



## **ANNUAL INFORMATION FORM**

**March 29, 2012**

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## **Forward-Looking Information**

This Annual Information Form contains forward-looking information that reflect the current expectations of management about the future results, performance, achievements, prospects or opportunities for Hammond Power Solutions Inc. and the transformer business. These statements generally can be identified by use of forward-looking words such as “may”, “will”, “expect”, “estimate”, “anticipate”, “believe”, “project”, “should” or “continue” or the negative thereof or similar variations. Forward-looking statements are based upon a number of assumptions and are subject to a number of known and unknown risks and uncertainties, many of which are beyond Hammond Power Solutions Inc.’s control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements.

Examples of such forward-looking information in this document include but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on a number of assumptions which may prove to be incorrect:

**(A) following the “financial market” turmoil, which occurred at the end of 2008, (particularly in North America but also on a global basis) we have seen some signs of recovery through increased bookings rates and back-logs, but we feel there is weakness in the global economies with the exception of China, India and Brazil;**

**(B) our key competitive advantages of having the broadest product capabilities and most engineering resources compared with our competitors is subject to risk and uncertainty including our competitors strengthening their manufacturing resources and capabilities; and**

**(C) continued weak demand for transformer products as a result of the unsettled global commodity markets such as gas, oil and mining.**

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this Annual Information Form and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** These factors are not intended to represent a complete list of the factors that could affect us. See risk factors highlighted in materials filed with the securities regulatory authorities in Canada from time to time.

## **HAMMOND POWER SOLUTIONS INC.**

### **ANNUAL INFORMATION FORM**

#### **Corporate Structure**

Hammond Power Solutions Inc., (the “Company” or “HPS”), was incorporated in 2000, under the *Business Corporations Act (Ontario)*, as the result of a reorganization of Hammond Manufacturing Company Limited (“HMCL”). The reorganization, which split Hammond Manufacturing Company Limited into two publicly-traded companies, was implemented effective January 1, 2001. The dry-type transformer business was spun-off into Hammond Power Solutions Inc., and the enclosure and rack businesses continued as Hammond Manufacturing Company Limited (HMCL). The oil filled distribution transformer business of Moloney Electric Inc.; in which HPS owned a 45% interest was sold in January 2008 (see page 5 – Development of Business). A surplus property in Georgetown, Ontario is also jointly owned by the Company and HMCL.

The predecessor company, Hammond Manufacturing Company Limited, was founded in 1917 under the name of O.S. Hammond and Son and was incorporated as Hammond Manufacturing Company Limited in 1944 by letters patent under the laws of Ontario, Canada, and continued through amalgamations, the last of which occurred on January 1, 1999.

The Company’s principal and registered office is located at:

595 Southgate Drive, Guelph, Ontario, N1G 3W6

Phone (519) 822-2441

Fax (519) 822-4366

E-mail [ir@hammondpowersolutions.com](mailto:ir@hammondpowersolutions.com)

Website [www.hammondpowersolutions.com](http://www.hammondpowersolutions.com)

The Class A Subordinate Voting Shares of the Company trade on the Toronto Stock Exchange (TSX) under the symbol “HPS.A”.

The following is a list of the principal operating subsidiaries of the Company as at December 31, 2011, their respective jurisdictions of incorporation and the percentages of voting securities owned by the Company.

<b>Subsidiary</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage of Votes Attaching to All Voting Securities of The Subsidiary</b>
Hammond Power Solutions, Inc.	Wisconsin, USA	100%
Hammond Power Solutions S. A. de C.V.	Nuevo Leon, Mexico	98%
Delta Transformers Inc.	Quebec, Canada	100%
Euroeletto Hammond S.p.A.	Meledo di Sarego, Italy	100%

The Company does not own restricted securities in the subsidiaries beneficially owned, or controlled or directed, directly or indirectly.

#### **GENERAL DESCRIPTION OF THE BUSINESS**

The Company manufactures a wide range of custom and standard dry-type transformers and wound magnetic products for the electrical and related industries. The Company has been designing and building transformers for over 80 years. Transformers and related products (often referred to as magnetics) typically include equipment employing magnetic or electrical fields as a functioning principle. Transformers alter the voltage of electrical current. They are generally an assembly of wound coil of electrical grade wire, electrical insulation, mountings and a magnetic path of grain-oriented iron or alloy cores.

Dry-type transformers and related products ranging in size from 12 volts to 34,000 volts, with sizing up to 35 MVA and 200 kVBIL, are designed and manufactured at plants in Guelph and Walkerton, Ontario; Granby, Quebec; Monterrey, Mexico; Compton, California; and Meledo di Sarego, Italy.

