Q2 Report

2021

For the six months ended June 26, 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,

Hammond Power Solutions Inc. ("HPS") is very pleased to announce better than expected financial results for the quarter ended June 26, 2021. Coming out of Quarter 1, we were concerned about the impact that the lingering pandemic would have on the North American economy and our ability to address significant and unexpected inflation of material costs. For a variety of reasons, we have delivered both sales growth and higher profits compared to the same quarter in 2020. Our net sales were 16% higher than Quarter 1, 2021 while our net income was 5% higher, in spite of the aforementioned rising material costs. Total backlog grew during the quarter reaching one of the highest levels in our company's history. Due to our strong financial performance in the second quarter, we are now even more positive about our momentum in the last half of 2021.

There are a number of contributors to our improving financial performance despite all of the challenges we and the electrical industry are facing. In the face of rapidly rising material costs which are predicted to continue, we have aggressively pursued multiple price increases across all channels to market. As a result of our price realization strategy and the increased sales, we realized an overall lift to our gross margins.

Our ability to implement these multiple price increases, would not have been possible if we didn't at the same time maintain our obsession with providing industry leading service. In spite of an unforeseen surge in business, we have continued to be able to satisfy customer lead time needs through the capacity flexibility that our multiple manufacturing facilities across North America afford us, not to mention we have the largest inventory of dry transformers of any company in nine strategically situated warehouses across the United States ("U.S.") and Canada.

Our superior service capabilities along with our leading position have assisted in accelerating our growth through the U.S. and Canadian distributor channels. Our strengthening sales momentum has also been elevated by our market diversity. Relatively new markets like solar, energy storage and electric vehicle ("EV") recharging are bringing us growth opportunities on top of a resurgence in the cyclical mining and oil and gas market – driven higher by the growing global economy and consumption of resources.

Last but equally important to our profit performance has been a determined focus across the organization to carefully manage our expenses and spending despite the higher costs forced upon us by the pandemic.

In closing, we are very proud of our financial performance during these challenging times and are encouraged with our strengthening momentum. At the same time, we are mindful that many parts of the world are still in the serious grip of the COVID-19 virus and its variants, and that North America could see a resurgence in infections before the end of 2021, however with rising vaccination rates and the economy lifting, there is much to be both thankful and hopeful for in the quarters ahead.

William G. Hammond
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER
Grandson of founder Oliver Hammond

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
- 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.

Competitive and Strategic Advantage

Focused on the Future

HPS is confronting future 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 in capacity expansion and information systems; 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;
- Our internal continuous improvement program, Transform, to further foster a culture of innovation; and
- Ongoing support through the CEWS wage subsidy where we qualify.

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 six months ended June 26, 2021, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the second quarter of fiscal 2021. This information is based on Management’s knowledge as at July 29, 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 second 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.

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 June 26, 2021 and June 27, 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 June 26, 2021 were $88,277, an increase of $12,884 or 17.1% from Quarter 2, 2020 sales of $75,393. Sales growth was a result of surging economic activity as business conditions improved, deferred projects were released and companies began to open up as the number of individuals vaccinated against the COVID-19 virus increased. Many of our markets and customers had delayed electrical projects, or their operations were suspended due to COVID-19 pandemic-related lockdowns. Sales were favourably impacted by selling price increases, which was partially offset by the foreign exchange impact of a weakened U.S. dollar on our U.S. dollar denominated sales. Year-to-date 2021 sales increased $4,585 or 2.8% to $168,398 compared to $163,813 in 2020.

Sales in the United States ("U.S."), stated in Canadian dollars increased by $1,161 or 2.2%, finishing at $53,053 for Quarter 2, 2021 compared to $51,892 in Quarter 2, 2020. Year-to-date U.S. sales were $99,558 in 2021 and $108,223 in 2020, a decline of $8,675 or 8.0%.

Second quarter sales were negatively impacted by an 11.5% weaker U.S. dollar ("USD") $1.00 USD = $1.23 Canadian dollar ("CAD") compared with $1.00 USD = $1.39 CAD in Quarter 2, 2020. Year-to-date sales have been negatively impacted by an 8.1% weaker U.S. dollar - $1.00 USD = $1.25 CAD compared against $1.00 USD = $1.36 CAD in 2020. These significant fluctuations mask the improvement in USD sales for Quarter 2, 2021 compared to Quarter 2, 2020.

