

Hammond Power Solutions
Q1 Report Three months ended April 3, 2010

Building on our strengths



Hammond Power
Solutions Inc.

Fellow Investor:

Compared to a year ago, our Company performance is trending upwards as evidenced by our improving bookings and backlog rates. The Company is focused on its expense management and cost containment strategies. Hammond Power Solutions Inc. ("HPS") and our markets have come through a severe recession, yet I am very satisfied with the Company's constant dollar sales performance. We believe that the worst is over, and our focus is now shifting to ways of growing our sales and profits in an economy that is now very different from the one that we prospered in until the first quarter of 2009.

Our sales may be down 20% year-over-year compared to the same quarter in 2009, but twelve months ago our business still had not been hit by the full effects of the worst recession in more than 50 years. The change in our backlog of orders year-over-year is another reason for the decline in sales. Going into 2010, our backlog was down by 30% compared to our backlog going into 2009. A sizeable amount of our business is related to longer term projects, many of which can take years to be fully operational. These projects helped to boost our 2009 results until falling commodity prices and tight credit in the second quarter caused many of these planned investments to be put on hold. Since our business hit bottom in the summer of 2009, our overall bookings have gradually recovered and are now sitting 25% higher in April 2010 than in September 2009. This recovery has been lead by mining equipment, oil drilling and public infrastructure projects as well as industrial and OEM customers who are serving export markets.

Many of us may also forget that the average exchange rate for the Canadian dollar was 19.8% lower in the first quarter of 2009 than we have had to deal with in the first quarter of 2010. This rise in our dollar has had a number of effects on our financial performance over the last year including a devaluation of our U.S. sales and assets in Canadian denominated dollars compared to a year ago, as well as reducing the profitability of products made in Canada and sold in the U.S.

Despite all of these challenges, HPS still generated a respectable net income of 8.5% before tax in a weaker quarter of sales.

Looking forward, we are more optimistic than we have been in any quarter since 2008. Quotation activity is up approximately 25% over last year, and as mentioned our bookings are trending upwards as well. Resource and export oriented markets are expected to maintain their positive momentum, and we are planning on increasing our market share in the private branding business and through the North American Electrical Distributor (“NAED”) channel.

But we also remain cautious. It’s fair to say at this point that the recovery will take longer than it did in 2003. Some electrical markets, such as commercial construction, are still very slow. Furthermore, many people are worried about how the economy will perform after government stimulus money runs out, the effects of higher interest rates, the spreading debt problems in Europe, and more defaults in commercial mortgages to name a few.

Through all of this, we will build on our strengths to grow as well as look for suitable acquisitions in North America and globally, while continuing to manage our Company in a financially prudent manner. This style helped build HPS into the largest dry-type transformer manufacturer in North America over the past decade, it guided us through the worst recession in more than 50 years, and it will support our global growth goals going forward.



William G. Hammond

Chairman and Chief Executive Officer

Management's Discussion & Analysis

First Quarter 2010

Overview

Hammond Power Solutions Inc. ("HPS" or the "Company") is a North American leader in 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 ("MD&A") of the Company's consolidated operating results for the quarter ended April 3, 2010, and should be read in conjunction with the Notes to the Consolidated Financial Statements of the Company, contained in our 2009 Annual Report, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before other income and expenses and income taxes. EBITDA is also used and is defined as "earnings before interest, taxes, depreciation and amortization".

The terms "earnings from operations", "EBITDA", "adjusted EBITDA", "order bookings and backlog" do not have any standardized meaning prescribed within GAAP and therefore may not be comparable to similar measures presented by other companies. Operating earnings and EBITDA are some of the measures the Company uses to evaluate 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 in measuring its operational results. A reconciliation of EBITDA to earnings from operations for Quarter 1, 2010 and Quarter 1, 2009 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.

Sales

Sales for the quarter ended April 3, 2010, were \$44,273 down \$10,572 or 19.3% from the comparative quarter last year, and were \$4,348 lower, or 8.9% from Quarter 4, 2009. A 19.7% stronger Canadian dollar (\$1.00 U.S. = \$1.0407 compared against \$1.2453) had a major impact on the amount of stated sales for the U.S. this quarter as compared to Quarter 1, 2009. Sales stated in constant dollars were down \$4,873 or 8.9% from the same quarter last year. Sales in the United States in U.S. dollars were \$25,295 in Quarter 1, 2010, a decrease of \$4,576 or 15.3% from Quarter 1, 2009, and decreased by \$1,382 or 5.2% from Quarter 4, 2009. Canadian sales were \$17,949 for the quarter a slight increase over Quarter 1, 2009 of \$301 or 1.7% and were down by \$2,456 or 12.0% from Quarter 4, 2009.

