Q1 Report

2021

For the three months ended March 27, 2021

Hammond Power Solutions Inc.

Our Values

We value the **safety** and **well-being** of all

We expect **honesty, integrity** and **ethical behaviour**

We embrace **diversity** by nurturing an **inclusive** environment and treating everyone with **dignity** and **respect**

We promote **innovation** and a relentless pursuit of **continuous improvement** through **teamwork**

We believe in **a collaborative approach** to **social** and **environmental sustainability**

Our Vision

To be a leading global supplier of transformers and magnetics within our chosen markets.

Our Mission

We are a growing and profitable global supplier of transformers and related magnetic products dedicated to satisfying the collective needs of our shareholders, customers, suppliers, employees and community.

Fellow Shareholder,

A new year is upon us and despite the continuing challenges caused by the global coronavirus ("COVID-19") pandemic, I am pleased to report a positive momentum in our business. As we all know, there remains a high level of anxiety and uncertainty around the impacts of more dangerous virus variants on both our health care system and the continuing shutdowns that our economy has to endure. Despite all of this, Hammond Power Solutions Inc. ("HPS") quotation and booking activities have been growing during our first quarter of 2021, as compared to the same quarter a year before where our results for the first two months of 2020 were unaffected by the looming pandemic. This is a testimony of the many unique attributes of HPS, including our customer-centric culture, superior service capabilities and our tremendous diversity in terms of channels, markets and products.

Revenue during the first quarter was propelled mostly by a resurgence in the United States ("U.S.") economy, as Canada continued to be hampered by pandemic-related restrictions. Optimism in the U.S. seems to be rising as vaccination rates increase and the Biden Administration announces significant new spending initiatives on infrastructure, alternative energy and electric vehicles. Rebounding growth in China as well as the U.S. has started what some people are referring to as the beginning of a commodity super cycle – causing a significant surge in both consumption of raw materials as well as their prices. As a result, we are experiencing broad based growth from a variety of markets such as electric vehicle charging stations, solar energy, data centers, Amazon distribution warehouses, mining equipment, oil pipelines, waste water treatment facilities, hospitals and even military applications.

Our greatest challenge during these early months of 2021 has been an erosion in our industry leading margins as a result of unprecedented material cost increases. We began to see a rapid escalation in the costs of raw materials we use to build our product, including copper and aluminum wire, core steel, insulation, enclosures, pallets, freight and more. In some cases, these cost increases are the highest our industry has experienced in 40 years.

We began to see this gross margin erosion gradually during the first quarter of this year, as we began to ship orders booked for long-term projects earlier in 2020 which were priced at material cost levels much lower than today's. We have responded quickly and aggressively with two price increases within the first three months of the year and we expect some continuing margin erosion in Quarter 2, 2020 as we ship 2020 orders from our sizeable backlog.

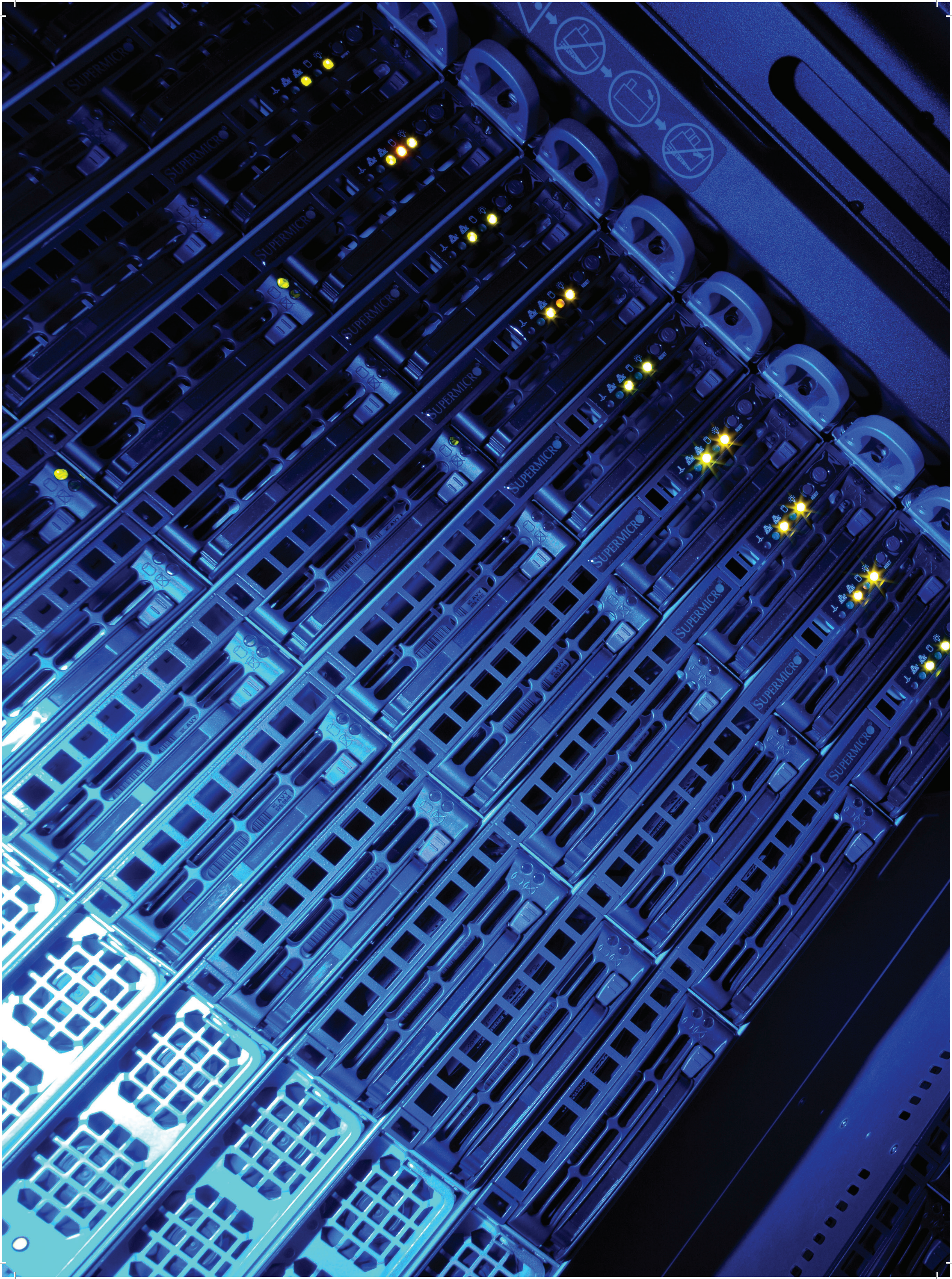
We are dealing with unprecedented inflation that came without much warning from our suppliers and we have and will continue to respond with agility. As the industry leader, we have some leverage in proceeding with price increases ahead of our competition with the reality that all transformer manufacturers use the same materials and are also absorbing the same significant cost increases.