U.S. sales, when stated in U.S. dollars were $43,100 in Quarter 2, 2021, compared to Quarter 2, 2020 of $37,314, an increase of $5,786 or 15.5%. Year-to-date U.S. sales stated in U.S. dollars were $79,765 in 2021 compared to $79,397 in 2020, a small increase of $368 or 0.5%. Notably, Quarter 1, 2020 sales were not negatively impacted by the COVID-19 pandemic as compared the same quarter 2021 – which does affect the year-to-date comparisons. The sales increase in the second quarter 2021, is a result of increases in the North American Electrical Distributor ("NAED") channel, motor control, specialty, switchgear and mining markets.

Canadian sales were $32,667 for the quarter, a significant increase of $10,745 or 49.0% from Quarter 2, 2020 sales of $21,922. Year-to-date Canadian sales were $60,468 in 2021 compared to $49,266 in 2020, an expansion of $11,202 or 22.7%. Canadian sales experienced large improvements in a number of markets this quarter compared to the same quarter last year, specifically NAED, mining and capital equipment partially offset by a decline in switchgear markets.

Indian sales for Quarter 2, 2021 finished at $2,557 versus $1,579 in Quarter 2, 2020, an increase of $978 or 61.9%. Prior year shipments were lower due to the country-wide government imposed COVID-19 pandemic lockdown during this quarter. Year-to-date sales in India were $8,372 in 2021 compared to $6,314 in 2020, an increase of $2,058 or 32.6%. India continues to struggle with regional restrictions and supply shortages as the COVID-19 pandemic continues to heavily impact the country.

Quarter 2, 2021 sales by geographic segment were U.S. sales of 60.1% (Quarter 2, 2020 – 68.8%) of total sales, Canadian sales of 37.0% (Quarter 2, 2020 – 29.1%), and Indian sales of 2.9% (Quarter 2, 2020 – 2.1%). Quarter 2, 2021 year-to-date sales by geographic segment were U.S. sales of 59.1% (2020 – 68.8%) of total sales, Canadian sales of 35.9% (2020 – 29.1%), and Indian sales of 5.0% (2020 – 2.1%).

As the number of vaccinated individuals within North America and India increase, the levels of restrictions and closures have decreased. This was evident in Quarter 2, 2021 where sales activity started to return to pre-pandemic business activity and in some markets were at record levels, specifically in the NAED market. Despite the pandemic HPS continued to grow its market share through distributor conversions and is now benefitting from this initiative. The NAED channels growth and Original Equipment Manufacturer ("OEM") capabilities continue to accelerate and strengthen HPS' sales. The Company's market diversification strategy is not single market or industry dependent, resulting in a natural business hedge as some markets grow while others decline. The ability to continue to expand these segments is also a result of new customer additions, organic customer diversity, expanded product offerings and diverse manufacturing capabilities. HPS' standard and custom transformer manufacturing facilities and service commitment all allow the Company to be a leader in the electrical transformer market.

The Company's engineering and manufacturing capabilities in dry, liquid-filled and cast resin transformer technology is a strength of the Company and fundamental to revenue growth. HPS' growth strategy is evidenced by its business development activities, vertical integration strategies and capital investment.

The Company prides itself on building its value proposition to our customers through consistent quality, innovative and competitive product design, industry expertise in custom engineered products and expanded product breadth. 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.

Order bookings and backlog

Bookings increased 33.1% from Quarter 2, 2020 due to a rise in general overall economic activity fueled by businesses beginning to open up to pre-pandemic levels and the impact of higher selling prices. Quarter 2, 2021 U.S. bookings increased 25.4% and Canada bookings have increased 31.2% compared to the prior year quarter. Year-to-date the U.S. bookings increased 16.9% and Canada bookings increased 21.6%.

By channel, booking rates in the distributor channel increased 31.7% in Quarter 2, 2021 versus the same quarter last year. On a direct channel basis, bookings were higher than Quarter 2, 2020 by 35.5%. Year-to-date, distributor channel bookings were higher by 15.2% and direct channel by 27.8%. The Company's market position is well anchored in both the U.S. and Canadian distribution markets as the Company continues to hold a strong market share position in our traditional markets through the distribution channel.

