



HAMMOND
MANUFACTURING®

Quality Products. Service Excellence.
2012 Annual Report

QUALITY PRODUCTS. SERVICE EXCELLENCE.

We have a broad product offering:

To serve our customers in multiple markets and industries.

We promise 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

2012 Annual Report

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REPORT TO SHAREHOLDERS

Dear fellow shareholders, employees, and stakeholders:

In the following pages, you will find our detailed financial statements, schedules, and management discussion and analysis of these numbers. I would like to highlight the continued improvements we are making to the long term success of our company.

Firstly, we all read every day about the challenges that we face as a manufacturer. Business will cycle up and down and we will manage this.

What is most important is that our company continues a long run strategy of continuous improvement. We are driving this improvement as a team. This is what builds long term enterprise value and security for all our stakeholders.

Over the past year we continued to launch new products into our electrical, datacom, and electronic markets. The new products of today drive the sales growth of tomorrow. Our global reach continues to grow as we seek out new international markets.

Our operations teams have continued to introduce lean principals, expanded training, and significant equipment upgrades. We also put top priority on safety and continue to monitor our operations for ways to prevent accidents. Our processes are continuously monitored for opportunities to reduce and recycle waste.

Our manufacturing base is complimented by strong supplier relationships and especially our partnerships with RITEC, Rolec and others.

Our annual report is an opportunity to look back at what was accomplished. Our operating culture at Hammond is to look ahead. New products, new markets, new facilities are all part of our future. We have a strong financial foundation and as important, a strong culture of continuous improvement with employee involvement.

I am proud of our progress.

Sincerely,



Robert F. Hammond
Chairman & CEO

ANNUAL MEETING
The meeting of the Shareholders will be held on
May 3, 2013 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, 2012. This discussion should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012 and related notes. Additional information about the Company can be found on its website, www.hammfg.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 28, 2013.

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

All amounts in this report are in Canadian dollars unless otherwise stated.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 OEM-direct and through a global network of distributors and agents.

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

OPERATIONS

FOURTH QUARTER RESULTS

SALES

Net sales, for the three months ended December 31, 2012 were \$21,556,000, a decrease of 5.4% from net sales of \$22,788,000 in the third quarter of 2012. The decrease was all from the North America market place as sales in the US market were down 8.9% and Canadian market were down 5.1%. The UK market saw an increase in sales of 11.1%. Net sales for the current quarter were down 2.0% compared to net sales of \$22,010,000 for the three months ended December 31, 2011. Relative to the fourth quarter of 2011, Canadian net sales are up 1.4% and the UK is up 11.3% while the US is down 5.6%. These changes were mostly the result of market fluctuations with little impact from foreign currency fluctuations.

GROSS PROFIT

Gross profit for the fourth quarter of 2012 was 27.7% of net sales compared to 27.9% in the third quarter of 2012. Gross profits of 27.7% are up 0.4% from the fourth quarter 2011 level of 27.3%. Gross profit levels have remained relatively stable compared to the third quarter of 2012 and the fourth quarter of 2011.

SELLING, DISTRIBUTION, GENERAL AND ADMINISTRATIVE, RESEARCH AND DEVELOPMENT ("R&D") EXPENSES AND NET GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT

Fourth quarter selling and distribution, general and administration and R&D expenses of \$5,566,000 were 25.8% of net sales for the three months ended December 31, 2012, compared with an expense of \$5,791,000 in the previous quarter that was 25.4% of net sales and \$5,309,000 which was 24.1% of net sales in the fourth quarter of 2011. The third quarter of 2012 included restructuring charges of \$190,000 while the remaining increase in spend over the fourth quarter of 2011 is primarily from increased freight expense created by a mix of lowering our threshold order level for free shipping and increased sales in the western provinces.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall results from operating activities of \$407,000 (1.8% of net sales) is down from the prior quarter of \$562,000 (2.5% of net sales) and down from the 2011 fourth quarter amount of \$696,000 (3.2% of net sales).

INTEREST

Fourth quarter interest expense of \$116,000 was up 2.7% from the third quarter expense of \$113,000 and up 0.9% from the comparable period of the prior year of \$115,000.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

During the fourth quarter of 2012, the Company recognized a gain on transactional foreign exchange of \$78,000 compared to a gain of \$67,000 in the three months ended December 31, 2011.

INCOME TAX EXPENSE

Tax expense for the fourth quarter of 2012 was 37.0% of profit before taxes which was consistent with the full year rate. In the fourth quarter of 2011 the Company had significant year-end tax adjustments which created a tax recovery of \$27,000.

INCOME FOR THE PERIOD

Income for the fourth quarter ended December 31, 2012 was \$264,000 (1.2% of net sales) this is down slightly from \$313,000 (1.4% return on net sales) in the previous quarter and down from the fourth quarter 2011 return on net sales of \$600,000 (2.7% return on net sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

The translation adjustment for the fourth quarter of 2012 was a gain of \$129,000 compared to a translation loss of \$496,000 in the fourth quarter of 2011. The translation of our US entity is the primary driver of this impact. In the fourth quarter of 2012 the US dollar opened at an exchange of \$1.00 USD to \$0.983 CDN and closed at \$1.00 USD to \$0.997 CDN which created most of the gain. In the fourth quarter of 2011 the US dollar opened at an exchange of \$1.00 USD to \$1.048 CDN and closed at \$1.00 USD to \$1.017 CDN which created most of the loss.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the fourth quarter ended December 31, 2012 was \$394,000 (1.8% of net sales) up from the 3 months ended December 31, 2011 of \$104,000 (0.5% of net sales).

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

	2012				Year-to-date Total
	Q1	Q2	Q3	Q4	
Net product sales	\$23,714	\$24,367	\$22,788	\$21,556	\$92,425
Results from operating activities	803	1,020	562	407	2,792
Net income for the period	520	565	313	264	1,662
Earnings per share - Basic & diluted	\$0.05	\$0.05	\$0.03	\$0.02	\$0.15

	2011				Year-to-date Total
	Q1	Q2	Q3	Q4	
Net product sales	\$21,731	\$20,735	\$21,011	\$22,010	\$85,487
Results from operating activities	1,558	237	430	696	2,921
Net income for the period	972	96	103	600	1,771
Earnings per share - Basic & diluted	\$0.09	\$0.00	\$0.01	\$0.06	\$0.16

Note: Interim consolidated financial statements have not been reviewed by an auditor.

FULL YEAR RESULTS

SALES

Net product sales of \$92,425,000 in 2012 were up 8.1% from net sales of \$85,487,000 reported in 2011. Net product sales were up just over 5.1% in Canada, 4.8% in the UK and the US saw growth of 10.5%. Increases were primarily market driven although some of this was the result of expanded market share.

GROSS PROFIT

In 2012, gross profit was 27.4% of net product sales compared to 27.0% achieved in 2011. Lower costs from increased shop efficiencies have been offset by more competitive market pricing.

SELLING, DISTRIBUTION, GENERAL AND ADMINISTRATIVE, RESEARCH AND DEVELOPMENT ("R&D") EXPENSES AND NET GAIN/LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT

Selling, distribution, general and administration, R&D expenses including the net impact of the sale of property, plant and equipment increased \$2,381,000, or 11.8% from 2011. The total of these expenses comprised 24.4% of net sales in 2012, compared with 23.6% in 2011. The primary driver of the increase was an increase in commission and logistic expenses.