Despite these short-term challenges we are very positive about the remaining half of the year. Our sales and bookings are growing and we are in the process of executing several new strategies to expand into new markets. Our largest growth engine continues to be our expanding U.S. distributor network which now accounts for more than half of our total business. We are also beginning to see business coming from Original Equipment Manufacturers ("OEM's") involved in energy, mining and export markets, growing at rates not seen in years. In addition to these organic opportunities we are launching new product lines to grow our sales in the power quality market as well as expanding our sales and marketing efforts in the Mexican and Central American markets utilizing our locations in Monterrey, Mexico.

HPS is taking advantage of our strong financial position as we move ahead looking for selective acquisitions which will not only add further growth to the Company but also further diversifies HPS into adjacent markets within our industry.

William G. Hammond
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER

Grandson of founder Oliver Hammond



Management's Discussion and Analysis

Hammond Power Solutions Inc. ("HPS" or the "Company") is a leader in the design and manufacture of custom electrical engineered magnetics, standard electrical dry-type, cast resin and liquid filled transformers. Advanced engineering capabilities, high quality products and fast responsive service to customers' needs have established the Company as a technical and innovative manufacturer serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States, Mexico and India.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended March 27, 2021, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2021. This information is based on Management's knowledge as at May 5, 2021. The Company assumes that the reader of this MD&A has access to and has read the audited Annual Consolidated Financial Statements and MD&A of the Company, contained in our 2020 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2020 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com, or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward-looking information

This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HPS' strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "likely", "expect", "intend", "estimate", "anticipate", "believe", "plan", "objective" and "continue" and words and expressions of similar import. Although HPS believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: the impact of the pandemic; commodity costs and supply; general business and economic conditions (including but not limited to currency rates); changes in laws and regulations; legal and regulatory proceedings; and the ability to execute strategic plans. HPS does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law publicly or to revise any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law.

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. "Adjusted EBITDA" from operations represents EBITDA from operations adjusted for foreign exchange gain or loss. Operating earnings, EBITDA and Adjusted EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA and Adjusted EBITDA to net earnings for the quarters ending March 27, 2021 and March 28, 2020 is contained in the MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings determined in accordance with IFRS.

"Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended March 27, 2021 were $80,121, a decrease of $8,299 or 9.4% from Quarter 1, 2020 sales of $88,420. This would be the fourth quarter the business was impacted by the the global coronavirus ("COVID-19") pandemic. It is important to note that the pandemic had minimal impact on the business in the same quarter last year as the pandemic was in its infancy stage.

Sales in the United States ("U.S.") decreased by $9,836 or 17.5%, finishing at $46,505 for Quarter 1, 2021 compared to $56,341 in Quarter 1, 2020. Motor control and mining markets saw decreased activity in the U.S. in Quarter 1, 2021 compared to the same quarter in 2020. U.S. first quarter sales were unfavourably affected by a 5.2% weaker U.S. dollar ("USD"), $1.00 USD = $1.27 Canadian dollar ("CAD") compared against $1.00 USD = $1.34 CAD in Quarter 1, 2020. U.S. sales, when stated in USD were $36,665 in Quarter 1, 2020 compared to Quarter 1, 2020 of $42,083, a decrease of $5,418 or 12.9%.

Canadian sales remained stable at $27,801 for the quarter, a slight increase of $457 or 1.7% from Quarter 1, 2020 sales of $27,344. The North American Electrical Distributor ("NAED") market remained strong in Canada during Quarter 1, 2021.

Indian sales for Quarter 1, 2021 finished at $5,815 versus $4,735 in Quarter 1, 2020, an increase of $1,080 or 22.8% due to a rise in shipments in the quarter.

Quarter 1, 2021 sales stated by geographic segment were derived from U.S. sales of 58.0% (Quarter 1, 2020 – 63.7%) of total sales, Canadian sales of 34.7% (Quarter 1, 2020 – 30.9%) and Indian sales of 7.3% (Quarter 1, 2020 – 5.4%).

The Company continues to experience declines in North American sales through its established NAED and Original Equipment Manufacturer ("OEM") channels which have been significantly impacted by COVID-19, resulting in an overall drop in demand, project deferrals and cancellations. While the effect of the pandemic is evident in the drop in sales volume, HPS is growing its market share through distributor conversions and broad product offering and capabilities. The ability to continue to expand these segments is also a result of new customer additions, organic customer diversity, expanded product offerings and geographically diverse manufacturing capabilities. HPS is not single-market or industry dependent and our market diversification strategies provide a natural business hedge as some markets grow while others decline.

The Company's market share continued to gain traction through the U.S. distributor channel and as a result of its capabilities to produce both standard and custom transformers. The NAED channel and OEM capabilities continued to advance HPS' sales. Specifically, the Company's North American operations are operating as an "essential" business and continue to be strong. HPS is committed to its growth strategy through our focus on product development, innovative research and development projects, capital expenditure program to increase capacity, vertical integration strategies, business development activities and its expanded NAED network. The Company will continue to grow market share globally as a result of expanded product offerings, the addition of new customers, geographically diverse manufacturing facilities and market influence.

The Company's engineering and manufacturing capabilities in dry, liquid-filled and cast resin transformer technology is a strength to the Company and fundamental to revenue growth. The Company prides itself on building our value proposition to our customers. Our commitment through consistent quality, innovative and competitive product design, industry expertise in custom engineered products, expanded product breadth and ease of doing business is our competitive advantage and vital to future revenue growth. These factors coupled with a strong, effective distribution channel, multi-national manufacturing capabilities and global reach will continue to be an advantage for the Company and important to continued revenue growth.

The company's North American operations designated as an "essential" businesses have ensured and will continue to ensure, our support to our customers by providing critical services throughout the pandemic.

Order bookings and backlog

Bookings increased 7.5% from Quarter 1, 2020 due to a significant increase in direct bookings in both the American and Canadian markets. By channel, direct bookings increased by 20.4% while the distributor channel was flat as compared to the same quarter last year and despite the effects of the pandemic on general business activity. While the COVID-19 pandemic is still affecting the world economy, the Company has been successful in expanding our booking rates in North America. India on the other hand continues to be more negatively impacted.

As a result of increased bookings, the backlog increased 7.7% over Quarter 1, 2020 and 9.3% over Quarter 4, 2020.

The Company is sensitive to the volatility, unpredictability and changeability of current global economies and the impact that this will have on booking trends. Even in the current COVID-19 environment we are seeing some active quotation and order trends in certain industries however the Company is very cognizant that it will see volatility and unpredictability in medium and longer term booking rates.

Gross margin

The Company saw an increase in its gross margin rate for Quarter 1, 2021 which was 24.7% compared to Quarter 1, 2020 margin rate of 23.6%, an improvement of 1.1% of sales. This margin improvement is attributed to sales mix, market specific pricing and expense management. HPS continues to focus on price attainment strategies to offset cost increases, although the timing of the increased prices will lag the cost increases as order backlog orders are shipped. The Company will also support margin rates through increased manufacturing throughput and achievement of cost reductions. The Canadian Emergency Wage Subsidy ("CEWS") program provides an employee wage subsidy for our Canadian entities for periods where there was a significant decline in Canadian trade sales due to the impact of COVID-19. During the quarter the wage subsidy received for production labour was $324 or 0.4% of sales. The company did incur extraordinary operating expenses of $250 or 0.3% of sales relating to wages paid for suspended operational employee wages, non-productive wage support for "at risk" employees, employee transportation, increased cleaning, sanitation and personal protective equipment expenses for the safety of its employees.

