

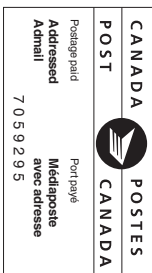


Hammond Power
Solutions Inc.

2006 **Q1**

Three months ended April 1, 2006

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



LETTER TO SHAREHOLDERS

We are pleased to present the First Quarter 2006, Shareholders Report.

Building on a strong 2005, our sales were up 35% over the same quarter last year. This growth continues to be fuelled by the global demand for commodities such as oil, gas, and metals, the rapidly expanding infrastructure in countries like India and China, as well as market specific selling price increases.

U.S. sales, stated in domestic currency, were up 44%, while Canadian sales were up 34% over Quarter 1, 2005. HPS also realized an increase of 120% in net earnings, propelled by robust markets and the effective deployment of our operational and strategic plans.

Management believes that our positive momentum should continue well into 2006 considering that our bookings and backlog were up over the same time last year. Much of this positive trend is being driven by the robust global economy. We recognize that the world's appetite for commodities may slow possibly in 2007 or 2008. As a result, we continue to aggressively seek out and pursue all opportunities to cultivate market share in both our U.S. and Canadian distributor channels, through the development of supplier relationships with new OEM customers, the exploration of new markets, and the expansion of custom transformer sales to manufacturers of alternative energy systems.

In response to our capacity requirements we are adding equipment and employees at our Mexican, U.S., and Canadian facilities. We are resolute in our focus to reduce our manufacturing and material costs through the redesign of our products and processes, and are committed to continuous productivity improvement.

We are proud of our strong market position, our sales growth, and our operational profitability. Looking forward we remain optimistic given the healthy global economy, however, taking nothing for granted, we will continue to reduce our product and manufacturing costs. As well, we plan to grow our sales in a number of different markets and channels, thereby adding to our already strong competitive and strategic foundation for the future.



William G. Hammond
Chairman and Chief Executive Officer

MANAGEMENTS DISCUSSION & ANALYSIS FIRST QUARTER 2006

OVERVIEW

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

The following is Management’s Discussion and Analysis of the Company’s consolidated operating results for the quarter ended April 1, 2006, and should be read in conjunction with the notes to the Consolidated Financial Statements of the Company, contained in our 2005 Annual Report, which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). All amounts in this report are expressed in Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR’s website at www.sedar.com.

SALES

Sales for the quarter ended April 1, 2006, were \$29,715,000, up \$7,652,000 or 34.7%, from the comparative quarter last year, and were \$2,233,000 or 8.1%, higher than Quarter 4, 2005. Sales in the United States, stated in Canadian dollars, were \$20,304,000, an increase of \$5,288,000 or 35.2%, from Quarter 1, 2005, and up \$2,730,000 or 15.5%, from Quarter 4, 2005. U.S. sales (in U.S. dollars) continue to rise, up \$5,341,000 or 43.6%, from Quarter 1, 2005, and were higher by \$2,615,000 or 17.5%, from Quarter 4, 2005. Canadian sales were \$9,412,000 for the quarter showing a solid growth over Quarter 1, 2005, of \$2,365,000 or 33.6%, and were down 5.0% from Quarter 4, 2005. Geographically there was a higher shift to U.S.-based sales, which accounted for 68.3% of our total sales, while 31.7% of the sales remained in Canada.

The Company continues to increase sales by focusing on strategic target markets and implementing its market expansion strategies in the United States and Canada. Most markets in both the U.S. and Canadian electrical industries are showing very robust economic climates evidenced by our higher booking rates, increased sales, rise in backlog, and strong financial performance. In particular, the North American electrical distributor, capital equipment, drive systems, mining equipment, power conditioning, and oil and gas pumping markets in both Canada and the United States, were all very robust in Quarter 1, 2006.

As 2006 unfolds, HPS will continue to focus its efforts on producing premium quality transformers and competitive custom engineered designs by providing a broad and evolving product range. These are the cornerstones that will lead to the expansion of our organic sales and new customer growth. We expect that this, combined with our market channel growth and our manufacturing agility, will sustain sales expansion.