Stated by geographic segment, U.S. sales were 59.5% of our total sales, while 40.5% of the segment sales were derived in Canada in Quarter 1, 2010.

HPS sales dollars increased in Canada while down slightly in the U.S. electrical markets. It is important to note that the Quarter 1, 2009 sales benefited from the more robust order levels of Quarter 4, 2008 that spilled over into the backlog levels carried forward into 2009 as compared to the first quarter of 2010 which had much lower backlog levels going into the quarter. Markets that showed increased sales year-over-year include the specialty transformer, utility, power conditioning and oil and gas pumping markets and the North American Electrical Distributor ("NAED") channel in both Canada and the U.S. It appears that customers have stabilized their inventory levels as indicated by slightly improved booking levels.

Despite the negative impact of a slower economic environment and the negative effects of a stronger Canadian dollar, the Company delivered a solid quarter of financial performance.

HPS is committed to manufacturing premium quality transformers with competitive engineered designs and by offering a broad and evolving product range. We expect that this, combined with our distribution channels and our manufacturing agility, will be a competitive advantage over the next year.

Our ability to continuously innovate and lead the industry in many markets in terms of breadth of product and market diversification is a cornerstone to our success.

The Company is aggressively focusing on all market share growth and channel expansion opportunities in identified strategic market segments in the U.S. and Canada.

Our organic and new customer sales activities, capacity capabilities, manufacturing agility, and our multinational operations presence will support new sales development and solid revenue and profitability performance.

Order bookings and backlog

We experienced a 4.5% increase in bookings in Quarter 1, 2010 as compared to Quarter 4, 2009 as several of our markets have shown increases in order activity and many of our customers are starting to increase their stocking levels. We did see a more moderate 4.5% decrease in bookings as compared to the same quarter last year. By channel, booking rates increased 15.1% through our distributor channel and decreased 20.9% on a direct basis, as compared to Quarter 1, 2009. As a result of lower booking rates and lower opening year backlog compared to Quarter 1, 2009 the Quarter 1, 2010 backlog was down 27.6%. There was, however, an increase of 4.3% in backlog over Quarter 4, 2009 mainly due to the higher booking rates.

Gross margins

The Company is very satisfied with its gross margin rates considering pricing margin pressures, lower sales volumes and the negative impact that a stronger Canadian dollar has on margins. Quarter 1, 2010 gross margin rates finished at 26.7% versus 29.0% in Quarter 1, 2009, a decrease of 2.3%. Quarter 1, 2010 gross margin dollars decreased due to lower sales volume and lower U.S dollar to Canadian dollar exchange rates.

The Company is aggressively attacking gross margin rates through our engineering and material procurement cost reduction initiatives, custom design capabilities and product mix, and by maximizing margin rates through short lead-time order opportunities. Due to the unfavorable impact that lower manufacturing throughput has on our factory cost structures, the Company is focusing on projects to improve its manufacturing cost effectiveness. The Company has cost containment and productivity improvements throughout the organization. These actions will help drive margin improvements going forward.

Achieving and stabilizing gross margin rates is a key focal point for the Company.

Selling general & administrative expense

Total selling, general and administrative ("SG&A") expenses were \$8,245 in Quarter 1, 2010 versus \$9,859 in Quarter 1, 2009, a decrease of \$1,614 or 16.4%. As a percentage of sales, SG&A expenses in Quarter 1, 2010 were 18.6%, slightly higher than Quarter 1, 2009 (18.0%). This was due to the effect of fixed costs stated as a percent on lower sales for the current quarter. There was reduced commission expense in the quarter as a result of lower sales.

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

The Company is very cognizant of prudent SG&A expense management and remains committed to strict SG&A cost containment going forward.

Earnings from operations

Earnings from operations for the quarter continue to be hurt by the significant impact of U.S. dollar translation exchange losses, lower sales and lower gross margin rates.

Earnings from operations decreased by \$2,492 or 41.0% from the same quarter last year, finishing at \$3,580 in the quarter, as compared to \$6,072 in Quarter 1, 2009.