Demand for our product is stable, however sales volumes will be determined primarily by which industries and customers are continuing to operate and in what capacity. We have started to see activity in some markets that had stagnated when the pandemic originally started in North America while other markets continue to struggle.

Gross margin rate is strongly impacted through productivity gains, material procurement and engineering cost reduction initiatives. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. The Company continues to combat competitor short-sighted pricing strategies through its total value-added engineered solutions. The Company's ability to flex its manufacturing capacity demand and cost structures is fundamental for future gross margin attainment. The Company is confident that these actions going forward will support margin rates during the current economic times. The Company's diversified market and channel approach will also buffer some of the impact experienced by HPS during the global pandemic.

Fluctuating markets, product mix and the effect of COVID-19 on the current global economy will continue to have unprecedented impacts on financial results. Looking forward, our business development opportunities combined with our backlog increase provides a leading indicator of improvement. As sales decrease, the lower manufacturing throughput will have a dilutive impact on margin rates. The Company will still realize growth in some markets and experience a decline in others underscoring the volatility of markets and sales demand. The Company is steadfast in its implementation of initiatives to manage the negative volatility impact. The Company's distributor footprint in North America and its Indian market presence, cost reduction and containment, product and market breadth and multi-national manufacturing capabilities will support the business.

HPS continues to commit resources to its continuous improvement program, which will result in implementing productivity enhancements, cost reductions and lead-time improvements across the entire organization. HPS is confident that these actions will enhance future margin rates and improve profitability and overall financial performance.

Selling and distribution expense

Total selling and distribution expenses were $9,807 in Quarter 1, 2021 or 12.2% of sales versus $11,140 in Quarter 1, 2020 or 12.6% of sales, a decrease of $1,333 or 12.0%. The year-over-year decrease in selling and distribution expenses is a result of lower variable freight and commission expenses attributed to the decrease in sales. Expenses were also reduced by the CEWS wage support subsidy of $25 or 0.03% of sales.

General and administrative expense

General and administrative expenses were $6,619 or 8.3% of sales for Quarter 1, 2021 compared to Quarter 1, 2020 expenses of $6,701 or 7.6% of sales, a small decrease of $82 or 1.2%. Expenses were also reduced by the CEWS wage support subsidy in the amount of $130 or 0.2% of sales in the quarter.

Earnings from operations

Quarter 1, 2021 earnings from operations were $3,402 compared to $3,033 for the same quarter last year, an increase of $369 or 12.2%. The increase in the quarter earnings from operations is primarily a result of decreased selling, distribution, general, administrative expenses and government wage subsidy support offsetting the lower gross margin dollars.

Earnings from operations are calculated as outlined in the following table:

	Quarter 1, 2021	Quarter 1, 2020
Net earnings	**$ 2,298**	$ 2,148
Add (subtract):		
Income tax expense	**894**	983
Interest expense	**105**	396
Foreign exchange loss (gain)	**116**	(376)
Share of income of investments in joint venture	**(38)**	(151)
Other	**27**	33
Earnings from operations	**$ 3,402**	$ 3,033

Net finance and other costs

Interest expense for Quarter 1, 2021 was $105, a decrease of $291 or 73.5% compared to the Quarter 1, 2020 expense of $396. The decrease in the interest expense is a result of lower December 31, 2020 operating debt generating lower interest levels during the quarter. Interest expense includes all bank fees.

The foreign exchange loss in Quarter 1, 2021 was $116 compared to a gain of $376 in Quarter 1, 2020, a change of $492. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past quarter where the U.S. dollar decreased 5.2% from the prior year.

As at March 27, 2021 the Company had outstanding foreign exchange contracts in place for 17,250 Euros ("EUR") and $12,500 USD. Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for $49,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canadian operations.

Corefficient achieved profitability during Quarter 1, 2021 with earnings from the joint venture of $38 compared to $151 in Quarter 1, 2020. The joint venture performance decline was a result of decreased sales, lower manufacturing throughput and higher material costs.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Income taxes

Quarter 1, 2021 income tax expense was $894 compared to $983 in Quarter 1, 2020 a decrease of $89 or 9.1%.

The consolidated effective tax rate for Quarter 1, 2021 was 28.0% versus 31.4% for Quarter 1, 2020, a decrease of 3.4%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company as income is generated from different geographical tax jurisdictions and is subject to diverse tax rates and regulations and the share of income from the joint venture.

Deferred tax assets and liabilities consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities and are not deductible against current year earnings. Deferred tax assets and liabilities relate to temporary differences resulting from intangible assets and the difference between the net book value and un-depreciated capital cost of property, plant and equipment.

Net earnings

Net earnings for Quarter 1, 2021 finished at $2,298 compared to net earnings of $2,148 in Quarter 1, 2020, an increase of $150 or 7.0%. The increase in the quarter earnings is a result of lower selling, distribution, general, administration, interest expenses and government wage subsidy support offsetting the decline in gross margin dollars.

Earnings per share

Basic earnings per share were $0.19 for Quarter 1, 2021 versus $0.18 in Quarter 1, 2020.

EBITDA

EBITDA for Quarter 1, 2021 was $5,349 versus $5,678 in Quarter 1, 2020, a decrease of $329 or 5.8%. Adjusted for foreign exchange gain/loss adjusted EBITDA for Quarter 1, 2021 was $5,465 versus $5,302 in Quarter 1, 2020, an increase of $163 or 3.1%.

EBITDA and adjusted EBITDA is calculated as outlined in the following table:

	Quarter 1, 2021		Quarter 1, 2020	
Net earnings	$	2,298	$	2,148
Add:				
Interest expense		105		396
Income tax expense		894		983
Depreciation and amortization		2,052		2,151
EBITDA	$	5,349	$	5,678
Add (Subtract) :				
Foreign exchange loss (gain)		116		(376)
Adjusted EBITDA	$	5,465	$	5,302

Summary of quarterly financial information (unaudited)

Fiscal 2021 Quarters	Q1, 2021
Sales	$ 80,121
Net earnings	$ 2,298
Net earnings per share – basic	$ 0.19
Net earnings per share – diluted	$ 0.19
Average U.S. to Canadian exchange rate	$ 1.268

Fiscal 2020 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 88,420	$ 75,393	$ 78,115	$ 80,169	$ 322,097
Net earnings	$ 2,148	$ 4,420	$ 3,462	$ 4,032	$ 14,062
Net earnings per share – basic	$ 0.18	$ 0.38	$ 0.30	$ 0.34	$ 1.20
Net earnings per share – diluted	$ 0.18	$ 0.38	$ 0.30	$ 0.34	$ 1.20
Average U.S. to Canadian exchange rate	$ 1.339	$ 1.391	$ 1.335	$ 1.309	$ 1.343

Quarter 1, 2021 sales are lower than Quarter 1, 2020. Sales for Quarter 1, 2021 were unfavourably impacted due to fluctuations in exchange rates. There continues to be significant fluctuations of sales volumes in various markets, with some markets being more heavily impacted by COVID-19 than others.

