



Q3 Report 2011

For the nine months ended October 1, 2011



Hammond Power
Solutions Inc.

Powered by Our People

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Fellow Shareholders,

I am pleased to report that from an operational perspective Hammond Power Solutions Inc. ("HPS") delivered a positive rebound in both sales volumes and earnings from operations compared to the same quarter last year. Sales were up 16% while earnings from operations were up 28% in relation to Quarter 3, 2010. This came during a time of unprecedented economic volatility and uncertainty.

Our top line continues to be powered by our OEM markets as well as growth in our industrial distributor network. Bookings and backlog were strong coming into the quarter, which bodes positively for the remainder of the year. Mid-year price increases in the United States finally began to take hold which contributed to our improved earnings.

At the same time, we did experience higher factory costs due to the inefficiencies of being overloaded in several plants and the higher overtime costs needed to meet customer delivery expectations under these conditions. In addition, the traditional summer holiday shutdown as well as a very slow European economy, particularly in key markets like solar, hurt the quarterly performance of our Italian operation.

Investors will note that significant copper volatility did have a \$2M impact on our reported earnings. Since quarter end the Company has seen an unrealized gain of \$520,000 which illustrates the current volatility of copper pricing. Despite this, our operational results showed very positive improvements over the same quarter of the previous year.

As mentioned, with our largest backlog in history and a continuing positive momentum of growth, we are optimistic about our current trajectory. We are also engaged in a number of projects to expand our sales over the coming year in certain markets, while constantly working on a range of cost reductions to help improve our margins in this very competitive environment. But given the significant turbulence and uncertainty buffeting the global economy we remain guarded at the same time, recognizing the head winds that North America and Europe are facing. These are indeed volatile times where we must be mindful of both the opportunities and risks that are in front of us and remain ready to respond to unexpected changes in our environment. ⏻

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 and nine months ended October 1, 2011, and should be read in conjunction with the unaudited interim Consolidated Financial Statements of the Company for the third 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 third 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. Unless otherwise noted, the information contained herein is dated as of October 26, 2011.

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 and years to date ending October 1, 2011 and October 2, 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 October 1, 2011 were \$55,489 up \$7,586 or 15.8% from the comparative quarter last year, and were higher by \$17,600 or 12.3% year-to-date, finishing at \$160,596 compared to \$142,996 last year. Due to an a surge in new order booking OEM activity, sales in the United States stated in U.S. dollars ("USD") were \$34,330 in Quarter 3, 2011 an increase of \$4,563 or 15.3% from Quarter 3, 2010. Year-to-date sales in the U.S.

stated in USD were \$96,978, an increase of \$11,488 or 13.4%, when compared to \$85,490 last year-to-date.

A 5.7% stronger Canadian dollar (\$1.00 USD = \$.9796 CA in Quarter 3, 2011 compared against \$1.00 USD = \$1.0386 CA in Quarter 3, 2010) had an impact in the amount of \$2,025 in stated sales for the U.S. this quarter as compared to Quarter 3, 2010. On a year-to-date comparison basis, the Canadian dollar is higher by 5.6% (\$1.00 USD = \$.9776 CA versus \$1.00 USD = \$1.0358 CA) over the first nine months of last year. This has impacted the year-to-date sales denominated in U.S. dollars resulting in U.S. dollar sales stated in constant dollars that are higher by \$5,640 or 6.4% year-to-date. This growth was primarily fueled by our market expansion activities in the U.S.

Canadian sales were \$19,593 for the quarter, an increase over Quarter 3, 2010 of \$2,607 or 15.3%, due to stronger bookings and sales gains relating to earlier year delayed projects in the Canadian construction market. Canadian sales increased \$4,612 or 8.5% year-to-date, finishing at \$59,087.

The Quarter 3, 2011 sales also include sales of \$2,266 derived from the Company's first quarter 2011 acquisition of Euroeletto S.p.A, in Vicenza, Italy ("EE"). Year-to-date sales derived from EE were \$6,692.

The Company continues to grow sales in its strategic markets, geographically and as well has seen a moderate improvement in overall market activity in the electrical industry in the U.S. and Canada as evidenced by increased quotation and order booking activities. The Company's strategies relating to its expertise in custom engineered products, product breadth, competitive product design and consistent quality will fuel sales and market growth.

Quarter 3, 2011 sales by geographic segment include U.S. sales of 60.6% of our total sales, Canadian sales of 35.3% and European sales of 4.1%. On a year-to-date basis, 59.0% of the Company's sales were generated in the U.S., 36.8% in Canada and 4.2% within Europe.

HPS sales increased in both Canada and the U.S. electrical markets, while the European market continues to remain very soft. The mining market continues to be very strong and increases in the motor control, excitation, specialty transformer and utility markets in both Canada and the U.S delivered increased sales in Quarter 3, 2011 compared against Quarter 3, 2010. The NAED (North American Electrical Distributor) channel delivered increased sales as compared to the same quarter last year. Quotation and order activity in the OEM market segment has gained some momentum. Despite the negative effects of a stronger Canadian dollar, HPS delivered significantly higher increased sales in the quarter.

The Company continues to focus on its channel growth initiatives in strategic market segments in the U.S., Canada, and Europe. The Company is committed to producing premium quality transformers, and competitive custom engineered designs and to offering 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 produce sales growth through existing and new customer sales.

This, combined with our strong distribution channel, will continue to be a competitive advantage and the cornerstone to our revenue and profit growth.

Order Bookings and Backlog

The Company's aggressive execution of its sales expansion initiatives combined with slightly better market conditions have produced a substantial growth in Quarter 3 booking rates. This has resulted in a 45.4% increase in Quarter 3, 2011 bookings as compared to Quarter 3, 2010. By channel, booking levels were 67.5% higher on a direct basis and grew 24.4% through our distributor channel, as compared to Quarter 3, 2010 and on a year-to-date basis were 44.1% higher through the direct channel and 21.3% better via the distributor channel when compared to year-to-date 2010. The growth above is inclusive of bookings for our newly acquired company, Euroeletto S.p.A., which had a 3.5% quarterly impact on the bookings increase and a 1.7% impact on the year-to-date increase, almost all through the direct channel. Due to the significant increased level of bookings our order backlog increased by 24% from the Quarter 2, 2011 and increased 51% from Quarter 3, 2010.

