

Condensed Notes to the Unaudited Consolidated Financial Statements

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

The following Notes should be read in conjunction with our 2004 Notes to Consolidated Financial Statements contained in the Company's 2004 Annual Report.

1. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of Hammond Power Solutions Inc. and its wholly-owned subsidiaries, Hammond Power Solutions, Inc. and Hammond Power Solutions, S.A. de C.V. under the equity accounting method. All inter-company transactions and balances have been eliminated.

(b) Translation of foreign currencies:

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

(c) Revenue recognition:

Revenue from sales of products is recognized when title passes to customers, which is generally at the time goods are shipped.

(d) Inventories:

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

(e) Long-term investments:

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

The investments in the co-tenancy of Glen Ewing Properties and 1159714 Ontario Inc. is accounted for using the proportionate consolidation method whereby the Company's proportionate share of the assets, liabilities, and the related revenues and expenses of the co-tenancy and rental property is included in the financial statements.

(f) Capital assets:

Capital assets are stated at cost. Capital assets under capital leases are initially recorded at the present value of minimum payments at the inception of the lease.

(g) Income taxes:

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

(h) Deferred financing costs and foreign exchange:

Financing costs and foreign exchange gains and losses, are amortized on a straight-line basis over the terms of the debt to which they relate.

(i) Deferred start-up costs and deferred preproduction costs:

Costs associated with the start-up and the set up of an additional production line at our Mexican operation were deferred and are both being amortized on a straight-line basis over five years.

(j) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

(k) Surplus property held for sale:

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

(l) Share capital:

Authorized:
Unlimited number of special shares, discretionary dividends, nonvoting, redeemable, and retractable

Unlimited number of Class A subordinate voting shares

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

Issued:

| | |
|--|----------|
| 8,507,000 Class A shares | \$10,469 |
| 2,778,300 Class B common shares | 7 |
| 11,285,300 total issued and outstanding shares | \$10,476 |

(m) Warrants:

In May of 2004, as part of the subordinated debt agreement, 150,000 warrants were issued which have been recorded at a fair value of \$24,000. The warrant entitles the holder to purchase Class A voting shares at \$0.75 per share.

No warrants have been exercised to date.

Corporate Information

Directors

- * William G. Hammond, Chairman & CEO
- * F. Al Raftis, Director
- *† Donald H. MacAdam, Director
- *† Zoltan D. Simo, Director
- *† Douglas V. Baldwin, Director

*Corporate Governance Committee

†Audit and Compensation Committee

Officers

- William G. Hammond, Chairman & CEO
- F. Al Raftis, President
- Chris R. Huether, VP Finance & Secretary

Corporate Head Office

595 Southgate Drive
Guelph, Ontario, Canada
N1G 3W6

Stock Exchange Listing

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

Investor Relations

Contacts:

William G. Hammond, Chairman & CEO
Chris R. Huether, VP Finance & Secretary

Tel: 519-822-2441

Email: ir@hammondpowersolutions.com

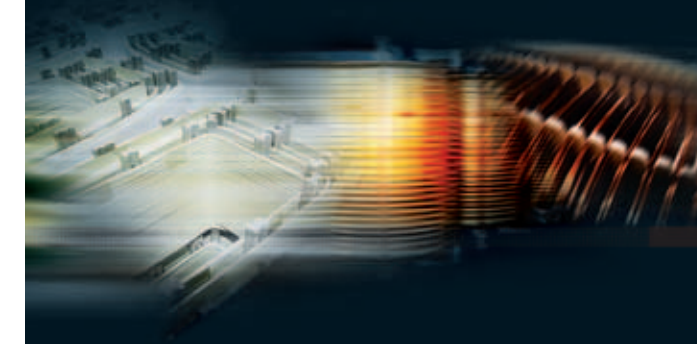
Web Site

www.hammondpowersolutions.com



Hammond Power Solutions Inc.
595 Southgate Drive
Guelph, Ontario N1G 3W6

2005 First Quarter Report
Three months ended April 2, 2005



Consolidated Balance Sheet

(Unaudited)
(dollars in thousands)