Electrical transformers are used for stepping down voltages for distribution of electricity for commercial, industrial and residential use. The transformer industry may be broken down as follows:

<b><u>Application</u></b>	<b><u>Range of Sizes</u></b>	<b><u>Typical End User</u></b>
Transmission	Over 34,500 volts	Electrical utilities
Distribution	1,200 to 34,500 volts	Local power companies
Distribution & Control	12 to 600 volts	Commercial, industrial, residential users and OEMS

Dry-type transformers use insulation mediums other than oil and are therefore more environmentally friendly and better suited for higher risk fire areas. Virtually all transformers installed indoors, up to 34,500 volts, are dry-type transformers as they are more cost effective and have lower associated fire risks. With the development of new insulation materials, the physical size of dry-type transformers is being reduced while the power transmitting capacity (as measured in volts) is increasing.

#### **DEVELOPMENT OF THE BUSINESS**

**Moloney Electric Inc.** The Company announced on January 9, 2008 the sale of the Company's 45% interest in the operations (oil filled distribution transformers) of Moloney Electric Inc. to Universal Power Transformer Private

## Development of Business (cont'd)

Limited. In addition to the operations, in 2008 the Company also sold its interest in the Sackville, New Brunswick and Spruce Grove, Alberta plants, which had been jointly owned with HMCL through 1159714 Ontario Inc. (owned 50% by the Company and 50% by HMCL), and which were associated with the Moloney Electric Inc. operations. The gross proceeds from the sale of the business and related real estate were approximately \$7.2 million. In October 2009, the Company announced that the Sterling Rd., Toronto, Ontario property, owned by 1159714 Ontario Inc was sold and that the buyer assumed all the remediation and environmental liability of the property.

**Delta Transformers Inc.** The Company announced on February 7, 2008 the acquisition of Delta Group XFO Inc. and Delta Transformer of Canada (1999) Ltd. and now operates as Delta Transformers Inc. (“DTI”), a wholly-owned subsidiary of HPS. With over 20 years of experience, DTI has a manufacturing plant in Granby and a sales office in Boucherville, both locations are in Quebec. DTI’s business involves the design and manufacture of standard and custom dry type distribution and power transformers with annual sales revenues of approximately \$34 million at the time of acquisition and has a reputation in the industry for product reliability and quality. DTI has been a technical leader in the industry and holds a number of patents. The purchase price of the acquisition was a combination of approximately \$14 million in cash and the issuance of 160,000 Class A Subordinate Voting Shares of the Company. The Company completed the expansion to increase production capacity and provide warehousing for the facility in Granby at the end of the second quarter of 2009. The Company filed a Business Acquisition Report with respect to the Delta Acquisition on March 30, 2008 on SEDAR.

**Euroeletto Hammond S.p.A** The Company announced on March 16, 2011 the acquisition of Euroeletto S.p.A. and now operates as Euroeletto Hammond S.p.A (Euroeletto) a wholly-owned subsidiary of Continental Transformers S.r.L. (Continental). Continental was established for the purposes of effecting the acquisition of Euroeletto and is a wholly-owned subsidiary of the Company. Euroeletto has its corporate office and manufacturing plant in Meledo di Sarego, Italy. The company designs and manufactures cast coil, standard and custom dry-type distribution and power transformers. The company provides HPS with a platform for expansion into the European market and the design and manufacturing capabilities in cast coil technology for the North American markets. Euroeletto has an excellent reputation in the electrical industry for its engineering to order capabilities and quality. The purchase price of acquisition was cash of \$7,784,000 and assumption of long-term debt and bank operating lines of credit of \$ 8,185,000.

**Canadian Distribution Warehouse Facility:** The Company purchased a 40,000 square foot warehouse facility in Aberfoyle, Ontario in August 2008, which became fully operational at the end of the first quarter of 2009. This facility serves as a distribution centre that will supply standard dry-type transformers to the Canadian and northeastern U.S. customer base, eliminating the need for two leased facilities.

**Southgate Plant Expansion:** In 2010, the Company completed the expansion of the Southgate Drive plant in Guelph. The addition to the “high” bay is approximately 11,000 square feet and increases the production capacity for power transformers and also includes a new and updated testing facility.

**Hammond Power Solutions S.A. de C.V.:** The Company operates two plants in Monterrey, Mexico. The second plant began operations in the third quarter of 2008. This plant is close to the first plant, which started production in mid 2001. These plants were designed and built to support the growing, yet very competitive, commercial and industrial market for general purpose distribution transformers. Experienced employees of the Company have been utilized in the set-up and training of the staff in the Monterrey plants to ensure that the product meets the level of quality and workmanship, which our worldwide customers have come to expect from the Company.

**Hammond Power Solutions, Inc.** In 2010, the Company renewed the lease for a portion of the facility in Baraboo, Wisconsin, which functions as the United States head office, warehousing and sales office.

**Purchase Of Pan-Electro Technic Enterprises Private Limited:** On February 23, 2012, Hammond Power Solutions Inc. signed an agreement for the acquisition of Pan-Electro Technic Enterprises Private Limited (“PETE”) in India, acquiring a 70% equity ownership of its transformer business for 775,000,000 Indian Rupees (\$15,828,000 Cdn). The company will operate as PETE, as a subsidiary of the Company.