This has positioned the Company well to deliver strong operational results for the balance of the year.

The Company is also very cognizant that it may see some month to month fluctuations in booking rates. Currently, several of our markets are seeing positive quotation and order trends. Although there currently is an increase in many of our customers booking rates, the Company is cognizant of the volatility and unpredictability of current global economies and the impact that this will have on booking trends. As a result, HPS anticipates that it will see some volatility in booking rates but does anticipate a trend of higher order bookings year-over-year.

Gross Margins

Quarter 3, 2011 gross margin rates finishing at 23.9% versus 23.2% in Quarter 3, 2010 an increase of 0.7% of sales. The Company's gross margin rates were positively impacted by implemented market specific selling price increases, internal cost reductions, lower U.S dollar denominated materials costs and the accretive effect that increased manufacturing throughput has on the absorption of our fixed factory cost structures. These factors more than offset lower summer time plant efficiencies from higher plant loading and the detrimental impact that a stronger Canadian dollar had on U.S. resale margins. Quarter 3, 2011 gross margin rates were hindered by a 5.7% stronger Canadian dollar as compared to Quarter 3, 2010. This negatively impacts gross margin rates on Canadian manufactured products sold in the United States. The company also continues to see negative selling price pressure from many

competitors due to the available excess capacity in the industry.

On a year-to-date basis, gross margin rates were 23.3% compared to 25.1% in 2010, down 1.8%, which was mostly due to the negative impact of a weak U.S. dollar and lower selling prices.

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 combined with increased sales and higher manufacturing throughput will advance margin rates.

Selling and Distribution Expenses

Total selling and distribution expenses were \$5,667 in Quarter 3, 2011 versus \$4,969 in Quarter 3, 2010 – an increase of \$698 or 14.0%. Year-to-date, selling and distribution costs were \$16,560 versus \$14,394 in 2010, an increase of \$2,166 or 15.0%. The Quarter 3, 2011 selling and distribution expenses also include an additional \$168 or 0.3% of total sales, pertaining to EE and on a year-to-date basis total selling costs related to EE were \$633 or 0.4% of total sales. Excluding EE, Quarter 3, 2011 expenses were \$5,499 versus \$4,969 in Quarter 3, 2010 an increase of \$530 or 10.7% and year-to-date, selling costs were \$15,927 versus \$14,394 in 2010, an increase of \$1,533 or 10.7%.

Commission expenses for the quarter were \$233 higher than Quarter 3, 2010 and year-to-date increased \$432. The higher commission expense correlates to the increased sales. There was also an increase in salaries of \$71 for the quarter and \$225 year-to-date, associated with strategic hires to support our sales strategies. Freight expenses for the quarter increased \$220 and are up \$676 year-to-date due to higher sales and increased transportation costs due to higher gasoline prices. Warehousing costs are up \$68 for the quarter and \$157 for the year as stocking levels have increased in order to provide better service due to increased product demand.

General and Administrative Expense

The general and administrative expenses for Quarter 3, 2011 totaled \$4,924 – an increase of \$846 or 20.7% when compared to Quarter 3, 2010 costs of \$4,078. The increase in Quarter 3, 2011 compared to Quarter 3, 2010 can be attributed to additional general and administrative costs related to EE totaling \$480, additional costs related to ongoing acquisition activities of \$185 and additional engineering costs of \$150.

Year-to-date, general and administrative costs are higher by \$2,205 or 18.0%, totaling \$14,435 when compared to \$12,230 for 2010. On a year-to-date basis, the increase is a result of the additional costs related to EE of \$1,121 and increases in stock option expenses of \$140, costs related to the Company's ongoing acquisition activities of \$535 and engineering costs of \$633. Comparing on a normalized basis excluding EE and acquisition costs, Quarter 3, 2011 expenses were \$4,259 in Quarter 3, 2011 versus \$4,078 in Quarter 3, 2010 – an increase of \$181 or 4.4%, and year-to-date general and administrative expenses were \$12,779 versus \$12,230 in 2010, an increase of \$549 or 4.5%.

The Company continues to invest in its people resources, specifically in the areas of information services and engineering. HPS is in a growth period and is increasing its general and administrative expense investment in support of its strategic growth initiatives, but remains very cognizant of prudent general and administrative expense management.

Earnings from Operations

Quarter 3, 2011 earnings from operations grew by \$575 or 27.5% from the same quarter last year, finishing at \$2,664 in the quarter, as compared to \$2,089 in Quarter 3, 2010. This was a result of increased sales, the realization of selling price increases and the positive effects of increased manufacturing throughput.

On a year-to-date basis, as a result of reduced gross margins due to competitive pricing pressures and the negative impact that a stronger Canadian dollar has on our U.S. margin, earnings from operations were \$7,310 versus \$9,327 for the same period of 2010, a decrease of \$2,017 or 21.6%.

The Company's earnings from operations are reflective of a period of extreme Canadian dollar, market, commodity and global economic volatility and unpredictability as well as that of the Company's investment in the capacities and infrastructure to support growth initiatives. Despite these influences, and as a result of our market penetration strategies, our sales and gross margin dollars increased significantly from the same quarter for 2010. This increase resulted in earnings from operations growth which has positioned the Company for stronger earnings from operations going forward.

Interest Expense

The interest expense for Quarter 2, 2011 finished at \$77 compared to \$19 in Quarter 3, 2010 an increase of \$58. Year-to-date interest cost was \$184, an increase of \$104 when compared to the year-to-date 2010 expense of \$80. The increase in interest expense for the quarter and year-to-date is a result of higher operating debt levels related to the assumption of debt associated with the purchase of EE. Interest expense includes all bank fees.

