)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	48,203	43,768	48,621	44,273	50,820	47,903	47,608	**52,777**
Earnings from operations	3,966	2,218	6,687	3,506	3,361	2,376	5,540	**2,669**
EBITDA	2,900	2,125	7,014	5,614	3,047	4,399	6,440	**3,580**
Net earnings	472	57	4,860	2,976	1,170	2,250	4,256	**1,571**
Total assets	107,446	105,302	106,597	106,346	109,501	111,188	118,673	**127,854**
Total liabilities	33,981	30,965	29,094	25,874	25,725	26,738	32,360	**40,603**
Total cash	970	1,326	10,024	10,675	10,626	16,241	17,694	**320**
Cash provided (used) by operations	8,006	5,341	11,059	1,607	1,793	7,117	4,379	**(2,578)**
Basic earnings per share	0.04	0.01	0.41	0.25	0.10	0.20	0.37	**0.14**
Diluted earnings per share	0.04	0.01	0.41	0.25	0.09	0.20	0.37	**0.14**
Dividends declared and paid	–	1,173	–	–	–	–	1,504	**–**
Average Exchange Rate (USD$=CAN$)	1.175	1.103	1.058	1.041	1.028	1.039	1.013	**0.986**
Book value per share	6.27	6.30	6.54	6.93	7.23	7.30	7.45	**7.53**

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

Consolidated Statement of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)	April 2, 2011	As at December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash	**$ 7,870**	$ 19,536	$ 14,049
Accounts receivable	**36,224**	31,009	27,366
Prepaid expenses	**999**	921	514
Derivative assets	**668**	1,192	454
Income taxes recoverable	**2,208**	2,188	3,006
Inventories	**29,753**	26,342	25,585
Total current assets	**77,722**	81,188	70,974
Non-current assets			
Property, plant and equipment	**37,958**	28,955	28,204
Investment in properties	**1,044**	1,044	1,044
Deferred tax assets	**569**	586	685
Goodwill	**4,183**	2,180	2,180
Intangible assets	**6,378**	4,690	5,099
Total non-current assets	**50,132**	37,455	37,212
Total assets	**$ 127,854**	$ 118,643	$ 108,186
Liabilities			
Current liabilities			
Bank operating lines of credit	**$ 2,952**	$ 1,447	$ 4,025
Accounts payable and accrued liabilities	**28,966**	26,908	22,953
Income tax liabilities	**91**	218	85
Provisions	**552**	962	550
Derivative liabilities	**335**	-	-
Current portion long term debt	**1,616**	-	-
Total current liabilities	**34,512**	29,535	27,613
Non-current liabilities			
Employee benefits	**249**	257	250
Provisions	**118**	118	139
Long term debt	**2,982**	395	-
Deferred tax liabilities	**2,742**	2,055	1,601
Total non-current liabilities	**6,091**	2,825	1,990
Total liabilities	**40,603**	32,360	29,603
Shareholders' equity			
Share capital	**12,968**	12,968	12,959
Contributed surplus	**1,346**	968	626
Accumulated other comprehensive income	**(2,248)**	(1,267)	-
Retained earnings	**75,185**	73,614	64,998
Total shareholders' equity	**87,251**	86,283	78,583
Total liabilities and shareholders' equity	**$ 127,854**	$ 118,643	$ 108,186

The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Income
(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending April 2, 2011	April 3, 2010
Sales	$ 52,777	$ 44,273
Cost of sales	39,974	32,448
Gross Margin	12,803	11,825
Selling and distribution	5,261	4,536
General and administrative	4,873	3,783
Earnings from operations	2,669	3,506
Interest expense	30	37
Foreign exchange loss (gain)	302	(1,073)
Co-tenancy expense	32	33
Net finance costs	364	(1,003)
Income before income taxes	2,305	4,509
Current income tax expense	734	1,533
Net earnings	$ 1,571	$ 2,976
Earnings per share		
Basic earnings per share (dollars)	0.14	0.25
Diluted earnings per share (dollars)	0.14	0.25

The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending April 2, 2011	April 3, 2010
Net earnings	$ 1,571	$ 2,976
Other comprehensive income		
Foreign currency translation differences for foreign operations	(981)	(1,147)
Other comprehensive income for the period, net of income tax	(981)	(1,147)
Total comprehensive income for the period	$ 590	$ 1,829

The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
(unaudited)
For the year ended December 31, 2010

