HAMMOND MANUFACTURING™

Quality Products. Service Excellence.

2010 Annual Report

QUALITY PRODUCTS. SERVICE EXCELLENCE.

We have a broad product offering:
To serve our customers in multiple markets and industries.

Our warehouse holds in excess of ten million dollars in inventory:
To provide our customers with product availability and rapid order delivery.

Ten day back order recovery on standard product:
We work hard to provide you with your required product in a prompt time line.

Value Added Services (Modifications, Assembly and Drop Shipment):
To go above and beyond our competition and provide our customers with the exact solution required.

OUR VALUES:

We are dedicated to our customers:
To provide quality products and service that create value to our customers.

We are responsible to our shareholders:
To provide an adequate return on their investment over the long term.

We are committed to our employees:
To provide competitive pay, open and frank communication and a safe work environment.

We recognize the importance of our suppliers:
To assist us in our ability to serve our customers.

Visit us online at www.hammondmfg.com

Hammond Manufacturing Company Limited

2010 Annual Report

REPORT TO SHAREHOLDERS

Dear fellow shareholders:

The following report reflects the hard work of our entire team at Hammond.

During the downturn in 2009, we avoided layoffs and maintained our inventory and service levels. When the industrial markets recovered, we were better able to respond and meet our customers' demands.

We face challenges in 2011 from all the familiar sources. Currency exchange, material costs and the ever-present competition. However, we are now able to shift our management focus from reacting to the recession to the future.

We are putting together a most exciting 5-year plan for Hammond Manufacturing Company Limited with new products that will drive our business. Our geographic growth into Asia continues. We are planning to add new machinery and improve our skills to make us more productive. We are drafting our plans for new facilities and production cells; always with our values of job security and continuous improvement from employee involvement front and centre.

The 2010 results are a testament to the success we can achieve with teamwork. We look forward to building on these in order to provide strength and security for all our stakeholders: customers, suppliers, employees and shareholders.

My appreciation to all.

Sincerely,

Robert F. Hammond
Chairman & CEO

ANNUAL MEETING

The meeting of the Shareholders will be held on May 5, 2011 at the Holiday Inn, 601 Scottsdale Drive, Guelph, Ontario, commencing at 10:00 a.m.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") comments on the consolidated financial condition and results of operations of Hammond Manufacturing Company Limited (the "Company") for the year ended December 31, 2010. This discussion should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2010 and related notes. Additional information about the Company can be found on its website, www.hammondmfg.com, or through the SEDAR website at www.sedar.com which includes the Company's Annual Information Form. The information contained herein is dated as of March 30, 2011.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, with the reporting currency in Canadian dollars.

Advisory –Certain information in this MD&A is forward-looking and is subject to important 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.

COMPANY PROFILE

Hammond Manufacturing Company Limited manufactures electronic and electrical enclosures, outlet strips and electronic transformers that are used by manufacturers of a wide range of electronic and electrical products. Products are sold both to OEM-direct and through a global network of distributors and agents.

Facilities are situated in Canada, the USA, the UK and Australia, with agents and distributors located worldwide. The Company also maintains a 40% ownership share of RITEC Enclosures Inc. located in Taiwan. RITEC produces plastic and die cast enclosures for sale through the Company's sales network and its own existing market channels.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS

FOURTH QUARTER RESULTS

SALES

Net sales, for the three months ended December 31, 2010 were $19,270,000, a decrease of 2.3% from net sales of $19,726,000 in the third quarter of 2010. This decline was driven by our US market while our Canadian and other global markets held or improved over the third quarter. Net sales for the current quarter were up 19.0% compared to net sales of $16,190,000 for the three months ended December 31, 2009. The fourth quarter of 2009 was the last full quarter of the recession in our market. Business returned to pre recessionary levels in the first quarter of 2010.

GROSS MARGINS

Gross margins for the fourth quarter of 2010 were 28.4% of net sales compared to 29.2% in the third quarter of 2010. The Company holds its factory physical inventory count in November of each year and this causes production levels to drop in the quarter. Gross margins are up 1.9% from the fourth quarter 2009 of 26.5% as increased volume levels improved overhead absorption.

EARNINGS FROM OPERATIONS BEFORE INTEREST, FOREIGN EXCHANGE, EQUITY INTEREST, OTHER INCOME AND TAXES

Fourth quarter selling, general and administration ("SG&A") expenses of $4,572,000 were 23.7% of net sales for the three months ended December 31, 2010, compared with an expense of $4,505,000 in the previous quarter that was 22.8% of net sales and $4,131,000 which was 25.5% of net sales in the fourth quarter of 2009.

Overall earnings from operations before interest, foreign exchange, equity interest and taxes of $892,000 (4.6% of net sales) is down from the prior quarter of $1,262,000 (6.4% of net sales) and up substantially from the 2009 fourth quarter amount of $156,000 (1.0% of net sales).

INTEREST

Fourth quarter interest expense of $113,000 was up 8.7% from the third quarter expense of $104,000 and up 13% from the comparable prior year fourth quarter of $100,000.

FOREIGN EXCHANGE TRANSLATION

A loss of $71,000 on foreign exchange balance sheet translation was reported in the current quarter, compared to a gain of $97,000 in the third quarter of 2010 and a loss of $21,000 in the fourth quarter of 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

(In thousands of dollars except earnings per share)

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Income Statement Data								
Net sales	$19,760	$16,957	$16,499	$16,190	$19,617	$19,974	$19,726	$19,270
Earnings from operations before interest, foreign exchange, equity interest, other income and taxes	932	561	(124)	156	916	933	1,262	892
Net earnings (loss)	438	13	(564)	69	326	477	775	454
Earnings (loss) per share - Basic & diluted	$0.04	$0.00	($0.05)	$0.01	$0.03	$0.04	$0.07	$0.04

FULL YEAR RESULTS

SALES

Net sales of $78,587,000 in 2010 were up 13.2% from net sales of $69,406,000 reported in 2009. All our global markets have returned to pre-recession levels. Net sales in 2008 were $78,160,000 at which time the foreign exchange rates were more favorable than in 2010.

GROSS MARGINS

In 2010, average gross margins held at 28.3% of net sales which is comparable to 2009. The positive impact created by the increased sales volume was offset by the negative impact of the strengthening Canadian dollar. The average US dollar exchange rate was 1.03 in 2010 compared to 1.14 in 2009 (a $100 USD sale in 2009 translated to $114 Canadian dollars in 2009 and only $103 Canadian dollars in 2010). This is equivalent to almost a 10% price decrease on US sales.

EARNINGS FROM OPERATIONS BEFORE INTEREST, FOREIGN EXCHANGE, EQUITY INTEREST, OTHER INCOME AND TAXES

Selling, general and administration ("SG&A") expense increased $123,000, 0.7% from 2009 although the expense was 23.2% of net sales in 2010, compared with 26.1% in 2009. The stronger Canadian dollar lowered the cost associated with our USA office compared to 2009 by $392,000.

Overall, 2010 earnings from operations before interest, foreign exchange, equity interest and taxes of $4,003,000 (5.1% of net sales) showed an increase of $2,478,000 (162.5%) from $1,525,000, (2.2% of net sales) in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST

Interest expense decreased $21,000 (4.9%) from the 2009 expense level to $409,000 in 2010. As interest rates have remained fairly constant, the decrease can be attributed to the reduction in long-term debt.