The Company saw a significant order backlog increase of 14.3% over Quarter 2, 2020. Late quarter quotation activity was fairly active – a positive indicator of future sales. It is expected the combination of the Company's strategic sales initiatives, service, dominant distributor footprint and new product development will support our booking rates.

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 was successful at generating an increase in its gross margin rate for Quarter 2, 2021, which was 28.6% compared to a Quarter 2, 2020 gross margin rate of 28.4%, an improvement of 0.2% of sales. The year-to-date gross margin rate was 26.7% in 2021 versus 25.8% in 2020, an increase of 0.9%. The margin rate improvement is attributed to a combination of sales mix, increased selling price realization and the favourable impact of increased manufacturing throughput on the absorption of our fixed and managed cost structures.

HPS qualified for the Canadian Emergency Wage Subsidy ("CEWS") benefit in Quarter 2, 2021 and Quarter 2, 2020 as Canadian manufactured trade sales for the quarters were lower than the 2019 comparator. The 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 current quarter the wage subsidy received for production labour was $1,595 or 1.8% of sales, 2021 year-to-date the CEWS related to production was $1,919 or 1.2% of sales. In 2020 the Quarter 2 CEWS benefit was $2,527 or 3.4%. The company did incur extraordinary operating expenses of $204 or 0.2% of sales in Quarter 2, 2021, 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.

Gross margin rate was impacted by productivity gains, material procurement and engineering cost reduction initiatives. The Company's ability to flex its manufacturing capacity demand and cost structures is fundamental for gross margin attainment. HPS remains committed to its continuous improvement program and cost reductions across the entire organization which will help offset the negative effects of manufacturing load fluctuations and/or reductions. The Company is confident that these actions going forward will support us in maximizing 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.

HPS continues to focus on aggressive price realization strategies to offset the surging commodity costs and achievement of cost reductions to support margin rates. Fluctuating commodity markets, volatile foreign exchange rates, product mix and the effect of the COVID-19 pandemic on the current global economy have, and will continue to have, substantial impact on financial results. Looking forward, our business development opportunities combined with our backlog increase provides a leading indicator of improvement, which was beginning to be evident at the end of Quarter 1, 2021 and proved to be positive in Quarter 2, 2021.

The demand for our product is growing, but sales volumes will be determined primarily by which industries and customers are expanding demand and capacity. As sales increase, the higher manufacturing throughput will have a strengthening impact on margin rates. The Company will realize growth in some markets and experience a decline in others underscoring the volatility of markets and sales demand. We are steadfast in our implementation of initiatives to manage the negative volatility impact. Our distributor footprint in North America as well as Indian market presence, cost reduction and containment, product and market breadth and multi-national manufacturing capabilities will support the business into the future.

Selling and distribution expense

Total selling and distribution expenses were $10,660 in Quarter 2, 2021 or 12.4% of sales versus $9,351 in Quarter 2, 2020 or 12.4% of sales, an increase of $1,309, although flat as a percentage of sales. Year-to-date selling and distribution expenses were $20,467 or 12.3% of sales in 2021 compared to $20,491 or 12.5% in 2020, a decrease of $24 or 0.1% of sales. The company did incur higher variable selling costs for commissions and freight expenses due to the higher sales volumes in the quarter. Quarter 2, 2021 selling and distribution expenses were partially reduced by the CEWS wage support subsidy of $238 or 0.3% of sales as compared to $386 or 0.5% in Quarter 2, 2020.

The year-over-year stability in selling and distribution expenses is a result of higher variable freight and commission expenses partially offset by a decrease in foreign exchange on U.S. dollar expenses. Year-to-date expenses were partially reduced by the CEWS wage support subsidy of $264 or 0.2% of sales as compared to $386 or 0.2% in 2020.

General and administrative expense

General and administrative expenses for Quarter 2, 2021 was $6,925 or 8.0% of sales, compared to Quarter 2, 2020 expenses of $5,560 or 7.4% of sales, an increase of $1,365 or 0.6% of sales. Additional deferred share unit compensation expenses related to higher share price, investment in human resource capital and training, along with additional provisions for doubtful accounts receivable, were offset by the CEWS wage subsidy in the amount of $511 or 0.6% of sales in the quarter as compared to $760 or 0.1 % in Quarter 2, 2020.