	Attributable to equity holders of the Company				
(tabular amounts in thousands of dollars)	Share capital	Contributed surplus	AOCI **	Retained earnings	Total shareholders' equity
Balance at January 1, 2010	$ 12,959	$ 626	-	$ 64,998	$ 78,583
Total comprehensive income for the period					
Net earnings	-	-	-	10,652	10,652
Other comprehensive income					
Foreign currency translation differences	-	-	(1,267)	-	(1,267)
Defined benefit plan actuarial gains and losses, net of tax	-	-	-	(25)	(25)
Total other comprehensive income	-	-	(1,267)	(25)	(1,292)
Total comprehensive income for the period	-	-	(1,267)	10,627	9,360
Transactions with owners, recorded directly in equity					
Own shares acquired	(74)	(3)	-	(507)	(584)
Dividends to equity holders	-	-	-	(1,504)	(1,504)
Share-based payment transactions	-	373	-	-	373
Share options exercised	83	(28)	-	-	(55)
Total transactions with owners	9	342	-	(2,011)	(1,660)
Balance at December 31, 2010	$ 12,968	$ 968	$ (1,267)	$ 73,614	$ 86,283

**AOCI = Accumulated other comprehensive income
The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(unaudited)
For the quarter ended April 2, 2011

Attributable to equity holders of the Company

(tabular amounts in thousands of dollars)	Share capital	Contributed surplus	AOCI **	Retained earnings	Total shareholders' equity
Balance at January 1, 2011	$ 12,968	$ 968	$ (1,267)	$ 73,614	$ 86,283
Total comprehensive income for the period					
Net earnings	-	-	-	1,571	1,571
Other comprehensive income					
Foreign currency translation differences	-	-	(981)	-	(981)
Total other comprehensive income	-	-	(981)	-	(981)
Total comprehensive income for the period	-	-	(981)	1,571	590
Transactions with owners, recorded directly in equity					
Share-based payment transactions	-	378	-	-	378
Share options exercised	-	-	-	-	-
Total transactions with owners	-	378	-	-	378
Balance at April 2, 2011	$ 12,968	$ 1,346	$ (2,248)	$ 75,185	$ 87,251

The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(unaudited)
For the quarter ended April 3, 2010

Attributable to equity holders of the Company

(tabular amounts in thousands of dollars)	Share capital	Contributed surplus	AOCI **	Retained earnings	Total shareholders' equity
Balance at January 1, 2010	$ 12,959	$ 626	-	$ 64,998	$ 78,583
Total comprehensive income for the period					
Net earnings	-	-	-	2,976	2,976
Other comprehensive income					
Foreign currency translation differences	-	-	(1,147)	-	(1,147)
Total other comprehensive income	-	-	(1,147)	-	(1,147)
Total comprehensive income for the period	-	-	(1,147)	2,976	1,829
Transactions with owners, recorded directly in equity					
Share-based payment transactions	-	18	-	-	18
Share options exercised	19	(7)	-	-	12
Total transactions with owners	19	11	-	-	30
Balance at April 3, 2010	$ 12,978	$ 637	$ (1,147)	$ 67,974	$ 80,442

The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Note	Quarter Ending April 2, 2011	Quarter Ending April 3, 2010
Cash flows from operating activities			
Net earnings		$ 1,571	$ 2,976
Add (deduct) items not involving cash:			
Amortization of property, plant and equipment		1,115	936
Amortization of intangible assets		130	132
Provisions		(410)	141
Interest expense	7l	30	37
Income tax expense	7l	734	1,535
Stock based compensation expense		378	18
		3,548	5,775
Change in non-cash working capital		(5,204)	(3,280)
Cash (used in) from operating activities		(1,656)	2,495
Income tax paid	7l	(922)	(888)
Cash (used in) from operating activities		(2,578)	1,607
Cash flows from investing activities			
Acquisition of subsidiary company	6	(7,786)	-
Acquisition of property, plant and equipment		(397)	(863)
Acquisition of intangible assets		(10)	(68)
Cash used in investing activities		(8,193)	(931)
Cash flows from financing activities			
Proceeds from issue of share capital		-	12
Advances (repayment) of borrowings		(1,485)	(1,856)
Advances (repayments) of long term debt		620	-
Interest paid	7l	(30)	(37)
Cash used in financing activities		(895)	(1,881)
Decrease in cash		(11,666)	(1,205)
Cash at beginning of year		19,536	14,049
Cash at end of period		$ 7,870	$ 12,844

The Notes on pages 20 to 34 are an integral part of these consolidated financial statements.