FOREIGN EXCHANGE TRANSLATION

A $259,000 foreign exchange translation loss was reported in 2010, compared to a translation loss of $438,000 in 2009. This was primarily driven by the appreciation trend of the CDN dollar compared to the US dollar, The Canadian dollar closed 2010 at 0.995 compared to 1.051 at the close of 2009. Sterling was valued at 1.5514 Canadian, compared to 1.6986 at the close of 2009.

SELECTED ANNUAL INFORMATION

For the years ended December 31	(In thousands of dollars except earnings per share)		
	2010	**2009**	**2008**
Net sales	**$78,587**	$69,406	$78,160
Earnings from operations before interest, foreign exchange, equity interest, other income and taxes	**4,003**	1,525	4,155
Net earnings (loss)	**2,032**	(44)	4,889
Earnings (loss) per share - Basic & diluted	**$0.18**	$0.00	$0.43
Balance Sheet Data			
Total assets	**$47,194**	$44,360	$48,501
Total funded debt	**9,786**	10,906	12,250
Working capital	**17,205**	16,846	17,647
Cash provided (used) by operations	**3,559**	1,240	2,860
Dividends declared	**227**	-	-
Shareholders' equity	**$28,502**	$26,697	$26,741

CAPITAL RESOURCES AND LIQUIDITY

Cash provided by operations, before changes in non-cash operating working capital for 2010 is $4,890,000 (2009 - $2,250,000). Change in non-cash operating working capital resulted in a net cash outflow of $1,331,000 in 2010, up from a $1,010,000 outflow in 2009. Accounts payable and accrued charges increased $1,996,000 and was more than offset by an accounts receivable increase of $2,179,000.

Accounts receivable increased 25.8% at December 31, 2010 compared to the 2009 year-end. Days sales outstanding (DSO) calculated on net sales was 51 days, down 2 days from 2009. The quality of accounts receivable remains high. We expect DSO to continue in the current range for 2011.

Investment in inventory of $20,676,000 increased in the year by 1.2% from $20,425,000. Inventory turnover increased to 2.86 from 2.35 (cost of sales divided by the twelve month average inventory level). Inventory levels have been set to ensure our customer order fill rates are maintained or improved. The turns moved closer to the 2008 pre-recession levels in 2010.

Accounts payable and accrued charges increased by $1,996,000 over 2009 as a function of our increased activity levels. We value our suppliers and strive to maintain acceptable payment terms.

Our total debt (long-term debt and bank indebtedness) decreased by $1,120,000 over the year to $9,786,000. Our debt-to-equity ratio at year-end was approximately 0.34:1 (2009 - 0.41:1).

The Company paid a dividend of $227,000 in September of 2010.

Property, plant, equipment and intangible asset additions in 2010 were $2,676,000 down from $2,973,000 in 2009. 2010 expenditures included $925,000 toward upgrading and replacing machinery and equipment, $375,000 toward machinery and equipment for product growth, $648,000 toward tooling, $333,000 toward computer hardware upgrades and the remaining $395,000 toward software, leasehold improvements and office equipment.

The contractual obligations of the Company are detailed in the following table.

Contractual obligations (In thousands)	**Total**	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
Long-term debt	$ 1,948	$ 1,361	$ 551	$ 36	$ -	$ -	$ -
Capital lease obligations	1,940	503	461	446	528	2	-
Operating leases	4,764	1,317	1,071	980	846	550	-
Total contractual obligations	$ 8,652	$ 3,181	$ 2,083	$ 1,462	$ 1,374	$ 552	$ -

In addition to the contractual obligations above, the Company has current obligations of $739,000 (2009 - $269,000) against open purchase orders for outstanding capital expenditures. The Company also has open purchase commitments with RITEC as at December 31, 2010 of $208,177 ($416,599 in 2009). These expenditures should be complete in the first half of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE CAPITAL

As of March 30, 2011, 8,556,000 Class A subordinate voting shares and 2,778,300 Class B common shares were issued and outstanding. The Company also has a management share option plan, with no options currently outstanding.

ENVIRONMENTAL ISSUES

As described in the notes to the financial statements (notes 15(a) and 15(b)), the Company had two sites for which there are environmental issues.

The Sterling Road, Toronto site (note 15(a)) is a property that was owned by Moloney Properties (1159714 Ontario Inc.). Moloney Properties (a 50% investment of HMCL) leased the Sterling Road site to Moloney Electric Inc. (MEI) until the end of December 2008. The Sterling Road property has mineral oil contamination as well as some PCB contamination. Except for a reported spill of mineral oil by MEI in 1993, the source of such contamination has not been determined. The contamination does not result from the normal operations of the Company. It appears that the contamination predates the Company's ownership and the source or sources may include adjoining properties.

In 1994, Toronto Hydro (TH), the owner of an adjoining property, complained that mineral oil (including, possibly, PCB's) had migrated onto the TH lands from the Sterling Road site. The TH property is an inactive transformer substation and former storage depot.

In 2004, environmental reports were exchanged between Moloney Properties and TH and a joint meeting of the parties was held with the Ontario Ministry of the Environment (MOE). From this meeting, it was determined that further sampling was needed and a joint order was developed with the parties to this effect. MEI and 1159714 Ontario Inc. prepared a field-sampling plan that was accepted by the MOE and this additional work was completed in 2005. The results from this sampling were consistent with previous investigations and a report has been submitted to the MOE.

The property was sold on October 13, 2009. The sale included a covenant from the buyer to demolish the building on site, excavate and remediate the property and secure a record of site condition confirming that the property is in compliance with environmental law requirements regarding the removal of PCB's and mineral oil currently on the property.

The sale of the building in 2009 netted a loss of $76,000 ($38,000 was HMCL's share of the loss).

Glen Ewing Properties is a 50% co-tenancy with Hammond Power Solutions Inc. ("HPSI") of the vacant property located at 2 Glen Road, Georgetown. A quantity of diesel oil, which is believed to be related to site operations of prior owners, was discovered in 2000 and has been the focus of investigations by our environmental consultant. The contamination does not result from the normal operations of the Company. In December 2001, the adjoining property owner (whose lands were at one time part of the same historical operation as 2 Glen Road) issued a statement of claim, claiming damages from HMCL and HPSI for the historical contamination found on its property (note 15(b)). In August of 2009, the adjoining property owner, HMCL and HPSI (the parties) signed a settlement outlining how the parties will work together on future management, including the remediation and monitoring of the Substances of Interest on the Properties and the South Lands. The parties also agreed on an approach to resolve future Ministry of the Environment or other governmental claims, orders, directions, prosecutions, tickets and environmental penalties. As part of this settlement all of the parties dropped their civil actions against each other.

ENVIRONMENTAL ISSUES - CONTINUED

HMCL and HPSI, as co-tenants, have been working co-operatively with the adjacent property owner and its environmental consultant, under the direction of the MOE, in order to evaluate the extent of the contamination and develop an appropriate joint remediation plan for both sites. Ongoing investigations have also indicated that both the co-tenancy's and the adjacent owner's sites have been impacted by historical solvent usage. These impacts have been incorporated into the joint remediation plan. HMCL's share of the costs for legal and consulting work for the year 2010 related to this property was $75,000 (2009 - $178,000). The parties started remediation in October 2009. The Company is satisfied that the best estimate available for the Company's remaining portion of the environmental remediation costs for this site is $260,000 (December 31, 2009 - $300,000) with $140,000 (2009 – $159,000) presented as a current liability in the year end financial statements.

Other than the above sites, Management is not aware of any unusual or significant issues.