Year-to-date general and administrative expenses were $13,544 or 8.1% of sales in 2021, compared to $12,261 or 7.5% of sales in 2020, an increase of $1,283 or 0.6% of sales. The year-to-date CEWS government wage subsidy was $641 or 0.4% of sales in the year as compared to $760 or 1.0% in 2020.

Earnings from operations

Quarter 2, 2021 earnings from operations escalated to $7,620, an increase of $1,106 or 17.0% from $6,514 for the same quarter last year. The year-to-date earnings from operations were $11,022 in 2021 compared to $9,547 in 2020, an increase of $1,475 or 15.4%. The expansion in the quarter and year-to-date earnings from operations is mainly a result of increased sales, increased gross margin dollars, gross margin rate and higher manufacturing output. This was partially offset by higher foreign exchange expense due to rate fluctuations and increased general and administrative expenses.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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

	Quarter 2, 2021	Quarter 2, 2020	YTD 2021	YTD 2020
Net earnings	$ 4,689	$ 4,420	$ 6,987	$ 6,568
Add (Subtract):				
Income tax expense	2,145	1,838	3,039	2,821
Interest expense	519	315	624	711
Foreign exchange loss (gain)	241	(103)	357	(479)
Share of (income) loss of investment in joint venture	(7)	11	(45)	(140)
Other	33	33	60	66
Earnings from operations	$ 7,620	$ 6,514	$ 11,022	$ 9,547

Net finance and other costs

Interest expense for Quarter 2, 2021 was $519, an increase of $204 or 64.8% compared to the Quarter 2, 2020 expense of $315. Year-to-date interest cost was $624, a decrease of $87 or 12.2% when compared to the 2020 year-to-date expense of $711. Change in interest expense is a result of working capital requirements resulting in higher operating debt levels during the quarter and year-to-date.

The foreign exchange loss in Quarter 2, 2021 was $241, an increase of $344 compared to the gain of $103 in Quarter 2, 2020. The year-to-date foreign exchange loss for 2021 was $357, compared to a gain of $479 for the same period last year. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of the foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past year.

As at June 26, 2021, the Company had outstanding foreign exchange contracts in place for 17,300 Euros ("EUR") and $14,050 USD – all of which are implemented as an economic hedge against translation gains and losses on inter-company loans as well as $35,000 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS operations.

Corefficient de R.L. de C.V. ("Corefficient") had income of $7 for Quarter 2, 2021 compared to a loss of $11 for Quarter 2, 2020, a change of $18. Corefficient has generated year-to-date income of $45 in 2021 compared to income of $140 in 2020, a decline of $95.

Income taxes

Quarter 2, 2021 income tax expense was $2,145 as compared to $1,838 in Quarter 2, 2020, an increase of $307 or 16.7%. Year-to-date income tax expense was comparable at $3,039 in 2021 and $2,821 in 2020, an increase of $218.

The consolidated effective tax rate for Quarter 2, 2021 was 31.4% and Quarter 2, 2020 was 29.4%. The year-to-date effective tax rate for the first six months of 2021 was 30.3% compared to 30.0% for the same period in 2020, a slight increase of 0.3%. The changes in the effective tax rates are greatly impacted by changes in the earnings mix of the Company and the share of the loss of investment in joint venture. The Company income is generated from different tax jurisdictions and is subject to different tax rates and regulations.

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 undepreciated capital cost of property, plant and equipment.

Net earnings

Net earnings for Quarter 2, 2021 finished at $4,689 compared to net earnings of $4,420 in Quarter 2, 2020, an improvement of $269 or 6.1%. Year-to-date net earnings were $6,987 in 2021 compared to $6,568 in 2020, an increase of $419 or 6.4%. The improvement in the year-to-date earnings is a result of the increased sales and higher gross margin dollar contribution partially offset by greater general and administrative expenses and additional foreign exchange losses.

Earnings per share

Basic earnings per share were $0.40 for Quarter 2, 2021, versus $0.38 in Quarter 2, 2020, an improvement of $0.02 or 5.3%. Year-to-date basic earnings per share was $0.59 in 2021 and $0.56 in 2020, an increase of $0.03 or 5.4%.