RESULTS FROM OPERATING ACTIVITIES

Overall, 2012 earnings from operating activities of \$2,792,000 (3.0% of net sales) was down compared to the 2011 earnings of \$2,921,000 (3.4% of net sales).

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST

Interest expense decreased \$13,000 (2.9%) from the 2011 expense level to \$437,000 in 2012. The decline in long-term debt at higher fixed interest rates was offset with an increase in the use of the operating line at lower variable rates.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

A \$240,000 foreign exchange transactional gain was reported in 2012, compared to a transactional gain of \$101,000 in 2011.

INCOME TAX EXPENSE

During 2012 tax expenses of \$941,000 were 36.1% of income before income tax. This compares to 2011 tax expense of \$684,000 which was 27.9% of income before income tax.

INCOME FOR THE YEAR

Income for the year ended December 31, 2012 was \$1,662,000 (1.8% of net sales) down 6.2% from \$1,771,000 (2.1% of net sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

During 2012 a loss of \$137,000 on translational foreign exchange was realized compared to a gain of \$181,000 in 2011. In 2012 the US dollar opened at an exchange of \$1.00 USD to \$1.017 CDN and closed at \$1.00 USD to \$0.997 CDN which created most of the loss. In 2011 the US dollar opened at an exchange of \$1.00 USD to \$0.995 CDN and closed at \$1.00 USD to \$1.017 CDN which created most of the gain.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for 2012 was \$1,525,000 (1.6% of net sales) down from 2011 of \$1,952,000 (2.3% of net sales).

MANAGEMENT DISCUSSION AND ANALYSIS

SELECTED ANNUAL INFORMATION

Three year financial summary:

For the years ended December 31,
(In thousands except per share amounts)

Consolidated Statements of Comprehensive Income	2012	2011	2010
Net product sales	\$ 92,425	\$ 85,487	\$ 78,587
Results from operating activities	2,792	2,921	3,965
Net income for the year	1,662	1,771	2,306
Per share - basic & fully diluted net earnings for the year	\$0.15	\$0.16	\$0.20

Consolidated Statement of Financial Position	2012	2011	2010
Total assets	\$ 54,721	\$ 51,913	\$ 46,094
Total funded debt	13,470	12,727	9,786
Working capital	17,561	16,772	16,886
Net cash generated from operating activities	2,220	1,744	3,728
Dividends declared	226	226	227
Shareholders' equity	30,767	29,468	27,742

CAPITAL RESOURCES AND LIQUIDITY

Net cash generated from operating activities for 2012 was \$2,220,000 (2011 - \$1,744,000). Cash flows from financing activities amounted to \$434,000 (2011 - \$2,703,000). Cash used in investing activities was \$2,866,000 (2011 - \$4,241,000).

Trade and other receivables decreased 1.8% at December 31, 2012 compared to the 2011 year-end. Days sales outstanding (DSO) calculated on net sales was 52 days, up 2 days from 2011. The quality of accounts receivable remains high. We expect DSO to continue in the current range for 2013.

The year-end investment in inventory of \$25,464,000 was an increase of 10.7% from the 2011 inventory value of \$23,013,000. Inventory turnover decreased to 2.78 from 2.81 (cost of sales divided by the twelve month average inventory level). In order to achieve higher levels of customer satisfaction inventory levels have been set to ensure our customer order fill rates are maintained or improved.

Trade and other payables increased by \$163,000, or 1.7% over 2011 to \$8,985,000.

Our total debt (long-term debt and bank indebtedness) increased by \$743,000 over the prior year to \$13,470,000. Our debt-to-equity ratio at year-end was approximately 0.44:1 (2011 - 0.43:1).

MANAGEMENT DISCUSSION AND ANALYSIS

The Company paid a dividend of \$226,000 in June of 2012 (2011 - \$226,000).

Property, plant, equipment and intangible asset additions in 2012 were \$2,903,000 down from \$4,933,000 in 2011. The Company spent \$103,000 (2011 - \$403,000) on building and leasehold improvements. \$966,000 (2011 - \$1,260,000) was invested toward upgrading and replacing machinery and equipment, \$874,000 (2011 - \$1,182,000) was invested toward machinery and equipment for capacity growth, \$670,000 (2011 - \$651,000) was invested in tooling, \$207,000 (2011 - 137,000) was invested in office equipment and computer programs and \$83,000 (2011 - nil) was spent on development costs. No land was purchased in 2012 (2011 - \$1,300,000).

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

Contractual obligations <i>(In thousands)</i>	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt	\$ 1,131	\$ 220	\$ 182	\$ 182	\$ 182	\$ 182	\$ 183
Capital lease obligations	1,506	503	589	66	67	70	211
Operating leases	3,615	1,415	1,321	787	48	44	-
Total contractual obligations	\$ 6,252	\$ 2,138	\$ 2,092	\$ 1,035	\$ 297	\$ 296	\$ 394

In addition to the contractual obligations above, the Company has current obligations of \$348,000 (2011 - \$250,000) against open purchase orders for outstanding capital expenditures. The Company also has open purchase commitments with RITEC as at December 31, 2012 of \$416,390 (2011 - \$465,603). These expenditures should be completed in the first half of 2013.

SHARE CAPITAL

As of March 28, 2013, 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 (note 18 and note 25), the Company has one site which has environmental issues.

Glen Ewing Property 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 January 2002, 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 the Company and HPSI for the historical contamination found on its property. In August of 2009, the adjoining property owner, the Company 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 (MOE) or other governmental claims,

MANAGEMENT DISCUSSION AND ANALYSIS

orders, directions, prosecutions, tickets, and environmental penalties. As part of this settlement all of the parties dropped their civil actions against each other.

The Company 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. The Company's share of expense for legal and consulting work for 2012 related to this property was \$33,000 (2011 - \$117,000). The parties started remediation of the site in October 2009. The Company has relied on its consultant's best estimate for the remaining environmental remediation costs. The Company's remaining portion of environmental remediation costs for this site is \$170,000 (2011 - \$250,000) with \$70,000 (2011 - \$85,000) presented as a current liability in the financial statements.

Other than the above site, management is not aware of any unusual or significant environmental 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 (note 11). 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 International Accounting Standard 36. Based on this analysis, it is management's judgment that the reported carrying value for goodwill is not impaired.

The environmental provision (note 18) has been established based on an analysis of cost estimates related to expected activities required for active remediation for Glen Ewing Property. It is management's judgment that the reported carrying value for this provision, 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.

Employee future health benefits (note 4) have been estimated based on eligible employees and management's best estimates of the utilization of these benefits on a specific employee basis. It is management's judgment that the reported carrying value for this provision, based on discounted cash flows, is a reasonable estimate of the Company's costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

MANAGEMENT DISCUSSION AND ANALYSIS

Inventory valuation (note 8) includes provisions for slow moving inventory using management's judgments based on inactivity of the specific parts. Management also reviews inventory values compared to anticipated sales values and provides a provision for lower of cost or market.

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.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to 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.

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, 2012. 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:

- Key personnel;

MANAGEMENT DISCUSSION AND ANALYSIS

- 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.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. A significant portion of our sales is denominated in US dollars. A change in the value of the Canadian dollar against the US dollar will impact revenues and 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 Consolidated Statements of Earnings solely related to the foreign exchange translation of its Consolidated Balance Sheets. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 sales growth in 2013. 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 2013

We continued to see sales growth in 2012 at lower margins than in the past. The Company continues with the objective of sales growth and increased market share but will weigh this against achieving acceptable margins.