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the consolidated financial statements, it is necessary for Management to make some estimates and judgments that affect reported amounts in the financial statements and related disclosure of contingencies. Management determines these estimates using historical experience, assumptions and rationale that are believed to be reasonable in the circumstances. The Company evaluates these on an ongoing basis in order to form the judgment for the carrying value of certain assets and liabilities.

Specifically, the Company has assessed the property valuations related to the sites noted under "Environmental Issues" in this MD&A and in the notes to the financial statements (notes 15(a) and 15(b)). Based on this analysis, it is Management's judgment that the reported carrying values of these properties are reasonable.

The value of Goodwill related to the Company's UK operations was reviewed by Management and tested for impairment in accordance with the guidelines set out in the CICA Handbook section 3064. Based on this analysis, it is Management's judgment that the reported carrying value for Goodwill is not impaired.

The environmental liability (note 15(b)) has been established based on an analysis of cost estimates related to expected activities required for active remediation for Glen Ewing Properties. It is Management's judgment that the reported carrying value for this liability, based on discounted cash flows over five years, is a reasonable estimate of the Company's share of these costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

Although these estimates, which form the basis for carrying values of, reported assets, liabilities, revenues and expenses, are based on reasonable assumptions, it should be noted that actual results may differ from these estimates under different assumptions or conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standards Board of the CICA affirmed its intention to replace Canadian GAAP with 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 substantially completed. The project was 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 advisors in the fourth quarter of 2008 and was integral in prioritizing subsequent steps. The highest impact areas identified at this time was Property, Plant and Equipment; Provisions and Contingencies; Impairment; Taxes; Consolidation and Lease Accounting. Accounting policies have been selected although are still considered preliminary and may change upon final review.

Phase Two – Analysis and Diagnostics:
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 were assessed for the most appropriate application. Areas identified in Phase One were analyzed in detail to assess if any changes to policy were required and what, if any, impact this will have. During this phase, our key finance and operational staff were trained on IFRS. Management and Audit Committee members were educated regarding IFRS implications. This phase was substantially completed in the fourth quarter of 2009. IFRS education will be an ongoing activity.

Phase Three – Implementation and Review:
This phase involved executing the work completed in phase two by making changes to business and accounting processes and supporting information systems. It also included the review of all internal controls that may have been impacted by any of the changes. 2010 comparative data has been collected for comparative disclosure starting in the first quarter of 2011.

RESULTS OF THE DETAILED GAP ASSESSMENT

Recognition and Measurement

To date, the Company has identified the following major areas, as outlined below, with differences between current accounting policies and those required or expected to be applied in preparing IFRS financial statements. Accounting policy choices and IFRS 1 options selected have been reviewed by the Steering Committee and Audit Committee and are preliminary at this time. Impacts and accounting policy choices reflect the Company's current assumptions, estimates and expectations and are not considered complete or final at this time.

Property, Plant and Equipment ("PP&E")

Canadian GAAP requires the separation of components with different useful lives when separable and practicable, whereas IFRS, which is more explicit, requires separation based on its cost relative to the total cost of the asset. The detailed assessment showed changes required under IFRS will not have a significant impact on the consolidated financial statements.

RESULTS OF THE DETAILED GAP ASSESSMENT - CONTINUED

Impairments

Impairment testing of PP&E is based on a two-step approach under current Canadian GAAP when circumstances indicate that the carrying value may not be recoverable. The first step requires a comparison of the carrying amount of the asset(s) to the expected undiscounted cash flows for the asset(s). If the carrying amount is not recoverable then the second step compares the fair value of the asset(s) to the carrying value of the asset(s) to determine if there is an impairment loss. IFRS uses a one-step approach, if any indication of impairment exists, which compares the recoverable amount of the asset with the carrying value of the asset. The recoverable amount is the higher of the fair value and value-in-use which is calculated using discounted cash flows.

In addition, IAS 36 Impairment of Assets requires, under certain circumstances, the reversal of previous impairments which is not allowed under current Canadian GAAP.

Goodwill impairment testing is conducted at a more granular level known as the “cash generating unit” under IFRS as compared to the testing at a “reporting unit” level for Canadian GAAP. This difference is not expected to have a material impact for the Company.

The Company does not expect any material changes to the results of its impairment tests for PP&E previously performed under Canadian GAAP when it transitions to IFRS.

Foreign Currency Translation

Under Canadian GAAP, the Company separates self-sustaining operations from integrated operations. The non-monetary assets of self-sustaining operations are translated at the current rate whereas the non-monetary assets of integrated operations are translated at historic rates. Unlike Canadian GAAP, IFRS does not distinguish between the types of foreign operations (i.e. integrated vs. self-sustaining) and requires that non-monetary assets for all entities are translated at the current rate at the balance sheet date where a difference in functional currencies exists.

The Company has determined that the difference will decrease property, plant and equipment and decrease retained earnings at transition by $287,254. During 2010 and 2011, there will be an impact to property, plant and equipment, depreciation expense, foreign exchange expense and cumulative translation adjustments.

PRESENTATION RECLASSIFICATIONS:

Cumulative Translation Adjustment

As elected under IFRS 1, the Company will reset all cumulative translation gains and losses to zero with the offset to be recorded in opening retained earnings at the date of transition. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS shall be excluded from the gain or loss on disposal.

Non-Controlling Interests

The Company has elected to early adopt as of January 1, 2010 the CICA Handbook Section 1582, Business Combinations (“Section 1582”), Section 1601, Consolidated Financial Statements (“Section 1601”) and Section 1602, Non-Controlling Interest (“Section 1602”). These handbook sections are converged with IFRS and, as a result of the early adoption, there are no presentation differences at transition.

RESULTS OF THE DETAILED GAP ASSESSMENT - CONTINUED

Deferred Income Tax

Under Canadian GAAP, income tax assets and liabilities are classified as current and non-current, depending on the classifications of the assets or liabilities to which they relate. Under IFRS, deferred tax is not classified into current and non-current. On transition, the Company must reclassify current future income tax assets/liabilities as non-current deferred tax assets/liabilities.

The impact on the opening January 1, 2010 balance sheet will result in $224,000 of current future income tax assets being reclassified to non-current future income taxes assets.

Provisions

Unlike Canadian GAAP, IFRS requires provisions to be separated from liabilities. IAS 37 defines a provision as a liability of uncertain timing and amount. Provisions are recognized on the basis of a legal or constructive obligation arising from a past event, if there is a probable outflow of resources and the amount can be estimated reliably. Under IFRS, there can also be a lower threshold for recognition and different measurement basis. On transition, the Company must separate provisions from accounts payable and accrued liabilities, either on the face of the balance sheet or in the notes.

IFRS 1 Considerations

On the transition date January 1, 2010, the Company is required to convert its opening financial position to IFRS in accordance with IFRS 1. The Company is also required to restate its comparative financial statements for annual and interim periods to reflect IFRS requirements. IFRS 1 grants optional exemptions from the requirements of other IFRSs where the cost of complying with them would be likely to exceed the benefits to users of financial statements. This IFRS also requires mandatory exceptions which prohibit retrospective application of IFRS in some areas. The optional exemptions listed below are elections made by the Company. Other optional exemptions not being considered to be elected are not listed.

MANDATORY EXCEPTIONS:

1. Estimates – Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP will not be revised for application of IFRS, except where necessary to reflect any difference in accounting policies.

2. IAS 27 – Consolidated and Separate Financial Statements (“IAS 27”) - In accordance with IFRS 1, if a Company elects to apply IFRS 3 Business Combinations (“IFRS 3”) retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively.