ORDER BOOKINGS AND BACKLOG

The vigorous electrical industry market conditions seen in Quarter 1, 2006, combined with our market expansion activities delivered extremely strong bookings rates for Quarter 1, 2006. These factors were paramount in our ability to deliver a 52.8% increase over the same quarter last year and a 53.1% increase over Quarter 4, 2005. This upsurge in booking rates resulted in a backlog rise of 75.0% from Quarter 1, 2005, and 47.8% from Quarter 4, 2005.

GROSS MARGINS

Quarter 1, 2006, gross margin dollars continue to grow as a result of our increased sales levels, while margin rates finished at 25.7% versus 27.4% in Quarter 1, 2005, or a decline of 1.7%. This margin erosion is a result of the negative impact that a stronger Canadian dollar has on our Canadian manufactured products sold in the United States, competitive pressures, and by rising copper and steel commodity costs. HPS is unwavering in its goal to combat these margin rate deterrents through a committed effort to have cost effective product designs, manufacturing cost improvements, market specific selling price increases, and competitive lead-times. As well, the favourable impact that higher manufacturing throughput has on our factory cost structures/resource utilization will positively impact margin rates.

Achieving and sustaining gross margin rates continues to be an area of focus for the Company.

SELLING, GENERAL, & ADMINISTRATIVE EXPENSES

Total selling, general, and administrative ("SG&A") expenses amounted to \$5,501,000 in Quarter 1, 2006, versus \$4,569,000 in Quarter 1, 2005, an increase of \$932,000 or 20.4%. However, as a percentage of sales, SG&A expenses decreased from 20.7% in Quarter 1, 2005, to 18.5% in Quarter 1, 2006, an improvement of 2.2%. Although there is a natural rise in freight costs and sales commission expenses from the increased sales volumes and foreign exchange losses, we were able to reduce our SG&A expenses

as a percent of sales through controlled expense management and the impact of the significantly increased sales volumes. SG&A expenses include foreign currency exchange losses of \$309,000 in the quarter, as compared to a foreign currency exchange loss of \$82,000 in Quarter 1, 2005.

EARNINGS FROM OPERATIONS

We are delighted with our continued advances made in earnings from operations in Quarter 1, 2006, which was up \$651,000 or 44.2%, from the same quarter last year, finishing at \$2,124,000 in the quarter, as compared to \$1,473,000 in Quarter 1, 2005. Our surge in sales from market expansion particularly in the United States, sales mix, targeted selling price increases, cost reduction initiatives, and higher manufacturing throughput, were all contributors to this gain in earnings from operations.

INTEREST EXPENSE

The interest expense for the quarter ending April 1, 2006, amounted to \$188,000, compared to \$323,000 in Quarter 1, 2005, a decrease of \$135,000 or 42%. The decrease for the quarter was as a result of a 37.1% reduction in total bank indebtedness as at April 1, 2006, compared to the quarter ending April 2, 2005, a reduction of interest rates from our principal lender, and retirement of our subordinated debt.

CO-TENANCY EXPENSE

The property at 2 Glen Road, Georgetown, Ontario, is owned equally as a co-tenancy agreement with Hammond Manufacturing Company Limited and expenses in respect to the property are shared equally. Our expenses relating to the co-tenancy were \$60,000 for Quarter 1, 2006, compared to \$60,000 in Quarter 1, 2005.

EQUITY INVESTMENT – MOLONEY ELECTRIC INC.

Hammond Power Solutions Inc., holds a 45% equity ownership in Moloney Electric Inc. Our investment in Moloney Electric Inc., accounted for using the equity method, resulted in a noncash profit of \$51,000 for the quarter ended April 1, 2006, compared to a noncash loss of \$78,000 for the quarter ended

April 2, 2005. Moloney Electric Inc., has been successful at expanding its sales in the quarter by over 78.4%, and margin rates by 2.4%, from the same quarter last year. Profitability was positively affected by the infusion of sales and targeted selling price strategies, despite the unprecedented rise in the raw material cost of steel and copper.

INCOME TAXES

Due to the increase in profitability, Quarter 1, 2006, income tax expense was \$755,000, as compared to \$480,000 in Quarter 1, 2005. The current future tax assets and liabilities, consist mainly of reserves and allowances, and are related to current assets and liabilities, which are not deductible against current year earnings. The long-term future tax assets and liabilities relate to temporary differences resulting from losses carried forward, capital leases (the lease payments are expensed for tax purposes), foreign exchange losses (recognized for tax purposes only on the actual debt repayments), and the difference between net book value and undepreciated capital cost of capital assets.