The lower opening year shippable backlog combined with the unfavourable effects of a stronger Canadian dollar and lower margins impacted our earnings from operations in Quarter 1, 2010 as compared to the same quarter last year.

Interest expense

The interest expense for Quarter 1, 2010 finished at \$37 compared to \$62 in Quarter 1, 2009, a decrease of \$25 or 40.3%. Lower interest rate borrowing costs coupled with a rise in working capital netted a minor decrease for the quarter.

Gain/loss on foreign exchange

The foreign exchange gain in Quarter 1, 2010 was \$247 compared to a foreign exchange gain of \$540 in Quarter 1, 2009. Due to the Company's hedging strategy the net gain on foreign exchange was booked even after recording significant exchange losses from foreign entity Balance Sheet translation which totalled \$826 for Quarter 1, 2010.

Income taxes

Quarter 1, 2010 income tax expense was \$1,533 as compared to \$2,275 in Quarter 1, 2009, a decrease of \$742. The tax rate on earnings before income taxes is distorted by the impact of foreign entity Balance Sheet translation losses of \$826 for Quarter 1, 2010 which are not tax affected.

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

The Company is satisfied with its net earnings for the quarter given the uncertain economy and U.S. currency environment it is operating in.

Net earnings for Quarter 1, 2010 decreased by \$2,018 or 47.6%, finishing at \$2,224 compared to \$4,242 in Quarter 1, 2009.

EBITDA for Quarter 1, 2010 was \$4,984 versus \$7,777 in Quarter 1, 2009, a decrease of \$2,793 or 35.9%.

EBITDA is calculated as outlined in the following table:

	Quarter 1, 2010	Quarter 1, 2009
Net earnings for the quarter	\$ 2,224	\$ 4,242
Add:		
Interest expense	\$ 37	\$ 62
Income tax expense	\$ 1,533	\$ 2,275
Depreciation and amortization	\$ 1,190	\$ 1,198
EBITDA	\$ 4,984	\$ 7,777

Adjusted EBITDA:

Excluding foreign exchange gains, normalized EBITDA was \$4,737 for Quarter 1, 2010 versus \$7,237 for Quarter 1, 2009, a decrease of \$2,500 or 34.5%.

Adjusted EBITDA is calculated as outlined in the following table:

	Quarter 1, 2010	Quarter 1, 2009
EBITDA	\$ 4,984	\$ 7,777
Deduct		
Gain on foreign exchange	\$ (247)	\$ (540)
Adjusted EBITDA	\$ 4,737	\$ 7,237

Capital resources and liquidity

Cash provided by operations for Quarter 1, 2010 was \$1,645 versus \$2,012 in Quarter 1, 2009, a decrease of \$367.

Change in non-cash operating working capital was a reduction of \$1,798 compared to a reduction of \$3,512 for the same quarter last year, a decrease of \$1,714. This was a net result of a drop in accounts receivable, inventory, and accounts payable due to lower sales and overall business activity. The Company will continue its focus on its customer accounts receivable collections cycle time and inventory turnover rates in 2010.

Capital expenditures were at \$1,006 this quarter compared to \$2,114 for Quarter 1, 2009. Expanded manufacturing capacity and a research and development test lab, productivity improvement projects and information technology infrastructure were focus areas of our capital expenditure program in the quarter.

As a result of a reduction in our bank operating lines, cash used in financing activities in Quarter 1, 2010 totaled \$1,844 compared to \$557 for the same quarter last year.

Bank operating lines of credit finished Quarter 1, 2010 at \$2,169 compared to \$6,241 at the end of Quarter 1, 2009, a decrease of \$4,072.

The Company's overall cash balances, net of bank indebtedness, resulted in a net cash position of \$10,464 in Quarter 1, 2010, a net improvement of \$14,991 when compared to a net debt position of \$4,527 in Quarter 1, 2009.

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

Contingent liabilities

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

Moloney Properties (1159714 Ontario Inc.)

The Sterling property was sold on October 13, 2009, to 2111289 Ontario Inc. As a term of condition of the sale the purchaser assumed all the remediation and environmental liability of the property.

Glen Ewing Properties

On August 15, 2009 the Company announced that a settlement of statements of claim was reached between the adjoining industrial property owner, HPS and Hammond Manufacturing Company Limited ("HMCL").