Gross margin rates for the quarter have increased from the same quarter last year. This margin rate improvement is attributed to sales mix and market specific pricing which partially offset the escalating raw material commodity costs. HPS Canadian entities received the CEWS government subsidy to partially offset additional costs related to managing COVID-19.

Fluctuations in exchange rates resulted in a loss in foreign exchange in the first quarter of 2021 of $116 compared to a gain of $376 in the first quarter of 2020.

Selling and distribution expenses have decreased due to lower variable freight and commission expenses attributed to the decrease in sales. General and administrative remained consistent with small expense increases offset by CEWS reimbursement.

Corefficient de R.L. de C.V., (Corefficient") Quarter 1, 2021 share of income of investment in the joint venture was $38 compared to $151 for Quarter 1, 2020, a decline of $113 due to decreased sales.

Changes in volume, product mix, changing economic conditions, fluctuating commodity costs and competitive pricing pressures have all had an impact on the year-over-year quarterly fluctuations for both sales and income.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Capital resources and liquidity

Net cash used in operating activities for Quarter 1, 2021 was $6,854 versus $6,038 in Quarter 1, 2020, an increase in cash usage of $816. This change is a result of an increase in the unrealized loss on derivatives and a decrease in interest expense offset by a decline in cash utilized for working capital and decreased income tax payments.

In Quarter 1, 2021, non-cash working capital used cash of $8,666 compared to cash used of $9,847 for the same quarter last year, a decrease of $1,181. The working capital changes are primarily related to a significant increase in accounts receivable offset by a decline in inventory.

Total cash from financing activities increased by $4,435 from cash used in financing activities of $517 in the first three months of 2020 to cash generated of $3,918 in the same period of 2021. The key driver of this change is the current year advances of bank operating lines.

Cash used in investing activities increased by $273 from $1,308 in Quarter 1, 2020 to $1,581 in Quarter 1, 2021. Capital expenditures were $1,628 in Quarter 1, 2021 compared to $1,353 for Quarter 1, 2020, an increase of $275. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Bank operating lines of credit have decreased from prior year levels finishing Quarter 1, 2021 at $21,359 compared to $34,217 at the end of Quarter 1, 2020, a decrease of $12,858. The bank operating lines of credit have increased $5,286 since the year-end balance of $16,073.

The Company's overall operating debt balance net of cash has decreased $6,602 in the current year from $18,356 in Quarter 1, 2020 to $11,754 in Quarter 1, 2021.

All bank covenants continue to be met as at March 27, 2021.

The Company will utilize its cash generated from operations combined with the existing available credit facilities to finance ongoing business operational cash requirements for working capital, capital expenditures and investing activities going forward.

The Company's current North American credit agreement matures in June 2021. The Company is currently in the process of finalizing a new 5-year agreement.

Contractual obligations

	2021	2022	2023	2024	2025 & Thereafter	Total
Accounts payable and accrued liabilities	$ 43,457	–	–	–	–	$ 43,457
Capital expenditure purchase commitments	485	–	–	–	–	485
Bank operating lines	21,359	–	–	–	–	21,359
Lease liabilities	2,572	2,399	1,656	1,531	1,149	9,307
Total	$ 67,873	$ 2,399	$ 1,656	$ 1,531	$ 1,149	$ 74,608

Regular quarterly dividend delcaration

The Board of Directors of HPS declared a quarterly cash dividend of eight and a half cents ($0.085) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of eight and a half cents ($0.085) per Class B Common Share of HPS paid on March 25, 2021 to shareholders of record at the close of business on March 18, 2021. The ex-dividend date was March 17, 2021.

Controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During Quarter 1, 2021 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

Risks and uncertainties

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However as with most businesses HPS is subject to a number of market place, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Coronavirus (COVID-19) – Business Disruption/ Interruption

Markets, governments and health organizations around the world are working to contain the COVID-19 pandemic. COVID-19 presents a wide range of potential issues or complications for the Company, most of which the Company is not able to know the full extent of.

The following is a summary of what the Company has experienced, or believes may impact their business as a result of COVID-19:

- Disruptions to business operations resulting from quarantines of employees, customers, suppliers and third party service providers in areas affected by the pandemic;
- Disruptions to business operations resulting from travel restrictions;
- Disruptions to business operations resulting from government mandated lockdowns;
- Uncertainty around the duration of the virus' impact;
- Change in classification of essential services, requiring HPS to shutdown operations; and
- Availability of the COVID-19 vaccine in jurisdictions where HPS operates.

Currently, COVID-19 has been, and will continue to be, a material disruption to the Company's business. Our operations in Canada, the U.S. and Mexico have been designated as "essential service" businesses. Our Indian operations were not operating from March 24, 2020 to May 2, 2020 as the government had imposed a 100% lockdown of the country, shutting down all businesses. The Company has seen significant reductions in sales in the U.S., Canadian and Indian markets. Due to the uncertainty and unpredictability of the impacts of the COVID-19 pandemic on the business operations, the uncertainty of governmental and health authorities' legislation, the full negative financial impact of the unprecedented pandemic will not be fully known until vaccines are widely available and the economy begins to recover.

If any of the following risks were to occur they could materially adversely affect HPS' financial condition, liquidity or results of operations.

Market supply and demand impact on commodity prices

An area that has a definite impact on the Company's costs and earnings is the cyclical effects and unprecedented global rising of commodity matreials, specficially copper, aluminium and electrical steel pricing as well as industry supply shortages which could impact manufacturign production. There is a risk in the ability of recouping rapid escalating commodity costs through selling price increases expediently. This risk is mitigated through strategic supply line agreements and alliances in place with suppliers to ensure adequate supply, competitive market pricing and implementing market specific selling price increases.

We may not realize all of the anticipated benefits of our acquisitions, divestitures, joint ventures or strategic initiatives, or these benefits may take longer to realize than expected.

In order to be profitable, the Company must successfully execute upon its strategic initiatives and effectively manage the resulting changes in its operations. The Company's assumptions underlying its strategic plans may be subjective, the market may react negatively to these plans, and HPS may not be able to successfully execute these plans, and even if successfully executed, its actions may not be effective or may not lead to the anticipated benefits within the expected time frame.

These strategic initiatives can include acquisitions and joint ventures. To be successful, management will conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete complex transactions and manage post-closing matters such as the integration of acquired startup businesses. Management's due diligence reviews are subject to the completeness and accuracy of disclosures made by third parties. The Company may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation or other liabilities.

Many of the factors that could have an adverse impact will be outside of management's control and could result in increased costs and decreases in the amount of expected revenues and diversion of management's time and attention. Failure to implement an acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and result of operations.