As the Company is planning to elect to apply IFRS 3 prospectively, the Company is also planning to elect to apply IAS 27 prospectively.

OPTIONAL EXEMPTIONS APPLIED:

1. Business combinations – IFRS 1 provides the option to apply IFRS 3 (Revised) Business Combinations, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date.

The Company is planning to elect not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date; therefore, such business combinations will not be restated. Any goodwill arising on such business combinations before the transition date will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

RESULTS OF THE DETAILED GAP ASSESSMENT - CONTINUED

2. Leases – IFRIC 4 Determining whether an Arrangement contains a Lease ("IFRIC 4") requires the assessment of whether an arrangement contains a lease to be performed at the inception of the arrangement. A first-time adopter may, instead, choose to apply IFRIC 4 on the basis of facts and circumstances existing at the date of transition (i.e. prospective application).

The Company is planning to elect to apply the optional exemption under IFRS 1.

3. Currency translation differences – Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates ("IAS 21"), from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date.

In accordance with IFRS 1, the Company is planning to elect to reset all cumulative translation gains and losses to zero in opening retained earnings at the date of transition. Accordingly, retrospective restatement of foreign currency translation adjustments will not be performed.

4. Borrowing costs – IAS 23, Borrowing Costs ("IAS 23"), requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS 1 allows an entity to choose an effective date for which the commencement date for capitalization is on, or after, the date of transition to IFRS or an earlier date chosen by the first –time adopter.

The Company is planning to elect to choose an effective date of January 1, 2010.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

(i) financial statements prepared for external purposes are in accordance with the Company's generally accepted accounting principles,

(ii) transactions are recorded as necessary to permit the preparation of financial statements and records are maintained in reasonable detail,

(iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's Management and Directors AND

(iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

CONTROLS AND PROCEDURES - CONTINUED

The Chief Executive Officer and the Chief Financial Officer have caused management and other employees to design, document and evaluate our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2010. The design and evaluation of internal controls was completed using the framework and criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, we have concluded that the Company's disclosure controls, procedures and our internal controls over financial reporting provide reasonable assurance that material information relating to the Company are made known to the Company by others, particularly during the period in which the annual filings are being prepared, that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

RISKS AND UNCERTAINTIES

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

These risks include:
- The cyclical effects, unpredictability and volatility of market driven commodity costs, raw materials such as copper and steel pricing and supply and demand;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the US dollar;
- Economic slowdown in the US and Canada;
- Rising interest rates;
- Trade restrictions;
- Labour costs and labour relations;
- Competition; and
- Global political unrest.

The Company continuously works to minimize the negative impact of these risks and strengthen its position through diversification of its core business, market channel expansion, geographic diversity of its operations and business hedging strategies. There are, however, several risks that deserve particular attention.

Key Personnel
The Company is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If the Company were to experience a substantial turnover in its leadership or other key employees, business results from operations and financial condition could be materially adversely affected.

Commodity Prices
An area that has had a definite effect on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper commodity and steel pricing in the global market. Due to this unpredictability and volatility, particularly with copper pricing, the Company does not currently utilize future contracts. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

MANAGEMENT DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES - CONTINUED

Foreign Exchange

The Company's operating results are reported in Canadian dollars. A significant portion of our sales are denominated in US dollars. A change in the value of the Canadian dollar against the US dollar will impact earnings. We have created a natural hedge as this is partially offset by a corresponding change in the cost of materials purchased from the US and commodities tied to US dollar pricing. In general, a lower value for the Canadian dollar compared to the US dollar will have a beneficial impact on the Company's results; or inversely a higher value for the Canadian dollar compared to the US dollar will have a negative impact on the Company's profitability. The Company also has a US operating subsidiary and US dollar assets. The exchange rate between the Canadian and US dollar can vary significantly from year to year. There is a corresponding positive or negative impact to the Company's Statement of Earnings solely related to the foreign exchange translation of its Balance Sheet. We have partially reduced the impact of foreign exchange fluctuations through increasing our US dollar driven manufacturing output. Finally, the Company periodically institutes price increases / reductions to help offset the negative / positive impact of changes in foreign exchange and product cost increases / decreases.

Interest Rates

The Company has structured its debt financing to take advantage of the current lower interest rates, but is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews this strategy of hedging this risk by fixing interest rates on part of its total debt.

North American Economy

We believe the North American economy has stabilized and we will see marginal growth in 2011. Our efforts over the next 12 months will be on projects that will reduce our costs and improve our manufacturing flexibility. We believe that being nimble as an organization will become even more important in order to respond quickly to both unexpected opportunities as well as challenges. We also believe that our growing access to a variety of markets both global and domestic through our OEM and distributor channels will help the Company expand market share during an economic recovery.

OUTLOOK FACTORS FOR 2011

The Company left the recession behind as quickly as it came upon us. 2010 found us back at 2008 activity levels. Our actions to maintain strong inventory levels during the recession allowed us to quickly answer our customers' demands.

Current feedback from our customer base tells us to anticipate low growth in 2011. Our plan for the 2011 core business foresees local currency growth in the low single digits. We will continue to expand our market share with new product introduction and marketing initiatives as well as continued expansion of our market share in the international market place.

Capital spending will continue to be focused on high impact projects as accommodated by cash flows.

Our primary focus continues to be on productivity and margin improvement.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements are the responsibility of the Management of Hammond Manufacturing Company Limited. These statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and other financial information contained in the report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgment and have been properly reflected in the accompanying consolidated financial statements.

Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of three non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board of Directors.

KPMG LLP, the independent auditors appointed by the shareholders, have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting process.

R. F. Hammond
Chairman & CEO

A. Stirling
Secretary & CFO

Guelph, Ontario
March 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of Hammond Manufacturing Company Limited ("the Entity"), which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of comprehensive earnings, statements of retained earnings and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hammond Manufacturing Company Limited as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP, Chartered Accountants, Licensed Public Accountants
March 10, 2011
Waterloo, Canada

CONSOLIDATED BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2010 AND 2009 (IN THOUSANDS OF DOLLARS)

	2010	2009
Assets		
Current assets:		
Cash	$ 422	$ 869
Accounts receivable (note 18(a))	10,634	8,455
Income taxes receivable	234	-
Inventories (note 3)	20,676	20,425
Prepaid expenses	874	774
Future income taxes (note 14)	301	224
	33,141	30,747
Property, plant and equipment (note 4)	11,800	11,295
Intangible assets (note 5)	208	177
Equity investment (note 6)	177	145
Investments in properties	1,695	1,698
Future income taxes (note 14)	-	125
Goodwill	173	173
	$ 47,194	$ 44,360
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 5,898	$ 5,953
Accounts payable and accrued liabilities	8,018	6,022
Income taxes payable	16	350
Current portion of long-term debt (note 8)	1,864	1,417
Current portion of environmental liability (note 15(b))	140	159
	15,936	13,901
Long-term debt (note 8)	2,024	3,536
Environmental liability (note 15(b))	120	141
Future income taxes (note 14)	612	85
Shareholders' equity:		
Share capital (note 10)	10,249	10,249
Contributed surplus	290	290
Retained earnings	17,963	16,158
	28,502	26,697
Commitments and contingencies (notes 15)		
	$ 47,194	$ 44,360

See accompanying notes to consolidated financial statements.