All claims with regard to the Glen Ewing properties have been settled by agreement between the parties and includes an undertaking of a joint remediation plan.

Management is not aware of any other contingent liabilities.

Normal course issuer bid

On March 4, 2009, the Board of Directors authorized the repurchase of up to 400,000 of its Class A Subordinate Voting Shares ("Class A Shares"), representing 4.47% of the 8,948,000 Class A Shares outstanding as of July 14, 2009, by way of a normal course issuer bid ("NCIB") through the facilities of the Toronto Stock Exchange ("TSX"). Daily purchases will be limited to 2,582 Class A Shares, other than block purchase exceptions, which is 25% of the average daily trading volume of 10,327 Class A Shares of HPS on the TSX in the preceding six calendar months.

The purchases commenced in July 2009, and will terminate no later than July 20, 2010. Purchases will be made in open market transactions on the TSX.

The Company purchased 108,174 Class A Shares at a cost of \$915,000 in 2009 and purchased 400 Class A Shares in Quarter 1, 2010 at a cost of \$4,560 for a total of 108,574 Class A Shares at a cost of \$919,560 under this plan to date.

Decisions regarding the timing of future repurchases will be based on market conditions, share price and other factors. HPS may elect to suspend or discontinue the bid at any time. Class A Shares repurchased under the bid will be cancelled.

The Board of Directors of HPS authorized the NCIB as it believes that current market conditions provide opportunities for HPS to acquire Class A Shares at attractive prices, are an appropriate use of HPS funds and will enhance shareholder value.

Controls and procedures

Bill 198 – Internal Controls

During Quarter 1, 2010 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

Canadian Securities Administrators require that companies with year-ends after December 15, 2008, be required to certify the effectiveness of internal controls over financial reporting. It also requires a company to use a control framework such as the Internal Control – Integrated Framework (COSO Framework) to design internal controls over financial reporting. As well, the threshold for reporting a weakness of internal controls over financial reporting should be of a "material weakness" rather than "reportable deficiency." HPS has designed its internal controls in accordance with the COSO Framework and has carried out retesting in 2009, which was completed in the fourth quarter, and confirms the effectiveness of these controls.

International Financial Reporting Standards

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

The Company's IFRS transition project is in progress and a transition plan is being formed. The project will be completed in 3 phases: Phase One - Scoping and Diagnostics, Phase Two - Analysis and Development and Phase Three - Implementation and Review.

Phase One – Scoping and Diagnostics:

This phase consisted of a high-level assessment to identify key areas of Canadian GAAP and IFRS differences that were most likely to impact the Company. This assessment was completed by Management and external advisers in the third quarter of 2009 and was integral in prioritizing subsequent steps. Until accounting policy choices are made during the Analysis and Development Phase, the Company will be unable to quantify the impact of IFRS on its Consolidated Financial Statements.

Phase Two – Analysis and Development:

This phase involves the detailed assessment, from an accounting, reporting and business perspective, of the changes that will be caused by the conversion to IFRS.

During this phase any applicable accounting policy choices permissible under IFRS will be assessed for the most appropriate application. Areas identified in Phase One are analyzed in detail to assess if any changes to policy are required and what, if any, impact this will have. During this phase our key finance staff will be trained on IFRS. Management and Audit Committee members will be educated regarding IFRS implications. This phase is well underway and is scheduled for completion early in the second quarter of 2010.

Phase Three – Implementation and Review:

This phase involves executing the work completed in Phase Two by making changes to business and accounting processes and supporting information systems. It will also include the review of all internal controls that may have been impacted by any of the changes. 2010 comparative data will be collected for comparative disclosure starting in the first quarter of 2011.

It is currently not possible to fully determine the impact to the consolidated financial statements and any potential business impacts, as accounting standards and related interpretations continue to change.

Risk factors

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

These risks include:

- The cyclical effects, unpredictability and volatility of market costs and supply pressures for commodities such as copper, insulation and electrical grain oriented steel;
- A significant, unexpected change in the global demand for resources;
- The extreme variability and strengthening of the Canadian dollar versus the U.S. dollar;
- Global economic recession;
- Interest rates;
- Government protectionism;
- Competition;
- Credit risk; and
- Global political unrest.

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

Strategic outlook

HPS has delivered a solid quarter of financial results.

HPS has maintained a strong Balance Sheet.