PETE is a manufacturer of cast coil, custom liquid filled distribution and power transformers, in Andhra Pradesh (close to Hyderabad), India with over 22 years of manufacturing and servicing experience. PETE manufactures 50MVA 132KV Class and dry-type transformers up to 3MVA 11KV Class. PETE offers power transformers with innovative designs and consistent quality of high order at competitive prices. Annual sales are approximately Cdn \$16,000,000.

The purchase of PETE expands HPS’ global presence, provides a platform for expansion into the Indian, Asian and African markets, increases its design and manufacturing capabilities and advances the Company’s business hedging strategies.

### **MANUFACTURING METHODS**

The manufacturing of transformers involves the winding of copper and aluminium magnet wire on coil forms, the insertion of the core after it is encapsulated or impregnated in epoxy or polyester varnishes and the mounting of the core and coil assembly in a metal housing and cast coil products, which are encapsulated in epoxy. In the performance of these tasks, the Company uses automated winding machines, core cutters and welders and testers including machines with programmable controls.

The Company employs engineers and technicians to ensure that its products are technologically current and to engineer customized products. The Company’s products require a high level of engineering in the design, manufacturing and testing, in order to differentiate them in the marketplace and to improve manufacturing efficiencies. The Company has invested in staff development and equipment employing the latest technologies. These investments allow the Company to compete for contracts which other industry participants may not be able to perform. The Company’s growth is supported by our product development and our ability to provide short lead-time product design and manufacturing.

### **DISTRIBUTION METHODS**

The company operates a Canadian Distribution centre in Aberfoyle, Ontario which supplies product in Canada and the United States. As well, the company utilizes stocking representative warehouses across the United States and Canada.

### **SALES AND MARKETING**

The Company employs a direct sales force and has a number of non-exclusive, independent sales agencies. The Company also has sales representatives in Canada, U.S. and Italy.

The Company serves three primary markets – OEM’s (original equipment manufacturers), capital projects and MRO’s (maintenance, repair and overhaul market). Each of these three major markets consists of a wide range of sub-markets. Some of the largest markets served by the Company include transformers for power conditioning, crane and hoist manufacturers, mining equipment, drive systems, motor control, internet switching and power systems, oil pumping equipment and power distribution equipment. Over the last few years, the Company has become an important transformer supplier to many of the biggest electrical equipment manufacturers in the world and also distributors. These companies and buying groups include General Electric, Siemens, Toshiba International, Rockwell, ABB, Eaton Cutler Hammer, Caterpillar, Metalec, Rexel, Wholesale Electric, Affiliated Distributors, IMARK, Bucyrus International, Spang power Electronics, Danfoss Drives, Thomas & Betts, EECOL, Wholesale Electric and Startco.

The Company's sales are spread broadly among many markets, industries and customers. In 2011 no single customer or customer division accounted for more than 10% of the Company's sales, while the ten largest customers accounted for approximately 32% of sales. In 2011, approximately 73% (62% in 2010) of the total sales were in the U.S. and offshore. 39% (36% in 2010) of total sales were manufactured in the U.S. and Mexico.

## **COMPETITION**

The Company faces competition from a large number of transformer manufacturers. Most of these competitors tend to be quite small in size and geographically or customer focused. The majority of those companies had sales of less than \$20 million (U.S.). Other competitors include large companies, such as Asea Brown Boveri Inc., Siemens, General Electric, Eaton Cutler Hammer, Schneider Electric and others who have substantially greater resources than the Company.

The Company has developed and acquired a number of key competitive advantages. These include the broadest product capabilities as well as the most engineering resources of any of the transformer company competitors. The Company is one of a few which have strong manufacturing capabilities in both the standard and custom transformer business and global manufacturing capabilities.

## **RISK FACTORS**

Risks and uncertainties are discussed in "Management's Discussion and Analysis" included in the Company's 2011 Annual Report to Shareholders, which is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## **HUMAN RESOURCES**

The Company has approximately 1,050 employees consisting of approximately 25% salaried staff and 75% hourly workers. The majority of the Company's hourly workers are members of associations within their individual plants. Management characterizes the Company's labour relations as excellent and has not experienced a work stoppage.

The Company has defined contribution pension plans that are available to substantially all employees. The Company's contribution matches the contribution of the eligible employees, who can contribute between 2 – 6% of their annual earnings.

## **TRADEMARKS AND LICENSES**

The Company markets substantially all its products under the registered trade-name "Hammond Power Solutions Inc." which the Company believes is significant in the marketing of its products. The Company also utilizes certain patents in the manufacture of its products. Management believes these patents are useful but not material to the Company's business as a whole.

## **RAW MATERIALS**

Raw materials for the Company's products consist primarily of metal products of various types, shapes and sizes, and other manufacturing components. The Company purchases its raw materials from many suppliers and is not dependent on any single supplier. Certain of the raw materials used by the Company, such as copper, steel and aluminium, are subject to market price fluctuations, which can be substantial. To manage its exposure to changes in commodity prices, the Company will enter into long-term supply contracts with certain suppliers, and from time to time will enter into forward commodity purchase contracts.