We sell to customers around the world and have global operations and, therefore, are subject to the risks of doing business in many countries.

We do business in a host of countries around the world. Approximately 75% of our sales were to customers outside of Canada. In addition, a number of our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

Our global business translates into conducting business in various currencies, all of which are subject to fluctuations.

HPS' global footprint exposes the Company to currency fluctuations and volatility and, at times, has had a significant impact on the financial results of the Company. The Company's functional currency is the Canadian dollar with its operating results reported in Canadian dollars. A significant portion of Company sales and material purchases are denominated in U.S. dollars. There is a natural hedge, as sales denominated in U.S. dollars are partially offset by the cost of raw materials purchased from the U.S., and commodities tied to U.S. dollar pricing. A change in the value of the Canadian dollar against the U.S. dollar will impact earnings, significantly at times. Generally, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results, while a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

HPS has partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output, periodically instituting price increases to help offset negative changes and entering into forward foreign exchange contracts.

Worldwide HPS is subject to, and required to comply with, multiple income and other taxes, regulations and is exposed to uncertain tax liabilities risk.

The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates, which determine taxation expenses, may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. The determination of the consolidated tax provision and liabilities requires significant judgment. Tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities.

We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.

Our business depends on the movement of goods around the world. Natural disasters, pandemics, acts or threats of war or terrorism, international conflicts, political instability and the actions taken by governments could cause damage to or disrupt our business operations, our suppliers or our customers and could create economic instability. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products or make it difficult or impossible to deliver our products.

The U.S. political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.

The results of the last U.S. election have created a number of geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. HPS' current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for us. HPS' global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships.

Our industry is highly competitive.
HPS faces competition in all of our market segments. Current and potential competitors may have greater brand name recognition, more established distribution networks, access to larger customer bases and substantially greater financial, distribution, technical, sales and market, manufacturing and other resources than HPS does. As a result, those competitors may have advantages relative to HPS; including stronger bargaining power with suppliers that may result in more favourable pricing, the ability to secure supplies at time of shortages, economies of scale in production, the ability to respond more quickly to changing customer demands and the ability to devote great resources to the development, promotion and sales of their products and services. If HPS is unable to compete effectively, it may experience a loss of market share or reduced profitability. We expect the level of competition to remain high in the future.

Our business is highly sensitive to global and regional economic conditions in the industries we serve.
Current global economic conditions influence the Company's focus, direction, strategic initiatives and financial performance. To address the current uncertainty, we are focusing our efforts on projects that will increase our market reach, advance our cost competiveness, expand capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will hold even greater importance in order to respond quickly to both unexpected opportunities and challenges. HPS' management believes that the key to expanding our market share during this economic slowdown is growing our access to a variety of domestic and global markets. This will be achieved through our current and new OEM and distributor channels.

The disruption to businesses that can come from unpredictable weather can have an impact on sales volume as customer projects can be delayed or cancelled.
Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present, the Company may see short-term effects of such occurrences due to their unpredictability. This may impact delivery and capacity requirements.

The business practice of extending credit to customers can lead to a risk of uncollectability.
A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk. This risk is partially mitigated by management's credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure.

Risk of Cyberattack
Globally there have been increased incidences of outside cyberattacks and viruses on companies' information infrastructure and technologies. This risk is reduced through a number of initiatives to mitigate exposure.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements other than capital expenditure commitments disclosed in Notes to the Consolidated Financial Statements contained in our 2020 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2021, other than transactions disclosed in Note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2021 Report.

Proposed transactions

The Company had no proposed transactions as at March 27, 2021. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Financial instruments

As at March 27, 2021, the Company had outstanding foreign exchange contracts in place for 17,250 EUR and $12,500 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $47,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

The preparation of the Company's condensed consolidated interim financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances.

Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Outstanding share data

Details of the Company's outstanding share data:

9,011,624	Class A Shares
2,778,300	Class B Common Shares
11,789,924	Total Class A and B Shares

Strategic direction and outlook

HPS has a rich and extensive history of growth, innovation and resilience. As an essential service HPS has always had to ensure they were ready to respond to their shareholders, customers and employees.

For our shareholders, HPS has provided:
- Escalating growth of the NAED channel;
- New global customers;
- Expanded relationships with existing customers;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Establishment of a state-of-the-art core manufacturing facility in Mexico;
- Healthy gross margin rates, strong earnings per share, solid cash generation; and
- Quarterly dividends paid with an attractive yield.

For our customers, HPS has provided:
- Compliance with regulatory changes;
- New product development;
- Expanded product offering using cast resin technology;
- Superior customer service;
- Accurate ship on time; and
- Competitive pricing for our products.

For our employees, HPS has provided:
- The tools to facilitate their best work, which includes development and further implementation of our ERP system to enhance availability of information and streamline processes;
- Space and time for innovation and development;
- Safety in the workplace, especially during COVID-19; and
- Ability for remote work, where able, to help manage school closures and health concerns.

The COVID-19 pandemic continues to have an unprecedented impact on the global economy. The extent of the impact or timeline continues to be unknown but governmental decisions to declare a state of emergency in a number of countries in which we operate has had an immediate impact on the economies of such countries. The demand for our transformers particularly in North America continues, but sales volumes have been and are expected to be, tempered due to the economic impact caused by the pandemic and a bit unpredictable. Based on the foregoing, HPS expects to see continued moderation and fluctuation of revenues and a continuation of increases in operational costs which had the effect of reducing HPS' financial performance in the year. Our Canadian entities received a government subsidy for eligible wages in Quarter 2, 3, and 4, 2020 and Quarter 1, 2021 which offset some additional wages and operational COVID-19 related costs and supported operational and financial performance. The wage subsidy has been extended further into 2021 and the Company will continue to monitor eligibility. HPS will remain cognizant of further programs that may be announced.

The Company has implemented robust health and safety precautions dedicated to providing a safe working environment for our employees while continuing to manufacture and serve our customers during this volatile and unpredictable time.

As an essential service, the Company has continued to remain open and producing to ensure our customers have the transformers they need to fulfill the many applications they are purchased for. HPS is committed to managing the impact the pandemic will have on our financial performance. The Company will maintain its liquidity and balance sheet strength.

The implementation of our ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, improve customer service, supplement strategic decision making and audit and control. The ERP system implementation is currently in progress at our operation in Granby Quebec, an implementation project which began in Quarter 1, 2020 and represents the Company's final operation that will be converted to our ERP platform. It is will be fully implemented by the end of Quarter 2, 2021. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

HPS has modern manufacturing facilities throughout the world and this continues to be enhanced through our committed capital investment. HPS continues to focus on customer service and growth – expanding existing relationships as well as exploring new opportunities.

HPS continues to have a strong reputation of being an industry leader and is both operationally and financially strong. HPS is well positioned to meet the evolving needs of both our traditional markets while becoming a leading player in a growing number of other market sectors. We continue to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

While HPS has experienced a number of successes and challenges, the unpredictable and fluctuating global economic climate has had a pervasive and persistent impact on HPS' profitability over a number of years. The Company has also experienced the adverse impact of variability of raw material commodity costs, unpredictable foreign currency rates, fluctuating manufacturing throughput and market pricing pressures. Through HPS' strategic projects and operational plans these deterrents are being prudently managed.