1. Reporting entity

Hammond Power Solutions Inc. ("HPS" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 595 Southgate Drive, Guelph, Ontario. The consolidated financial statements of the Company as at and for the First quarter ended April 2, 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group primarily is involved in the design and manufacture of custom electrical engineered magnetics and standard electrical dry-type transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States, Mexico and Italy, the latter being Euroelettro S.p.A.(EE), a wholly owned subsidiary acquired through an acquisition during the First Quarter of 2011. This subsidiary is held through Continental Transformers S.r.L., a wholly owned subsidiary established during the First Quarter of 2011 for the purposes of acquiring EE.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These are the Company's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 7. This Note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRSs

Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year-ending December 31, 2011 could result in restatement of these condensed consolidated interim financial statements including the transition adjustments recognized on change over to IFRS disclosed in Note 7.

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2010 annual audited financial statements and in consideration of the IFRS transition disclosures and reconciliations included in Note 7 to these financial statements and the additional annual disclosures included herein.

These condensed consolidated interim financial statements were approved by the Board of Directors on April 27, 2011.

(b) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- The employee benefits liability is recognized as the net total of the plan assets, any unrecognized past service cost and the present value of the defined benefit obligation.

(c) Functional and presentation currency

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar, being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

The functional currency of the Company's subsidiary operations located in the U.S., Mexico, and Italy are the U.S. dollar, the Mexican Peso, and the Euro respectively. The functional currency of the Company's Canadian operations is the Canadian dollar.

(d) Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in Notes 4, 5 and 6. Significant estimates and assumptions are also used in the determination of the estimated useful lives of intangible assets and property, plant, and equipment.

3. Summary of significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in the preparation of the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

The consolidated financial statements include the accounts of Hammond Power Solutions Inc. and its wholly owned subsidiaries, Hammond Power Solutions, Inc., Hammond Power Solutions, S.A. de C.V., and Delta Transformers Inc. The consolidated financial statements also include the Company's wholly owned subsidiary, Continental Transformers S.r.L., and its wholly owned subsidiary Euroelettro S.p.A. for the period from March 1, 2011 to April 2, 2011. In addition, the consolidated financial statements include the Company's proportionate share of assets, liabilities, revenues and expenditures in 1159714 Ontario Inc. and Glen Ewing Properties. All significant inter-company transactions and balances have been eliminated.

Jointly controlled assets arise from an arrangement that is a joint venture carried on with assets that are controlled jointly, whether or not owned jointly, but not through a separate entity. The Company has a 50% interest in Glen Ewing Properties, an unincorporated co-tenancy. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

(b) Financial Instruments

The Group aggregates its financial instruments into classes based on their nature and characteristics. The Group has classified its financial instruments as follows:

- Cash is classified as fair value through profit or loss;
- Accounts receivable are classified as loans and receivables;
- Bank operating lines of credit are classified as fair value through profit or loss;
- Accounts payable and accrued liabilities are classified as other liabilities;
- Long-term debt is classified as other liabilities; and
- Derivative financial instruments are classified as fair value through profit or loss.

(c) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, unless the transaction costs relate to financial instruments classified as fair value through profit and loss, in which case they are expensed immediately. Subsequent measurement is determined based on initial classification.

The Group uses trade date accounting for regular-way purchases and sales of financial assets.

(i) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes trade and other receivables.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less appropriate allowances for doubtful receivables.

Allowances for doubtful receivables represent the Group's estimates of losses that could arise from the failure or inability of customers to make payments when due.

Loans and receivables are further classified as current and non-current depending whether these will be realized within twelve months after the balance sheet date or beyond.

(ii) **Other liabilities**
This category includes accounts payable and accrued liabilities and long-term debt. Subsequent to initial measurement, other liabilities are carried at amortized cost using the effective interest rate method.

(iii) **Fair value through profit or loss**
A financial instrument is classified as fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. This category includes cash, loans and borrowings and derivative financial instruments.

(iv) **Derivative financial instruments**
The Group is party to derivative financial instruments in the form of forward foreign exchange contracts used to hedge an intercompany loan, foreign currency exposure and forward copper contracts used to manage commodity price exposures. The Group records all of its forward contracts at fair value, changes in fair value of exchange contracts are recognized through exchange gains and losses in the income statement and changes in fair value of copper contracts are recognized through earnings as cost of sales.

(v) **Fair value**
The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parities who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

(d) Property, plant and equipment

Property, plant and equipment are shown in the statement of financial position at their historical cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 14-30 years
- Leaseholds 5 years
- Machinery and equipment 4-10 years
- Office equipment 4-10 years
- Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets other than goodwill

Intangible assets that are acquired either separately or in a business combination are recognized when they are identifiable and can be reliably measured. Intangible assets are considered to be identifiable if they arise from contractual or other rights, or if they are separable (i.e. they can be disposed of either individually or together with other assets). Intangible assets comprise finite life intangible assets.