On behalf of the board:

Robert F. Hammond
Director

Edward Sehl
Director

CONSOLIDATED STATEMENTS OF EARNINGS, COMPREHENSIVE EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2010 AND 2009 (IN THOUSANDS OF DOLLARS EXCEPT EARNINGS PER SHARE)

	2010	2009
Net sales	$ 78,587	$ 69,406
Costs and expenses:		
Cost of sales	56,376	49,796
Selling, general and administrative	18,208	18,085
	74,584	67,881
Earnings from operations – before the undernoted	4,003	1,525
Interest expense (note 8)	(409)	(430)
Foreign exchange gain (loss)	(259)	(438)
Share of net income (loss) in equity interest and other expenses (note 13)	(107)	(302)
Earnings before income taxes	3,228	355
Income taxes (note 14)	1,196	399
Net earnings (loss) and comprehensive earnings (loss)	2,032	(44)
Retained earnings, beginning of year	16,158	16,202
Dividends	227	-
Retained earnings, end of year	$ 17,963	$ 16,158
Basic and diluted earnings per share (note 12)	$ 0.18	$ (0.00)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009 (IN THOUSANDS OF DOLLARS)

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 2,032	$ (44)
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment	2,352	2,388
Future income taxes	575	(135)
Share of net (income) loss in equity interest and property investments	(29)	124
Provision for environmental liability	(40)	(83)
	4,890	2,250
Change in non-cash operating working capital	(1,331)	(1,010)
Cash provided by operations	3,559	1,240
Financing:		
Increase (decrease) in bank indebtedness	(55)	653
Dividends paid	(227)	-
Repayment of long-term debt	(1,501)	(2,047)
Cash used in financing activities	(1,783)	(1,394)
Investments:		
Purchase of property, plant and equipment	(2,156)	(2,359)
Purchase of intangible assets	(84)	(64)
Proceeds from the disposition of property, plant and equipment	17	-
Cash provided by (used in) investment activities	(2,223)	(2,423)
Increase (decrease) in cash	(447)	(2,577)
Cash, beginning of year	869	3,446
Cash, end of year	$ 422	$ 869

See note 19 for supplemental cash flow information.

See accompanying notes to consolidated financial statements.

Hammond Manufacturing Company Limited (the "Company" or "HMCL") is a public company, traded on the Toronto Stock Exchange and is incorporated under the Ontario Business Corporations Act.

The Company is primarily involved in the manufacture and sale of electrical and electronic components.

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) Basis of presentation:

The consolidated financial statements include the accounts of Hammond Manufacturing Company Limited, its wholly owned subsidiaries, Hammond Manufacturing Company Inc., Hammond Electronics Limited, Hammond Electronics PTY Ltd., Les Fabrications Hammond (Quebec) Inc. and its proportionate share of 1159714 Ontario Inc. (50%). All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Revenue recognition:

The Company recognizes revenue on product sales and services at the time the products are shipped or services rendered to customers, when 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. A provision for potential warranty claims is provided for at time of sale based on warranty terms and prior claims experience.

(c) Translation of foreign currencies:

The Company's operations located in the United States, Australia and the United Kingdom ("UK") are considered 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 net earnings for the current period.

(d) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out cost and net realizable value. When circumstances that previously gave rise to an inventory write down no longer exist, the previous impairment is reversed.

(e) Investment in properties:

Investment in properties is stated at the lower of cost and estimated net realizable value.

(f) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated amortization. Property, plant and equipment are amortized using the straight-line method at rates calculated to amortize the cost of these assets over their estimated useful lives. Amortization rates are as follows:

Asset	Rate
Buildings	2.5% – 5%
Machinery and equipment	10% - 25%
Office equipment	10% - 25%

Machinery and equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease.

(g) Intangible Assets:

Intangible assets are stated at cost less accumulated amortization. Intangible assets are amortized using the straight-line method at rates calculated to amortize the cost of these assets over their estimated useful lives. Amortization rates are as follows:

Asset	Rate
Computer software	20%
Product development costs	20%

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

(h) Investments measured using equity method:

The Company uses the equity method as a basis of accounting for investments in companies over which it exercises significant influence and does not control, jointly or otherwise. Under the equity method, the Company records these investments initially at cost and the carrying values are adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investees, computed by the consolidation method. The adjustments are included in the determination of net income by the Company and the investment accounts of the Company are also increased or decreased to reflect the Company's share of capital transactions (including amounts recognized in other comprehensive income). Profit distributions received or receivable from investees reduce the carrying values of the investments. Unrealized intercompany gains or losses and any gain or loss that would arise in accounting for intercompany bond holdings, are eliminated.

The Company's determination of significant influence is based on consideration of voting interest in the investees along with other indicators such as representation on the Board of Directors, participation in policy-making processes, material intercompany transactions, interchange of managerial personnel or provision of technical information.

(i) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts 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.

(j) Goodwill:

Goodwill represents the residual amount between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is allocated to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired and goodwill would be written down only if the carrying value is in excess of implied fair value determined in the impairment test.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangible assets, investment in properties and goodwill; valuation allowances for receivables, inventories, note receivable and future income taxes, environmental liability, stock-based compensation costs and contingency disclosures. Actual results could differ from those estimates.

(l) Stock-based compensation:

The Company has a stock-based compensation plan as described in note 11. The Company accounts for all stock-based payments granted on or after January 1, 2003, using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital along with the related amount of contributed surplus.

Under the fair value based method, compensation cost is measured at fair value at the grant date and recognized over the vesting period in contributed surplus. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation cost is recognized on a pro rata basis over the vesting period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

(m) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. 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 stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding 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, equity investment and investment in properties, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The asset and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(o) 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 indebtedness is classified as held-for-trading; and
- Accounts payable and accrued charges, notes payable, long-term debt and environmental liabilities are classified as other liabilities.

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 earnings; 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 expenses 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.

2. FUTURE ACCOUNTING CHANGES:

International Financial Reporting Standards

The Canadian Accounting Standards Board requires that all public companies adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company's audited annual consolidated financial statements for the year ending December 31, 2011 will be the first audited annual consolidated financial statements that will be prepared in accordance with the requirements of IFRS. Starting in the first quarter of 2011 the unaudited interim period consolidated financial statements will be prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", including 2010 comparative figures and required reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1").

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

3. INVENTORIES:

	2010	2009
Raw materials and work-in-process	$ 7,648	$ 6,842
Finished goods	13,028	13,583
	$ 20,676	$ 20,425

The Company recognized $55,960,000 of inventory as an expense, which is included in cost of sales during the year (2009 - $49,729,000). During the year, an amount of $415,508 (2009 – reversal of prior years write down of $66,876) was recognized as an expense to adjust inventory to its net realizable value.