HPS is confronting these challenges and continuously building our competitive and strategic advantage while being cognizant of the importance of our shareholders, customers and employees.

For our shareholders, HPS is focusing on:

- Disciplined cost management initiatives to ensure price competitiveness in the market;
- Cash flow generation;
- Capital investment; and
- Strategic planning.

For our customers, HPS is focusing on:

- Sales development;
- NAED channel expansion;
- Broadened product offering;
- Product development; and
- Bringing quality and value to all that we produce.

For our employees, HPS is focusing on:

- Investing in our employees, through leadership training and development programs;
- Implementing a new Human Resource information system to provide an in-house payroll system, dynamic performance evaluation module, succession planning, personal learning development and people management tool;
- Relaunch of our internal continuous improvement program, Transform, to further foster a culture of innovation; and
- Ongoing support through the CEWS wage subsidy where we qualify.

HPS' strategic vision and operational initiatives have supported our industry leadership, operational strength and financial stability. The combination of our resilience, drive, decades of experience, commitment, engineering expertise, solid supplier relationships and a broad and unique business perspective gained through our diverse products, customers and markets are all key success factors critical to our success.

As an essential service, HPS will continue to deliver solid financial performance, provide a sustainable return to our shareholders, support employees well-being and growth and deliver long-term value to all stakeholders.

Ready to Respond

An Essential Service

HPS has a rich and extensive history of growth, innovation and resilience. As an essential service HPS has always had to ensure we were ready to respond – to our shareholders, customers and employees.

For our shareholders, HPS has provided:
- Escalating growth of the NAED channel;
- New global customers;
- Expanded relationships with existing customers;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Establishment of a state-of-the-art core manufacturing facility in Mexico;
- Healthy gross margin rates, strong earnings per share, solid cash generation; and
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- The tools to facilitate their best work, which includes development and further implementation of our ERP system to enhance availability of information and streamline processes;
- Space and time for innovation and development;
- Safety in the workplace, especially during COVID-19; and
- Ability for remote work, where able, to help manage school closures and health concerns.

Selected Annual and Quarterly Financial Information

(tabular amounts in thousands of dollars)

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the First Quarter of 2021. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

Annual Information [1]	2016	2017	2018	2019	2020
Sales	274,793	301,750	314,082	358,792	322,097
Earnings from operations	10,873	14,470	13,779	20,543	22,041
EBITDA	14,356	23,069	17,915	28,175	29,482
Net earnings (loss)	1,793	6,114	(12,917)	11,607	14,062
Total assets	205,177	192,449	205,527	214,953	189,394
Non-current liabilities	4,131	3,641	2,528	11,271	8,329
Total liabilities	84,524	77,438	96,793	105,186	75,478
Total shareholders' equity attributable to equity holders of the Company	120,441	114,848	108,734	109,767	113,916
Operating debt, net of cash	(11,318)	(16,983)	(17,056)	(9,326)	(1,278)
Cash provided by operations	15,216	1,032	6,474	17,811	19,683
Basic earnings per share	0.16	0.53	(1.10)	0.99	1.20
Diluted earnings per share	0.16	0.52	(1.10)	0.99	1.20
Dividends declared and paid	2,808	2,809	2,818	3,287	3,993
Average exchange rate (USD$=CAD$)	1.325	1.298	1.294	1.327	1.343
Book value per share	10.29	9.80	9.26	9.36	9.70

	2019			2020				2021
Quarterly Information	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	91,937	91,502	90,653	88,420	75,393	78,115	80,169	80,121
Earnings from operations	4,731	5,471	5,862	3,033	6,514	5,447	7,047	3,402
EBITDA	7,111	7,302	7,651	5,678	8,447	7,466	7,891	5,349
Net earnings	3,352	3,595	2,152	2,148	4,420	3,462	4,032	2,298
Total assets	205,059	206,586	214,953	212,929	197,895	203,443	189,394	192,395
Non-current liabilities	10,558	9,947	11,271	9,729	9,039	8,558	8,329	7,546
Total liabilities	99,640	96,870	105,186	97,156	81,375	87,215	75,478	77,559
Total shareholders' equity attributable to equity holders of the Company	105,419	109,716	109,767	115,773	116,520	116,228	113,916	114,836
Operating debt, net of cash	(18,528)	(22,678)	(9,326)	(18,356)	(12,906)	(4,790)	(1,278)	(11,754)
Cash provided by (used in) operations	507	(1,460)	16,447	(6,038)	7,229	10,419	8,073	(6,854)
Basic earnings per share	0.25	0.27	0.27	0.18	0.38	0.30	0.34	0.19
Diluted earnings per share	0.25	0.27	0.27	0.18	0.38	0.30	0.34	0.19
Dividends declared and paid	821	821	823	998	999	998	998	1,002
Average exchange rate (USD$=CAD$)	1.338	1.320	1.320	1.339	1.391	1.335	1.309	1.268
Book value per share	8.99	9.33	9.36	9.86	9.92	9.90	9.70	9.78

(1) Balances for 2016 – 2017 not restated to reflect discontinued operations

Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As at	
	March 27, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 9,605	$ 14,795
Accounts receivable	63,585	53,078
Inventories	47,089	49,206
Income taxes receivable	940	488
Prepaid expenses and other assets	3,070	2,687
Total current assets	124,289	120,254
Non-current assets		
Long-term lease and note receivable	3,009	3,201
Property, plant and equipment (note 4)	29,983	30,372
Investment in properties	3,585	3,649
Investment in joint venture (note 5)	13,192	13,300
Deferred tax assets	1,602	1,809
Intangible assets	5,877	5,901
Goodwill	10,858	10,908
Total non-current assets	68,106	69,140
Total assets	$ 192,395	$ 189,394
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 21,359	$ 16,073
Accounts payable and accrued liabilities	43,457	46,179
Income tax payable	1,241	942
Provisions	1,822	1,811
Current portion of lease liabilities (note 6)	2,134	2,144
Total current liabilities	$ 70,013	$ 67,149
Non-current liabilities		
Provisions	272	317
Deferred tax liabilities	659	836
Long-term portion of lease liabilities (note 6)	6,615	7,176
Total non-current liabilities	7,546	8,329
Total liabilities	$ 77,559	$ 75,478
Shareholders' Equity		
Share capital	14,886	14,491
Contributed surplus	2,432	2,498
Accumulated other comprehensive income (note 8)	814	1,519
Retained earnings	96,704	95,408
Total shareholders' equity	$ 114,836	113,916
Total liabilities and shareholders' equity	$ 192,395	$ 189,394