HPS continues to grow its market share in both Canada and the U.S.

HPS is consistent.

The Company has implemented strategies to increase its sales and manufacturing capacities despite the sluggish global and North American economies. HPS has also implemented forward contracts to hedge against the negative impact of a stronger Canadian dollar and fluctuating copper commodity costs.

The Company is not untouchable to the business and profitability pressures it must endure from these influences but is confident that the business fundamentals that it has built and the strategic plans it implements will sustain and breed growth opportunities as HPS moves forward. The Company believes that this is a time to be cautious but not complacent and be very calculating in the risks and opportunities of its adapted strategies. HPS will be steadfast in its pursuit of continuous productivity improvement, organic sales growth, new product development, geographic diversification, manufacturing cycle time reductions and market share expansion. Management will counter these challenges and remains resolute in the execution of its operational and strategic initiatives.

The Company has a strong Balance Sheet, is well capitalized, has no net debt and has a long-term committed credit facility available to implement its business strategies.

We are working to build a company that can be relied upon in all we do, for the goals we set, and in the commitments we undertake.

We are focused on creating sustainable value for our shareholders as we pursue our mission.

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

Forward-looking information

Certain information in this MD&A is forward-looking and is subject to risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

Selected Annual and Quarterly Financial Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the first quarter of 2010.

The quarterly information has been extracted from our unaudited consolidated financial statements which, in the opinion of Management, are prepared in accordance with Canadian generally accepted accounting principles.

Annual Information

(tabular amounts in thousands of dollars except earnings per share)

	2005	2006	2007	2008	2009
Sales	\$ 98,896	\$ 131,978	\$ 160,606	\$ 226,358	\$ 195,437
Earnings from operations	7,231	14,067	19,575	** 26,558	18,943
EBITDA	9,789	16,190	22,704	34,742	19,816
Net earnings for the year	3,857	8,674	12,403	22,829	9,631
Total assets	45,260	57,688	70,264	110,891	106,925
Total liabilities	22,242	25,907	25,784	41,107	29,422
Total cash (debt)	(5,463)	(180)	4,395	(4,100)	9,813
Cash provided from operations	4,280	7,661	7,611	6,254	25,404
Basic earnings per share	0.34	0.76	1.08	1.95	0.82
Diluted earnings per share	\$ 0.34	\$ 0.75	\$ 1.06	\$ 1.93	\$ 0.82
Dividends declared and paid	–	–	–	–	\$ 1,173

Quarterly Information

(tabular amounts in thousands of dollars except earnings per share)

	2008			2009				2010
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	\$ 54,936	\$ 57,940	\$ 65,126	\$ 54,845	\$ 48,203	\$ 43,768	\$ 48,621	\$ 44,273
Earnings from operations	**6,161	**6,483	**8,999	6,072	3,966	2,218	6,687	3,580
EBITDA	6,954	7,379	12,071	7,777	2,900	2,125	7,014	4,984
Net earnings	3,623	4,335	9,751	4,242	472	57	4,860	2,224
Total assets	93,467	99,669	110,891	107,200	107,446	105,302	106,925	105,339
Total liabilities	37,811	39,645	41,107	33,087	33,981	30,965	29,422	24,290
Total cash (debt)	(9,610)	(9,884)	(4,100)	(4,527)	970	1,326	9,813	10,464
Cash provided (used) by operations	(2,179)	3,735	7,522	2,012	8,006	5,341	10,045	1,645
Basic earnings per share	0.31	0.37	0.83	0.36	0.04	0.01	0.41	0.19
Diluted earnings per share	\$ 0.30	\$ 0.37	\$ 0.82	\$ 0.36	\$ 0.04	\$ 0.01	\$ 0.41	\$ 0.19
Dividends declared and paid	–	–	–	–	–	\$ 1,173	–	–

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

Consolidated Balance Sheet

(unaudited) (tabular amounts in thousands of dollars)