Foreign Exchange Gain / Loss

The foreign exchange loss in Quarter 3, 2011 was \$227. This relates primarily to the transactional exchange loss pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange gain of \$963 in Quarter 3, 2010. The year-to-date exchange loss was \$709 in 2011 compared to a foreign exchange gain of \$658 for the same period of 2010. The Company's hedging strategy for 2010 included forward foreign exchange contracts to hedge Balance Sheet translational losses. Under IFRS, the translational gains and losses from converting functional currency to presentation currency are now recognized within Other Comprehensive Income in retained earnings. The transactional gains derived from Quarter 3, 2010 forward exchange contracts of \$536 remain in the Consolidated Statement of Income. The change in accounting treatment which states that translation gains and losses are now recorded under Other Comprehensive Income under IFRS, results in that 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.

Derivative Instruments-Copper Forwards Gain / Loss

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 pricing in the global market. Due to this unpredictability, particularly with copper pricing, HPS utilizes a program of future contracts hedging strategy. The Company entered copper forwards for approximately 40% of its normal annual requirements in order to reduce the Company's exposure to changes in the price of copper.

In Quarter 3, 2011 the Company experienced a significant loss on future copper hedging contracts as the commodity future valuations significantly decreased at the end of the quarter due to concerns over the European debt crisis and a possible world recession. The unrealized loss on future copper contracts for Quarter 3 2011 was \$2,167, which was slightly offset by a gain on settled contracts of \$110. This resulted in a net loss for the quarter of \$2,057. In Quarter 3, 2010 the Company had a net copper hedging gain of \$286, which was made up of unrealized gains of \$306 offset by a small loss in settled contracts of \$20. The year-to-date 2011 hedging loss of \$2,308 is made up of unrealized losses of \$3,045 offset by gains on settled contracts of \$737. For the first nine months of last year the copper hedging position was a net loss of \$84; an unrealized loss on futures of \$126 offset by a gain on settled contracts of \$42.

At October 1, 2011, the Company had outstanding forward copper contracts for the purchase of a notional 1,600,000 pounds of copper at a fixed price ranging from \$3.66 U.S. to \$4.06 U.S. per pound with maturity dates ranging from November 2011 to May 2012.

Further demonstrating the incredibly volatile copper commodity pricing, as at October 26, 2011 market close, the Company would have an unrealized copper forward contract gain of \$540 for Quarter 4, 2011 to date, as the closing spot rate of copper at the end of Quarter 3, 2011 of \$3.13 U.S. per pound has increased to \$3.49 U.S. per pound or 11.5%. This would reduce the year-to-date unrealized copper forwards loss to \$1,627..

The Company had forward commodity contracts in place for 2010 and has entered into contracts to May 2012. The details of the forward commodity contracts outstanding as at December 31, 2010 are discussed in Note 16 in Notes to Consolidated Financial Statements contained in our 2010 Annual Report.

Income Taxes

Quarter 3, 2011 income tax expense was \$100 as compared to \$1,038 in Quarter 3, 2010 a decrease of \$938 or 90.4%. Year-to-date income tax expense was \$1,588 versus \$3,321 in 2010, a decrease of \$1,733 or 52.2% – a result of lower income before income tax. Compared to Quarter 3, 2010 the tax rate is higher this quarter as the Company is subject to Italian minimum tax requirements for its new subsidiary, EE.

The long term 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 un-depreciated capital cost of property, plant and equipment.

Net Earnings

Due to the large copper forward hedging loss, the net earnings for Quarter 3, 2011 decreased by \$2,079, finishing at a \$171 compared to net earnings of \$2,250 in Quarter 3, 2010. On a year-to-date basis net earnings finished at \$2,424, a decrease of \$3,972 when compared to year-to-date 2010 net earnings of \$6,396.

EBITDA for Quarter 3, 2011 was \$1,800 versus \$4,381 in Quarter 3, 2010 a decrease of \$2,581 or 58.9% and year-to-date totaled \$8,256 versus \$13,057 for the first nine months of 2010 a change of \$4,801 or 36.8%. Adjusted for both foreign exchange and copper hedging gains and losses, EBITDA for Quarter 3, 2011 was \$4,084 versus \$3,131 in Quarter 3, 2010, an increase of \$953 or 30.4%. Year-to-date adjusted EBITDA totaled \$10,394 for this year compared to \$12,483 in 2010, a decrease of \$2,089 or 16.7%.

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

(tabular amounts in thousands of dollars)	Quarter 3, 2011	Quarter 3, 2010	Year-to-date 2011	Year-to-date 2010
Net earnings	\$ 171	\$ 2,250	\$ 2,424	\$ 6,396
Add:				
Interest expense	\$ 77	\$ 19	\$ 184	\$ 80
Income tax expense	\$ 100	\$ 1,038	\$ 1,588	\$ 3,321
Depreciation and amortization	\$ 1,452	\$ 1,074	\$ 4,060	\$ 3,260
EBITDA	\$ 1,800	\$ 4,381	\$ 8,256	\$ 13,057
Add (Deduct):				
Foreign exchange losses/(gain)	\$ 227	\$ (963)	\$ 709	\$ (658)
Copper hedging losses/(gain)	\$ 2,057	\$ (287)	\$ 2,308	\$ 84
Adjusted EBITDA	\$ 4,084	\$ 3,131	\$ 10,394	\$ 12,483

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2011 Quarters (Stated Per IFRS)	Q1, 2011	Q2, 2011	Q3, 2011	Year-to-date Total
Sales	\$ 52,777	\$ 52,330	\$ 55,489	\$ 160,596
Net earnings	\$ 1,571	\$ 682	\$ 171	\$ 2,424
Earnings per share – basic	\$ 0.14	\$ 0.06	\$ 0.01	\$ 0.21
Average U.S. to Canadian exchange rate	\$ 0.986	\$ 0.967	\$ 0.980	\$ 0.978

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 with 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 3, 2011 have shown an increase over the prior year as general business activity was improved over Quarter 3, 2010 and also includes the sales and financial results of EE. 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 provided by operating activities for Quarter 3, 2011 was \$4,923 versus cash provided of \$7,099 in Quarter 3, 2010 a decrease of \$2,176 as a result of a lower reduction in non-cash working capital and higher income tax payments. Year-to-date cash used from operations was \$4,138 compared to 2010 cash provided of \$10,718, a change of \$14,856. This is as a result of lower profits and higher working capital requirements to support the operations.