Our plan for the 2013 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 International Financial Reporting Standards, 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, has 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 28, 2013

INDEPENDENT AUDITORS' REPORT



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To the Shareholders of Hammond Manufacturing Company Limited

We have audited the accompanying consolidated financial statements of Hammond Manufacturing Company Limited, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' 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 the 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 consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hammond Manufacturing Company Limited as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants, Licensed Public Accountants
March 7, 2013
Waterloo, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG Confidential

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

As at December 31,	Note	2012	2011
Assets			
Current assets:			
Cash		\$ 416	\$ 633
Trade and other receivables	7	11,598	11,807
Inventories	8	25,464	23,013
Prepaid expenses		882	660
Total current assets		38,360	36,393
Non-current assets			
Property, plant and equipment	9	14,749	13,953
Intangible assets and goodwill	10	368	346
Investment in property	11	1,044	1,044
Equity investments	12	200	177
Total non-current assets		16,361	15,520
Total assets		\$ 54,721	\$ 51,913
Liabilities			
Current liabilities:			
Bank indebtedness	17	\$ 10,833	\$ 9,370
Trade and other payables	19	8,985	8,822
Income taxes payable		37	-
Provisions	18	120	145
Employee future benefits	4	101	67
Current portion of long-term debt	17	723	1,217
Total current liabilities		20,799	19,621
Non-current liabilities			
Employee future benefits	4	354	99
Long-term debt	17	1,914	2,140
Provisions	18	100	165
Deferred tax liabilities	13	787	420
Total non-current liabilities		3,155	2,824
Total liabilities		23,954	22,445
Equity:			
Share capital	14	10,249	10,249
Contributed surplus		290	290
Accumulated other comprehensive loss		(357)	(220)
Retained earnings		20,585	19,149
Total equity		30,767	29,468
Commitments	20,21		
Contingency	25		
Subsequent event	27		
Total liabilities and equity		\$ 54,721	\$ 51,913

The notes on pages 22 to 55 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars, except earnings per share)

For the Years Ended December 31,	Note	2012	2011
Net product sales		\$ 92,425	\$ 85,487
Cost of sales		67,090	62,392
Gross profit		25,335	23,095
Selling and distribution		17,505	15,711
General and administrative		4,662	4,222
Research and development		361	282
Net loss (gain) on sale of property, plant and equipment		15	(41)
Income from operating activities		2,792	2,921
Interest expense	17	(437)	(450)
Foreign exchange gain		240	101
Net finance costs		(197)	(349)
Share of income of equity accounted investees (net of income taxes)	12	41	-
Share of expenses from investment property	11	(33)	(117)
Income before income tax		2,603	2,455
Income tax expense	6	941	684
Net income for the year		1,662	1,771
Other comprehensive income (loss):			
Foreign currency translation differences for foreign operations		(137)	181
Other comprehensive income (loss) for the year, net of income tax		(137)	181
Total comprehensive income for the year		\$ 1,525	\$ 1,952
Earnings per share			
Basic earnings per share	15	\$ 0.15	\$ 0.16
Diluted earnings per share	15	\$ 0.15	\$ 0.16

The notes on pages 22 to 55 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Changes in Equity

For the years ended December 31, 2012 and December 31, 2011

(in thousands of Canadian dollars)

	Attributable to equity holders of the Company				
	Share Capital	Contributed Surplus	AOCI**	Retained earnings	Total equity
Balance at January 1, 2011	\$ 10,249	\$ 290	\$ (401)	\$ 17,604	\$ 27,742
Total comprehensive income for the year:					
Net income for the year	-	-	-	1,771	1,771
Other comprehensive income:					
Foreign currency translation differences	-	-	181	-	181
Total comprehensive income for the year	-	-	181	1,771	1,952
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 14)	-	-	-	(226)	(226)
Balance at December 31, 2011	\$ 10,249	\$ 290	\$ (220)	\$ 19,149	\$ 29,468
Balance at January 1, 2012	\$ 10,249	\$ 290	\$ (220)	\$ 19,149	\$ 29,468
Total comprehensive income for the year:					
Net income for the year	-	-	-	1,662	1,662
Other comprehensive income (loss):					
Foreign currency translation differences	-	-	(137)	-	(137)
Total comprehensive income (loss) for the year	-	-	(137)	1,662	1,525
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 14)	-	-	-	(226)	(226)
Balance at December 31, 2012	\$ 10,249	\$ 290	\$ (357)	\$ 20,585	\$ 30,767

** Accumulated other comprehensive income (loss)

The notes on pages 22 to 55 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

For the years ended December 31,	2012	2011
Cash flows from operating activities		
Net income for the year	\$ 1,662	\$ 1,771
Adjustments for:		
Depreciation of property, plant and equipment	1,944	2,082
Amortization of intangible assets	64	48
Interest expense	437	450
Income tax expense	941	684
Loss (gain) on sale of property plant and equipment	15	(41)
	5,063	4,994
Change in non-cash working capital:		
Inventories	(2,443)	(2,339)
Trade and other receivables	66	(1,087)
Prepaid expenses	(221)	217
Trade and other payables	161	923
Provisions and employee future benefits	289	(19)
Cash generated from operating activities	2,915	2,689
Interest paid	(437)	(450)
Income tax paid	(258)	(495)
Net cash generated from operating activities	2,220	1,744
Cash flows from financing activities		
Bank indebtedness	1,460	3,472
Payment of long-term debt	(1,368)	(1,846)
Advances of long-term debt	568	1,303
Payment of dividends	(226)	(226)
Net cash from financing activities	434	2,703
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	59	41
Acquisition of of property, plant and equipment	(2,819)	(4,856)
Intangible asset additions	(83)	(77)
Equity investments	(23)	651
Net cash used in investing activities	(2,866)	(4,241)
Net increase (decrease) in cash	(212)	206
Cash at beginning of year	633	422
Foreign exchange gain (loss) on cash and cash equivalents in a foreign currency	(5)	5
Cash at end of year	\$ 416	\$ 633

The notes on pages 22 to 55 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

1. Reporting entity:

Hammond Manufacturing Company Limited (“HMCL” or the “Company”) is a public company traded on the Toronto Stock Exchange under the symbol “HMM.A” and is incorporated under the Ontario Business Corporations Act. The address of the Company’s registered office is 394 Edinburgh Road North, Guelph, Ontario. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 include the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities. The Group primarily is involved in the design, manufacture and sale of electrical and electronic components. Facilities are located in Canada, the US, the UK, Taiwan and Australia, with agents and distributors located worldwide. The Company also maintains a 40% ownership share of RITEC Enclosures Inc. (RITEC) located in Taiwan. RITEC produces plastic and die cast enclosures for sale through the Company’s sales network and its own existing market channels.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Board of Directors approved these consolidated financial statements on March 7, 2013.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars. The functional currency of the Group’s entities is the currency of their primary economic environment. In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar, being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the months during which the transactions occurred. Foreign currency translation differences are recognized in other comprehensive income which is included in the accumulated other comprehensive income account. The functional currency of the Company’s subsidiary operations located in the US, UK, Taiwan and Australia are the US dollar, the British Pound, Taiwan Dollar and the Australian Dollar respectively. The functional currency of the Company’s Canadian operations is the Canadian Dollar.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

2. Basis of preparation – continued:

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4 includes assumptions of employees utilization of future health benefits

Notes 9 and 10 include assumptions in the determination of the estimated useful lives of intangible assets and property, plant and equipment

Note 11 includes the estimate of property value

Note 18 include assumptions on the required provisions for sales returns and environmental remediation.