EBITDA

EBITDA for Quarter 2, 2021 was $8,694 versus $8,447 in Quarter 2, 2020, an increase of $247 or 2.9%. Year-to-date EBITDA was $14,043 in 2021 and $14,125 in 2020, a decrease of $82 or 0.6%. Adjusted for foreign exchange gain/loss adjusted EBITDA for Quarter 2, 2021 was $8,935 versus $8,344 in Quarter 2, 2020, an increase of $591 or 7.1%. Year-to-date EBITDA was $14,400 in 2021 and $13,646 in 2020, an increase of $754 or 5.5%.

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

	Quarter 2, 2021	Quarter 2, 2020	YTD 2021	YTD 2020
Net earnings	$ 4,689	$ 4,420	$ 6,987	$ 6,568
Add:				
Interest expense	519	315	624	711
Income tax expense	2,145	1,838	3,039	2,821
Depreciation and amortization	1,341	1,874	3,393	4,025
EBITDA	$ 8,694	$ 8,447	$ 14,043	$ 14,125
Add (Subtract) :				
Foreign exchange loss (gain)	241	(103)	357	(479)
Adjusted EBITDA	$ 8,935	$ 8,344	$ 14,400	$ 13,646

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of quarterly financial information (unaudited)

Fiscal 2021 Quarters			Q1, 2021	Q2, 2021	YTD Total
Sales			$ 80,121	$ 86,071	$ 166,192
Net earnings			$ 2,298	$ 4,689	$ 6,987
Net earnings per share – basic			$ 0.19	$ 0.40	$ 0.59
Net earnings per share – diluted			$ 0.19	$ 0.40	$ 0.59
Average U.S. to Canadian exchange rate			$ 1.268	$ 1.231	$ 1.250

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 2, 2021 sales grew due to an overall improvement in general economic activity as businesses begin to resume regular activities with increased population vaccinations. This quarter however was negatively impacted by the weaker USD exchange rate and surging raw material commodity costs. While there are signs of improvement, there continues to be significant fluctuations of sales volumes in various markets, with some markets continuing to be more heavily impacted by the COVID-19 pandemic than others.

Gross margin rates for the quarter and year-to-date have increased despite escalating raw material commodity costs and the resultant lagging price increase attainment to offset these increases. The Company has implemented price increases to offset these heightened costs. The overall margin improvement can be attributed to sales mix, increased market specific pricing, increased manufacturing throughput and cost reduction initiatives. 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 half of 2021 of $357 compared to a gain of $479 in 2020.

Selling and distribution expenses have increased in the quarter due to higher variable freight and commission expenses attributed to the increased sales. General and administrative expense increase can be attributed to additional deferred share unit compensation expenses related to higher share price, investment in human resource capital and training, along with additional provisions for doubtful accounts receivable, were offset by the CEWS wage subsidy.

Corefficient, our joint venture that manufactures transformer cores, had income for the quarter of $7 in 2021 and a loss of $11 in 2020. Year-to-date the joint venture generated income of $45 for 2021 compared $140 in 2020. The joint venture performance decline was a result of decreased sales, lower manufacturing throughput and higher material costs.

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.

Capital resources and liquidity

Net cash used by operating activities for Quarter 2, 2021 was $29 versus cash generated of $7,229 in Quarter 2, 2020, a decline of $7,258. This change has been generated by an increase in cash used for working capital, primarily accounts receivable increases, relating to our increased business activity and higher income tax payments during the Quarter. Year-to-date net cash used by operating activities was $6,883 compared to cash generated of

$1,191 in 2020, a decrease of $8,074. The year-to-date decrease is a result of higher cash utilized for working capital and unrealized losses on derivatives particularly in Quarter 1 2021.

During the quarter, non-cash working capital used cash of $5,235 compared to $1,451 for the same quarter last year, an increase of $3,784. The year-to-date change in non-cash working capital was a usage of cash of $13,901 in 2021 compared to $11,298 in 2020, an increase of usage of $2,603. The year-to-date working capital changes are primarily related to an increase in accounts receivable and inventories offset by an increase in accounts payable.