Change in non-cash operating working capital resulted in an increase in usage of cash of \$2,523 compared to the same quarter last year. For the first nine months of 2011, the change in non-cash working capital was a net usage of cash of \$12,675 as compared to a net provision of cash from the change in non-cash working capital of \$139 in the first nine months of 2010, an increase in cash usage of \$12,814. For comparison purposes on a year-to-date basis, excluding the working capital impact of EE, accounts receivable has increased by \$7,573 due to increased sales, inventories increased by \$5,587 to support increased demand and improve customer service and trade accounts payable increased by \$4,129.

The Company is attentive to its customer accounts receivable collections cycle time and current inventory turnover rates in 2011.

Capital expenditures were \$670 in Quarter 3, 2011 compared to \$1,243 for Quarter 3, 2010 a decrease of \$573 and on a year-to-date basis were \$2,337 compared to \$3,863 in 2010 a decrease of \$1,526. The Company's capital expenditure program in the quarter were in the areas of manufacturing capacity expansion, the establishment of a new research and development test lab, productivity improvement projects, Enterprise Resource Planning software and information technology infrastructure.

Total cash used in financing activities for Quarter 3, 2011 was \$3,977 as compared to cash used of \$335 in Quarter 3, 2010. There was a Quarter 3, 2011 decrease in bank operating lines of \$3,586 versus a reduction of \$264 in Quarter 3, 2010. During the first nine months of 2011, cash used in financing activities totaled \$1,818 versus cash used in 2010 of \$3,518. In 2011, year-to-date bank operating lines decreased \$1,449 compared to 2010 where they decreased by \$3,048.

Bank operating lines of credit finished Quarter 3, 2011 at \$3,008 compared to \$977 at the end of Quarter 3, 2010 an increase of \$2,031.

The Company's overall debt, net of cash was \$3,344 in Quarter 3, 2011 compared to a net cash position of \$16,241 in Quarter 3, 2010, a reduction in cash position of \$19,585. This debt position change was a result of the purchase of Eurolettro S.p.A. for \$7,786 plus the assumed debt of \$6,573 and the change in non-cash working capital.

All bank covenants continue to be met as at October 1, 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	\$ 362	\$ 923	\$ 783	\$ 455	\$ 118	–	\$ 2,641
Accounts payable and accrued liabilities	\$ 32,082	–	–	–	–	–	\$ 32,082
Capital expenditure purchase commitments	\$ 1,545	–	–	–	–	–	\$ 1,545
Total	\$ 33,989	\$ 923	\$ 783	\$ 455	\$ 118	–	\$ 36,268

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 3, 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 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 is currently assessing the design or operating effectiveness of EE's disclosure controls and procedures and internal controls over financial reporting.

Accounting Changes - International Financial Reporting Standards

The following is a listing of standards or amendments to standards which are not yet effective, but which the Company expects to be applicable at a future date.

IFRS 9, Financial Instruments: Classification and Measurement, introduces new classification and measurement requirements for financial assets and financial liabilities that are within the scope of International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at amortized cost using the effective interest method or at fair value through profit or loss ("FVTPL"). Upon initial recognition, an entity may designate a financial liability as measured at FVTPL when permitted or when doing so results in more relevant information. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 10, Consolidated Financial Statements, will replace portions of IAS 27, Consolidated and Separate Financial Statements, and interpretation SIC-12, Consolidated – Special Purpose Entities. This standard incorporates a single model for consolidating all entities that are controlled and revises the definition of when an investor controls an investee to be when it is exposed, or has rights, to variable returns from its involvement with the investee. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 11, Joint Arrangements, replaces the guidance in IAS 31, Interest in Joint Ventures, and classifies joint arrangements as either joint operations or joint ventures. Under IFRS 11 joint ventures will no longer be able to be accounted for using proportionate consolidate and will be required to use the equity method. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 12, Disclosure of Interests In Other Entities, is a comprehensive standard on disclosure requirements for all forms of interests in other entities and is designed to provide information to evaluate the nature of and the risks associates with an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 13, Fair Value Measurement, creates a single source of guidance for fair value measurement, where fair value is required or permitted under IFRS. It established a framework to measure fair value and sets out disclosure requirements for fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IAS 1, Presentation of Financial Statements, amends the requirements under IAS 1 to require financial statements to group together items within other comprehensive income that may be reclassified to the profit and loss section of the income statement. The amendment requires tax associated with items presented before tax to be shown separately for each of two groups of other comprehensive income items. The amendment is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted.

IAS 12, Income Taxes – Recovery of Underlying Assets, amends IAS 12 to clarify the determination of deferred tax in investment property measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012.

IAS 19 – Employee Benefits, amends IAS 19 to eliminate the option to defer the recognition of actuarial gains and losses and requires remeasurements to be presented in other comprehensive income. The amendment enhances the disclosure requirements for defined benefit plans. The amendment is effective for annual periods beginning on or after January 1, 2013.

The Company intends to adopt these standards and the amendment to the standards noted above in its financial statements as they become effective. The Company is assessing the impact of these standards on its results of operations and financial position but does not expect these to have a material impact on the financial statements.