Finite life intangible assets are those for which there is an expectation of obsolescence that limits their useful economic life or where the useful life is limited by contractual or other terms. They are amortized over the shorter of their contractual or useful economical lives. The balance is comprised mainly of customer relationships and software.

The estimated useful lives for the current and comparative periods are as follows:

- Customer relationships 15 years
- Software and other 4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Notes to Unaudited Consolidated Financial Statements

(f) Goodwill

Acquisitions on or after January 1, 2010, are accounted for using the acquisition method required by IFRS 3. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired, less liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amounts recognized under previous Canadian GAAP.

Goodwill is tested for impairment at least annually and upon the occurrence of an indication of impairment.

The impairment tests are performed at the cash generating unit (CGU) level. The Group defines it CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value less costs to sell. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate. Usually, the cash flows correspond to estimates made by Group Management in financial and strategic business plans covering a period of five years. They are then projected beyond 5 years using a steady or declining growth rate given that the Group businesses are of a long-term nature. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rate used approximated the Company's weighted average cost of capital. The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates exclude inflation.

An impairment loss in respect of goodwill is never subsequently reversed. The group completed its annual impairment test at December 31, 2010 as well as an impairment test on transition to IFRS, and concluded there was no impairment.

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group measures its investment property, being the property held by Glen Ewing Properties, at historical cost.

(h) Inventories

Inventories are valued at the lower of cost and net realizable value.

The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When circumstances which previously caused inventories to be written down to its net realizable value no longer exist, the previous impairment is reversed.

(i) Impairment of property, plant and equipment and finite life intangible assets

The Group periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment and finite life intangible assets. The Group 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.

The recoverable amount is the greater of the fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. Assets that suffer an impairment are tested for possible reversal of the impairment at each reporting date.

(j) Share-based payment transactions

The Group has a stock-based compensation plan, which is described in Note 5. The Group accounts for all stock-based payments using the fair value based method.

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 amount recognized as an expense is adjusted to reflect the number of awards for which the related services are expected to meet. 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.

(k) Provisions

Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation, commercial or other risks. Provisions are recognized when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(l) Revenue

The Group 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 sale price is fixed or determinable.

Service revenue is recognized when the service is performed.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing net earnings of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is computed similar to basic EPS except that the weight average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that proceeds from such exercises along with the unamortized stock based compensation were used to acquire shares of common stock at the average market price during the reporting period.

(o) New standards and interpretations not yet adopted

(i) **Financial liabilities**

The IASB integrated final guidance on the classification and measurement of financial liabilities into IFRS 9, Financial Instruments. The new requirements retain the eligibility conditions of IAS 39 Financial Instruments: Recognition and Measurement for irrevocably designating, at initial recognition, a financial liability measured as fair value through profit and loss. However, when an entity now elects this option, the amount of change in fair value that is attributable to changes in the entity's credit risk will now be presented directly in other comprehensive income, unless doing so creates or enlarges an accounting mismatch in profit or loss. The final guidance also eliminates the current exception from fair value measurement contained in IAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Currently, such derivatives are measured at cost and the amendments require fair value measurement. IFRS 9 becomes effective for fiscal years beginning on or after July 1, 2013, and is generally applied retrospectively with certain exceptions. The application of this standard is expected to have no effect on the Group.

Notes to Unaudited Consolidated Financial Statements

4. Impairment testing for cash-generating units

The Company has defined its cash generating units as each manufacturing and contract manufacturing location, due to the fact that each location is managed separately and has its own dedicated human resources and fixed assets. Each manufacturing facility produces products largely independent of the other facilities and are ultimately responsible for producing products that generate revenue.

The Company monitors the performance of each manufacturing location through the use of profitability analysis based on the most recent business plan in place as of January 1, 2010. Where there were indicators of impairment, the Company performed an impairment test using the value in use method, under which a 5-year present value cash flow projection was completed using the Company's weighted average cost of capital of 7.2%. The cash flow model also incorporated growth rates in the range of 5% – 10% depending on location and the facility's operating history. This was then compared to the carrying value of the facility's assets to determine if there was impairment.

Impairment testing for cash-generating units containing goodwill

IFRS 1 requires entities to test goodwill for impairment upon transition to IFRS. Accordingly, effective January 1, 2010, the assets, including goodwill, of the company's wholly owned subsidiary, Delta Transformers Inc., were tested and no impairment was found.

Impairment testing for cash-generating units not containing goodwill

The assets for those facilities that had indicators of impairment were tested and no impairment was found.