| | As at | |
|---|------------------|------------------|
| | April 2 2005 | Dec 31 2004 |
| ASSETS | | |
| Current assets: | | |
| Accounts receivable | \$ 13,572 | \$ 13,266 |
| Current portion of note receivable | 25 | 100 |
| Inventories | 10,414 | 8,648 |
| Prepaid expenses | 451 | 309 |
| Unrealized gain on forward exchange contracts | 36 | 154 |
| Long-lived assets held for sale | 1,405 | - |
| Future income taxes | 289 | 458 |
| | 26,192 | 22,935 |
| Capital assets | 9,729 | 11,305 |
| Surplus property held for sale | 1,044 | 1,044 |
| Long-term investments | 1,626 | 1,704 |
| Note receivable | 1,649 | 1,574 |
| Deferred finance, start-up, and pre-production costs | 940 | 1,077 |
| Future income taxes | 1,012 | 1,003 |
| Total assets | \$ 42,192 | \$ 40,642 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Bank indebtedness | \$ 5,798 | \$ 4,435 |
| Accounts payable and accrued charges | 9,296 | 9,747 |
| Income taxes payable | 909 | 553 |
| Current portion of long-term debt | 682 | 708 |
| Future income taxes | (9) | 1 |
| | 16,676 | 15,444 |
| Accrued pension benefit obligation | 162 | 161 |
| Long-term debt | 5,029 | 5,244 |
| Future income taxes | 940 | 940 |
| Shareholders' equity: | | |
| Share capital | 10,500 | 10,500 |
| Retained earnings | 8,885 | 8,353 |
| | 19,385 | 18,853 |
| Total liabilities and shareholders' equity | \$ 42,192 | \$ 40,642 |

Consolidated Statement of Earnings and Retained Earnings

(Unaudited)
(dollars in thousands, except per share amounts)

| | 3 Months Ending | |
|--|------------------|-----------------|
| | April 2 2005 | April 3 2004 |
| Sales | \$ 22,063 | \$ 20,033 |
| Cost of sales | 16,021 | 15,247 |
| Gross margin | 6,042 | 4,786 |
| | 27.4% | 23.9% |
| Selling, general, and administrative expense | 4,569 | 4,031 |
| Earnings from operations | 1,473 | 755 |
| Other expenses: | | |
| Interest | 323 | 292 |
| Co-tenancy expense | 60 | 55 |
| Share of loss in equity | 78 | 84 |
| Income before income taxes | 1,012 | 324 |
| Income tax expense | 480 | 155 |
| Net income | 532 | 169 |
| Retained earnings, beginning of period | 8,353 | 6,904 |
| Retained earnings, end of period | \$ 8,885 | \$ 7,073 |
| Earnings per share for the period | | |
| - Basic and diluted | \$ 0.05 | \$ 0.01 |
| EBITDA | \$ 1,983 | \$ 1,316 |

Disclosure

In the opinion of management, these unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and use the same accounting policies used in the preparation of the Company's annual financial statements. These interim statements and notes have not been independently reviewed by the external auditors and should be read in conjunction with the December 31, 2004, Notes to Consolidated Financial Statements.

Segment Sales

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

Consolidated Statement of Cash Flows

(Unaudited)
(dollars in thousands)

| | 3 Months Ending | |
|--|-------------------|--------------------|
| | April 2 2005 | April 3 2004 |
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings for the period | \$ 532 | \$ 169 |
| Add (deduct) items not involving cash: | | |
| Amortization of capital assets | 486 | 596 |
| Amortization of finance, start-up, and pre-production costs | 162 | 104 |
| Equity loss on long-term investment | 78 | 84 |
| Unrealized loss forward foreign exchange contracts | 118 | - |
| Future income taxes | 480 | 155 |
| | 1,856 | 1,108 |
| Change in noncash operating working capital | (2,638) | (1,260) |
| Cash used by operations | (782) | (152) |
| Financing: | | |
| Finance costs | (25) | (89) |
| Repayment of long-term debt | (241) | (457) |
| Cash used in financing activities | (266) | (546) |
| Investments: | | |
| Repayment of notes receivable | - | 25 |
| Purchase of capital assets | (315) | (101) |
| Cash used in investment activities | (315) | (76) |
| Increase in bank indebtedness | (1,363) | (774) |
| Bank indebtedness, beginning of period | (4,435) | (9,591) |
| Bank indebtedness, end of period | \$ (5,798) | \$ (10,365) |

Letter to Shareholders

We are pleased to present our financial results for the First Quarter of 2005. The momentum that Hammond Power Solutions Inc. ("HPS") has been riding since the end of 2003 is continuing, as both sales and profits have shown increases during the last six quarters.