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

\$15 million CA. 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
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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	\$	1,790
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 2010 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;
- Unpredictable weather trends;
- 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 May 2012. The details of the forward commodity

contracts outstanding as at December 31, 2010 are discussed in Note 16 in 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-year. There is a corresponding positive or negative impact to the Company's Accumulated Other Comprehensive Income in the Consolidated Statement of Financial Position 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. in 2009. 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 forward foreign exchange contracts.

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

Unpredictable weather/natural disasters

The Company's order booking and sales trends may be negatively impacted by extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes.

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

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 Note 17 to the Consolidated Financial Statements contained in our 2010 Annual Report.

Transactions with Related Parties

The Company had no transactions with related parties in the nine months ended October 1, 2011.

Proposed Transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm transactions as at October 1, 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 of 1.3440 U.S., maturing December 30, 2011. There is also a foreign exchange contract in place as a hedge of the intercompany receivable from Hammond Power Solutions Inc. to Hammond Power Solutions S.A de C.V. HPS' Mexican entity. The forward exchange contract is to sell \$3,975 USD at a rate of 13.952 MXP, maturing December 30, 2011.

Derivative instruments-Copper Forwards

At October 28, 2011, the Company had outstanding forward copper contracts for the purchase of a notional 1,600,000 pounds of copper at a fixed price ranging from \$4.06 U.S. to \$443 U.S. per pound with maturity dates ranging from October 2011 to May 2012.

Further demonstrating the incredibly volatile copper commodity pricing, as at October 28, 2011 market close, the Company would have an unrealized market-to-market copper forward contract gain of \$970 for Quarter 4, 2011 to date. The closing spot rate of copper at the end of Quarter 3, 2011 of \$3.13 U.S. per pound has increased to \$3.67 U.S. per pound or 16.9%.

The Company had forward commodity contracts in place for 2010 and has entered into contracts to May 2012. The details of the forward commodity contracts outstanding as at December 31, 2010 are discussed in Note 16 in Notes to Consolidated Financial Statements contained in our 2010 Annual Report.

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.

Outstanding Share Data

Details of the Company's outstanding share data:

8,804,624	Class A Shares
<u>2,778,300</u>	Class B Common Shares
<u>11,582,924</u>	Total Class A and B Shares

Strategic Direction and Outlook

The Company has grown its market share in both Canada and the U.S. despite less than certain market and economic conditions. HPS continues to expand its core business in both Canada and the U.S. The Company has been successful at growing its global presence through its acquisition of EE in Italy. Although we have seen some improvement in the North American electrical markets, both the U.S. and Canadian economies and the electrical market are still somewhat unpredictable and volatile; the Company is very aware of the general global economic decline particularly in 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 achievements, but is aware that consistent financial performance is paramount despite the cloak of economic pessimism and uncertainty, but remains optimistic about our future opportunities.

The Company is stronger and more capable of enduring economic uncertainty and continues to demonstrate strong operational performance.

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 growing in a 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 Third Quarter of 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	13,642
EBITDA	16,190	22,704	34,742	19,816	19,500
Net earnings 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	14,281
Basic earnings per share	0.76	1.08	1.95	0.82	0.92
Diluted earnings 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

(tabular amounts in thousands of dollars)	2009		2010 IFRS Restated				2011 IFRS		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Sales	48,621	44,273	50,820	47,903	47,608	52,777	52,330	55,489	
Earnings from operations	6,687	3,527	3,711	2,089	4,315	2,827	1,819	2,664	
EBITDA	7,014	5,614	3,047	4,399	6,440	3,580	2,876	1,800	
Net earnings	4,860	2,976	1,170	2,250	4,256	1,571	682	171	
Total assets	106,597	106,346	109,501	111,188	118,643	127,854	133,574	135,271	
Total liabilities	29,094	25,874	25,725	26,738	32,360	40,603	45,481	44,523	
Total cash (debt)	10,024	10,675	10,626	16,241	17,694	320	(7,520)	(3,344)	
Cash provided (used) by operations	11,059	1,607	2,012	7,099	3,563	(2,578)	(6,483)	4,923	
Basic earnings per share	0.41	0.25	0.10	0.20	0.37	0.14	0.06	0.01	
Diluted earnings per share	0.41	0.25	0.09	0.20	0.37	0.14	0.06	0.01	
Dividends declared and paid	–	–	–	–	1,504	–	–	–	
Average Exchange Rate (USD\$=CAN\$)	1.058	1.041	1.028	1.039	1.013	0.986	0.967	0.980	
Book value per share	6.54	6.93	7.23	7.30	7.45	7.53	7.60	7.83	

**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)	As At	
(tabular amounts in thousands of dollars)	October 1, 2011	December 31, 2010
Assets		
Current assets		
Cash	\$ 3,457	\$ 19,536
Accounts receivable	42,691	31,009
Prepaid expenses	756	921
Derivative assets	11	1,192
Income taxes recoverable	3,810	2,188
Inventories	34,208	26,342
Total current assets	84,933	81,188
Non-current assets		
Property, plant and equipment	37,602	28,955
Investment in properties	1,044	1,044
Deferred tax assets	610	586
Goodwill	4,380	2,180
Intangible assets	6,702	4,690
Total non-current assets	50,338	37,455
Total assets	\$ 135,271	\$ 118,643
Liabilities		
Current liabilities		
Bank operating lines of credit	\$ 3,008	\$ 1,447
Accounts payable and accrued liabilities	32,082	26,908
Income tax liabilities	114	218
Provisions	498	962
Derivative liabilities	1,861	–
Current portion of long-term debt	617	–
Total current liabilities	38,180	29,535
Non-current liabilities		
Employee benefits	270	257
Provisions	118	118
Long-term debt	3,176	395
Deferred tax liabilities	2,779	2,055
Total non-current liabilities	6,343	2,825
Total liabilities	44,523	32,360
Shareholders' equity		
Share capital	12,968	12,968
Contributed surplus	1,468	968
Accumulated other comprehensive income	274	(1,267)
Retained earnings	76,038	73,614
Total shareholders' equity	90,748	86,283
Total liabilities and shareholders' equity	\$ 135,271	\$ 118,643