## **FACILITIES**

The Company operates nine manufacturing and/or distribution facilities, four of which are located in Canada (Guelph, Aberfoyle, Walkerton, Ontario and Granby, Quebec), two in the United States (Baraboo, Wisconsin – the U.S. head office, and Compton, California), two in Monterrey, Mexico and one in Meledo di Sarego, Italy. In addition, the Company uses 8 “stocking rep” warehouses in Canada and the United States. The Company’s manufacturing and corporate services facilities contain a total of approximately 440,000 square feet of space of which approximately 180,000 square feet are leased.

## **RESEARCH AND DEVELOPMENT**

The Company spends in the range of \$600,000 - \$800,000 per annum on development activities. These development projects relate primarily to product development, searching for improvements in efficiencies and quality through raw material and process changes.

## **ENVIRONMENTAL ISSUES**

The environmental issues are covered in the Company’s “Notes to the Consolidated Financial Statements” - see Note 18 – Provisions (site restoration) and in “Management Discussion and Analysis” – Provisions note of the 2011 Annual Report to Shareholders which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **REGULAR ANNUAL DIVIDENDS**

In 2010, the Company adopted a formal dividend policy to declare a regular annual dividend at a rate to be determined by the Board. As a result, the Board declared a regular annual cash dividend of \$0.15 per Class A Subordinate Voting Share and \$0.15 per Class B Common Share payable on December 9, 2011, to shareholders of record at the close of business on November 18, 2011. In 2010, the Board declared an annual dividend of \$0.13 per Class A Subordinate Voting Share and \$0.13 per Class B Common Share payable on December 10, 2010. In 2009, the Board declared a “special” cash dividend of \$0.10 per Class A Subordinate Voting Share and \$0.10 per Class B Common Share payable on July 15, 2009. Future dividends will be at the discretion of the Company’s Board of Directors after taking into account many factors, including the Company’s operating results, financial condition, comparability of the dividend yield to peer companies and current and anticipated cash needs.

## **NORMAL COURSE ISSUER BID**

The Board of Directors authorized a Normal Course Issuer Bid on July 16, 2009 to repurchase 400,000 Class A Subordinate Voting Shares (limited to 2,582 Class A Shares per day and at open market prices) and the purchase terminated on July 20, 2010. During the period from July 16, 2009 to December 31, 2009, the Corporation purchased 108,174 Class A Subordinate Voting Shares for cancellation at an average price of \$8.46 and from January 1 2010 to July 20, 2010 purchased 51,202 Class A Shares at an average price of \$11.44 for a cumulative total of 159,376 Class A shares.

## GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The Company has authorized capital of an unlimited number of Class A Subordinate Voting Shares and an unlimited number of Class B Common Shares, each without par value. As at December 31, 2011, there were issued and outstanding 8,806,624 Class A Subordinate Voting Shares and 2,778,300 Class B Common Shares. Each Class A Subordinate Voting Share carries the right to one vote representing approximately 44.2% of the aggregate voting rights. Each Class B Common Share carries the right to four votes. Each such shareholder is entitled to vote at the Annual Meeting, except to the extent that he or she has transferred ownership of such shares after the record date.

Stock Options for a total of 523,167 Class A Subordinate Voting shares outstanding as at December 31, 2011:

Optionees	# of Shares under Option	Exercise Price per Share	Expiry Date
Named Executive Officers	48,000	\$1.93	22-Jul-12
	10,000	\$6.00	5-Dec-13
	22,500	\$13.64	6-Mar-15
	40,000	\$5.91	24-Feb-16
	60,000	\$10.55	15-Mar-17
Directors	60,000	\$11.70	17-Mar-18
	10,000	\$6.00	5-Dec-13
	25,000	\$13.64	6-Mar-15
	20,000	\$5.91	24-Feb-16
	40,000	\$10.55	15-Mar-17
Key Managers & Consultants	50,000	\$11.70	17-Mar-18
	46,000	\$1.93	22-Jul-12
	25,000	\$6.00	5-Dec-13
	5,000	\$13.64	6-Mar-15
	61,667	\$11.70	17-Mar-18

## MARKET FOR SECURITIES

The Class A Subordinate Voting shares are listed on the Toronto Stock Exchange and trade under the symbol "HPS.A". The following table represents price range and volume traded for the Class A Subordinate Voting shares of the Company for each month of fiscal 2011.