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Operations

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

	Three Months Ending March 27, 2021	March 28, 2020
Sales (note 9)	$ 80,121	$ 88,420
Cost of sales (note 10)	60,293	67,546
Gross margin	19,828	20,874
Selling and distribution (note 10)	9,807	11,140
General and administrative (note 10)	6,619	6,701
	16,426	17,841
Earnings from operations	3,402	3,033
Finance and other costs		
Interest expense	105	396
Foreign exchange loss (gain)	116	(376)
Share of income of investment in joint venture (note 5)	(38)	(151)
Other	27	33
Net finance and other costs (income)	210	(98)
Earnings before income taxes	3,192	3,131
Income tax expense	894	983
Net earnings	$ 2,298	$ 2,148
Earnings per share		
Basic earnings per share	$ 0.19	$ 0.18
Diluted earnings per share	$ 0.19	$ 0.18

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending March 27, 2021	Three Months Ending March 28, 2020
Net earnings	$ 2,298	$ 2,148
Other comprehensive income		
Foreign currency translation differences for foreign operations (note 8)	(705)	4,856
Total comprehensive income for the period	$ 1,593	$ 7,004

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 27, 2021

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2021	$ 14,491	$ 2,498	$ 1,519	$ 95,408	$ 113,916
Total comprehensive income for the year					
Net earnings	–	–	–	2,298	2,298
Other comprehensive income					
Foreign currency translation differences related to joint venture (note 5)	–	–	(146)	–	(146)
Foreign currency translation differences (note 8)	–	–	(559)	–	(559)
Total other comprehensive loss	–	–	(705)	–	(705)
Total comprehensive income for the year	–	–	(705)	2,298	1,593
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(1,002)	(1,002)
Stock options exercised (note 7)	395	(66)	–	–	329
Total transactions with shareholders	395	(66)	–	(1,002)	(673)
Balance at March 27, 2021	$ 14,886	$ 2,432	$ 814	$ 96,704	$ 114,836

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 28, 2020

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2020	$ 14,491	$ 2,498	$ 7,439	$ 85,339	$ 109,767
Total comprehensive income for the year					
Net earnings	–	–	–	2,148	2,148
Other comprehensive loss					
Foreign currency translation differences related to joint venture (note 5)	–	–	1,003	–	1,003
Foreign currency translation differences (note 8)	–	–	3,853	–	3,853
Total other comprehensive income	–	–	4,856	–	4,856
Total comprehensive income for the year	–	–	4,856	2,148	7,004
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(998)	(998)
Total transactions with shareholders	–	–	–	(998)	(998)
Balance at March 28, 2020	$ 14,491	$ 2,498	$ 12,295	$ 86,489	$ 115,773

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending March 27, 2021	Three Months Ending March 28, 2020
Cash flows from operating activities		
Net earnings	$ 2,298	$ 2,148
Adjustments for:		
Share of income of investment in joint venture	(38)	(151)
Amortization of property, plant and equipment	1,889	1,984
Amortization of intangible assets	163	167
Provisions	(34)	26
Interest expense	105	396
Income tax expense	894	983
Change in unrealized loss on derivatives included within other assets	(2,418)	(207)
	2,859	5,346
Change in non-cash working capital (note 12)	(8,666)	(9,847)
Cash used in operating activities	(5,807)	(4,501)
Income tax paid	(1,047)	(1,537)
Net cash used in operating activities	(6,854)	(6,038)
Cash flows from investing activities		
Receipt of lease receivable payment	47	45
Acquisition of property, plant and equipment (note 4)	(1,628)	(1,353)
Cash used in investing activities	(1,581)	(1,308)
Cash flows from financing activities		
Advances of borrowings	5,286	1,520
Issue of common shares	329	–
Payment of lease liabilities (note 6)	(658)	(643)
Cash dividends paid (note 7)	(1,002)	(988)
Interest paid	(37)	(396)
Cash generated by (used in) financing activities	3,918	(517)
Foreign exchange on cash held in a foreign currency	(673)	353
Decrease in cash	(5,190)	(7,510)
Cash and cash equivalents at beginning of period	14,795	23,371
Cash and cash equivalents at end of period	$ 9,605	$ 15,861

See accompanying notes to condensed consolidated interim financial statements

Three months ended March 27, 2021 and March 28, 2020 (amounts in thousands of dollars except share and per share amounts)

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the for a review of interim financial statements by an entity's auditor.

1. Reporting entity

Hammond Power Solutions Inc. is a company domiciled in Canada. The address of the Company's registered office is 595 Southgate Drive Guelph, Ontario. The Company's Class A subordinate voting shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

The Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended March 27, 2021 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Group has manufacturing plants in Canada, the United States ("U.S."), Mexico and India. The Company also holds a 55% economic interest in a joint venture located in Mexico called Corefficient de R.L. de C.V. ("Corefficient").

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with requirements of IAS 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 5, 2021.

(b) Use of estimates and judgments

The preparation of the condensed consolidated interim 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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2020.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2020 annual audited financial statements, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The significant accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2020.

Three months ended March 27, 2021 and March 28, 2020 (amounts in thousands of dollars except share and per share amounts)

4. Property, plant and equipment

Property, plant and equipment compromise owned and leased assets that do not meet the definition of investment property. Carrying amounts of owned and right-of-use assets are as follows:

	March 27, 2021	December 31, 2020
Property, plant and equipment owned	$ 23,753	$ 23,648
Right-of-use assets (note 7)	6,230	6,724
	$ 29,983	$ 30,372

The Group had acquisitions of property, plant and equipment owned for the three months ended March 27, 2021 in the amount of $1,628,000 of machinery and equipment (2020 – $1,353,000).

5. Joint venture

The Company has a 55% economic and voting interest in Corefficient, whose principal place of business is in Monterrey, Mexico. The Company treats its investment in Corefficient as a joint arrangement. The carrying value of the Company's interest in Corefficient is as follows:

	March 27, 2021	December 31, 2020
Cost of investment in joint venture	$ 20,023	$ 20,023
Cumulative share of loss in investment in joint venture, net of tax	(3,195)	(3,233)
Foreign currency translation differences related to the joint venture	(3,636)	(3,490)
	$ 13,192	$ 13,300

Selected financial information relating to Corefficient is as follows:

	March 27, 2021	December 31, 2020
Cash	$ 1,498	$ 3,553
Trade and other receivables	12,016	8,155
Inventories	3,047	2,932
Other current assets	92	89
Total current assets	$ 16,653	$ 14,729
Non-current assets	15,304	16,425
Total assets	$ 31,957	$ 31,154
Current liabilities	$ 7,727	$ 6,508
Non-current liabilities	523	746
Total liabilities	$ 8,250	$ 7,254

	Three Months Ended	
	March 27, 2021	March 28, 2020
Revenue	$ 12,865	$ 16,137
Income for the period	65	275

The income for the three months ended March 27, 2021 includes depreciation and amortization expense of $839,000 (Quarter 1, 2020 – $814,000), interest expense of $8,000 (Quarter 1, 2020 – interest expense of $11,000) and an income tax expense of $nil (Quarter 1, 2020 – expense of $5,000) related to Corefficient.