3. Summary of significant accounting policies:

Effective January 1, 2012, the Company revised the period over which it amortizes certain items of its manufacturing equipment to better reflect the consumption of the useful lives of the assets. This change in accounting estimate arose from new information obtained and was treated prospectively.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation:

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., Hammond Electronics Asia Inc, and its proportionate share of Glen Ewing Properties, an unincorporated co-tenancy (50%). All significant intercompany balances and transactions have been eliminated on consolidation. The consolidated financial statements include the Group's investment in 1159714 Ontario Inc. (which was dissolved December 30, 2011) and RITEC, which are accounted for using the equity method (note 3(g)).

(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

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Summary of significant accounting policies – continued:

(b) Revenue recognition - continued:

arrangement exists and the sales price is fixed or determinable. A provision for sales returns is recognized when the underlying products or services are sold. The provision is based on historical returns data and a weighting of all possible outcomes against their associated probabilities.

(c) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and net realizable value, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When circumstances that previously gave rise to an inventory write down no longer exist, the previous impairment is reversed.

(d) Investment in properties:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group measures its investment property, being the land held by Glen Ewing Properties, at historical cost.

(e) Property, plant and equipment:

Property, plant and equipment are shown in the statements of financial position at their historical cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives.

The depreciation rates based on the estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	2.5% – 5%
Office equipment	10% - 25%
Machinery and equipment	10% - 25%
Tooling general use	10% - 25%
Tooling specific part	Based on anticipated life output

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Summary of significant accounting policies – continued:

(e) Property, plant and equipment - continued:

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

(f) Intangible assets other than goodwill:

Intangible assets are stated at cost less accumulated amortization. Intangible assets with a finite life 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%
Development costs	20%

(g) 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 or joint control. 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 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. The Company uses the equity method to account for its interest in RITEC (40% share) and 1159714 Ontario Inc. (50% share) which was dissolved in December of 2011.

(h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred 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. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Summary of significant accounting policies – continued:

(h) Income taxes - continued:

to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred 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. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(i) Goodwill:

Acquisitions on or after January 1, 2010, are accounted for using the acquisition method required by IFRS 3. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired, less liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's cash generating units that are expected to benefit from the synergies of the business combination. As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amounts recognized under previous Canadian GAAP.

Goodwill is tested for impairment at least annually and upon the occurrence of an indication of impairment. The impairment tests are performed at the cash generating unit (CGU) level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value less costs to sell. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate. Usually, the cash flows correspond to estimates made by Group management in financial and strategic business plans covering a period of five years. They are then projected beyond 5 years using a steady or declining growth rate given that the Group businesses are of a long-term nature. The discount rate used approximates the Company's weighted average cost of capital. The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates exclude inflation. An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual impairment test at December 31, 2012 and December 31, 2011, and concluded there was no impairment.

(j) Provisions:

Provisions may include liabilities of uncertain timing or amounts that arise from environmental, litigation, commercial or other risks. Provisions are recognized when a legal or constructive obligation exists stemming from a past event and when the future cash outflows can be reliably estimated. Environmental provisions consider the present value of the anticipated clean-up costs.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
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3. Summary of significant accounting policies – continued:

(k) 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.

(l) Impairment:

(i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Summary of significant accounting policies – continued:

(i) Impairment - continued:

(ii) Non-financial assets:

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Summary of significant accounting policies – continued:

(m) Financial instruments:

The Company aggregates its financial instruments into classes based on their nature and characteristics. The Group has classified its financial instruments as follows:

- Cash is classified as loans and receivables
- Trade and other receivables are classified as loans and receivables
- Bank indebtedness, trade and other payables and long-term debt are classified as other liabilities.

(n) Financial assets and financial liabilities:

All financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, unless the transaction costs relate to financial instruments classified as fair value through profit and loss, in which case they are expensed immediately. Subsequent measurement is determined based on initial classification.

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

(i) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash, trade and other receivables. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less appropriate allowances for doubtful receivables. Allowance for doubtful receivables represent the Group's estimates of losses that could arise from the failure or inability of customers to make payments when due. Loans and receivables are further classified as current and non-current depending whether these will be realized within twelve months after the balance sheet date or beyond.

(ii) Other liabilities:

This category includes bank indebtedness, accounts payable and accrued liabilities and long-term debt. Subsequent to initial measurement, other liabilities are carried at amortized cost using the effective interest rate method.

(o) Employee Benefits:

(i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan which are due more than 12 months after the end of the period in which the employees render the service, are discounted to their present value.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
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3. Summary of significant accounting policies – continued:

(o) Employee Benefits - continued:

(ii) Other long-term employee benefits:

The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Termination benefits:

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(v) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes. Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
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3. Summary of significant accounting policies – continued:

(p) Segment reporting:

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

(q) New standards and interpretations not yet adopted:

In October 2010, the IASB amended IFRS 7, Financial Instruments: Disclosures ("IFRS 7"). This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of and risks associated with an entity's continuing involvement in derecognized financial assets. This amendment is effective for the Company's annual consolidated financial statements commencing January 1, 2012. The Company has completed its assessment of this amendment and there was no impact on its Consolidated Financial Statements.

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") issued the following standards that have not been applied in preparing these Consolidated Financial Statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

The Company has not assessed the impact that the new and amended standards will have on its consolidated financial statements.

IFRS 9 - Financial instruments: classification and measurement - this is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit and loss. In addition, this new standard has been updated to include guidance on financial liabilities and de-recognition of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - Consolidation - requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. This standard is effective for annual periods beginning on or after January 1, 2013.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Summary of significant accounting policies – continued:

(q) New standards and interpretations not yet adopted - continued:

IFRS 11 - Joint arrangements - requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities Non-monetary Contributions by Venturers. This Standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 - Disclosure of interests in other entities - establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - Fair value measurement - is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

4. Employee future benefits:

The Company's net obligation in respect of its current and long-term employee benefits is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The terms of the agreements do not require the Company to fund these obligations as they accumulate. The Company has accounted for these post-employment benefits as defined benefit plans. The benefit plans are broken into two categories:

(a) **Benefit for post-employment health benefits:**

If an employee meets the set criteria and retires between the age of 60 and 65, their health plan will continue until age 65.

(b) **Disability health coverage:**

This benefit is for employees who are off work due to a covered disability. Health coverage will continue until they are off disability or reach the age of 65, whichever occurs first.

In determining both the post-employment health benefit and the disability health coverage liabilities a 3.5% per annum health cost increase and a discount rate of 6.0% were utilized to determine its

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4. Employee future benefits - continued:

present value. The discount rate used approximated the Company's weighted average cost of capital.

Assumed healthcare cost trend rates affect the amounts recognized in profit and loss. A 1% change in assumed healthcare cost trend rates would increase (decrease) the aggregate service and interest costs by \$25,000 (2011 - \$3,000) respectively. Changes in assumptions resulted in nominal gains/losses which have been included in general and administrative expense.