5. Stock option plan

	April 2, 2011		December 31, 2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**353,500**	**$ 7.32**	269,500	$ 5.90
Granted	**171,667**	**11.70**	100,000	10.55
Exercised	**-**	**-**	(16,000)	3.46
Cancelled	**-**	**-**	-	-
Outstanding, end of year	**525,167**	**$ 8.75**	353,500	$ 7.32

Options outstanding and exercisable at April 2, 2011:

Options outstanding				Options exercisable	
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	94,000	1.2	$ 1.93	94,000	$ 1.93
6.00	47,000	2.5	6.00	47,000	6.00
13.64	52,500	3.8	13.64	52,500	13.64
5.91	60,000	4.8	5.91	60,000	5.91
10.55	100,000	5.8	10.55	100,000	10.55
11.70	171,667	6.9	11.70	90,556	11.70
	525,167	4.7	$ 8.75	444,056	$ 7.09

Terms and conditions of the stock option plan

All options are to be settled by physical delivery of shares:

Grant date/employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of options
Option grant to Board of Directors, Officers and Senior Management July 22, 2005	$ 94,000	Vest immediately	7 years
Option grant to Board of Directors and Officers Dec 5, 2006	10,000	Vest immediately	7 years
Option grant Officers, and Senior Management on Dec 5, 2006	37,000	1/5th vested immediately remainder equally over 5 years	7 years
Option grant to Board of Directors and Officers and Senior Management March 6, 2008	52,500	Vest immediately	7 years
Option grant to Board of Directors and Officers February 24, 2009	60,000	BOD vest immediately, Officers vest equally over 3 years with ⅓rd immediately	7 years
Option grant to Board of Directors and Officers March 15, 2010	100,000	BOD vest immediately, Officers vest equally over 3 years with ⅓rd immediately	7 years
Option grant to Board of Directors, Officers, and Senior Management March 17, 2011	171,667	BOD vest immediately, Officers and Senior Management vest equally over 3 years with ⅓rd immediately	7 years
Total share options outstanding	$ 525,167		

Inputs for measurement of grant date fair values
The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

	Stock option plan	
	Directors, officers, and senior management	Directors, officers, and senior management
	2011	2010
Fair value of share options and assumptions		
Fair value at grant date	$ 11.70	$ 10.55
Share price at grant date	$ 11.70	$ 10.55
Exercise price	$ 11.70	$ 10.55
Expected volatility (weighted average volatility)	47.3%	50.4%
Option life (expected weighted average life)	3.8 years	3.8 years
Expected dividends	1.1%	1.2%
Risk-free interest rate (based on government bonds)	2.13%	2.08%

6. Business Acquisition:

Euroelettro S.p.A.

On March 16, 2011, Continental Transformers S.r.L. acquired all of the outstanding shares of Euroeletro S.p.A. ("EE"), a transformer business involved in the design and manufacture of standard and custom dry-type and cast coil distribution and power transformers, for cash consideration of $7,786.

The purchase of EE expands the Group's global presence, provides a platform for expansion into the European market and increases its product breadth offering with design and manufacturing capabilities in cast coil transformer technology. The addition of cast coil product with the Group's already broad dry transformer product offering will support the Group's growth in North America as well as in other global markets.

The following summarizes the preliminary allocation of the purchase price and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Accounts receivable	$	5,699
Inventory		2,051
Property, plant and equipment		9,602
Intangible assets		790
Customer relations		1,000
Goodwill		2,108
Assets		21,250
Bank operating loan		(2,990)
Accounts payable		(6,209)
Deferred tax liability		(682)
Long term debt		(3,583)
Liabilities		(13,464)
Total purchase consideration	$	7,786

The acquisition was accounted for using the purchase method whereby indentified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill, which represents the expected synergies to be realized from EE's complementary products. None of the goodwill recognized is deductible for income tax purposes.

The accounting for the acquisition is currently based on estimates and preliminary financial statements. The Company is awaiting final property, plant and equipment valuations and intangible asset valuations from external sources, and accordingly any changes may result in adjustments to goodwill; property, plant and equipment; and intangible assets and the deferred tax liability.

Included in the Group's consolidated results for the First Quarter of 2011 is revenue of $1,342 and net income of $4 recognized by EE from March 1, 2011, the date of convenience, to April 2, 2011.

If the company had acquired EE effective January 1, 2011, the revenue would have been approximately $3,277 and there would have been a loss of approximately $136.