2011	Jan	Feb	March	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Price Range												
Low	10.27	11.55	11.30	10.53	9.89	8.80	9.20	8.57	7.90	7.50	7.66	7.15
High	12.29	12.19	12.28	12.59	11.19	10.05	9.87	9.70	9.38	8.49	8.28	8.00
Volume												
# of shares	238,232	90,164	51,672	178,101	336,338	191,195	92,923	75,611	25,942	53,903	249,803	300,317

## DIRECTORS AND OFFICERS

As at the date hereof, the name, municipality of residence, position with the Company and principal occupations of each of the directors and executive officers of the Company, and the period during which each director has served on the board of directors, are as follows:

### DIRECTORS:

<u>Name/Residence/Principal Occupation/Employment Business during past 5 Years</u>	<u>Director Since</u>
<b>WILLIAM G. HAMMOND</b> Guelph, Ontario, Canada Chairman & Chief Executive Officer of the Company	January 2001
<b>ZOLTAN D. SIMO</b> Toronto, Ontario, Canada Company Director Shawcor Ltd. Audit Committee and Executive Committee Director Omis Investments Inc. President & Corporate Director	January 2001
<b>DONALD H. MACADAM</b> Port Dover, Ontario, Canada Chief Executive Officer, MBVax Bioscience Inc.	May 2001
<b>DOUGLAS V. BALDWIN</b> Gormley, Ontario, Canada Company Director	March 2004
<b>GRANT C. ROBINSON</b> Guelph, Ontario, Canada Partner, The Success Care Program Cutten Club President	May 2007
<b>DAVID J. FITZGIBBON</b> Cincinnati, Ohio USA Company Director IlSCO Investments Inc. Vice Chairman & Chief Executive Officer KDM P.O.P. Solutions Group Director	May 2009

## DIRECTORS AND OFFICERS (cont'd)

### **DAHRA GRANOVSKY**

May 2011

Toronto, Ontario  
Company Director  
Past President of Atlantic Packaging, APG  
Past President of Eco-Wood Products Limited  
Past president of Meldan Landscape Products  
Director - Atlantic Packaging  
Director- Thomson- Gordon Group

### **OFFICERS:**

### **Officer Since**

#### **Christopher R. Huether,**

Guelph, Ontario, Canada  
Chief Financial Officer & Corporate Secretary

January 2001

#### **Mr. W. G. Hammond**

Mr. Hammond is Chairman, CEO and a Director of the Company. He served as President of HMCL from 1994 to 2001 with responsibility for both the Transformer and Enclosure Groups. From 1978 to 1994, Mr. Hammond was directly responsible for Corporate Sales, Marketing, HR and Logistics, also with HMCL. Mr. Hammond holds a B.A. from The University of Western Ontario.

#### **Mr. Zoltan D. Simo**

Mr. Simo has served as a Director of the Company since 2001. He is the current President and Corporate Director of OMIS Investments Inc. and also serves on the Audit Committee and Executive Committee of Shawcor Ltd. Mr. Simo holds a B.A. from the University of Saskatchewan and an MBA from McMaster University.

#### **Mr. Donald MacAdam**

Mr. MacAdam has served as a Director of the Company since 2001. Since October 2005, he has been the President, CEO and Director of MBVax Bioscience Inc. Prior to that, Mr. MacAdam was the former president of A360 Inc. Mr. MacAdam also currently sits on the Board of Directors of Malibu Labs Inc., and has served as President, CEO, Director and Chairman of several other Canadian corporations.

#### **Mr. Douglas V. Baldwin**

Mr. Baldwin has served as a Director of the Company since 2004. He was the President of AMPCon Inc. until October 1, 2009, previously the past President and CEO of Electro Federation Canada, and past President and CEO of Schneider Electric Inc. Mr. Baldwin was a director of Moloney Electric Inc. from 2005 to 2008.

## **Directors and Officers (cont'd)**

### **Mr. Grant C. Robinson**

Mr. Robinson has served as a Director of the Company since 2007. He was the managing partner of Robinson & Company LLP until January 1, 2010. He is also involved in various programs, offering services to entrepreneurial and family businesses and has many years of experience as an educator. Mr. Robinson is a contributor to magazines, publications and technical editor for the CA Magazine's Business Advisor column. Mr. Robinson holds a B.A. from the University of Guelph, a FCA designation and is a Certified Financial Planner.

### **Mr. David J. FitzGibbon**

Mr. Fitzgibbon serves on many Boards within the electrical manufacturing industry. He is the Vice Chairman and CEO of IlSCO Corporation, an electrical connector manufacturer based in Cincinnati, Ohio.

### **Ms Dahra Granovsky**

Ms. Granovsky has served as a Director of the Company since 2011. Ms. Granovsky is past President of Atlantic Packaging, APG as well as past President of Eco Wood Products and Meldan. Ms. Granovsky has over 16 years of experience in the manufacturing and distribution industry. She sits on the Board of Directors at Atlantic Packaging and on the Board of Advisors of The Thomson- Gordon Group.

## **OFFICERS**

### **Mr. Christopher R. Huether**

Mr. Huether is the Chief Financial Officer and Corporate Secretary of the Company. Mr. Huether held various positions including Group Controller with HMCL - Enclosure and Transformer Groups from 1985 – 2000. Mr. Huether is a Fellow Certified Management Accountant, FCMA, member of the Society of Management Accountants of Ontario and holds a Business Diploma from Fanshawe College.

### **Committee Membership**

The Audit Committee and Compensation Committee are comprised of the independent Directors, which are Zoltan D. Simo, Douglas V. Baldwin, Donald H. MacAdam, Grant C. Robinson, David J. FitzGibbon and Dahra Granovsky.