Cash used in investing activities decreased by $575 from $1,441 in the first six months of 2020 to $2,016 in the same period of 2021. Capital expenditures were $480 in Quarter 2, 2021 compared to $177 for Quarter 2, 2020, an increase of $303. Year-to-date capital expenditures were $2,108 in the current year compared to $1,530 in 2020. The Company continues to invest in the areas of manufacturing processes and capabilities, information technology and new product development.

Total cash generated by financing activities for Quarter 2, 2021 was $3,994 as compared to cash used of $10,034 in Quarter 2, 2020, an increase of $14,028. The source of this change was advances of operating debt in Quarter 2, 2021 compared to repayment in Quarter 2, 2020. Year-to-date financing activities generated cash of $7,912 compared to cash used of $10,551 in the first six months of 2020.

Bank operating lines of credit as at Quarter 2, 2021 were $27,398 compared to $26,177 at the end of Quarter 2, 2020, an increase of $1,221. Bank operating lines of credit have increased $11,325 since the year-end balance of $16,073 due to invested working capital related to the increased sales and lift in business activity.

The Company's overall operating debt balance net of cash was $14,392 in Quarter 2, 2021 compared to $12,906 in Quarter 2, 2020, an increase in debt position of $1,486 primarily reflective of increased profitability.

All bank covenants continue to be met as at June 26, 2021.

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

Credit Agreement

During the quarter the Company entered into a new banking agreement which expires on June 20, 2026, consisting of a $50,000 U.S. revolving credit facility, and a 3,750 EUR overdraft facility. This new agreement provides an additional $10,000 U.S. of credit to HPS. Based on exchange rates in effect at June 26, 2021, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $67,000.

This is an unsecured 5-year committed facility that provides financing certainty for the future. The new financing better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies, and provides financing for our operational requirements and capital for our strategic initiatives.

Contractual obligations

	2021	2022	2023	2024	2025 & Thereafter	Total
Accounts payable and accrued liabilities	$ 52,680	–	–	–	–	$ 52,680
Capital expenditure purchase commitments	1,611	–	–	–	–	1,611
Bank operating lines	–	–	–	–	27,398	27,398
Lease liabilities	2,255	2,393	1,656	1,531	1,149	8,984
Total	$ 56,546	$ 2,393	$ 1,656	$ 1,531	$ 28,547	$ 90,673

Regular quarterly dividend declaration

During Quarter 2, 2021 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 payable on June 29, 2021 to shareholders of record at the close of business on June 22, 2021. The ex-dividend date was June 21, 2021. The Company has paid a cash dividend of seventeen cents ($0.17) per Class A Subordinate Voting Share and seventeen cents ($0.17) per Class B Common Share year-to-date.

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 2, 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.

Subsequent Event
Purchase of Mesta Electronics Inc. ("Mesta")

On July 23, 2021, Hammond Power Solutions Inc. completed the acquisition of Mesta Electronics Inc. ("Mesta") in the U.S., acquiring a 100% equity ownership. Mesta is involved in the design and manufacture of standard and custom active filter and induction heating products and has an excellent reputation in the industry for product quality, design and reliability.

Mesta annual revenues are approximately $5,000 CDN. The Company will operate as Mesta Electronics Inc., a subsidiary of HPS.

Mesta not only expands HPS' U.S. presence but broadens our power solutions product offering and manufacturing capabilities in power quality solutions. Management feels that by building on the strengths of both companies, this acquisition will enhance HPS' market share, and performance going forward.

The Company has not performed a preliminary purchase price allocation as the Company is in the process of doing so.

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.

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 materials, specifically copper, aluminum and electrical steel pricing as well as industry supply shortages which could impact manufacturing production. There is a risk in the ability of recouping the rapid escalating commodity costs through selling price increases expediently. This risk is mitigated through strategic supply line agreements and alliances in place with the suppliers to ensure adequate supply, competitive market pricing and implementing market selling price increases.