7. Explanation of transition to IFRS

As stated in Note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The significant accounting policies set out in Note 3 have been applied in preparing the financial statements for the First Quarter ended April 2, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the First Quarter ended April 3,2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to Unaudited Consolidated Financial Statements

7. Explanation of transition to IFRS (continued)

Reconciliation of equity (continued)

(tabular amounts in thousands of dollars)	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		January 1, 2010			April 3, 2010			December 31, 2010		
Assets										
Current assets										
Cash		$ 14,049	–	$ 14,049	$ 12,844	–	$ 12,844	$ 19,536	–	$ 19,536
Accounts receivable	a	27,820	(454)	27,366	27,493	(391)	27,102	32,201	(1,192)	31,009
Prepaid expenses		514	–	514	610	–	610	921	–	921
Derivative assets	a	–	454	454	–	391	391	–	1,192	1,192
Income taxes recoverable		3,006	–	3,006	2,472	–	2,472	2,188	–	2,188
Inventories	b	25,722	(137)	25,585	26,430	(352)	26,078	26,535	(193)	26,342
Future tax assets	c	643	(643)	–	623	(623)	–	574	(574)	–
Total current assets		71,754	(780)	70,974	70,472	(975)	69,497	81,955	(767)	81,188
Property, plant and equipment	b,d	26,452	1,752	28,204	26,257	1,638	27,895	27,292	1,663	28,955
Intangible assets	e	5,125	(26)	5,099	5,136	(101)	5,035	4,905	(215)	4,690
Goodwill		2,180	–	2,180	2,180	–	2,180	2,180	–	2,180
Investment property		1,044	–	1,044	1,044	–	1,044	1,044	–	1,044
Accrued pension benefit asset	g				–	–	–	4	(4)	–
Deferred tax assets	c	42	643	685	42	623	665	12	574	586
Total non–current assets		34,843	2,369	37,212	34,659	2,160	36,819	35,437	2,018	37,455
Total assets		$ 106,597	$ 1,589	$ 108,186	$ 105,131	$ 1,185	$ 106,316	$ 117,392	$ 1,251	$ 118,643
Liabilities										
Current liabilities										
Bank operating lines of credit		$ 4,025	–	$ 4,025	$ 2,169	–	$ 2,169	$ 1,447	–	$ 1,447
Accounts payable and accrued liabilities		23,503	(550)	22,953	21,530	(691)	20,839	27,870	(962)	26,908
Income tax liabilities	f	85	–	85	203	–	203	218	–	218
Deferred tax liabilities	c	180	(180)	–	180	(180)	–	326	(326)	–
Provisions	f	–	550	550	–	691	691	–	962	962
Total current liabilities		27,793	(180)	27,613	24,082	(180)	23,902	29,861	(326)	29,535
Employee benefits	g	5	245	250	5	236	241	–	257	257
Provisions		139	–	139	139	–	139	118	–	118
Long term debt								395	–	395
Deferred tax liabilities	c,d	1,157	444	1,601	1,148	444	1,592	1,465	590	2,055
Total non–current liabilities		1,301	689	1,990	1,292	680	1,972	1,978	847	2,825
Total liabilities		29,094	509	29,603	25,374	500	25,872	31,839	521	32,360
Shareholders' Equity										
Share capital		12,959	–	12,959	12,978	–	12,978	12,968	–	12,968
Contributed surplus		626	–	626	637	–	637	968	–	968
Accumulated other comprehensive income	b,g	–	–	–	–	(1,147)	(1,147)	–	(1,267)	(1,267)
Retained earnings		63,918	1,080	64,998	66,142	1,832	67,974	71,617	1,997	73,614
Total shareholders' equity		77,503	1,080	78,583	79,757	685	80,442	85,553	730	86,283
Total liabilities and shareholders' equity		$ 106,597	$ 1,589	$ 108,186	$ 105,131	$ 1,185	$ 106,316	$ 117,392	$ 1,251	$ 118,643

7. Explanation of transition to IFRS (continued)

Reconciliation of comprehensive income for the year-ended December 31, 2010 and the three months ended April 3, 2010

(tabular amounts in thousands of dollars)	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		December 31, 2010			April 3, 2010		
Continuing operations							
Sales		$ 190,604		$ 190,604	$ 44,273		$ 44,273
Cost of sales	a	141,286		141,286	32,448		32,448
Gross margin		49,318		49,318	11,825		11,825
Selling, general and administrative	k	34,341	(34,341)	-	8,245	(8,245)	-
Selling and distribution	k	-	19,319	19,319	-	4,536	4,536
General and administrative	e,g,k	-	15,216	15,216	-	3,783	3,783
Earnings from operations	e,g	14,977	(194)	14,783	3,580	(74)	3,506
Interest expense		103		103	37		37
Foreign exchange loss (gain)	b	14	(1,136)	(1,122)	(247)	(826)	(1,073)
Loss on disposal of equipment		6		6	-		-
Co-tenancy expense		84		84	33		33
Earnings loss – rental property		3		3	-		-
Net finance costs		210	(1,136)	(926)	(177)	(826)	(1,003)
Income before income tax		14,767	942	15,709	3,757	752	4,509
Income tax expense		5,057		5,057	1,533		1,533
Net earnings		9,710	942	10,652	2,224	752	2,976
Other comprehensive income							
Foreign currency translation differences for foreign operations	b		(1,267)	(1,267)		(1,147)	(1,147)
Defined benefit plan actuarial (losses)	g		(25)	(25)			
Other comprehensive income for the period			(1,292)	(1,292)		(1,147)	(1,147)
Total comprehensive income for the period		$ 9,710	$ (350)	$ 9,360	$ 2,224	$ (395)	$ 1,829
Earnings per share							
Basic earnings per share (dollars)		0.84		0.92	0.19		0.25
Diluted earnings per share (dollars)		0.83		0.91	0.19		0.25