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		Nine Months Ending	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Sales	\$ 55,489	\$ 47,903	\$ 160,596	\$ 142,996
Cost of sales	42,234	36,767	122,291	107,045
Gross margin	13,255	11,136	38,305	35,951
Selling and distribution	5,667	4,969	16,560	14,394
General and administrative	4,924	4,078	14,435	12,230
Earnings from operations	2,664	2,089	7,310	9,327
Interest expense	77	19	184	80
Foreign exchange loss (gain)	227	(963)	709	(658)
Copper forward realized/unrealized loss (gain)	2,057	(287)	2,308	84
Loss on disposal of property, plant and equipment	-	-	-	6
Co-tenancy expense	32	32	97	98
Net finance costs and other	2,393	(1,199)	3,298	(390)
Income before income taxes	271	3,288	4,012	9,717
Income tax expense	100	1,038	1,588	3,321
Net earnings	\$ 171	\$ 2,250	\$ 2,424	\$ 6,396
Earnings per share				
Basic earnings per share (dollars)	0.01	0.20	0.21	0.55
Diluted earnings per share (dollars)	0.01	0.20	0.21	0.54

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		Nine Months Ending	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net earnings	\$ 171	\$ 2,250	\$ 2,424	\$ 6,396
Other comprehensive income				
Foreign currency translation differences for foreign operations	2,424	(1,393)	1,541	(339)
Other comprehensive income for the period, net of income tax	2,424	(1,393)	1,541	(339)
Total comprehensive income for the period	\$ 2,595	\$ 857	\$ 3,965	\$ 6,057

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

Consolidated Statement of Changes in Equity

For the nine months ended October 1, 2011

(unaudited) (tabular amounts in thousands of dollars)	Attributable to equity holders of the Company					Total shareholders' equity
	Share capital	Contributed surplus	AOCI **	Retained earnings		
Balance at January 1, 2011	\$ 12,968	\$ 968	\$ (1,267)	\$ 73,614		\$ 86,283
Total comprehensive income for the period						
Profit or loss	–	–	–	2,424		2,424
Other comprehensive income						
Foreign currency translation differences	–	–	1,541	–		1,541
Total other comprehensive income	–	–	1,541	–		1,541
Total comprehensive income for the period	–	–	1,541	2,424		3,965
Transactions with owners, recorded directly in equity						
Share-based payment transactions	–	500	–	–		500
Total transactions with owners	–	500	–	–		500
Balance at October 1, 2011	\$ 12,968	\$ 1,468	\$ 274	\$ 76,038		\$ 90,748

**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

For the nine months ended October 1, 2011

(unaudited) (tabular amounts in thousands of dollars)	Attributable to equity holders of the Company					Total shareholders' equity
	Share capital	Contributed surplus	AOCI **	Retained earnings		
Balance at January 1, 2010	\$ 12,959	\$ 626	–	\$ 64,998		\$ 78,583
Total comprehensive income for the period						
Profit or loss	–	–	–	6,396		6,396
Other comprehensive income						
Foreign currency translation differences	–	–	(339)	–		(339)
Total other comprehensive income	–	–	(339)	–		(339)
Total comprehensive income for the period	–	–	(339)	6,396		6,057
Transactions with owners, recorded directly in equity						
Own shares acquired	(74)	(3)	–	(507)		(584)
Share-based payment transactions	–	340	–	–		340
Share options exercised	37	(13)	–	–		24
Total transactions with owners	(37)	324	–	(507)		(220)
Balance at October 2, 2010	\$ 12,922	\$ 950	\$ (339)	\$ 70,887		\$ 84,420

** AOCI = Accumulated other comprehensive income
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)	Nine months ending	
	October 1, 2011	October 2, 2010
Cash flows from operating activities		
Net earnings	\$ 2,424	\$ 6,396
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment	3,462	2,802
Amortization of intangible assets	598	458
Provisions	(464)	546
Interest expense	184	80
Income tax expense	1,588	3,323
Unrealized loss on derivatives	3,042	125
Foreign exchange	11	(2)
Loss on disposal of property, plant and equipment	–	6
Stock based compensation expense	500	340
	11,345	14,074
Change in non-cash working capital	(12,675)	139
	(1,330)	14,213
Income tax paid	(2,808)	(3,495)
Cash (used in) provided from operating activities	(4,138)	10,718
Cash flows from investing activities		
Acquisition of subsidiary company	(7,786)	–
Proceeds on disposal of property, plant and equipment	–	2
Acquisition of property, plant and equipment	(1,607)	(3,751)
Acquisition of intangible assets	(730)	(112)
Cash used in investing activities	(10,123)	(3,861)
Cash flows from financing activities		
Proceeds from issue of share capital	–	24
Share repurchase and cancellation	–	(584)
Repayment of borrowings	(1,449)	(3,048)
(Repayment) advances of long term debt	(185)	170
Interest paid	(184)	(80)
Cash used in financing activities	(1,818)	(3,518)
Increase (decrease) in cash	(16,079)	3,339
Cash at beginning of period	19,536	14,049
Cash at end of period	\$ 3,457	\$ 17,388

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

The accompanying unaudited interim consolidated financial statements of Hammond Power Solutions Inc., (“HPS” or the “Company”) have been prepared by and are the responsibility of the Company’s Management. The Company’s independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Chartered Accountants (“CICA”) for a review of interim financial statements by an entity’s auditor.

1. Reporting entity

HPS is a company domiciled in Canada. The address of the Company’s registered office is 595 Southgate Rd. Guelph, Ontario. The consolidated financial statements of the Company as at and for the Third Quarter ended October 1, 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 (“U.S.”), Mexico and Italy, the latter being Euroeletto Hammond 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 condensed consolidated interim financial statements are part of the period covered by the first IFRS annual financial statements and IFRS 1 First-time Adoption of IFRS 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 IFRS.