Prior to December 31, 2012, liabilities in respect of employee future benefits were classified as other long-term liabilities. At December 31, 2012 the employee future benefit liabilities have been disclosed in both current and long-term liabilities. The comparative amounts have been reclassified as follows:

	December 31, 2011	Reclassification	December 31, 2011
Other long-term liabilities	\$ 166	\$ (166)	\$ -
Employee future benefits - current	-	67	67
Employee future benefits - long-term	-	99	99
	\$ 166	\$ -	\$ 166

	December 31, 2012	December 31, 2011
Post employment health benefits	\$ 170	\$ 59
Employee health benefits while on disability	285	107
Total employee future benefits	\$ 455	\$ 166

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4. Employee future benefits - continued:

	Post employment health benefits	Employee health benefits while on disability	Total
Balance at December 31, 2010	\$ 74	\$ -	\$ 74
Provisions made during the year	19	107	126
Provisions used during the year	(34)	-	(34)
Balance at December 31, 2011	\$ 59	\$ 107	\$ 166
Provisions made during the period	139	217	356
Provisions used during the period	(28)	(39)	(67)
Balance at December 31, 2012	\$ 170	\$ 285	\$ 455
Non-current	100	254	354
Current	70	31	101
Balance at December 31, 2012	\$ 170	\$ 285	\$ 455

5. Personnel expenses:

For years ended December 31,	2012	2011
Wages and Salaries	\$ 29,447	\$ 27,034
Health benefit plans	803	669
Canadian Pension Plan (CPP) and EI remittances	915	757
Contributions to defined contribution plans	4,604	3,525
	\$ 35,769	\$ 31,985
For years ended December 31,	2012	2011
Cost of sales	\$ 26,303	\$ 23,210
Selling and distribution	6,525	6,019
General and administrative	2,724	2,555
Research and development expenses	217	201
	\$ 35,769	\$ 31,985

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6. Income tax expense:

Income tax expense	2012		2011	
Current tax expense:				
Current period	\$	557	\$	334
Adjustment for prior periods		13		102
		570		436
Deferred tax expense:				
Origination and reversal of temporary differences		371		242
Reduction in tax rate				6
		371		248
Total income tax expense	\$	941	\$	684
	2012	2012	2011	2011
Net income for the year	\$ 1,662			\$ 1,771
Total income tax expense	941			684
Profit excluding income tax	\$ 2,603			\$ 2,455
Income tax using the Company's domestic tax rate	38.00%	989	39.75%	976
and processing	(6.38%)	(166)	(6.68%)	(164)
Effect of tax rates in foreign jurisdictions	(3.00%)	(78)	(5.86%)	(144)
Reduction in tax rate	1.38%	36	0.24%	6
Non-deductible expenses	0.58%	15	0.77%	19
Other	5.57%	145	(0.36%)	(9)
	36.15%	\$ 941	27.86%	\$ 684

7. Trade and other receivables:

	December 31, 2012	December 31, 2011
Trade receivables	\$ 10,998	\$ 11,355
Employee receivables	12	15
Other receivables	767	559
	11,777	11,929
Allowance for doubtful accounts	(179)	(122)
Trade and other receivables	\$ 11,598	\$ 11,807

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 23.

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8. Inventories:

	December 31, 2012		December 31, 2011	
Raw materials and work-in-process	\$	6,977	\$	7,572
Finished goods		18,487		15,441
Inventories	\$	25,464	\$	23,013
Inventories carried at fair value less cost to sell	\$	920	\$	699

In 2012, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to approximately \$67,006,000 (2011-\$62,343,000). In 2012, the write-down of inventories to net realizable value amounted to approximately \$84,000 (2011-\$49,000). The write-down is included in cost of sales.

9. Property plant and equipment:

Cost	Land and buildings		Machinery and equipment		Tooling		Office Equipment		Total	
Balance at December 31, 2010	\$	6,682	\$	30,048	\$	7,746	\$	4,808	\$	49,284
Additions		1,703		2,442		651		60		4,856
Disposals		-		(263)		-		-		(263)
Effect of movements in exchange rates		1		29		47		3		80
Balance at December 31, 2011		8,386		32,256		8,444		4,871		53,957
Additions		103		1,847		667		203		2,820
Disposals		-		(520)		(439)		(58)		(1,017)
Effect of movements in exchange rates		-		(3)		-		2		(1)
Balance at December 31, 2012	\$	8,489	\$	33,580	\$	8,672	\$	5,018	\$	55,759

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9. Property plant and equipment – continued:

Accumulated depreciation

	Land and buildings	Machinery and equipment	Tooling	Office Equipment	Total
Balance at December 31, 2010	\$ 4,383	\$ 23,362	\$ 6,122	\$ 4,253	\$ 38,120
Depreciation for the year	189	1,206	585	114	2,094
Disposals	-	(262)	-	-	(262)
Effect of movements in exchange rates	1	11	38	2	52
Balance at December 31, 2011	4,573	24,317	6,745	4,369	40,004
Depreciation for the year	187	1,305	309	144	1,945
Disposals	-	(447)	(439)	(58)	(944)
Effect of movements in exchange rates	-	9	(6)	2	5
Balance at December 31, 2012	\$ 4,760	\$ 25,184	\$ 6,609	\$ 4,457	\$ 41,010

Carrying amounts

	Land and buildings	Machinery and equipment	Tooling	Office Equipment	Total
At December 31, 2011	\$ 3,813	\$ 7,939	\$ 1,699	\$ 502	\$ 13,953
At December 31, 2012	\$ 3,729	\$ 8,396	\$ 2,063	\$ 561	\$ 14,749

10. Intangible assets:

Cost

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2010	\$ 99	\$ 1,971	\$ 108	\$ 2,178
Additions	-	81	(4)	77
Effect of movement in exchange rates	6	1	-	7
Balance at December 31, 2011	105	2,053	104	2,262
Additions	-	45	38	83
Disposal	-	(69)	-	(69)
Effect of movement in exchange rates	2	(1)	-	1
Balance at December 31, 2012	\$ 107	\$ 2,028	\$ 142	\$ 2,277

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10. Intangible assets – continued:

Amortization and impairment losses

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2010	\$ -	\$ 1,848	\$ 19	\$ 1,867
Amortization for the year	-	27	21	48
Effect of movement in exchange rates	-	1	-	1
Balance at December 31, 2011	-	1,876	40	1,916
Amortization for the year	-	43	21	64
Disposal	-	(69)	-	(69)
Effect of movement in exchange rates	-	(2)	-	(2)
Balance at December 31, 2012	\$ -	\$ 1,848	\$ 61	\$ 1,909

Carrying amounts

	Goodwill	Computer software	Development costs	Total
At December 31, 2011	\$ 105	\$ 177	\$ 64	\$ 346
At December 31, 2012	\$ 107	\$ 180	\$ 81	\$ 368

All the intangible assets have been externally acquired.

Impairment testing for cash-generating units:

The Company has defined its cash generating units as each individual legal entity, due to the fact that each location is largely independent of the other entities and each is ultimately responsible for sales generated in their markets. The Company monitors the performance of each legal entity through the use of profitability analysis based on the most recent business plan in place as of December 31, 2012.