All Directors are members of the Corporate Governance Committee.

The Directors are elected at each annual meeting of the shareholders and will serve until the next annual general meeting of shareholders.

## **SHAREHOLDINGS OF DIRECTORS**

William G. Hammond beneficially owns 247,116 Class A Subordinate Voting Shares of the Company directly. In addition, William G. Hammond beneficially owns all the outstanding shares of Arathorn Investments Inc., which beneficially owns 748,110 Class A Subordinate Voting Shares and 2,778,300 Class B Common Shares of the Company directly.

The directors and officers (excluding William G. Hammond) of the Company beneficially own controlled or directed, directly or indirectly, in the aggregate, 1.4% of Class A Subordinate Voting Shares.

## SHAREHOLDINGS OF DIRECTORS (cont'd)

The information as to shares beneficially owned by the directors, not being within the knowledge of the Company, has been furnished by each director.

## CONFLICTS OF INTEREST

There are no existing or potential material conflicts of interest between the Company or a subsidiary of the Company and any director or officer of the Company or subsidiary of the Company.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data of the company, as it relates to the five years ended December 31, is derived from the audited consolidated statements of the Company.

	Years ended December 31				
	2011	2010*	2009**	2008**	2007**
<b>Income Statement Data</b>					
\$000's, except per share amounts					
Sales	\$221,323	\$190,604	\$195,437	\$226,358	\$160,606
Gross Profit - \$	53,991	48,177	52,727	65,184	47,093
- %	24.4%	25.3%	27.0%	28.8%	29.3%
EBITDA***	15,538	19,499	19,816	34,742	22,704
Earnings from operations	13,039	13,642	18,943	26,558	19,575
Net Income for the year	5,993	10,652	9,631	22,829	12,403
<b>Per Share - Basic</b>					
Net Income for the year	\$0.52	\$0.92	\$0.82	\$1.95	\$1.08
<b>Balance Sheet Data</b>					
Total Assets	137,520	118,643	106,482	110,891	70,264
Cash, net of bank indebtedness	6,218	18,089	9,813	(4,100)	6,785
Current Assets - Current Liabilities (net)	45,510	51,653	43,961	39,767	28,898
Shareholders' Equity	91,448	86,283	77,503	69,784	44,480
<b>Other Data</b>					
Cash provided by operations	6,592	14,109	25,256	6,254	7,611

\* Certain items in the 2010 comparative figures have been restated to conform with the financial statement presentation using IFRS.

\*\* Amounts related to years prior to 2010 are stated under previous Canadian Generally Accepted Accounting Principles.

\*\*\* The Company defines EBITDA as earnings before income taxes, plus interest and amortization expense.

## SELECTED CONSOLIDATED FINANCIAL DATA (CONT'D)

### Quarterly Results

	<u>Sales</u>	<u>\$000's, except per share amounts</u> <u>Earnings from</u> <u>operations</u>	<u>Net Income</u> <u>per Share</u> <u>Amount</u>	<u>basic</u>
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\*Certain information for the quarters in 2010 has been restated to conform with the presentation using IFRS.

\*\* Information presented prior to 2010 is stated under previous Canadian Generally Accepted Accounting Principles.

April 2, 2011	\$52,777	\$2,827	\$1,571	\$0.14
July 2, 2011	52,330	1,819	682	\$0.06
October 1, 2011	55,489	2,664	171	\$0.01
December 31, 2011	60,727	5,729	3,569	\$0.31
Full Year 2011	221,323	13,039	5,993	\$0.52
April 3, 2010*	\$44,273	\$3,527	\$2,976	\$0.25
July 3, 2010*	50,820	3,711	1,170	\$0.10
October 2, 2010*	47,903	2,089	2,250	\$0.20
December 31, 2010*	47,608	4,315	4,256	\$0.37
Full Year 2010*	190,604	13,642	10,652	\$0.92
March 31, 2009**	\$54,845	\$6,072	\$4,242	\$0.36
June 27, 2009**	48,203	3,966	472	\$0.04
September 26, 2009**	43,768	2,218	57	\$0.01
December 31, 2009**	48,621	6,687	4,860	\$0.41
Full Year 2009**	195,437	18,943	9,631	\$0.82

### REVIEW OF OPERATIONS

Information is included in the Company's 2011 Annual Report to Shareholders, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis information is included in the Company's 2011 Annual Report to Shareholders, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## LEGAL PROCEEDINGS

### 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.

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

HPS' share of ongoing legal and consulting costs pertaining to the Glen Road site incurred during the year was \$87,000 (2010 - \$84,000).

## INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

William G. Hammond, Chairman and CEO, a director and shareholder of the Company, controls Arathorn Investments Inc., which is the major holder of shares of the Company through which it exercises voting control.

Management is not aware of any interest of insiders in any material transaction with the Company.

## AUDIT COMMITTEE INFORMATION

### Audit Committee Charter

The Company's Audit Committee operates under a written charter that sets out its responsibilities and composition requirements. A copy of this charter is attached in Schedule "A" to this Annual Information Form.