Much of our growth can be attributed to our focus on strategic markets and customers. These companies are predominantly involved in power generation, mining, oil and gas, as well as those that export electrical systems and equipment to China. HPS is also strengthening its penetration of the U.S. market through the electrical distributor channel. Recent gains in the two largest markets of Texas and California have been particularly gratifying, resulting in higher than expected sales growth, particularly for our Monterrey, Mexico and Compton, California manufacturing facilities.

In addition to growing sales volumes, our ongoing attention to cost reductions through productivity improvements and product redesign has positively impacted our operating profits. Our premium service strategy of providing superior delivery on highly engineered transformers has also improved our bottom line.

The electrical industry continues to grapple with the challenges of ever escalating raw material costs as well as currency volatility. HPS has been successful in neutralizing the impact of these challenges through a wide variety of cost containment and profit improvement programs. These pressures are expected to persist in 2005, as will our continuous improvement programs to maintain and increase our profitability.

Looking forward, we are expecting the positive sales results to continue for the balance of the year. This outlook is supported by the fact that our overall bookings and backlog are stronger than they have been in years. Furthermore, our account development efforts and U.S. channel expansion are gaining momentum. We are mindful of the uncertainties surrounding raw material costs and availability as well as ongoing currency volatility. Many opportunities for continued sales and profit growth exist and we will continue to conservatively manage our business to deliver improving results in this challenging environment.



William G. Hammond
Chairman and Chief Executive Officer

Management's Discussion & Analysis First Quarter 2005

Overview

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

Sales

Sales for the Quarter ended April 2, 2005, were \$22,063,000 up \$2,030,000 or 10.1% from the comparative quarter last year, and were \$1,569,000, or 7.7% higher than Quarter 4, 2004. Sales in the United States, stated in Canadian dollars were \$15,016,000, an increase of \$1,665,000 or 12.8% from Quarter 1, 2004, and up \$1,935,000 or 14.5% from Quarter 4, 2004. U.S. sales (in U.S. dollars) continue to rise, up \$2,457,000 or 25.1% from Quarter 1, 2004, and were higher by \$1,752,000 or 16.7% from Quarter 4, 2004. Canadian sales were \$7,047,000 for the Quarter showing a slight growth over Quarter 1, 2004, of \$151,000 or 2.1% and approximated Quarter 4, 2004, sales levels. Geographically there was a higher shift to U.S. based sales which accounted for 68% of our total sales, while 32% of the sales remained in Canada. Quarter 1, 2005, bookings rate were extremely strong, resulting in a 41% increase over the same quarter last year and were 30% higher than Quarter 4, 2004. This solid increase in booking rates resulted in a backlog rise of 41% from the Quarter 1, 2004, and 30% from Quarter 4, 2004.

The Company continues to increase sales by focusing on strategic target markets and is helped by the improvement in market conditions in the electrical industry in the United States and Canada. Both the U.S. and Canadian economic climates are showing improved confidence which is evidenced by our higher booking rates, increased sales, rise in backlog, and improved financial performance. The North American electrical distributor, mining equipment, power conditioning, and motor control markets in both Canada and the United States were all very strong in Quarter 1, 2005. We are focused on expanding our organic sales while in parallel are aggressively securing new market growth. Our ability to provide short lead-time manufacturing, custom and competitive product designs, and uncompromised quality, will fuel this continued growth.

Gross Margins

Gross margins continue to grow and were 27.4% in Quarter 1, 2005, a 3.5% increase over Quarter 1, 2004, and were 0.6% higher than Quarter 4, 2004. Margin rates were 1.4% higher than the 2004 year average. This continued improvement in gross margin was a result of our cost effective product design, manufacturing cost improvements, market specific selling price increases, competitive lead-times, and sales mix. Achieving and maintaining these gross margin rates continues to be an area of focus for our Company, as cost increases faced from upward spiraling steel and copper commodity prices, puts pressure on gross margin rates. This challenge is further compounded by the volatility and uncertainty of the U.S. dollar further weakening against the Canadian dollar, which additionally puts negative margin pressure on our Canadian-made products shipped to the United States. The Company will continue to focus on maximizing its selective market price increase realization and continues to concentrate on its short lead-time/premium pricing business strategy.