Coronavirus (COVID-19) – Business Disruption/ Interruption
Markets, governments and health organizations around the world are working to contain the COVID-19 pandemic ("COVID-19"). 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 shut-down 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 and unpredictable disruption to the Company's business. Our operations in Canada, the U.S. and Mexico have been designated as an "essential services" 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 and is still operating under severe economic effects of the pandemic. During thirteen of the last sixteen months the Company has seen significant reductions in sales in the U.S., Canadian and Indian markets. Looking forward, although improving, there is a guarded business optimism but some uncertainty and unpredictability of the impacts of the COVID-19 pandemic on the business climate, and governmental and health authorities' legislation. The full negative financial impact of the unprecedented pandemic will not be fully known until vaccines are widely and globally available and the economy fully recovers.

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

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's 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 U.S. have 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. The Company's 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 the Company. The Company's 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. 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 the Company 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 analyzed 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 instruments, 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 mitigated through a number of initiatives including an upgraded intrusion detection service, enhanced email security software and a more robust virus protection software.

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 12 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 2, 2021 Report.

Proposed transactions

Other than the subsequent event disclosed, the Company had no proposed transactions as at June 26, 2021. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at June 26, 2021, the Company had outstanding foreign exchange contracts in place for 17,300 EUR and $14,050 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $35,000 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, including heightened protocols during COVID-19; and
- Ability for remote work, where able, to help manage school closures and health concerns.

While COVID-19 continues to have an impact on the global economy, there are signs of improvement as many countries begin to return to pre-pandemic business practices. The full extent of the impact or complete timeline continues to be unknown and 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 to excel and sales volumes are beginning to return back to pre-pandemic levels. While we have seen improvements in business activity and demand, we have also experienced rapidly rising commodity costs as well as supply shortages. Based on the combination of these factors, the Company expects to see continued growth in revenues while seeing a continuation of increases in commodity cost and some volatility in manufacturing capacity utilization, which all effect HPS' financial performance for the remainder of the year. Our Canadian entities received a government subsidy for eligible wages in Quarter 2, 3 and 4, 2020 and Quarter 1 and 2, 2021 which supported our Canadian staff employment. The wage subsidy has been extended longer into 2021, currently open until September 2021 and the Company will continue to monitor eligibility and is cognizant that our growing revenue may limit HPS' eligibility in the future.

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, unpredictable time.

As an essential service, the Company has continued to remain open and producing during the entire pandemic to ensure our customers have the transformers they require 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 the Enterprise Resource System ("ERP") 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. During the quarter the ERP system went live in our operation in Granby, Quebec. This implementation project began in Quarter 1, 2020 and represents the Company's final operation to be converted to our ERP platform. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

During Quarter 2, 2021 the Company completed an amendment and extension of its credit facility for an additional five-year period. This agreement continues to secure HPS' ability to fund operational requirements as well as financing ability for strategic initiatives.

HPS has modern manufacturing facilities throughout the world and this continues to be enhanced through our committed capital investment. We continue 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 flexibly.

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, extremely 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;
- 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 our employees well-being and growth and deliver long-term value to all stakeholders.

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 Second 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	17,810	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	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Sales	91,502	90,653	88,420	75,393	78,115	80,169	80,121	88,277
Earnings from operations	5,471	5,862	3,033	6,514	5,447	7,047	3,402	7,620
EBITDA	7,302	7,651	5,678	8,447	7,466	7,891	5,349	8,694
Net earnings	3,595	2,152	2,148	4,420	3,462	4,032	2,298	4,689
Total assets	206,586	214,953	212,929	197,895	203,443	189,394	192,395	208,865
Non-current liabilities	9,947	11,271	9,729	9,039	8,558	8,329	7,546	7,018
Total liabilities	96,870	105,186	97,156	81,375	87,215	75,478	77,559	81,375
Total shareholders' equity attributable to equity holders of the Company	109,716	109,767	115,773	116,520	116,228	113,916	114,836	117,174
Operating debt, net of cash	(22,678)	(9,326)	(18,356)	(12,906)	(4,790)	(1,278)	(11,754)	(14,392)
Cash (used) provided by	(1,460)	16,447	(6,038)	7,229	10,419	8,073	(6,854)	(29)
Basic earnings per share	0.27	0.27	0.18	0.38	0.30	0.34	0.19	0.40
Diluted earnings per share	0.27	0.27	0.18	0.38	0.30	0.34	0.19	0.40
Dividends declared and paid	821	823	998	999	998	998	1,002	1,002
Average exchange rate (USD$=CAD$)	1.320	1.320	1.339	1.391	1.335	1.309	1.268	1.231
Book value per share	9.33	9.36	9.86	9.92	9.90	9.70	9.78	9.94