4. PROPERTY, PLANT AND EQUIPMENT:

			2010
	Cost	Accumulated amortization	Net book Value
Land	$ 202	$ -	$ 202
Buildings	6,711	4,323	2,388
Machinery and equipment	34,542	29,298	5,244
Machinery and equipment under capital lease	3,674	1,189	2,485
Office equipment	4,684	4,297	387
Capital additions in process	1,094	-	1,094
	$ 50,907	$ 39,107	$ 11,800

			2009
	Cost	Accumulated amortization	Net book Value
Land	$ 202	$ -	$ 202
Buildings	6,574	4,164	2,410
Machinery and equipment	34,089	28,263	5,826
Machinery and equipment under capital lease	3,161	810	2,351
Office equipment	4,464	4,241	223
Capital additions in process	283	-	283
	$ 48,773	$ 37,478	$ 11,295

Amortization expense for the year is $2,299,000 (2009 - $2,320,000)

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

5. INTANGIBLE ASSETS:

			2010
	Cost	Accumulated amortization	Net book Value
Computer software	$ 1,953	$ 1,869	$ 84
Other intangibles	104	19	85
Intangible additions in process	39	-	39
	$ 2,096	$ 1,888	$ 208

			2009
	Cost	Accumulated amortization	Net book Value
Computer software	$ 1,948	$ 1,830	$ 118
Other intangibles	42	5	37
Intangible additions in process	22	-	22
	$ 2,012	$ 1,835	$ 177

Amortization expense for the year is $53,000 (2009 - $68,000)

6. EQUITY INVESTMENT:

The Company has a 40% equity interest in RITEC Enclosures Inc. ("RITEC"). RITEC is located in Taiwan and produces plastic and die cast enclosures for sale through the Company's sales network and its own existing market channels.

7. BANK INDEBTEDNESS:

Bank indebtedness is due on demand and secured by inventories, a general assignment of book debts and a charge on specific assets of the Company. The Company has established operating lines for the entities in Canada, US and the UK. The Canadian entities were using $5,779,000 of its $10,000,000 CAD operating line of credit as at December 31, 2010 (2009 – $5,953,000). The US entity was using $120,000 USD of its $2,000,000 USD operating line as at December 31, 2010 (2009 - $0). The UK entity has a operating line of 100,000 GBP which was not drawn as at December 31, 2010 and 2009.

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

8. LONG-TERM DEBT:

	2010	2009
Term loans, secured by a debenture on the Company's land and buildings together with a floating charge over all other assets of the Company:		
Portion drawn in Canadian funds at variable interest rates based on the bank's prime lending rate, maturing in 2010 through 2013	$ 1,302	$ 2,049
Portion drawn in US funds $37,572 (2009 - $75,143) at variable interest rates based on the bank's prime lending rate, maturing in 2011	37	79
	1,339	2,128
Term loan drawn in US funds $166,667 (2009 - $333,331) at a fixed rate of 5.36% through November 2009 and 7.36% thereafter until maturity in 2011, secured by the assets of Hammond Manufacturing Company Inc.	166	350
Demand term loan drawn in GBP Sterling £0 (2009 - £3,458) at variable interest rates based on the bank's base rate, secured by a debenture including fixed equitable charge over present and future freehold and leasehold property together with a floating charge over other assets of Hammond Electronics Limited (UK) and an Unlimited Composite Company Guarantee	-	6
Note payable to 1159714 Ontario Limited, unsecured demand loan at 0% interest rate (2009 – 366 day demand loan)	443	443
Subtotal	1,948	2,927
Capital lease obligations: (note 9)		
Secured by equipment in Canadian funds	1,096	1,300
Secured by equipment, drawn in GBP Sterling £80,671 (2009 - £94,471)	125	160
Secured by equipment, drawn in US funds $722,574 (2009 - $538,732)	719	566
	1,940	2,026
Total long-term debt	3,888	4,953
Less current portion of long-term debt	1,864	1,417
	$ 2,024	$ 3,536

The aggregate amount of principal payments required to meet the existing long-term debt obligations in each of the next five years is as follows:

2011	1,864
2012	1,012
2013	482
2014	528
2015	2
	$ 3,888

Interest expense is comprised as follows:

	2010	2009
Long-term debt, including capital leases	$ 210	$ 224
Bank Indebtedness	199	206
	$ 409	$ 430

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

9. CAPITAL LEASE OBLIGATIONS:

The Company leases certain equipment, included in property, plant and equipment, under leases that are classified as capital leases. The future minimum annual lease payments, which are included in long-term debt (note 8) consist of the following as at December 31:

	2010	2009
2010	$ -	$ 525
2011	611	525
2012	536	445
2013	492	398
2014	538	445
2015	2	-
Total minimum payments	2,179	2,338
Less amount representing a variable interest at a rate of 6.22% (2009 - 6.25%)	239	312
	$ 1,940	$ 2,026

10. SHARE CAPITAL:

a) Authorized:

Unlimited number of Class A subordinate voting shares.

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

Unlimited number of Class YA non-voting, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YA shares unless the same dividend is simultaneously declared and paid on the Class YB shares.

Unlimited number of Class YB non-voting, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YB shares unless the same dividend is simultaneously declared and paid on the Class YA shares.

b) Issued:

	2010	2009
8,556,000 Class A subordinate voting shares (2009 - 8,556,000)	$ 10,242	$ 10,242
2,778,300 Class B common shares (2009 - 2,778,300)	7	7
	$ 10,249	$ 10,249

11. Management share option plan:

At December 31, 2010, the Company has a stock-based compensation plan, which is described below. No options were granted in 2010 or in 2009 and accordingly no stock-based compensation expense has been incurred in either year.

In 1986, the Company established the management share option plan providing for the granting to directors, officers and key employees of the Company, options to purchase the Class A subordinate voting shares of the Company. A maximum number of 540,000 Class A subordinate voting shares are issuable under the plan. The exercise price for purchasing Class A subordinate voting shares may not be less than 100% of the market price of the Class A subordinate voting shares at the date the option is granted.

The following table summarizes the continuity of options issued under the plan:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	-	$ -	5,000	$ 1.26
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled/forfeited	-	-	(5,000)	1.26
Outstanding, end of year	-	-	-	-
Exercisable, end of year	-	$ -	-	$ -

12. Earnings per share:

The computations for basic and diluted earnings per share are as follows:

(in thousands except per share data)	2010	2009
Net earnings (loss)	$ 2,032	$ (44)
Average number of common shares outstanding:		
Basic	11,334	11,334
Effect of stock options	-	-
	11,334	11,334
Earnings (loss) per share:		
Basic	$ 0.18	$ (0.00)
Diluted	0.18	(0.00)

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

13. Share of net income (loss) in equity interest and other expenses:

	2010	2009
Equity investments:		
RITEC profit held in inventory adjustment	$ (84)	$ -
Earnings from 40% investment in RITEC	32	24
	(52)	24
Share of net income (loss) from 50% investment in 1159714 Ontario Inc.	(3)	(148)
Share of expenses from 50% co-tenancy in Glen Ewing Properties	(75)	(178)
Other miscellaneous income	23	-
	$ (107)	$ (302)

14. Income taxes:

The Company's provision for income taxes is comprised of the following:

	2010	2009
Income taxes based on a combined Canadian federal and provincial income tax rate of 41.0% (2009 - 42.0%)	$ 1,324	$ 149
Increase (decrease) in income taxes resulting from:		
Reduced rate for active business and manufacturing and processing	(229)	29
Lower income tax rate on earnings of foreign subsidiaries	(22)	(136)
Foreign exchange translation non-taxable	136	344
Permanent tax differences	17	(46)
Effect of rate changes on future tax assets and liabilities	(61)	48
Other	31	11
Income tax expense	$ 1,196	$ 399
Current income tax expense	$ 621	$ 534
Future income tax expense (recovery)	575	(135)
Income tax expense	$ 1,196	$ 399

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

14. Income taxes (continued):

The tax effect of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2010 and 2009 are presented below:

	2010	2009
Current future tax asset:		
Accounts receivable, allowance for doubtful accounts	$ 40	$ 20
Inventory, provisions	222	154
Environmental, provisions	39	50
	$ 301	$ 224
Long-term future tax asset:		
Property, plant and equipment - differences in net book value and undepreciated capital cost	$ -	$ (97)
Equity investment and investment in properties – difference in net book value and tax basis	-	9
Deferred charges - differences in timing of recognition	-	48
Long-term debt - capital lease obligations not recognized for tax purposes and differences in recognition of foreign exchange gains and losses	-	60
Non-deductible accounting provisions	-	37
Loss carry-forwards	-	68
	$ -	$ 125
Long-term future tax liability:		
Property, plant and equipment - differences in net book value and undepreciated capital cost	$ 937	$ 85
Equity investment and investment in properties – difference in net book value and tax basis	(8)	-
Intangible assets - differences in net book value and tax basis	(43)	-
Long-term debt - capital lease obligations not recognized for tax purposes and differences in recognition of foreign exchange gains and losses	(197)	-
Non-deductible accounting provisions	(30)	-
Loss carry-forwards	(68)	-
Scientific research & experimental development investment tax credits	21	-
	$ 612	$ 85

The Company has unused tax losses of approximately $247,000 (2009 - $227,000), which have no expiry date.