Impairment testing for cash-generating units containing goodwill:

The Company performed an impairment test on the goodwill of its UK entity using the value in use method, under which a 5-year present value cash flow projection was completed using the Company's weighted average pre-tax cost of capital of 6.5%. The cash flow model also incorporated growth rates in the range of 3% – 5% depending on the market location and the facility's operating history. This was then compared to the carrying value of the facility's assets to determine if there was impairment. Effective December 31, 2011 and December 31, 2012, the assets, including goodwill of \$107,000, of the Company's wholly owned subsidiary, Hammond Electronics Limited, were tested and no impairment was found.

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11. Investment property:

The Group has a 50% ownership of a property in Georgetown, Ontario (referred to as the Glen Ewing Property). It is a vacant plot of land and currently under environmental remediation. The property value represents the actual historical cost of the property from the mid 1990's. Management has reviewed the property and local market conditions as well as the environmental condition of the property in estimating the property's fair value. Management estimates its interest in the property's fair market value to be approximately \$1,250,000. This estimate is unchanged from December 31, 2011. No independent valuation has been performed. The property is currently vacant and no income is being derived from it. The Company's direct operating expenses in 2012 related to the property were \$33,000 (2011 - \$117,000).

12. Equity investments:

	1159714 Ontario Inc.	RITEC Enclosures Inc.	Total
Ownership	50%	40%	
December 31, 2010	651	177	828
Equity in earnings	-	-	-
Return of capital	(651)	-	(651)
December 31, 2011	\$ -	\$ 177	\$ 177
Equity in earnings	-	41	41
Dividend received	-	(18)	(18)
December 31, 2012	\$ -	\$ 200	\$ 200

The Company had a 50% ownership of 1159714 Ontario Inc. Its opening balance in 2011 represents the equity left from this entity which was a loan receivable. The entity was dissolved on December 30, 2011 and proceeds were dispersed to the shareholders.

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12. Equity investments – continued:

RITEC Enclosures Inc.		December 31, 2012		December 31, 2011	
Assets		\$	1,180	\$	999
Liabilities			778		654
Revenues			2,623		1,937
Profit		\$	103	\$	-

13. Deferred tax assets and liabilities:

Unrecognized deferred tax liabilities:

At December 31, 2012, temporary differences of \$7,821,641 (2011-\$7,001,823) related to investments in subsidiaries were not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Recognized deferred tax liabilities:

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2012	2011	2012	2011
Property, plant and equipment	\$ -	\$ -	\$ 1,495	\$ 1,025
Intangible assets	(39)	(40)	-	-
Investment property	(9)	(8)	-	-
Inventories	(321)	(235)	-	-
Loans and borrowings	(230)	(145)	-	-
Employee benefits		-	-	-
Provisions	(53)	(100)	-	-
Scientific research & experimental development	(30)	(20)	-	-
Tax loss carry-forwards	(26)	(57)	-	-
Tax (assets) liabilities	(708)	(605)	1,495	1,025
Set off of tax	708	605	(708)	(605)
Net tax (assets) liabilities	\$ -	\$ -	\$ 787	\$ 420

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14. 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:

	December 31, 2012		December 31, 2011	
8,556,000 Class A shares (2010 - 8,556,000)	\$	10,242	\$	10,242
2,778,300 Class B shares (2010 - 2,778,300)		7		7
	\$	10,249	\$	10,249

No shares were issued in 2012 or in 2011.

(c) Dividends:

The following dividends were declared and paid by the Company:

A special cash dividend of \$0.02 per Class A subordinate voting share (2011 - \$0.02) and a special cash dividend of \$0.02 per Class B common share (2011 - \$0.02) were issued in 2012.

Total dividend paid was \$226,000 (2011 - \$226,000).

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15. Earnings per share:

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

(in thousands except per share data)	December 31, 2012	December 31, 2011
Net income for the year	\$ 1,662	\$ 1,771
Average number of common shares outstanding: Basic and Diluted	11,334	11,334
Earnings per share:		
Basic	\$ 0.15	\$ 0.16
Diluted	0.15	0.16

No share options to purchase common shares were outstanding as at December 31, 2012 or December 31, 2011.

16. Management share option plan:

As at December 31, 2012, the Company has a stock-based compensation plan, which is described below. No options were granted through December 31, 2012 or in 2011 and no stock options were outstanding as of January 1 2011, 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.

17. Loans and borrowings:

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, the US and the UK. The following chart depicts the amount utilized in each of the entities lines of credit.

	2012		2011	
	Local currency	CDN \$	Local currency	CDN \$
Canadian entities	CDN \$ 9,510	\$ 9,510	CDN \$ 9,198	\$ 9,198
US entity	USD \$ 1,000	998	USD \$ -	0
UK entity	GBP £ 202	325	GBP £ 109	172
Bank indebtedness		\$ 10,833		\$ 9,370

Interest is payable at the rate of bank prime plus 50 basis points (2011 - bank prime plus 50 basis points).

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17. Loans and borrowings - continued:

Long-term debt:

As at December 31,	2012	2011
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 January 2013.	\$ 37	\$ 603
Portion drawn in US funds at variable interest rates based on the bank's prime lending rate, matured in 2012.	-	3
	37	606
Term loan drawn in US funds at a fixed rate of 6.05% through December 2018, secured by the assets of Hammond Manufacturing Company Limited. Monthly installments at \$15,250 USD.	1,094	1,303
Subtotal	1,131	1,909
Finance lease obligations:		
Secured by equipment in Canadian funds at an interest rate of 6.175%. Monthly installments of \$22,976 maturing March 2014 with a lump sum payment of \$365,184.	649	879
Secured by equipment, drawn in GBP Sterling at interest rates between 7.53% to 8.8%. Monthly installments of \$1,292 GBP until Dec 2013 and then monthly installments of \$322 GBP until May 2015.	32	75
Secured by equipment, drawn in US funds at interest rates from 4.97% to 6.75%. Monthly installments of \$23,008 USD until April 2014, then monthly installments of \$14,884 USD until November 2014 followed by monthly installments of \$6,882 USD until April 2019 with a lump sum payment at this time of \$113,998 USD.	825	494
	1,506	1,448
Total long-term debt	2,637	3,357
Less current portion of long-term debt	723	1,217
Non-current long-term debt	\$ 1,914	\$ 2,140

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:

2013	\$	723
2014		771
2015		248
2016		249
2017		252
Later than 2017		394
	\$	2,637

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17. Loans and borrowings - continued:

Interest expense is comprised as follows:

For the years ended December 31,	2012	2011
Long-term debt, including capital leases	\$ 103	\$ 136
Bank indebtedness	334	314
Interest expense	\$ 437	\$ 450

18. Provisions:

	Environmental Remediation	Sales Returns	Total
Balance at December 31, 2010	\$ 260	\$ 60	\$ 320
Provisions made during the year	-	60	60
Provisions used during the year	(10)	(60)	(70)
Balance at December 31, 2011	\$ 250	\$ 60	\$ 310
Provisions made during the period	-	50	50
Provisions used during the period	(80)	(60)	(140)
Balance at December 31, 2012	\$ 170	\$ 50	\$ 220
Non-current	100	-	100
Current	70	50	120
Balance at December 31, 2012	\$ 170	\$ 50	\$ 220

The provision for environmental remediation is based on the estimated costs to setup and extract contamination from our Glen Ewing Property. The anticipated costs are based on an external consultant's remediation plan, discounted for timing using a discount rate of 6% (2011 – 6%) which approximates the Company's weighted average cost of capital. There are three years remaining in the clean-up plan.

The provision for sales returns is based on estimates from historical returns of product. The provision reflects the estimated profit margin of the anticipated returns.