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 October 26, 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 preparing 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 Euroeletto Hammond S.p.A. for the period from March 1, 2011 to October 1, 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 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 Company 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 copper gains and losses in finance costs on the income statement.

(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 parties that 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.

(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 cash generating 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 its 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 approximates 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 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 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. 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 be met. 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 amounts 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 sales 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 are computed similar to basic EPS except that the weighted 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.

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, 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

Options outstanding and exercisable as at October 1, 2011:

	October 1, 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			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 to Officers and Senior Management on Dec 5, 2006	37,000	Vest equally over 5 years with 1/5th immediately	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 1/3rd 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 1/3rd 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 1/3rd 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	\$ 3.93	\$ 3.40
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, the Company acquired all of the outstanding shares of Euroelettro Hammond S.p.A., 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		1,790
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 identified 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, intangible assets and the deferred tax liability.

Included in the Group's consolidated results for the Third Quarter of 2011 is revenue of \$2,266, YTD \$6,692 and net loss of \$487, YTD net loss of \$838, recognized by EE from the date of acquisition, to October 1, 2011.

If the Company had acquired EE effective January 1, 2011, the revenue would have been approximately \$8,627 and there would have been a loss of approximately \$974.

7. Explanation of transition to IFRS

As stated in Note 2(a), these condensed consolidated financial statements are part of the period covered by the first annual 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 Third Quarter and year-to-date ended October 1, 2011, the comparative information presented in these financial statements as at December 31, 2010 and the Third Quarter and year-to-date ended October 2, 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 comparative IFRS financial statements, 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.

7. Explanation of transition to IFRS (continued)

Reconciliation of equity

(tabular amounts in thousands of dollars)	Note	January 1, 2010			October 2, 2010			December 31, 2010		
		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
Assets										
Current assets										
Cash		\$ 14,049	–	\$ 14,049	\$ 17,388	–	\$ 17,388	\$ 19,536	–	\$ 19,536
Accounts receivable	a	27,820	(454)	27,366	30,350	(329)	30,021	32,201	(1,192)	31,009
Prepaid expenses		514	–	514	510	–	510	921	–	921
Derivative assets	a	–	454	454	–	329	329	–	1,192	1,192
Income taxes recoverable		3,006	–	3,006	1,833	–	1,833	2,188	–	2,188
Inventories	b	25,722	(137)	25,585	23,699	(157)	23,542	26,535	(193)	26,342
Future tax assets	c	643	(643)	–	630	(630)	–	574	(574)	–
Total current assets		71,754	(780)	70,974	74,410	(787)	73,623	81,955	(767)	81,188
Non-current assets										
Property, plant and equipment	b,d	26,452	1,752	28,204	26,964	1,920	28,884	27,292	1,663	28,955
Intangible assets	e	5,125	(26)	5,099	5,000	(245)	4,755	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	630	672	12	574	586
Total non-current assets		34,843	2,369	37,212	35,230	2,305	37,535	35,437	2,018	37,455
Total assets		\$ 106,597	\$ 1,589	\$ 108,186	\$ 109,640	\$ 1,518	\$ 111,158	\$ 117,392	\$ 1,251	\$ 118,643
Liabilities										
Current liabilities										
Bank operating lines of credit		\$ 4,025	–	\$ 4,025	\$ 977	–	\$ 977	\$ 1,447	–	\$ 1,447
Accounts payable and accrued liabilities	f	23,503	(550)	22,953	23,595	(1,083)	22,512	27,870	(962)	26,908
Income tax liabilities		85	–	85	17	–	17	218	–	218
Deferred tax liabilities	c	180	(180)	–	180	(180)	–	326	(326)	–
Derivative liabilities		–	–	–	–	–	–	–	–	–
Provisions	f	–	550	550	–	1,083	1,083	–	962	962
Total current liabilities		27,793	(180)	27,613	24,769	(180)	24,589	29,861	(326)	29,535
Non-current liabilities										
Employee benefits	g	5	245	250	5	238	243	–	257	257
Provisions		139	–	139	139	–	139	118	–	118
Long-term debt		–	–	–	170	–	170	395	–	395
Deferred tax liabilities	c,d	1,157	444	1,601	1,152	445	1,597	1,465	590	2,055
Total non-current liabilities		1,301	689	1,990	1,466	683	2,149	1,978	847	2,825
Total liabilities		29,094	509	29,603	26,235	503	26,738	31,839	521	32,360
Shareholders' Equity										
Share capital		12,959	–	12,959	12,922	–	12,922	12,968	–	12,968
Contributed surplus		626	–	626	950	–	950	968	–	968
Accumulated other comprehensive income	b,g	–	–	–	–	(339)	(339)	–	(1,267)	(1,267)
Retained earnings		63,918	1,080	64,998	69,533	1,354	70,887	71,617	1,997	73,614
Total shareholders' equity		77,503	1,080	78,583	83,405	1,015	84,420	85,553	730	86,283
Total liabilities and shareholders' equity		\$ 106,597	\$ 1,589	\$ 108,186	\$ 109,640	\$ 1,518	\$ 111,158	\$ 117,392	\$ 1,251	\$ 118,643

7. Explanation of transition to IFRS (continued)

Reconciliation of Comprehensive Income for the Three Months Ended October 2, 2010, the Nine Months ended October 2, 2010 and the Year Ended December 31, 2010