NET EARNINGS

As a result of sales growth and increased margin dollars, net earnings for Quarter 1, 2006, grew by \$640,000, finishing at \$1,172,000, compared to \$532,000 in Quarter 1, 2005.

EBITDA (earnings before interest, taxes, depreciation, and amortization) for Quarter 1, 2006, was \$2,705,000, versus \$1,983,000 in Quarter 1, 2005, an increase of \$722,000 or 36.4%. Although there is not a standard definition of this term, the Company uses EBITDA as a non-GAAP financial measure as one of its indicators of operational profitability.

EBITDA is calculated as outlined in the following table:

	Quarter 1 2006	Quarter 1 2005
Net earnings for the year	\$ 1,172,000	\$ 532,000
Add:		
Interest expense	\$ 188,000	\$ 323,000
Income tax expense	\$ 755,000	\$ 480,000
Depreciation and amortization	\$ 590,000	\$ 648,000
EBITDA	<u>\$ 2,705,000</u>	<u>\$ 1,983,000</u>

CAPITAL RESOURCES AND LIQUIDITY

Cash used by operations for Quarter 1, 2006, was \$1,140,000, versus \$782,000 in Quarter 1, 2005, an increased usage of \$358,000.

In the quarter, the majority of this cash use was a result of working capital required to support our sales growth which resulted in increased accounts receivables and inventory. Accounts payable and accruals remained relatively unchanged in the quarter. Increased net earnings for Quarter 1, 2006, partially offset our working capital requirements. Capital expenditures were up at \$637,000 this quarter compared to \$315,000, for Quarter 1, 2005.

Cash used in financing activities resulted from financing costs and repayment of long-term debt was \$162,000 in Quarter 1, 2006, compared to \$241,000 for the same quarter last year.

Bank operating lines increased by \$1,771,000 in Quarter 1, 2006, as compared to \$1,350,000 in Quarter 1, 2005, due to increases in noncash operating working capital, long-term debt repayment, and capital expenditures investment for manufacturing capacity expansion and information technology infrastructure.

Overall bank operating lines of credit and long-term debt, net of cash balances dropped to \$7,240,000 as at April 1, 2006, a decrease of \$4,269,000 or 37%, as compared to a balance of \$11,509,000 as at April 2, 2005.

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

All bank covenants have been met as at April 1, 2006.

CONTINGENT LIABILITIES

The Company has two properties for which there are contingent liabilities.

Moloney Properties (1159714 Ontario Inc.):

The Company and Hammond Manufacturing Company Limited each own 50% of the shares of 1159714 Ontario Inc., which in turn owns the property at 213 Sterling Road, Toronto, occupied by Moloney Electric Inc. ("MEI"). The property has mineral oil contamination as well as some PCB contamination, although the source of such contamination (except for a spill in 1993 by MEI) has not been determined. The contamination does not result from the normal operations of the Company.

It appears to pre-date the Company's ownership. The source or sources may include adjoining properties. As indirect owner and occupier, the Company and Hammond Manufacturing Company Limited may, without admitting any liability, have some responsibility to participate in the remediation of the property and adjacent properties. In this regard, the Company received a complaint in 1994 from Toronto Hydro, as an adjoining owner, to the effect that mineral oil and possibly PCB contaminants may have migrated to its property, which is an inactive substation. The Company has worked in conjunction with the Ministry of the Environment and with Toronto Hydro to remediate the properties. MEI and 1159714 Ontario Inc., completed additional field-sampling in 2005 pursuant to a joint order to further delineate the nature and extent of potential contamination. The results are consistent with previous investigations. Meetings with Toronto Hydro are contemplated to discuss further remediation activities. No determination as to the specifics of remediation has been made but the recovery period is expected to take several years.