### Composition of Audit Committee

The Audit Committee is currently composed of the independent directors, Messrs. Donald H. MacAdam, Zoltan D. Simo, Douglas V. Baldwin, Grant C. Robinson, David J. FitzGibbon and Dahra Granovsky, all of whom are financially literate, as those terms are defined in Multilateral Instrument 52-110 – *Audit Committees*.

## EXTERNAL AUDIT AND TAX FEES

The following summarizes the professional services rendered by KPMG LLP to the Company for the years ended December 31, 2011, and December 31, 2010:

Professional Service (Note 1)	2011	2010
Audit and audit related fees (*)	\$197,600	\$138,800
Tax Fees - preparation of tax returns for the Corporation's and all related subsidiaries in Canada and the U.S., income tax advisory services and miscellaneous professional tax services relating to international acquisitions	\$262,400	\$115,000
Other Fees - Pension Plan Audit	\$7,500	\$ 7,500

(\*) Audit related fees include fees related to the business acquisition and the adoption of IFRS.

**Note 1** – In addition to the above, the Company paid approximately \$21,000 & \$10,500 both in 2011 & 2010 to Deloitte (Mexico) for audit and tax services respectively related to the Mexican operations.

## **TRANSFER AGENT AND REGISTRAR**

The Company's registrar and transfer agent is Computershare Investor Share Services Inc., in Toronto, Ontario.

## **MATERIAL CONTRACTS**

### **Financing Agreement**

On March 22, 2012, the Company completed a new financing arrangement with JP Morgan Chase Bank, N.A. for a \$25,000,000 U.S. revolving credit facility, a \$5,000,000 U.S. overdraft facility, a €4,000,000 Euro overdraft facility and a \$10,000,000 U.S. delayed draw credit facility. This is an unsecured, 5-year committed facility that provides financing certainty for the future. This financing better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies, provides financing for our operational requirements, and capital for our strategic initiatives.

### **Forward Contracts**

#### **Copper**

At December 31, 2011 the Company had outstanding forward copper contracts for the purchase of notional 1,200,000 pounds of copper at fixed prices between \$4.06 U.S. and \$4.43 U.S. per pound, for settlement from January to May 2012.

#### **Foreign Exchange**

At December 31, 2011 the Company had outstanding foreign exchange contracts in place for €8,000,000 Euro to US and \$4,086,000 US to Mexican Peso, both implemented as hedges against translation gains and losses on intercompany loans and \$4,000,000 US to CDN to hedge the US dollar accounts payable in the Canadian operations of HPS.

#### **Other**

There is no other contract, that is material to the Company and that has been entered into within the most recently completed financial year or before the most recently completed financial year but is still in effect.

## **SUBSEQUENT EVENTS**

### **Purchase of Pan-Electro Technic Enterprises Private Limited**

The Company announced on February 23, 2012 that the acquisition of 70% equity ownership in Pan-Electro Technic Enterprises Private Limited (PETE) was completed. The company will operate as PETE, as a subsidiary of Hammond Power Solutions Inc.

PETE is a leading manufacturer of cast coil, custom liquid filled distribution and power transformers, in Andhra Pradesh (close to Hyderabad), India with over 22 years of manufacturing and servicing experience. PETE manufactures 50MVA 132KV Class & dry-type transformers up to 3MVA 11KV Class. PETE offers power transformers with innovative designs and consistent quality of high order at competitive prices. Annual sales are approximately Cdn \$16 million. PETE has a reputation in the industry for its custom design capabilities, product reliability and quality.

The cost of the acquisition was approximately Cdn \$ 15.8 million.

The purchase of PETE expands HPS' global presence, provides a platform for expansion into the Indian, Asian and African markets, increases its design and manufacturing capabilities and advances the Company's business hedging strategies.

## **NORMAL COURSE ISSUER BID**

On March 15, 2012 the Toronto Stock Exchange approved the repurchase of up to 50,000 of its Class A Subordinate Voting Shares, which represents 0.57% of the 8,806,624 Class A Subordinate Voting Shares outstanding as at March 12, 2012, by way of a normal course issuer bid (“NICB”) through the facilities of the Toronto Stock Exchange (“TSX”). Daily purchases are limited to 2,099 Class A Subordinate Voting Shares, other than block purchase exemptions, which is 25% of the average daily trading volume of 8,398 Class A Subordinate Voting Shares on the TSX during the preceding six calendar months.

## **Bank agreement**

On March 22, 2012, the Company completed a new financing arrangement with JP Morgan Chase Bank, N.A. for a \$25,000,000 U.S. revolving credit facility, a \$5,000,000 U.S. overdraft facility, a €4,000,000 Euro overdraft facility and a \$10,000,000 U.S. delayed draw credit facility. This is an unsecured, 5-year committed facility that provides financing certainty for the future. This financing better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies, provides financing for our operational requirements, and capital for our strategic initiatives.