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19. Trade and other payables:

	December 31, 2012	December 31, 2011
Trade payables	\$ 4,294	\$ 3,598
Non-trade payables and accrued expenses	4,681	5,224
	<u>\$ 8,985</u>	<u>\$ 8,822</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

20. Operating leases:

The Company is committed to payments under operating leases for equipment and buildings. The future minimum non-cancellable operating lease rentals are payable as follows:

	December 31, 2012	December 31, 2011
Less than 1 year	\$ 1,415	\$ 1,297
Between 1 and 5 years	2,200	2,954
More than 5 years	-	-
Total minimum payments	<u>\$ 3,615</u>	<u>\$ 4,251</u>

The Group leases a number of offices and warehouses and factory facilities under operating leases. The leases typically run for a period of three to five years, with an option to renew the lease after that date.

During the year ended December 31, 2012, an amount of \$1,445,000 was recognized as an expense in profit or loss in respect of operating leases (2011 - \$1,317,000).

The warehouse and factory leases have been renewed over several terms as combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals, and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Company determined that the leases are operating leases.

21. Commitments:

The Company has contractual obligations for outstanding capital expenditures of \$348,000 (2011 - \$250,000). These expenditures should be completed in the first half of 2013.

22. Financial instruments:

The carrying values of the Group's financial assets and liabilities, consisting of cash, trade and other accounts receivables, bank indebtedness, trade and other accounts payables approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the Group's outstanding term loans at December 31, 2012 are at floating rate. Long-term debts are comparable to their fair market value since the interest rates approximate market rates.

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22. Financial instruments - continued:

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.

23. Financial risk management:

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by the corporate finance group. The corporate finance group undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit risk exposure.

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23. Financial risk management - continued:

Credit risk - continued:

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the accounts receivable department, and future sales are made on a prepayment basis.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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 and geographic areas. As a result, the requirement for an industry specific or geographic reserve is minimal.

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23. Financial risk management - continued:

The following table reflects the net details of trade and other receivables as at December 31, 2012 and December 31, 2011:

	Gross Impairment		Gross Impairment	
	December 31, 2012	December 31, 2012	December 31, 2011	December 31, 2011
Aging of trade receivable:				
1 – 30 days	\$ 5,429	\$ -	\$ 6,455	\$ -
31 – 60 days	4,132	-	3,667	-
61 – 90 days	1,073	-	970	-
Over 90 days	364	179	263	122
Trade receivable	\$10,998	\$ 179	\$11,355	\$ 122

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

	December 31, 2012	December 31, 2011
Allowance for doubtful accounts, beginning of year	\$ 122	\$ 217
Accounts provided (recovered) in the period	111	10
Amounts written off during the period	(54)	(105)
Allowance for doubtful accounts	\$ 179	\$ 122
 Allowance for doubtful accounts as % of total trade accounts receivable	 1.6%	 1.1%

The following table provides the net details of trade and other receivables:

	December 31, 2012	December 31, 2011
Net trade receivable	\$ 10,819	\$ 11,233
Employee receivables	\$ 12	\$ 15
Other receivable	767	559
Trade and other receivables	\$ 11,598	\$ 11,807

Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses planning tools to identify future cash requirements and closely monitors daily cash flow requirements.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
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23. Financial risk management - continued:

The Group has established a \$17,396,000 overdraft facility that is secured against inventory and accounts receivable. Interest would be payable at the rate of bank prime plus 50 basis points (2011 - bank prime plus 50 basis points). The Company had available unused credit facilities in the amount of \$7,148,000 at December 31, 2012 (2011 - \$3,664,000) to meet fluctuations in working capital requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

December 31, 2012

Carrying	Contractual	6 months	7-12	1-2 years	3-5 years	More	
	cash flows	or less	months			than 5	
Non-derivative financial liabilities							
Secured bank loans	\$ 1,131	\$ (1,334)	\$ (152)	\$ (130)	\$ (454)	\$ (410)	\$ (188)
Finance lease liabilities	1,506	(1,669)	(288)	(288)	(705)	(247)	(141)
Trade and other payables	8,985	(8,985)	(8,985)	-	-	-	-
Bank overdraft	10,833	(10,995)	(10,995)	-	-	-	-
Total	\$22,455	\$ (22,983)	\$(20,420)	\$ (418)	\$ (1,159)	\$ (657)	\$ (329)

December 31, 2011

Carrying	Contractual	6 months	7-12	1-2 years	3-5 years	More	
	cash flows	or less	months			than 5	
Non-derivative financial liabilities							
Secured bank loans	\$ 1,909	\$ (2,212)	\$ (424)	\$ (405)	\$ (526)	\$ (660)	\$ (197)
Finance lease liabilities	1,448	(1,582)	(284)	(258)	(1,037)	(3)	-
Trade and other payables	8,822	(8,822)	(8,822)	-	-	-	-
Bank overdraft	9,370	(9,511)	(9,511)	-	-	-	-
Total	\$21,549	\$ (22,127)	\$(19,041)	\$ (663)	\$ (1,563)	\$ (663)	\$ (197)

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group has tried to create some natural hedges but does not utilize hedging practices for foreign exchange.

Foreign currency risk:

The Group 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 Group holds smaller positions in other foreign currencies. The Group does not use derivative instruments to reduce its exposure to foreign currency risk. As a result,

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23. Financial risk management - continued:

variations in foreign exchange rates could cause unanticipated fluctuations in the Group's operating result. Accounts receivable include Australian (AUD) of \$49,000, USD \$3,393,000, New Zealand (NZD) \$15,000, New Taiwanese (TWD) \$150,000 and £526,000 (2011 – AUD \$67,000, US \$3,425,000, NZD \$22,000, TWD \$487,000 and £412,000). Accounts payable include AUD \$7,000, USD \$827,000, €101,000 and £342,000 (2011 – AUD \$7,000, US \$1,184,000, €148,000 and £229,000). Long-term debt includes loans and capital leases denominated in US funds totaling USD \$1,926,000 (2011 - US \$1,773,000) and denominated in GBP Sterling funds totaling £20,000 (2011 - £48,000), 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 as at December 31, 2012 would have decreased (increased) equity by \$498,000, which is derived from a decrease (increase) in net earnings for the year of \$414,000 and a decrease (increase) in balance sheet valuation of \$84,000. This analysis assumes that all other variables remain constant. As noted, the company does deal in other currencies but the level of impact of these currencies would not be significant.

Interest rate risk:

Interest rate risk arises from the possibility that the cash flows related to a financial instrument would fluctuate as a result of changes in market interest rates. The Group 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 its float rate term loans. Changes in variable interest rates could cause unanticipated fluctuations in the Group's operating results.

Sensitivity Analysis:

A one percent increase in the variable rates charged on our ending 2012 debt held would increase interest expense by \$105,000. This analysis assumes that all other variables remain constant. Inversely, a one percent decrease in the variable rates charged on our ending 2012 debt held would have had the equal but opposite effect.

Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

HAMMOND MANUFACTURING COMPANY LIMITED

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23. Financial risk management - continued:

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the corporate finance group. The results of the reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Capital management:

In order to manage capital, the Group 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 Group'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
- c) maintain capital structure that allows multiple financing options to the Group should a financing need arise.

The Group 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
short-term borrowings
- d) The Group 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 Group has been in compliance with its covenants through 2011 and 2012.