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

15. Commitments and contingencies:

a) The Company and Hammond Power Solutions Inc. (HPSI) each own 50% of the shares of 1159714 Ontario Inc., which in turn owned the property at 213 Sterling Road, Toronto, prior to its sale in 2009. The property was occupied by Moloney Electric Inc (MEI) up to December 31, 2008 and was vacated by MEI at that time. The property has mineral oil contamination as well as some PCB contamination although the source of such contamination (except for a spill in 1993 by MEI) has not been determined. The contamination does not result from the normal operations of the Company. It appears to predate the Company's ownership of the property. The source or sources may include adjoining properties. As previous indirect owner, the Company and HPSI may, without admitting any liability, have some responsibility to participate in the remediation of the property and adjacent properties. In this regard, the Company received a complaint in 1994 from Toronto Hydro, as an adjoining owner, to the effect that mineral oil and possibly PCB contaminants may have migrated to its property, which is an inactive substation. The Company has worked in conjunction with the Ontario Ministry of the Environment (MOE) and with Toronto Hydro to remediate the properties. 1159714 Ontario Inc. had been funding recovery, monitoring, professional fees and reporting at this site through its rental income received from MEI. The property was sold on October 13, 2009. In order to mitigate any potential future clean up obligations, the sale included a covenant from the buyer to demolish the building on site, excavate and remediate the property and secure a record of site condition confirming that the property is in compliance with environmental law requirements regarding the removal of PCB and mineral oil currently on the property.

b) The property at 2 Glen Road, Georgetown, Ontario is owned equally as a co-tenant with HPSI and any expenses or liabilities in respect of the property has been agreed to be shared equally. In January 2002, the Company and HPSI were served with a statement of claim by an adjoining industrial property owner, in which the plaintiff has claimed damages in the amount of $8 million for negligence, breach of warranty and other matters relating to alleged environmental contamination of the property. In 2004, the Company and HPSI served a counter-claim against the plaintiff in the amount of $8 million. In August of 2009, the Company, HPSI and the adjoining property owner ("the parties") signed a settlement outlining how the parties will work together on future management, including the remediation and monitoring of the substances of interest on the properties and to agree on an approach to resolve future Ministry of the Environment or other governmental claims, orders, directions, prosecutions, tickets and environmental penalties. As part of this settlement all parties dropped their civil actions against each other. The contamination does not result from the normal operations of the Company.

   The parties have cooperatively developed a remediation action plan and began remediation in October 2009. The MOE is aware of the remediation and the process being used. The Company is satisfied that the best estimate available for the Company's remaining portion of the environmental remediation costs for this site is $260,000 (December 31, 2009 - $300,000) with $140,000 (2009 – $159,000) presented as a current liability. Excluding the provision, the Company's share of ongoing operational legal and consulting costs incurred during the year pertaining to the Glen Road was $75,000 (2009 - $178,000).

c) The Company is committed to payments under operating leases for equipment and buildings. The future minimum annual operating lease payments consist of the following as at December 31:

	2010	2009
2010	$ -	$ 1,126
2011	1,317	703
2012	1,071	473
2013	980	354
2014	846	193
2015	550	92
After	-	-
Total minimum payments	$ 4,764	$ 2,941

d) The Company has contractual obligations for outstanding capital expenditures of $739,000 (2009 - $269,000). These expenditures should be completed in the first half of 2011.

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

16. Pension plans:

The Company has defined contribution pension plans that are available to virtually all of its employees with eligible employee contributions based on 2-4% of the employees annual earnings. The Company's contribution of $612,522 (2009- $555,263) matches the employee contribution.

17. Segment disclosures:

The continuing operations of the Company are in one industry segment, electrical and electronic components.

The Company and its subsidiaries operate in Canada, the United States, the United Kingdom and Australia. Inter-segment sales are made at fair market values.

Geographic Segments	**2010**	**2009**
Sales:		
Canada:		
Sales to customers	$ 33,373	$ 28,422
Inter-segment sales	35,658	31,205
United States and offshore:		
Sales to customers	45,214	40,984
Inter-segment sales	2,281	2,201
Eliminations	(37,939)	(33,406)
	$ 78,587	$ 69,406
Earnings from operations before interest, foreign exchange, equity interest and taxes:		
Canada	$ 2,336	$ 15
United States and offshore	1,667	1,510
	$ 4,003	$ 1,525
Property, plant and equipment:		
Canada	$ 10,323	$ 9,805
United States and offshore	1,477	1,490
	$ 11,800	$ 11,295
Intangible assets:		
Canada	$ 208	$ 171
United States and offshore	-	6
	$ 208	$ 177
Goodwill:		
United States and offshore	$ 173	$ 173

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

18. Financial instruments:

The carrying values of the Company's financial assets and liabilities, consisting of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the Company's long-term debt are comparable to their fair market value since the interest rates bear approximate market rates. Fair value has been calculated using the estimated future cash flows of the actual outstanding instruments, discounted at current market rates available to the Company for the same or similar instruments.

(a) Credit risk:

Credit risk arises from the possibility that the entities to which the Company sells products may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services. The Company sells to a variety of companies in a number of different industries. As a result, the requirement for credit risk related reserves for accounts receivable is minimal.

The following table reflects the aging of trade receivable as at December 31, 2010 and December 31, 2009:

	2010	2009
Aging of trade receivable:		
1 – 30 days	$ 5,420	$ 4,399
31 – 60 days	3,714	2,981
61 – 90 days	889	723
Over 90 days	181	302
Total trade receivable	$ 10,204	$ 8,405

The following table provides the roll forward of the allowance for doubtful accounts:

	2010	2009
Allowance for doubtful accounts, beginning of year	$ 165	$ 229
Accounts provided (recovered) in the year	64	(61)
Amounts written off during the year	(11)	(3)
Allowance for doubtful accounts, end of year	$ 218	$ 165
Allowance for doubtful accounts as % of total trade accounts receivable	2.1%	2.0%

The following table provides the details of accounts receivable:

	2010	2009
Net trade receivable	$ 9,986	$ 8,240
Other receivable	648	215
Accounts receivable, end of year	$ 10,634	$ 8,455

(TABULAR AMOUNTS IN THOUSANDS OF DOLLARS)

18. Financial instruments - Continued:

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value, or cash flows related to, a financial instrument would fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash, bank indebtedness and long-term debt. Changes in variable interest rates could cause unanticipated fluctuations in the Company's operating results.