Selling, General, and Administrative Expense

Selling, general, and administrative expenses for Quarter 1, 2005, were 20.7%, up 0.6% from Quarter 1, 2004, and 0.7% from Quarter 4, 2004. This increase came from increased freight costs and sales commission expense attributed to the significant increase in sales volumes and product mix.

Earnings from Operations

We are very pleased with our continued advances made in earnings from operations for the Quarter, which nearly doubled, up \$718,000, finishing at \$1,473,000, as compared to \$755,000 in Quarter 1, 2004. Earnings from operations also increased \$81,000 or 5.8% from Quarter 4, 2004. Our continued escalation in sales, increased gross margin rates, material procurement cost reduction initiatives, and sales mix were all contributors to this gain in earnings from operations.

Interest Expense

Interest expense Quarter 1, 2005, was \$323,000, compared to \$292,000, in Quarter 1, 2004, and was down slightly from Quarter 4, 2004. This increase in interest expense this quarter was due to increased operating line borrowings from working capital requirements and higher capital expenditures as compared to a year ago.

Co-tenancy Expense

The property at 2 Glen Road, Georgetown, Ontario, is owned equally as a co-tenant with Hammond Manufacturing Company Limited, and expenses in respect to the property are shared equally. Our co-tenancy expense in Quarter 1, 2005, was \$60,000 compared to Quarter 1, 2004, expense of \$55,000.

Equity Investment - Moloney Electric Inc.

Our equity investment in Moloney Electric Inc., resulted in a Quarter 1, 2005, loss of \$78,000 as compared to a corresponding loss of \$84,000 in Quarter 1, 2004, but improved \$33,000 from the Quarter 4, 2004, loss of \$111,000. Although Moloney Electric Inc. continues making operational improvements, the unprecedented rise in steel and copper prices has negatively impacted margins and hence the profitability of the operation. We are looking for moderately improved results from this operation as the year progresses.

Net Income

As a result of sales growth and margin gains, net income for Quarter 1, 2005, stepped up \$363,000, finishing at \$532,000, compared to \$169,000, in Quarter 1, 2004. Our net income was up \$141,000, from Quarter 4, 2004, which finished at \$391,000.

EBITDA (earnings before interest, taxes, depreciation, and amortization) for Quarter 1, 2005, was \$1,983,000, up \$667,000 or 51% as compared to \$1,316,000, for the same quarter last year and was up \$457,000, or 30% from Quarter 4, 2004, which was \$1,526,000. (The Company uses EBITDA as a Non-GAAP financial measure.)



Capital Resources and Liquidity

Cash used by operations for Quarter 1, 2005, was \$782,000, versus \$152,000 in Quarter 1, 2004, an increased usage of \$630,000. The majority of this cash use was a direct result of working capital requirements supporting our sales growth which saw increases in accounts receivable and inventory compounded with slightly lower accounts payable. Increased net earnings for Quarter 1, 2005, offset some of the working capital requirements. Capital expenditures were up at \$315,000, this Quarter compared to \$101,000, for Quarter 1, 2004, and were up \$101,000, from Quarter 4, 2004.

Cash used in financing activities resulted from financing costs and repayment of long-term debt was \$266,000, Quarter 1, 2005, compared to \$546,000, for the same quarter last year. Operating bank indebtedness increased by \$1,363,000 in Quarter 1, 2005, as compared to \$774,000 in Quarter 1, 2004, due to increased non-cash operating working capital requirements, long-term debt repayment, and higher capital expenditures.

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

All bank covenants have been met as at April 2, 2005.

Environmental Issues

We have two sites for which there are environmental issues.

The Sterling Road, Toronto, Ontario, site is a property owned by Moloney Properties (1159714 Ontario Inc.). Moloney Properties is a 50% investment of HPS, consisting of property and buildings, which it leases to Moloney Electric Inc. An ongoing issue is the recovery of mineral oil that leaked from a vandalized rail car while on our property. A recovery system has been partially installed.

Ongoing costs for legal, consulting, and remediation of the Sterling Road site incurred in the Quarter were funded within Moloney Properties through the rental income received from Moloney Electric Inc.