Glen Ewing Properties:

The property at 2 Glen Road, Georgetown, Ontario, is owned equally as a co-tenant with Hammond Manufacturing Company Limited and any expenses or liabilities in respect of the property have been agreed to be shared equally. In January 2002, the two owners were served with a statement of claim by an adjoining industrial property owner, in which the plaintiff has claimed damages in the amount of \$8,000,000 for negligence, breach of warranty, and other matters relating to alleged environmental contamination of the property. The Company intends to vigorously defend the action if it proceeds. In 2004, the Company and Hammond Manufacturing Company Limited served a counter-claim against the plaintiff in the amount of \$8,000,000. Both claims, by agreement between the parties, are in abeyance. At this time, no determination of potential liability or costs has been made. The contamination does not result from the normal operations of the Company. 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.

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.

Management is not aware of any other contingent liabilities.

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

STOCK OPTION PLAN

The Company uses a stock option plan to attract and retain key employees, Officers, and Directors. In 2005, the shareholders approved a maximum of 800,000 Class A shares, for issuance under the Stock Option Plan.

During 2005, the Company granted 230,000 options; 10,000 options were cancelled in 2005, leaving 220,000 outstanding. The following options were granted to the Officers and Directors of the Corporation:

	Position	Number of Options Granted
William G. Hammond	Chairman & CEO	30,000
F. Al Raftis	President & Director	30,000
Chris R. Huether	Corporate Secretary & CFO	30,000
Donald H. MacAdam	Director	10,000
Zoltan D. Simo	Director	10,000
Douglas V. Baldwin	Director	10,000

None of the options were exercised as at December 31, 2005, or April 2, 2006. See Note 12 (d) in the 2005 Annual Report in Notes to the Consolidated Financial Statements for further details of the Stock Option Plan.

RISK FACTORS

As with most businesses, Hammond Power Solutions Inc., is subject to a number of marketplace, industry, and economic related business risks, which could have some material impact on our operating results.

These risks include:

- The cyclical effects and unprecedented upward market cost pressures of copper commodity and steel pricing and supply;
- A significant, unexpected change in the global demand for resources;
- The unpredictability and volatility of the Canadian dollar;
- Rising interest rates; and
- Competition.

STRATEGIC OUTLOOK

As evidenced in our Quarter 1, 2006 Report, both the Canadian and the U.S. economies continue to be very strong. We are anticipating continued global economy strength throughout the balance of the year as the Canadian and U.S. resource based markets continue with increased capital spending on new equipment and infrastructure.

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.

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

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 2006. 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, 2006: SELECTED ANNUAL AND QUARTERLY INFORMATION

(dollars in thousands, except per share amounts)

Annual Information	2002	2003	2004	2005
Sales	\$ 75,170	\$ 73,408	\$ 81,349	\$ 98,896
Earnings from operations	1,298	209	4,627	7,231
EBITDA	3,797	2,152	6,361	9,789
Net earnings (loss)	(168)	(875)	1,449	3,857
Total assets	45,978	41,821	40,760	45,260
Total liabilities	27,723	24,441	21,907	22,242
Total debt	17,268	14,395	10,387	5,463
Cash provided by operations	3,768	3,514	5,042	4,280
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ (0.08)	\$ 0.13	\$ 0.34

Quarterly Information	2004			2005			2006	
	Q2	Q3	Q4	Q1	Q2	Q3	Q1	
Sales	\$ 19,904	\$ 20,918	\$ 20,494	\$ 22,063	\$ 24,673	\$ 24,678	\$ 27,482	\$ 29,715
Earnings (loss) from operations	934	1,546	1,392	1,472	1,552	1,719	2,488	2,124
EBITDA	1,482	2,037	1,526	1,982	2,583	2,359	2,865	2,705
Net earnings (loss)	307	582	391	532	934	957	1,434	1,172
Total assets	41,647	41,341	40,760	42,192	43,978	42,458	45,260	47,164
Total liabilities	23,791	22,903	21,907	22,807	23,546	21,069	22,242	22,974
Total debt	14,407	12,119	10,387	11,509	10,246	7,985	5,463	7,240
Cash provided (used) by operations	560	2,616	2,018	(782)	(300)	2,454	2,908	(1,140)
Basic and diluted earnings per share	\$ 0.03	\$ 0.05	\$ 0.04	\$ 0.05	\$ 0.08	\$ 0.08	\$ 0.13	\$ 0.10

CONSOLIDATED BALANCE SHEET

(unaudited) (dollars in thousands)