Sensitivity Analysis:

A one percent increase (decrease) in the variable rates charged on average debt held in 2010 would have increased (decreased) interest expense by $94,000. This analysis assumes that all other variables remain constant.

(c) Foreign currency risk:

The Company has a substantial number of transactions denominated in United States dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and United States dollars. The Company holds smaller positions in other foreign currencies. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating result. Accounts receivable include Australian currency of $44,000, US $2,848,000, New Zealand $39,000, New Taiwanese $1,429,000 and GBP Sterling £362,000 (2009 – AUD $288,000, US $2,358,000, NZD $33,000, TWD $156,000 and £432,000). Accounts payable include Australian currency of $23,000, US $1,116,000 and £286,000 (2009 – AUD $18,000, US $674,000 and £327,000). Long-term debt includes loans and capital leases denominated in US funds totaling US $926,000 (2009 - US $947,000) and denominated in GBP Sterling funds totaling £81,000 (2009 - £98,000), which may affect the amount of principal and interest payments ultimately recorded.

Sensitivity Analysis:

A one-cent strengthening (weakening) of the Canadian dollar against the US dollar over the year ended December 31, 2010 would have decreased (increased) equity by $391,000, which is derived from a decrease (increase) in net earnings for the year of $354,000 and a decrease (increase) in balance sheet valuation of $37,000. This analysis assumes that all other variables remain constant.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company requires working capital to meet day-to-day operating activities. Management expects that the Company's cash flows from operating activities will be sufficient to meet these requirements. The Company also has available unused credit facilities in the amount of $6,246,000 at December 31, 2010 (2009 - $6,438,000) to meet fluctuations in working capital requirements.

19. Supplemental cash flow information:

	2010	2009
Cash paid for interest	$ 409	$ 432
Non-cash purchase of property, plant and equipment	438	614
Cash paid for income taxes, net of refunds	1,155	382

20. Related Party Transactions:

The Company purchased $1,433,817 of product from RITEC in 2010 ($1,269,288 in 2009). These transactions were made in the normal course of business and have been recorded at the exchange amounts, being the amount agreed to by the two parties.

Open purchase commitments with RITEC as at December 31, 2010 were $208,177 ($416,599 in 2009).

21. Capital Management:

In order to manage capital, the Company regularly identifies and assesses risks that threaten the ability to meet the Company's capital management objectives and determines the appropriate strategy to mitigate these risks.

The Company's objectives when managing capital are to:

a) maintain financial flexibility in order to preserve its ability to meet financial obligations.
b) deploy capital to provide an appropriate investment return to its shareholders; and
c) maintain capital structure that allows multiple financing options to the Company should a financing need arise.

The Company defines its capital as follows:

a) shareholders' equity
b) long-term debt, including the current portion
c) cash and cash equivalents; and short-term investments; and
d) short-term borrowings.

The Company is subject to externally imposed capital requirements through the covenants of its facility arrangements with the bank. The covenants measure debt to total net worth and current ratio. The Company has been in compliance with its covenants throughout 2010.

There were no changes to the Company's approach to capital management during 2010.

22. Sale of Moloney Electric Inc. equity interest:

On January 9, 2008 the Company completed the sale of its 45% interest in the operations (oil filled distribution transformers) of MEI to Universal Power Transformer Private Limited. In addition to the operations, the Company also sold the Sackville, New Brunswick and Spruce Grove, Alberta plants, which had been jointly owned with HPSI through 1159714 Ontario Inc. and had a carrying value of approximately $460,000. The Sterling Rd., Toronto, Ontario property continued to be held by 1159714 Ontario Inc. and was rented to Universal Power Transformer Private Limited until the end of 2008. The net proceeds from the sale of the business and related real estate were approximately $7.3 million and resulted in a book gain of approximately $2.2 million. The note receivable from MEI was paid in full as part of the sale.

The Sterling Rd property remained vacant until October 13, 2009 when it was sold.

23. COMPARATIVE FIGURES:

Certain 2009 comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

FIVE YEAR FINANCIAL SUMMARY (IN THOUSANDS OF DOLLARS EXCEPT EARNINGS PER SHARE)

For the years ended December 31

	2010	2009	2008	2007	2006
Income Statement Data					
Net sales	**$78,587**	$69,406	$78,160	$73,050	$71,005
Earnings from operations before interest, foreign exchange, equity interest, other income and taxes	**4,003**	1,525	4,155	1,027	2,566
Net earnings (loss) for the Year	**2,032**	(44)	4,889	172	1,174
Per share - Basic & fully diluted					
Net earnings for the Year	$0.18	($0.00)	$0.43	$0.02	$0.10
Balance Sheet Data					
Total assets	**$47,194**	$44,360	$48,501	$49,170	$50,105
Total funded debt	**9,786**	10,906	12,250	18,508	18,319
Working capital	**17,205**	16,846	17,647	9,556	7,084
Cash provided (used) by operations	**3,559**	1,240	2,860	1,159	2,588
Dividends declared	**227**	0	0	0	0
Shareholders' Equity	**$28,502**	$26,697	$26,741	$21,852	$21,602

CORPORATE DIRECTORY

Directors

Robert F. Hammond
Chairman and CEO

Marc A. Dubé *
Chairman of the Board
Ranger Metal Products Limited
(Manufacturer of Wire Products)

Edward Sehl *
President and Founder
The Entrepreneurs Advantage

Paul Quigley *
President
Quigley Group Inc.

Officers/Senior Management

Robert F. Hammond
Chairman and CEO

Cy A. Mahy
Vice-President, Human Resources

Alexander Stirling
Secretary & CFO

Ray Shatzel
Vice-President, Electronic Sales

Sheldon Butts
Canadian Sales & Marketing Manager

Ross N. Hammond
Assistant Secretary

All Directors are members of the Compensation Committee
* Members of the Audit Committee

Auditors

KPMG LLP
Tenon, UK
Grant Thornton, Australia

Legal Counsel

Borden Ladner Gervais

Stock Listing

Toronto Stock Exchange
Symbol: HMM.A

Bankers

HSBC

Transfer Agent and Registrar

Computershare Investor Services Inc.

Over 75 Years of providing
Quality Products & Service Excellence.

1920'S	1930'S	1950'S	1970'S	2010'S
Radios, Amplifiers & Battery Eliminators	Transition to Transformers, Broadcast Racks, Metal Cases & Cabinets	Added Metal Electrical Enclosures	Added Outlet Strips, Plastic & Die Cast Enclosures	Added New Modular, Wall Mount & Rack Cabinets

OFFICES AND LOCATIONS

Corporate Head Office 394 Edinburgh Road North Guelph, Ontario N1H 1E5 Canada Email: ir@hammfg.com Tel: (519) 822-2960 Fax: (519) 822-7289	Les Fabrications Hammond (Québec) Inc. 4240 Seré St-Laurent, Quebec H4T 1A6 Canada Tel: (514) 343-9010 Fax: (514) 343-9941	Hammond Manufacturing Co. Inc. 475 Cayuga Rd. Cheektowaga, NY 14225 USA Tel: (716) 630-7030 Fax: (716) 630-7042	Hammond Electronics Ltd. 1 Onslow Close Kingsland Business Park Basingstoke, Hampshire RG248QL England Tel: 01256 812812 Fax: 01256 332249	Hammond Electronics Pty. Ltd. 11-13 Port Road Queenstown, SA 5024 Australia Tel: 61-8-8235-0744 Fax: 61-8-8356-3652