(tabular amounts in thousands of dollars)	Note	Effect of transition to IFRS		Effect of transition to IFRS		Effect of transition to IFRS		Effect of transition to IFRS		
		Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	Canadian GAAP	IFRS	
		Three months ended July 3, 2010			Nine months ended October 2, 2010			December 31, 2010		
Continuing operations										
Sales		\$ 47,903	–	\$ 47,903	\$ 142,996	–	\$ 142,996	\$ 190,604	–	\$ 190,604
Cost of sales		36,767	–	36,767	107,045	–	107,045	141,286	–	141,286
Gross margin		11,136	–	11,136	35,951	–	35,951	49,318	–	49,318
Selling, general and administrative	k	8,962	(8,962)	–	26,406	(26,046)	–	34,341	(34,341)	–
Selling and distribution	k	–	4,969	4,969	–	14,394	14,394	–	19,319	19,319
General and administrative	e, g, k	–	4,078	4,078	–	12,230	12,230	–	15,216	15,216
Earnings from operations	e, g	2,174	(85)	2,089	9,545	(218)	9,327	14,977	(194)	14,783
Interest expense		19	–	19	80	–	80	103	–	103
Foreign exchange loss (gain)	b	(125)	(838)	(963)	(166)	(492)	(658)	14	(1,136)	(1,122)
Copper forward realized/unrealized loss (gain)		(287)	–	(287)	84	–	84	–	–	–
Loss on disposal of equipment		–	–	–	6	–	6	6	–	6
Co-tenancy expense		32	–	32	98	–	98	84	–	84
Loss – rental property		–	–	–	–	–	–	3	–	3
Net finance costs		(361)	(838)	(1,199)	102	(492)	(390)	210	(1,136)	(926)
Income before income tax		2,535	753	3,288	9,443	274	9,717	14,767	942	15,709
Income tax expense		1,038	–	1,038	3,321	–	3,321	5,057	–	5,057
Net earnings		1,497	753	2,250	6,122	274	6,396	9,710	942	10,652
Other comprehensive income										
Foreign currency translation differences for foreign operations	b	–	(1,393)	(1,393)	–	(339)	(339)	–	(1,267)	(1,267)
Defined benefit plan actuarial losses	g	–	–	–	–	–	–	–	(25)	(25)
Other comprehensive income for the period		–	(1,393)	(1,393)	–	(339)	(339)	–	(1,292)	(1,292)
Total comprehensive income for the period		\$ 1,497	\$ (640)	\$ 857	\$ 6,122	\$ (65)	\$ 6,057	\$ 9,710	\$ (350)	\$ 9,360
Earnings per share										
Basic earnings per share (dollars)		0.13	–	0.20	0.53	–	0.55	0.84	–	0.92
Diluted earnings per share (dollars)		0.13	–	0.20	0.53	–	0.54	0.83	–	0.91

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	October 2, 2010	December 31, 2010
Trade and other receivables	(454)	(329)	(1,192)
Derivative assets	454	329	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 21, 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:

Consolidated statement of comprehensive income	3 months			9 months			12 months		
	October 2, 2010			October 2, 2010			December 31, 2010		
Decrease in finance costs:									
Foreign exchange gain		(838)			(492)			(1,136)	
Decrease in other comprehensive income:									
Foreign currency translation differences		1,393			339			1,267	
Total adjustment		555			(153)			131	

Consolidated statement of financial position	As at		
	January 1, 2010	October 2, 2010	December 31, 2010
Reduction in inventories	(137)	(157)	(193)
Reduction in property, plant and equipment	(488)	(320)	(577)
Increase in cumulative translation reserve	(625)	(477)	(770)

- (c) Upon adoption of IFRS, 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	As at		
	January 1, 2010	October 2, 2010	December 31, 2010
Current deferred tax assets	(643)	(630)	(574)
Non-current deferred tax assets	643	630	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)

Consolidated statement of financial position	As at		
	January 1, 2010	October 2, 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 IFRS, 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)

Consolidated statement of comprehensive income	3 months	9 months	12 months
	October 2, 2010	October 2, 2010	December 31, 2010
Increase in general and administrative expenses	85	218	190

(tabular amounts in thousands of dollars)

Consolidated statement of financial position	As at		
	January 1, 2010	October 2, 2010	December 31, 2010
Reduction in intangible assets	(26)	(245)	(215)
Decrease in retained earnings	(26)	(245)	(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)

Consolidated statement of financial position	As at		
	January 1, 2010	October 2, 2010	December 31, 2010
Decrease accounts payable and accrued liabilities	(550)	(1,083)	(962)
Increase provisions	550	1,083	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) 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)

Consolidated statement of comprehensive income	3 months	9 months	12 months
	October 2, 2010	October 2, 2010	December 31, 2010
Increase in general and administrative expenses	–	–	4

Consolidated statement of financial position	As at		
	January 1, 2010	October 2, 2010	December 31, 2010
Increase in employee benefits liability	245	245	245
(Decrease) increase in employee benefits liability**	–	(7)	13
Decrease in accrued pension benefit asset	–	–	4
Decrease in other comprehensive income	–	–	25
Increase (decrease) in accumulated other comprehensive income**	–	7	(13)
Decrease in retained earnings	245	245	274

** 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 IFRS 1 to reset all accumulated actuarial losses recognized upon transition through opening retained earnings.

- (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	October 2, 2010	December 31, 2010
Decrease in cumulative translation reserve	625	625	625
Decrease in retained earnings	625	625	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, 2010, 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	October 2, 2010	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)	(244)	(215)
Actuarial gains and losses	g	(245)	(245)	(270)
Foreign exchange gains and losses	b	–	(492)	1,136
Pension expense	g	–	–	(4)
Cumulative translation	h	(625)	(625)	(625)
Increase in retained earnings		1,080	1,354	1,997

7. Explanation of transition to IFRS (continued)

- (k) IFRS require 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 a 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 reclassified items previously presented as selling, general and administrative expenses into selling and distribution and general and administrative.
- (l) IFRS require 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 a 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 reclassified items previously presented as selling, general and administrative expenses into selling and distribution and general and administrative.

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Chairman and Chief Executive Officer

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam **
Director

Zoltan D. Simo **
Director

Douglas V. Baldwin **
Director

Grant C. Robinson **
Director

David J. FitzGibbon **
Director

Dahra Granovsky **
Director

* Corporate Governance Committee
+ Audit and Compensation Committee

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