	As at April 3, 2010	As at December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,633	\$ 13,838
Accounts receivable	27,258	27,705
Income taxes recoverable	2,472	3,006
Inventories	26,430	25,722
Prepaid expenses	610	514
Future income taxes	623	643
	70,026	71,428
Property, plant and equipment	26,257	26,452
Investment in properties	1,044	1,044
Long-term investments	654	654
Future income taxes	42	42
Intangible assets	5,136	5,125
Goodwill	2,180	2,180
	\$ 105,339	\$ 106,925
Liabilities & Shareholders' Equity		
Current liabilities:		
Bank operating lines of credit	\$ 2,169	\$ 4,025
Accounts payable and accrued liabilities	21,295	23,388
Income taxes payable	203	85
Notes payable	443	443
Future income taxes	180	180
	24,290	28,121
Accrued pension benefit obligation	5	5
Environmental reserve, net of current portion	139	139
Future income taxes	1,148	1,157
Shareholders' equity:		
Share capital	12,978	12,959
Contributed surplus	637	626
Retained earnings	66,142	63,918
	79,757	77,503
	\$ 105,339	\$ 106,925

Consolidated Statements of Earnings and Comprehensive Earnings

(unaudited) (tabular amounts in thousands of dollars except earnings per share)

	Quarter Ending April 3, 2010	Quarter Ending March 28, 2009
Sales	\$ 44,273	\$ 54,845
Cost of sales	32,448	38,914
Gross margin	11,825	15,931
	26.7%	29.0%
Selling, general, and administrative	8,245	9,859
Earnings from operations	3,580	6,072
Other (income) and expense:		
Interest expense	37	62
Foreign exchange loss (gain)	(247)	(540)
Co-tenancy expense	33	33
Income before income taxes	3,757	6,517
Income tax expense	1,533	2,275
Net earnings and comprehensive earnings	\$ 2,224	\$ 4,242
Earnings per share for the period:		
Basic	0.19	0.36
Diluted	0.19	0.36
EBITDA	4,984	7,777

Disclosure

In the opinion of management, these unaudited financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and use the same accounting policies used in the preparation of the Company's annual financial statements. These interim statements and notes have not been independently reviewed by the external auditors and should be read in conjunction with the December 31, 2009, Notes to the Consolidated Financial Statements.

Segment Sales

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

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Quarter Ending April 3, 2010	Quarter Ending March 28, 2009
Cash provided by (used in):		
Operations:		
Net earnings	\$ 2,224	\$ 4,242
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment	1,058	1,047
Amortization of intangible assets	132	151
Future income taxes	11	(3)
Stock based compensation expense	18	87
	3,443	5,524
Change in non-cash operating working capital	(1,798)	(3,512)
Cash provided by (used in) operations	1,645	2,012
Financing:		
(Repayment of) advances from bank operating lines	(1,856)	(232)
Issue of common shares	12	–
Principal repayment of notes payable	–	(325)
Cash provided by (used in) financing activities	(1,844)	(557)
Investments:		
Purchase of intangible assets	(143)	(18)
Purchase of property, plant and equipment	(863)	(2,096)
Cash used in investment activities	(1,006)	(2,114)
Increase (decrease) in cash	(1,205)	(659)
Cash and cash equivalents, beginning of period	13,838	2,373
Cash and cash equivalents, end of period	\$ 12,633	\$ 1,714

Consolidated Statements of Shareholders' Equity

(unaudited) (tabular amounts in thousands of dollars)

Three month periods ended April 3, 2010, and March 28, 2009.

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance as at January 1, 2010	\$ 12,959	\$ 626	\$ 63,918	\$ 77,503
Cash consideration on exercise of stock options	12	–	–	12
Ascribed value credited to share capital from exercise of stock options	7	(7)	–	–
Stock based compensation expense	–	18	–	18
Net earnings	–	–	2,224	2,224
Balance as at April 3, 2010	\$ 12,978	\$ 637	\$ 66,142	\$ 79,757

(unaudited) (tabular amounts in thousands of dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance as at January 1, 2009	\$ 13,061	\$ 512	\$ 56,211	\$ 69,784
Stock based compensation expense	–	87	–	87
Net earnings	–	–	4,242	4,242
Balance as at March 28, 2009	\$ 13,061	\$ 599	\$ 60,453	\$ 74,113

(unaudited) (tabular amounts in thousands of dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance as at January 1, 2009	\$ 13,061	\$ 512	\$ 56,211	\$ 69,784
Cash consideration on exercise of stock options	36	–	–	36
Ascribed value credited to share capital from exercise of stock options	20	(20)	–	–
Stock based compensation expense	–	140	–	140
Share repurchase and cancellation	(158)	(6)	(751)	(915)
Net earnings	–	–	9,631	9,631
Dividends	–	–	(1,173)	(1,173)
Balance as at December 31, 2009	\$ 12,959	\$ 626	\$ 63,918	\$ 77,503

Hammond Power Solutions Inc. ("HPS" or the "Company") is a public company, traded on the Toronto Stock Exchange ("HPS.A") and is incorporated under the Ontario Business Corporations Act. HPS designs and manufactures custom electrical engineered magnetics and standard electrical dry-type transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States and Mexico.