The property at 2 Glen Road, Georgetown, Ontario, is owned equally as a co-tenant with Hammond Manufacturing Company Limited, and any expenses or liabilities in respect of the property have been agreed to be shared equally. In January 2002, the two owners were served with a statement of claim by an adjoining industrial property owner, in which the plaintiff has claimed damages in the amount of \$8,000,000 for negligence, breach of warranty, and other matters relating to alleged environmental contamination of the property. The Company intends to vigorously defend the action if it proceeds. In 2004, the Company and Hammond Manufacturing Company Limited, served a counter-claim against the plaintiff in the amount of \$8,000,000. Both claims, by agreement between the parties, are in abeyance. At this time, no determination of potential liability or costs has been made. The parties, under the direction of the Ministry of the Environment, are in the process of undertaking a coordinated and shared investigation of the condition of the property and remediation options.

Additional environmental details are described in the notes to the 2005 Annual Report financial statements (notes 4(b) (ii) and 5(b)).

Other than the above sites, management is not aware of any unusual or significant issues. Expenditures will be recorded as appropriate when environmental remediation is probable and the costs can be reasonably estimated, in accordance with generally accepted accounting principles.

Outlook and Risk Factors

As with most businesses, HPS, is subject to a number of marketplace, industry, and economic related risks, which could have some material impact on our operating results. The company continuously works to minimize these risks and strengthen its position through diversification of its core business and maintaining geographic diversity of its operations. We are very confident that our business strategies will continue to contribute to consistent financial performance. We are however very mindful of the financial challenges faced by the increasing Canadian dollar and higher copper and steel raw material costs. We remain cautious yet determined that we will sustain profit rates through selling price increases as well as further productivity gains, product development, and market share penetration.

Hammond Power Solutions Inc., is resolute in its pursuit of market growth, profitability, and liquidity.



Selected Annual and Quarterly Financial Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the First Quarter of 2005. The quarterly information has been extracted from our unaudited consolidated financial statements which, in the opinion of management, are prepared in accordance with Canadian generally accepted accounting principles.



Quarter 1, 2005

Selected Quarterly and Annual Information

(in thousands of dollars except earnings per share)

Annual Information

| | 2001 | 2002 | 2003 | 2004 |
|---|-----------|-----------|-----------|-----------|
| Sales | \$ 86,566 | \$ 75,170 | \$ 73,408 | \$ 81,349 |
| EBITDA | 2,032 | 3,797 | 2,152 | 6,361 |
| Earnings from operations | 579 | 1,298 | 209 | 4,627 |
| Net earnings (loss) for the year | (834) | (168) | (875) | 1,449 |
| Total assets | 49,639 | 45,978 | 41,821 | 40,760 |
| Total liabilities | 31,216 | 27,723 | 24,441 | 21,907 |
| Total debt | 19,534 | 17,268 | 14,395 | 10,387 |
| Cash provided by operations from operations | 1,427 | 3,768 | 3,514 | 4,980 |
| Basic and diluted earnings (loss) per share | \$ (0.07) | \$ (0.01) | \$ (0.08) | \$ 0.13 |

Quarterly Information

| | 2003 | | | 2004 | | | 2005 | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| Sales | \$ 17,938 | \$ 18,513 | \$ 18,623 | \$ 20,033 | \$ 19,904 | \$ 20,918 | \$ 20,494 | \$ 22,063 |
| Earnings (loss) from operations | (519) | (124) | 859 | 755 | 934 | 1,546 | 1,392 | 1,473 |
| EBITDA | (7) | 551 | 1,115 | 1,316 | 1,482 | 2,037 | 1,526 | 1,973 |
| Net earnings (loss) | (582) | (254) | 256 | 169 | 307 | 582 | 391 | 522 |
| Total assets | 43,253 | 42,559 | 41,821 | 42,146 | 41,647 | 41,341 | 40,760 | 42,182 |
| Total liabilities | 25,875 | 25,435 | 24,441 | 24,597 | 23,791 | 22,903 | 21,907 | 22,807 |
| Total debt | 16,418 | 16,633 | 14,395 | 14,712 | 14,407 | 12,119 | 10,387 | 11,509 |
| Cash provided (used) by operations from operations | 2,092 | (154) | 2,344 | (152) | 560 | 2,616 | 1,956 | (782) |
| Basic and diluted earnings (loss) per share | \$ (0.05) | \$ (0.02) | \$ 0.02 | \$ 0.01 | \$ 0.03 | \$ 0.05 | \$ 0.04 | \$ 0.05 |