## **ADDITIONAL INFORMATION**

Additional information, including directors and named executive officer’s remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under equity compensation plans, is contained in the Management Information Circular for the 2012 Annual Meeting of Shareholders. Additional financial information is provided in the Company’s financial statements and Management’s Discussion and Analysis for its most recently completed financial year.

Additional information concerning the Company including the materials listed in the preceding paragraphs is found on SEDAR at [www.sedar.com](http://www.sedar.com)

## Schedule A

### **Hammond Power Solutions Inc. (the “Company”)**

#### **Audit Committee Charter**

#### **GUIDING STANDARDS**

It is the Company’s desire to achieve the highest possible standard of responsible corporate governance. Financial reporting and financial controls are two important components of that effort. At a minimum, the Company must satisfy all statutory and regulatory requirements. The Audit Committee, however, shall guide its effort by, and measure its effectiveness against, the following Guiding Standards:

- The accurate, complete, and timely reporting of the Company’s financial position, results of operations and prospects.
- The financial controls necessary to give shareholders, directors, creditors, and employees of the Company the highest confidence in the integrity and sufficiency of the Company’s financial systems, are in place and operating effectively.

#### **Members**

The Board of Directors shall appoint an Audit Committee of at least three members, consisting entirely of "independent" directors of the Board, and shall designate one member as chairperson. For purposes hereof, "independent" shall mean a director who meets the Toronto Stock Exchange definition of "independence" – (Multilateral Instrument 52-110 – Audit Committees).

Each member of the Audit Committee has been determined by the Board to be “independent” and “financially literate.” Each member of the Audit Committee has the ability to perform his responsibilities as an Audit Committee member based on his education and/or experience.

#### **Purpose, Duties, and Responsibilities**

The Audit Committee shall represent the Board of Directors in discharging its responsibility relating to the accounting, reporting, and financial practices of the Company and its subsidiaries, and shall have responsibility for surveillance of internal controls and accounting and audit activities of the Company and its subsidiaries. The Audit Committee does not itself prepare financial statements or perform audits, and its members are not auditors or certifiers of the Company’s financial statements. Specifically, the Audit Committee shall:

1. Recommend to the Board of Directors and evaluate the firm of independent public accountants to be appointed as auditors of the Company, which firm shall be ultimately accountable to the Board of Directors through the Audit Committee.
2. Review and discuss with the outside auditors their audit procedures, including the scope, fees and timing of the audit, and the results of the annual audit examination and any accompanying management letters and any reports of the outside auditors with respect to interim periods.
3. Review and discuss the written statement from the outside auditor of the Company concerning any relationships between the auditor and the Company or any other relationships that may adversely affect the independence of the auditor and, based on such review, assess the independence of the outside auditor.

## **Audit Committee Charter (cont'd)**

4. Review and discuss with management and the outside auditors the annual financial statements of the Company, including significant issues regarding accounting principles, practices, and significant management estimates and judgments.
5. Recommend to the Board of Directors whether, based on the review and discussion described in paragraphs (2) through (4) above, the financial statements should be included in the Annual Report.
6. Review and discuss with management the Company's quarterly financial results and related documents and approve prior to filing or distribution.
7. Review and discuss with management and the outside auditors: (a) any material financial or non-financial arrangements of the Company which do not appear on the financial statements of the Company; and (b) any transactions or courses of dealing with parties related to the Company which transactions are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or transactions are relevant to an understanding of the Company's financial statements
8. Review and discuss with management and the outside auditors the adequacy of the Company's internal controls and financial reporting controls.
9. Review and discuss with management and the outside auditors the accounting policies which may be viewed as critical, and review and discuss any significant changes in the accounting policies of the Company and accounting and financial reporting proposals that may have a significant impact on the Company's financial reports.
10. Establish policies and procedures for the engagement of the outside auditors to provide non-audit services, and consider whether the outside auditor's performance of specific non-audit services is compatible with the auditor's independence.
11. Review material pending legal proceedings involving the Company and other contingent liabilities.
12. Review the appropriateness of the Audit Committee Charter on an annual basis and periodically perform self-assessments of audit committee performance.
13. Review financial and accounting personnel succession planning within the Company.
14. Annually review the adequacy of insurance coverage for directors, officers, Board committee chairs and committee members.
15. Review and approve management's decisions related to the need for internal auditing.

## **Meetings**

The Audit Committee shall meet as often as may be deemed necessary or appropriate in its judgement, generally four times each year, either in person or by telephone. The Audit Committee shall meet in executive session with the outside auditors at least annually. The Audit Committee may create subcommittees who shall report to the Audit Committee. The Audit Committee shall report to the full Board of Directors with respect to its meeting. The majority of the members of the Audit Committee shall constitute a quorum.

## **Investigations**

The Audit Committee shall have the authority to conduct or authorize investigations into any matters within its scope of responsibilities with full access to all books, records, facilities, and personnel and shall have the authority to retain outside counsel, experts and other advisors as it determines appropriate to assist it in the conduct of any investigation.