1. Summary of significant accounting policies:

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

(a) Principles 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. All significant inter-company transactions and balances have been eliminated.

(b) Translation of foreign currencies:

The Company's subsidiary operations, located in the U.S. 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 year-end exchange rate. The gain or loss resulting from translation is included in the determination of income for the current period.

(c) Revenue recognition:

The Company 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, or, in the case of maintenance contracts, is recognized as costs are incurred to fulfill the contract.

A provision for potential warranty claims is provided for at the same time of sale, based on warranty terms and prior claims experience.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of cash and short-term deposits with original maturities of three months or less.

(e) Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. When circumstances which previously caused inventories to be written down no longer exists the previous impairment is reversed.

(f) Long-term investments:

The investments in the co-tenancy of Glen Ewing Properties (50%) and in 1159714 Ontario Inc. (50%), the rental property investment, 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.

(g) 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.

(h) Financial instruments:

The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading;
- Accounts receivable and note receivable are classified as loans and receivables;
- Bank operating lines of credit is classified as held-for-trading;
- Account payable and accrued liabilities, notes payable and environmental reserve are classified as other liabilities; and
- Derivative financial instruments are classified as held-for-trading.

All financial assets and financial liabilities are initially recognized at fair value. Subsequent measurement is dependent on their initial classification, as follows:

- Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the consolidated statements of earnings and comprehensive income; and
- Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at amortized cost using the effective interest method.

The Company is party to derivative financial instruments in the form of forward foreign exchange contracts used to manage foreign currency exposures and forward copper contracts used to manage commodity price exposures. The Company records all of its forward contracts at fair value, with changes in fair value of foreign exchange contracts recognized through earnings as foreign exchange gains or losses and changes in fair value of copper contracts recognized through earnings as costs of sales. The carrying amount of the Company's forward contracts is included in accounts receivable in the case of contracts in a gain position and in accounts payable and accrued liabilities in the case of contracts in a loss position.

The Company capitalizes transaction costs related to financial instruments classified as other than held-for-trading.

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

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 who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

(i) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. The amount recognized as goodwill would include acquired intangible assets that do not qualify for recognition as separate assets in accordance with generally accepted accounting principles.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstance indicate that the asset might be impaired. The Company completed its annual goodwill impairment test as at December 31, 2009 and concluded there was no impairment.

(k) 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 substantively 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.

(l) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 15(c). The Company accounts for all stock-based payments using the fair value based method, in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 – Stock based compensation and other stock based payments. 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 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.

(m) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. The Company uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of warrants or stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(n) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and intangible assets are amortized over their useful lives. The Company periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Company 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. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate corresponding with the risks associated with the recovery of the asset as an estimate of fair value.

(o) Use of estimates:

The preparation of the consolidated 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 and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used when accounting for items such as the determination of estimated useful lives of intangible assets and property, plant and equipment; valuation of receivables, inventories, future income taxes, long-term investments, investment in properties, derivative financial instruments, obligations related to accrued pension benefit, environmental liabilities, stock-based compensation costs, and reporting units and related goodwill. Actual results could differ from those estimates.

2) Changes in accounting policies:

Effective January 1, 2009, the Company adopted the following new CICA standards:

Goodwill and intangible assets

Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The impact of adopting the Section, on a retrospective basis, was a reclassification of the net carrying value of intangible assets relating to software with a cost of \$779,000 and accumulated amortization of \$247,000 (net book value of \$532,000) from property, plant and equipment to intangible assets as at December 31, 2008.

Financial Instruments Disclosure

The CICA implemented revisions to Handbook Section 3862, Financial Instruments – Disclosures, for fiscal years ending after September 30, 2009. These revisions are intended to align the disclosure requirements for financial instruments to the maximum extent possible with the disclosure required under International Financial Reporting Standards (“IFRS”) and enhance disclosures about fair value measurements and the liquidity risk of financial instruments. These revisions require additional disclosure based on a three level hierarchy that reflects the significance of inputs used in measuring fair value. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair values of assets and liabilities included in Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. At December 31, 2009 Hammond Power Solutions Inc. had financial instruments whose value was determined using Level 1 methodology. This information is presented in note (20).