7. Explanation of transition to IFRS (continued)

Notes to the reconciliations

(a) Upon adoption of IFRS, the Group reclassified derivative financial instruments measured as fair value through profit or loss, being forward foreign exchange and copper contracts from trade and other receivables to derivative assets on the statement of financial position. The effect was to reduce trade and other receivables and increase derivative assets.

Consolidated statement of financial position	As at January 1, 2010	As at April 3, 2010	As at December 31, 2010
Trade and other receivables	(454)	(391)	**(1,192)**
Derivative assets	454	391	**1,192**

(b) Under previous Canadian GAAP, the Group's functional currency was determined to be the Canadian dollar, as the Company's subsidiaries operate as integrated foreign operations due to the fact that they are financially and operationally interdependent with the Canadian parent Company. As a result, the temporal method was used to translate assets, liabilities, revenues and expenses. The result of the application of this method was that monetary items were translated at the exchange rate in effect at the balance sheet date, non-monetary items were translated at historical rates, revenue and expense items were translated at the exchange rates in effect on the dates they occurred, and depreciation was translated at historical exchange rates as the asset to which it relates.

In accordance with IFRS, the Group examined the functional currencies for each of its component entities upon transition. Under IFRS, when the indicators are mixed and the functional currency is not obvious, priority should be given to indicators that have a greater weighting. Canadian GAAP has similar indicators as IFRS in determining functional currency; however, Canadian GAAP does not have a hierarchy of indicators under which certain indicators are given priority. In particular, under IFRS, the Group evaluated the primary economic environment within which each entity operates. In performing this evaluation, the Group looked to the currency that mainly influences sales prices, the currency of the country whose competitive forces and regulations mainly determine the sales prices, and the currency that mainly influences labour, material and other costs of providing goods. The result of this assessment was the determination that the domestic currency of each component entity is the functional currency.

Under IAS 2, Foreign Operations, assets and liabilities, are translated from their functional currency into the group presentation currency at the exchange rate at the reporting date, and revenue and expenses are translated at the transaction date.

The impact arising from the change is summarized as follows:

(tabular amounts in thousands of dollars) Consolidated statement of comprehensive income	3 months April 3, 2010	12 months Dec 31, 2010
Decrease in finance costs: Foreign exchange gain	(826)	**(1,136)**
Decrease in other comprehensive income: Foreign currency translation differences	1,147	**1,267**
Total adjustment	321	**131**

Consolidated statement of financial position	January 1, 2010	3 months April 3, 2010	12 months December 31, 2010
Reduction in inventories	(137)	(352)	**(193)**
Reduction in property, plant and equipment	(488)	(602)	**(577)**
Increase in cumulative translation reserve	(625)	(954)	**(770)**

(c) Upon adoption of IFRSs, the Group classified deferred tax assets previously presented as current assets as non-current assets, in accordance with IAS 12, Income Taxes. Similarly, the Group classified deferred tax liabilities previously presented as current liabilities as non-current liabilities.

Deferred tax assets	January 1, 2010	April 3, 2010	December 31, 2010
Current deferred tax assets	(643)	(623)	**(574)**
Non-current deferred tax assets	643	623	**574**
Current deferred tax liabilities	(180)	(180)	**(326)**
Non-current deferred tax liabilities	180	180	**326**

7. Explanation of transition to IFRS (continued)

(d) IFRS 1 provides for a transitional election to adjust property, plant and equipment to fair value upon adoption of IFRS. As a result, the Group has elected to record certain of its land at fair value, with an offsetting amount reflected through retained earnings. The related deferred tax effect is 11.6% for tax rate on capital gains.