Three months ended March 27, 2021 and March 28, 2020 (amounts in thousands of dollars except share and per share amounts)

6. Lease assets and liabilities

The Group leases many assets including buildings, vehicles and office equipment. Information about leases for which the Group is a lessee is presented below.

		Buildings		Vehicles		Office Equipment		Total
Balance at January 1, 2021	$	6,187	$	529	$	8	$	6,724
Additions		–		55		–		55
Depreciation		(307)		(77)		(3)		(387)
Effect of movements in exchange rates		(161)		(1)		–		(162)
Balance at March 27, 2021	$	5,719	$	506	$	5	$	6,230

Maturity analysis – contractual undiscounted cash flows		**March 27, 2021**		December 31, 2020
Less than one year	$	2,572	$	2,719
One to five years		6,212		7,017
More than five years		523		705
Total undiscounted lease liabilities	$	9,307	$	10,441
Less: effect of discounting	$	(558)	$	(1,121)
Lease liabilities included in the statement of financial position	$	8,749	$	9,320
Current	$	2,134	$	2,144
Non-current	$	6,615	$	7,176

	Three Months Ended			
Amounts recognized in statement of operations		**March 27, 2021**		March 28, 2020
Interest on lease liabilities	$	70	$	97

	Three Months Ended			
Amounts recognized in statement of cash flows		**March 28, 2021**		March 30, 2020
Payment of lease liabilities	$	658	$	643

7. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Three Months Ended			
		March 27, 2021		March 28, 2020
8.5 cents per Class A subordinate voting shares (2020: 8.5 cents)	$	766	$	762
8.5 cents per Class B common shares (2020: 8.5 cents)		236		236
	$	1,002	$	998

Three months ended March 27, 2021 and March 28, 2020 (amounts in thousands of dollars except share and per share amounts)

(b) Stock option plan

During the three months ended March 27, 2021, there were 45,000 options exercised, 10,000 at an exercise price of $6.62 and 35,000 at an exercise price of $7.50. During the three months ended March 28, 2020 there were no options exercised.

(c) Deferred Share Units

The Company maintains a deferred share unit plan in order to issue deferred share units ("DSUs") to non-employee directors and senior-executives of HPS.

The movement in DSUs for the three months ended March 27, 2021 was as follows:

	Number of DSUs	Closing Share Price	
Balance at January 1, 2021	160,534	$	8.47
DSUs Issued	3,813		9.00
Balance at March 27, 2021	164,347	$	9.24

An expense of $159,000 (Quarter 1, 2020 – $132,000) for the quarter was recorded in general and administrative expenses. The liability of $1,519,000 (December 31, 2020 – $1,360,000) related to these DSUs is included in accounts payable and accrued liabilities.

8. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive loss for the three months ended March 27, 2021 was $705,000 (Quarter 1, 2020 – income of $4,856,000), of which $559,000 (Quarter 1, 2020 - $3,853,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at March 27, 2021 of accumulated other comprehensive income of $814,000 (March 28, 2020 – $12,295,000).

9. Sales

	Three Months Ended			
	March 27, 2021		March 28, 2020	
Canada	$	27,801	$	27,344
United States and Mexico		46,505		56,341
India		5,815		4,735
	$	80,121	$	88,420

As at March 27, 2021 the Company had contract liabilities of $nil (December 31, 2020 - $218,000).

10. Government Assistance

The Government of Canada implemented the Canada Emergency Wage Subsidy program (CEWS) that provides a subsidy of up to 75% of eligible remuneration paid by an eligible entity that experienced significant revenue declines due to the COVID-19 global pandemic. In Quarter 1, 2021, the Company has qualified for subsidy payments. The subsidy amounts relating to the quarter have been recorded as a reduction in expenses as follows: cost of sales $324,000, selling and distribution $26,000 and general and administrative $130,000 for a total of $480,000.

Three months ended March 27, 2021 and March 28, 2020 (amounts in thousands of dollars except share and per share amounts)

11. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (December 31, 2020 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,071,819 (December 31, 2020 – 1,063,152) Class A subordinate voting shares of the Company, representing approximately 12.0% (2020 – 11.9%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $327,000 (Quarter 1 2020 – $327,000).

12. Change in operating working capital

The table below depicts the receipt of (use of) cash for working capital purposes by the Company:

	Three Months Ended	
	March 27, 2021	March 28, 2020
Accounts receivable	$ (10,507)	$ (5,813)
Inventories	2,117	520
Prepaid expenses	72	522
Accounts payable and accrued liabilities	(770)	(7,647)
Provisions	–	(186)
Foreign exchange	422	2,757
	$ (8,666)	$ (9,847)

HPS Offices, Manufacturing Facilities and Warehouse Locations

Canada
Hammond Power Solutions Inc.

Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.

795 Industriel Boul.
Granby, Quebec J2G 9A1

3850 place de Java
Suite 200
Brossard, Québec J4Y 0C4

India
Hammond Power Solutions Private Limited

2nd Floor
Icon Plaza, H. No. 5-2/222/IP/B
Allwyn X-Roads
Miyapur, Hyderabad – 500049

Italy
Hammond Power Solutions S.p.A.

Via Amedeo Avogadro 26
10121 Torino, Italy
at R & P Legal

Mexico
Hammond Power Solutions S.A. de C.V.

Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Ave. Avante #900
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Mexico
Corefficient, S. de R.L. de C.V.

Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

United States
Hammond Power Solutions, Inc.

1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

6550 Longley Lane, Suite 135
Reno, Nevada 89511

Annual General Meeting of Shareholders to be held:

Thursday, May 13, 2021
1:30 p.m. (Eastern Standard Time)
Via Teleconference

Audio Conference details:
Calling from Canada or the United States: 1-800-309-1256
United States, Brooklyn and International : 1-929-477-0414

Participant Code: 345658

Corporate Information

Corporate Officers and Directors

William G. Hammond *
Chairman of the Board and
Chief Executive Officer

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Anne Marie Turnbull *+
Director

David M. Wood *+
Director

* Corporate Governance Committee
\+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

Computershare Investor Share
Services Inc.
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Auditors

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115 King Street South
Waterloo, Ontario N2J 5A3

Legal Representation

Dentons Canada LLP
77 King Street West, Suite 400
Toronto Dominion Centre
Toronto, Ontario M5K 0A1

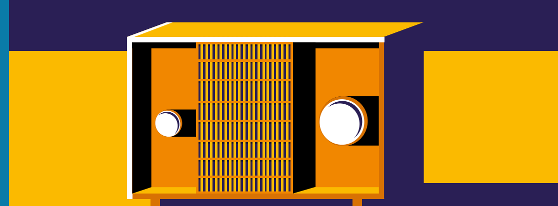
Banking Institution

JP Morgan Chase
Bank N.A. 66 Wellington Street West,
Suite 4500
Toronto, Ontario M5K 1E7

Investor Relations

Contact: Dawn Henderson,
Manager Investor Relations
Phone: 519.822.2441 x414
Email: ir@hammondpowersolutions.com

The Hammond Museum of Radio is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment.



**Tours can be arranged by calling:
519-822-2441 x590**

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