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee issued Abstract 173 (“EIC 173”), Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Under EIC 173 an entity’s own credit risk and the credit risk of its counterparties is taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The initial application of EIC-173 did not have a material effect on the Company’s financial statements.

3) Future accounting changes:

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, three new sections of the CICA Handbook were issued: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests. The main impacts of these standards are as follows:

Business combinations

On the date on which an acquirer obtains control of a business, the acquirer must measure the business acquired as a whole in order to determine its fair value. The acquirer must measure the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, at their acquisition date fair value. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred. This new standard will be applicable prospectively for the Company for business combinations carried out on or after January 1, 2011. Earlier application is permitted provided Sections 1601 and 1602 are applied at the same time.

Consolidated financial statements and non-controlling interests

Section 1601 establishes standards for the preparation of consolidated financial statements after the acquisition date and certain aspects of consolidation on the acquisition date. Section 1602 establishes standards for the accounting and presentation of non-controlling interests subsequent to a business combination. These new standards are applicable to the Company effective January 1, 2011. Earlier application is permitted provided Section 1582 is applied.

Capital risk management:

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Company includes cash and cash equivalents, debt and equity, comprising of issued common shares, contributed surplus and retained earnings in the definition of capital. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2009.

Financial risk management:

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, credit risk and interest rate risk) and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by the finance department under guidance by the Board of Directors. This department identifies and evaluates financial risks in close cooperation with Management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

Currency risk:

The Company operates internationally and is exposed to foreign exchange risk from various currencies, primarily U.S. dollars and Mexican pesos. Foreign exchange risk arises from purchase and Canada / U.S. cross border sales transactions as well as recognized financial assets and liabilities denominated in foreign currencies. The Company manages its foreign exchange risk by having geographically diverse manufacturing facilities and

purchasing U.S. dollar raw materials in Canada. The Company also monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by entering into forward foreign exchange contracts. Forward foreign exchange contracts are only entered into for the purposes of managing foreign exchange risk and not for speculative purposes. Fluctuations in the U.S. dollar exchange rate could have a potentially significant impact on the Company's results from operations. However, they would not impair or enhance the ability of the Company to pay its foreign currency-denominated expenses as such items would be similarly affected.

Sensitivity analysis:

A one cent decline in the Canadian dollar against the U.S. dollar as at April 3, 2010 would have increased equity by \$166,000 and increased net earnings by \$66,000 for the quarter. This analysis assumes that all other variables, in particular interest rates, remain constant. Inversely, a one cent increase in the Canadian dollar against the U.S. dollar as at April 3, 2010 would have had an equal but opposite effect. The Company utilizes forward exchange contracts to minimize Balance Sheet equity exposure.

Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents include highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations due to the low level of bank indebtedness. As at April 3, 2010 a 1% increase in interest rates as at December 31, 2009 would increase net earnings by approximately \$110,000 annually.

Credit risk

An increase in the allowance for doubtful trade accounts receivables of \$164,000 (2009-increase of \$164,000) was recognized in selling, general and administrative expenses.

The aging of trade receivables at the reporting date was as follows:

	Quarter 1, 2010		Quarter 1, 2009	
	Gross	Allowance	Gross	Allowance
Not past due	\$ 17,159	\$	\$ 22,114	\$ -
Past due 0-30 days	7,442	-	11,225	-
Past due 31-120 days	2,339	545	4,055	1487
More than one year	27	27	27	27
Total	\$ 26,967	\$ 572	\$ 37,421	\$ 1,514

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due.

The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior Management is also actively involved in the review and approval of planned expenditures.

Comparative figures

Certain 2009 comparative figures have been reclassified to conform with current period financial statement presentation.

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Corporate Information

Corporate Officers and Directors

William G. Hammond, Chairman and Chief Executive Officer*

Chris R. Huether, Corporate Secretary and Chief Financial Officer

Donald H. MacAdam, Director**

Zoltan D. Simo, Director**

Douglas V. Baldwin, Director**

Grant C. Robinson, Director**

* Corporate Governance Committee

+ Audit and Compensation Committee

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