	As at	
	April 1 2006	Dec. 31 2005
ASSETS		
Current assets:		
Cash	\$ 85	\$ 253
Accounts receivable	18,025	16,847
Inventories	13,475	12,658
Prepaid expenses	379	337
Unrealized gain on forward exchange contracts	–	59
Income taxes receivable	72	74
Future income taxes	465	465
	32,501	30,693
Property, plant, and equipment	9,688	9,519
Investment in properties	1,044	1,044
Long-term investments	1,773	1,722
Notes receivable	1,674	1,674
Deferred finance, start-up, and pre-production costs	353	474
Future income taxes	131	134
	\$ 47,164	\$ 45,260
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank operating lines of credit	\$ 3,782	\$ 2,011
Accounts payable and accrued charges	14,227	14,593
Income taxes payable	499	1,011
Current portion of long-term debt	651	651
Future income taxes	3	3
	19,162	18,269
Accrued pension benefit obligation	84	84
Long-term debt	2,892	3,054
Future income taxes	836	835
Shareholders' equity:		
Share capital	10,613	10,613
Contributed surplus	195	195
Retained earnings	13,382	12,210
	24,190	23,018
	\$ 47,164	\$ 45,260

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

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

	3 Months Ending	
	April 1 2006	April 2 2005
Sales	\$ 29,715	\$ 22,063
Cost of Sales	22,090	16,021
Gross Margin	7,625 25.7%	6,042 27.4%
Selling, general, & administrative	5,501	4,569
Earnings from operations	2,124	1,473
Other income and expense:		
Interest expense	188	323
Co-tenancy expense	60	60
Share of (income) loss in equity and rental property investment	(51)	78
Income before income taxes	1,927	1,012
Income tax expense	755	480
Net Earnings	1,172	532
Retained earnings, beginning of period	12,210	8,353
Retained earnings, end of period	\$ 13,382	\$ 8,885
Earnings per share for the period		
Basic and diluted	\$ 0.10	\$ 0.05
EBITDA	\$ 2,705	\$ 1,983

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, 2005, Notes to the 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 1 2006	April 2 2005
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,172	\$ 532
Add (deduct) items not involving cash:		
Amortization of property, plant, and equipment	468	486
Amortization of finance, start-up, and pre-production costs	122	162
Equity (income) loss on long-term investment	(51)	78
Unrealized loss on forward foreign exchange contracts	59	118
Future income taxes	755	480
	2,525	1,856
Change in noncash operating working capital	(3,665)	(2,638)
Cash used in operations	(1,140)	(782)
Financing:		
Finance costs	-	(25)
Bank operating lines	1,771	1,350
Repayment of long-term debt	(162)	(241)
Cash provided by financing activities	1,609	1,084
Investments:		
Additions to property, plant, and equipment	(637)	(315)
Cash used in investment activities	(637)	(315)
Decrease in cash	(168)	(13)
Cash, beginning of period	253	118
Cash, end of period	\$ 85	\$ 105

CONDENSED NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Hammond Power Solutions Inc. (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 2005 Notes to Consolidated Financial Statements contained in the 2005 Annual Report for the Company.

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

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

(f) Property, plant, and equipment:

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

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

(h) Deferred financing costs:

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

(i) 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.

(j) 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.

(k) Share capital:

Authorized:

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

Unlimited number of Class A subordinate voting shares.

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

Issued:	(dollars in thousands)
8,657,000 Class A shares	\$ 10,606
2,778,300 Class B common shares	7
11,435,300 Total Class A and B shares	\$ 10,613

(l) Stock-based compensation:

The Company has a stock-based compensation plan. The Company accounts for all stock-based payments using the fair value based method, in accordance with CICA Handbook Section 3870 – Stock-based compensation and other stock-based payments.

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

CORPORATE INFORMATION

Directors

- * William G. Hammond, Chairman & CEO
- * F. Al Raftis, President & 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 & Director
- Chris R. Huether, Corporate Secretary & CFO

Corporate Head Office

595 Southgate Drive
Guelph, Ontario, Canada
N1G 3W6

Stock Exchange Listing

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

Effective May 17, 2006: Trading Symbol is HPS.A

Investor Relations

Contacts:
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