The impact arising from the change is summarized as follows:

(tabular amounts in thousands of dollars)		3 months	12 months
Consolidated statement of financial position	**January 1, 2010**	**April 3, 2010**	**December 31, 2010**
Increase in property, plant and equipment	2,240	2,240	**2,240**
Related deferred tax effect	(264)	(264)	**(264)**
Increase in retained earnings	1,976	1,976	**1,976**

(e) Upon adoption of IFRSs, the Group expensed certain acquisition-related costs which had been incurred previously to effect a business combination in accordance with IAS 3, Business Combinations. Prior to the transition to IFRS these had been presented as intangible assets.

The impact arising from the change is summarized as follows:

(tabular amounts in thousands of dollars)	3 months	12 months
Consolidated statement of comprehensive income	**April 3, 2010**	**December 31, 2010**
Increase in general and administrative expenses	74	**190**

(tabular amounts in thousands of dollars)	As at	As at	As at
Consolidated statement of financial position	**January 1, 2010**	**April 3, 2010**	**December 31, 2010**
Reduction in intangible assets	(26)	(101)	**(215)**
Decrease in retained earnings	(26)	(101)	**(215)**

(f) Upon adoption of IFRS, the Group presented provisions previously classified as accrued liabilities separately on the statement of financial position.

(tabular amounts in thousands of dollars)	As at	As at	As at
Consolidated statement of financial position	**January 1, 2010**	**April 3, 2010**	**December 31, 2010**
Decrease accounts payable and accrued liabilities	(550)	(691)	**(962)**
Increase Provisions	550	691	**962**

(g) Under IFRS the Group's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. At the date of transition, all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. Under Canadian GAAP, the Group recognized actuarial gains and losses in the statement of operation over the employees' expected average remaining service period using the corridor method. The unrecognized actuarial gains and losses exceeding the corridor that were recognized in profit or loss for the year-ending December 31, 2010 under previous Canadian GAAP were reversed, and all actuarial gains and losses arising in 2010 ($25 thousand) were recognized in other comprehensive income.

7. Explanation of transition to IFRS (continued)

The impact arising from the change is summarized as follows:

(tabular amounts in thousands of dollars)	3 months	12 months
Consolidated statement of comprehensive income	**April 3, 2010**	**December 31, 2010**
Increase in general and administrative expenses	–	**4**

	As at	As at	As at
Consolidated statement of financial position	**January 1, 2010**	**April 3, 2010**	**December 31, 2010**
Increase in employee benefits liability	245	245	**245**
Decrease in employee benefits **	–	(9)	**(13)**
Decrease in accrued pension benefit asset	–	–	**4**
Decrease in other comprehensive income	–	–	**25**
Decrease in accumulated other comprehensive income	–	9	**13**
Decrease in retained earnings	245	245	**274**

(h) In accordance with IFRS 1, the Group has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition.

The impact arising from the change is summarized as follows:

(tabular amounts in thousands of dollars)	
Consolidated statement of financial position	**As at January 1, 2010**
Decrease in cumulative translation reserve	**625**
Decrease in retained earnings	**625**

(i) As part of its transition to IFRS, the Group elected not to restate prior business combinations. In respect of acquisitions prior to January 1, 2009, goodwill represents the amount recognized under previous Canadian GAAP.

(j) The above changes decreased (increased) retained earnings as follows:

(tabular amounts in thousands of dollars)	Note	As at January 1, 2010	As at April 3, 2010	As at December 31, 2010
Revaluation of property	d	2,240	2,240	**2,240**
Deferred tax on revaluation of property	d	(264)	(264)	**(264)**
Acquisition related costs	e	(26)	(101)	**(215)**
Actuarial gains and losses	g	(245)	(245)	**(270)**
Foreign exchange gains and losses	g	–	826	**1,136**
Pension expense	g	–	–	**(4)**
Cumulative translation	h	(625)	(625)	**(625)**
Increase in retained earnings		1,080	1,832	**1,997**

** The pension liability is U.S. denominated and therefore the decrease in employee benefits is related to balance sheet translation and is included in accumulated other comprehensive income.
The Group has elected under IFRS1 to the effects reset all accumulated actuarial losses recognized upon transition through opening retained earnings.

7. Explanation of transition to IFRS (continued)

(k) IFRS requires the presentation of expenses in the statement of comprehensive income to be made based on their nature of the function to which the expenditure relates. Previous Canadian GAAP permitted combination of these approaches. The Group has elected to present items in its consolidated statement of income based on the function to which they relate, and accordingly, has a reclassified items previously presented as selling, general and administrative expenses into selling and general and administrative.

(l) Upon transition to IFRS The Group has moved the amount of cash paid for interest and income taxes into the body of the statement of cash flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under previous Canadian GAAP.

Hammond Power Solutions Inc.

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