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23. Financial risk management - continued:

- e) There were no changes to the Group's approach to capital management during 2012.
- f) Neither the Company, nor any of its subsidiaries, is subject to externally imposed capital requirements.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	December 31, 2012		December 31, 2011	
Total liabilities	\$	23,954	\$	22,445
Add:				
Current year operating leases		1,415		1,297
Less:				
Cash		(416)		(633)
Net debt	\$	24,953	\$	23,109
Total equity	\$	30,767	\$	29,468
Less:				
Investment in property		(1,044)	\$	(1,044)
Intangible assets and goodwill		(368)	\$	(346)
Equity investments		(200)	\$	(177)
Total net worth for bank covenant	\$	29,155	\$	27,901
Net debt to total net worth ratio		0.86		0.83
Bank requirement must be less than		2.25		2.25

	December 31, 2012		December 31, 2011	
Total current assets	\$	38,360	\$	36,393
Total current liabilities		20,799		19,621
Current ratio		1.84		1.85
Bank requirement must be greater than		1.20		1.20

Neither the Company, nor any of its subsidiaries, are subject to externally imposed capital requirements.

HAMMOND MANUFACTURING COMPANY LIMITED

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24. Segment disclosures:

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

The Company and its subsidiaries operate in Canada, the United States, the United Kingdom and Australia.

Geographic Segments	Year Ended:	
	December 31, 2012	December 31, 2011
Sales:		
Canada:		
Sales to customers	\$ 39,141	\$ 37,166
United States:		
Sales to customers	45,853	41,111
All other countries:		
Sales to customers	7,431	7,210
Net sales	\$ 92,425	\$ 85,487
Non-current assets:		
Canada:		
Non-current assets	\$ 14,957	\$ 14,125
United States:		
Non-current assets	779	716
All other countries:		
Non-current assets	625	679
Total	\$ 16,361	\$ 15,520

25. Contingency:

The property at 2 Glen Road, Georgetown, Ontario is owned equally as a co-tenant with Hammond Power Solutions Incorporated (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 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 (MOE) 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

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Notes to Consolidated Financial Statements
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25. Contingency - continued:

that their consultants have provided the best estimate available for the Company's remaining portion of the environmental remediation costs for this site of \$170,000 (December 31, 2011 - \$250,000) with \$70,000 (2011 - \$85,000) presented as a current provision. Excluding the impact of the provision, the Company's share of ongoing operational, legal and remediation costs incurred during the year pertaining to the Glen Ewing Property was \$113,000 (2011 - \$127,000).

26. Related party transactions:

- (a) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	Years Ended:	
	December 31, 2012	December 31, 2011
Salaries and short-term employee benefits	\$ 714	\$ 705

- (b) The Company purchased \$1,806,045 of product from RITEC in 2012 (\$1,385,824 - 2011). 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.

All outstanding trade balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured. Trade receivables as at December 31, 2012 were \$5,122 (2011 - \$16,352) while trade payables were \$150,441 (2011 - \$62,648).

The Company had a demand loan from its 1159714 Ontario Inc. entity of which it controlled 50%. The loan balance was \$443,000 as at December 31, 2010. The loan was paid in full during 2011 and 1159714 Ontario Inc. was dissolved on December 30, 2011.

The Chairman of the Corporation, Robert Frederick Hammond, through direct and indirect ownership of Class A and Class B voting shares effectively controls the Company.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements
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26. Related party transactions – continued:

(c) Consolidated entities

HAMMOND MANUFACTURING COMPANY LIMITED			
	Country of Incorporation	% Ownership Interest	
		December 31, 2012	December 31, 2011
Les Fabrications Hammond (Quebec) Inc. / Hammond Manufacturing (Quebec) Inc.	Canada	100	100
Hammond Electronics Pty Limited	Australia	100	100
Hammond Electronics Limited	UK	100	100
Subsidiary of above: Hammond Electronics Asia Limited	Republic of China	100	100
Hammond Manufacturing Company Inc.	US	100	100
Subsidiaries of above: Hammond Holdings Inc.	US	100	100
Paulding Electrical Products, Inc	US	100	100

1159714 Ontario Inc. was dissolved on December 30, 2011.

27. Subsequent event:

On March 8, 2013 the Company declared a special cash dividend of \$0.02 per Class A Subordinate Voting Share and \$0.02 per Class B Common share (not listed on the Toronto Stock Exchange (TSX)) payable April 11, 2013, to shareholders of record at the close of business on March 28, 2013. The ex-dividend date was March 26, 2013. Total dividend payable is \$226,000 (2012 - \$226,000).

CORPORATE DIRECTORY

Directors

Robert F. Hammond
Chairman and CEO

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

Edward Sehl *
Principal - Sehl Consulting
Director - Fox Seeds
Director - Guelph Municipal Holdings Inc.

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

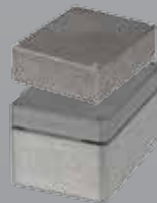
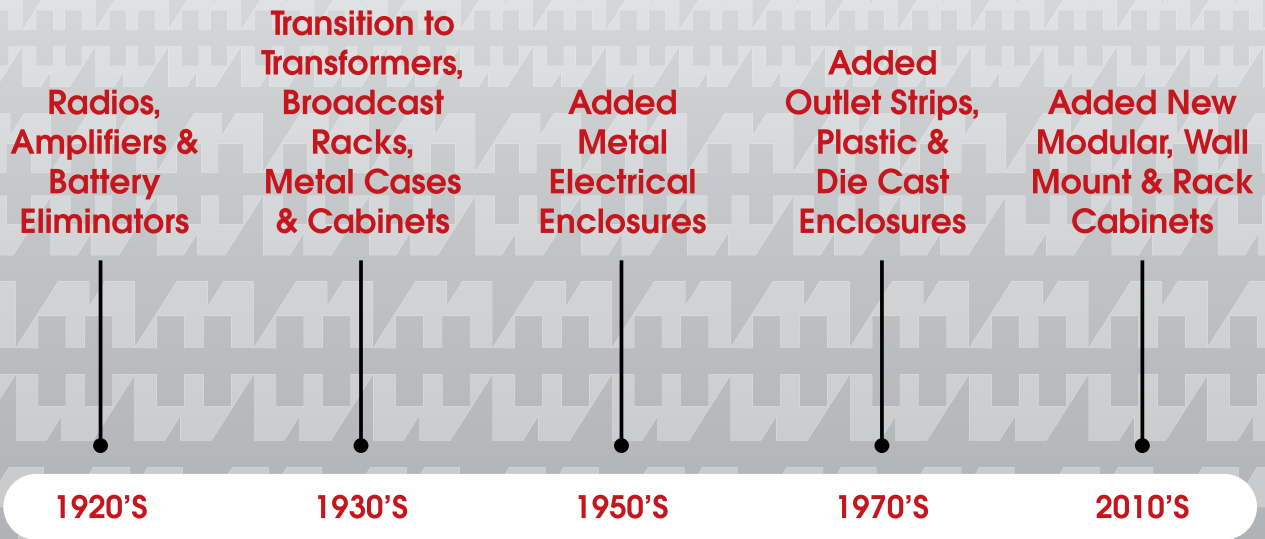
Bankers

HSBC

Transfer Agent and Registrar

Computershare Investor Services Inc.

Over 75 Years of providing Quality Products & Service Excellence.



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