(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	
	June 26, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 13,006	$ 14,795
Accounts receivable	72,352	53,078
Inventories	52,804	49,206
Income taxes receivable	644	488
Prepaid expenses and other assets	3,314	2,687
Total current assets	142,120	120,254
Non-current assets		
Long-term lease and note receivable	2,932	3,201
Property, plant and equipment (note 4)	28,936	30,372
Investment in properties	3,401	3,649
Investment in joint venture (note 5)	13,482	13,300
Deferred tax assets	1,559	1,809
Intangible assets	5,928	5,901
Goodwill	10,507	10,908
Total non-current assets	66,745	69,140
Total assets	$ 208,865	$ 189,394
Liabilities		
Current liabilities		
Bank operating lines of credit (note 6)	$ 27,398	$ 16,073
Accounts payable and accrued liabilities	52,680	46,179
Income tax payable	697	942
Provisions	1,801	1,811
Current portion of lease liabilities (note 7)	2,097	2,144
Total current liabilities	$ 84,673	$ 67,149
Non-current liabilities		
Provisions	250	317
Deferred tax liabilities	612	836
Long-term portion of lease liabilities (note 7)	6,156	7,176
Total non-current liabilities	7,018	8,329
Total liabilities	$ 91,691	$ 75,478
Shareholders' Equity		
Share capital	14,886	14,491
Contributed surplus	2,432	2,498
Accumulated other comprehensive income (note 9)	(535)	1,519
Retained earnings	100,391	95,408
Total shareholders' equity	$ 117,174	113,916
Subsequent event (note 15)		
Total liabilities and shareholders' equity	$ 208,865	$ 189,394

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Earnings

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

	Quarter Ending		Six Months Ending	
	June 26, 2021	**June 27, 2020**	**June 26, 2021**	**June 27, 2020**
Sales (note 10)	$ 88,277	$ 75,393	$ 168,398	$ 163,813
Cost of sales (note 11)	63,072	53,968	123,365	121,514
Gross margin	25,205	21,425	45,033	42,299
Selling and distribution (note 11)	10,660	9,351	20,467	20,491
General and administrative (note 11)	6,925	5,560	13,544	12,261
	17,585	14,911	34,011	35,752
Earnings from operations	7,620	6,514	11,022	9,547
Finance and other costs				
Interest expense	519	315	624	711
Foreign exchange loss (gain)	241	(103)	357	(479)
Share of (income) loss of investment in joint venture (note 5)	(7)	11	(45)	(140)
Other	33	33	60	66
Net finance and other costs	786	256	996	158
Earnings before income taxes	6,834	6,258	10,026	9,389
Income tax expense	2,145	1,838	3,039	2,821
Net earnings	$ 4,689	$ 4,420	$ 6,987	$ 6,568
Earnings per share				
Basic earnings per share	$ 0.40	$ 0.38	$ 0.59	$ 0.56
Diluted earnings per share	$ 0.40	$ 0.38	$ 0.59	$ 0.56

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Quarter Ending		Six Months Ending	
	June 26, 2021	June 27, 2020	**June 26, 2021**	June 27, 2020
Net earnings	$ 4,689	$ 4,420	$ 6,987	$ 6,568
Other comprehensive income				
Foreign currency translation differences for foreign operations (note 9)	(1,349)	(2,674)	(2,054)	2,182
Total comprehensive income for the period	$ 3,340	$ 1,746	$ 4,933	$ 8,750

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the six months ended June 26, 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	–	–	–	6,987	6,987
Other comprehensive income					
Foreign currency translation differences related to joint venture (note 5)	–	–	137	–	137
Foreign currency translation differences (note 9)	–	–	(2,191)	–	(2,191)
Total other comprehensive loss	–	–	(2,054)	–	(2,054)
Total comprehensive income for the year	–	–	(2,054)	6,987	4,933
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(2,004)	(2,004)
Stock options exercised (note 8)	395	(66)	–	–	329
Total transactions with shareholders	395	(66)	–	(2,004)	(1,675)
Balance at June 26, 2021	$ 14,886	$ 2,432	$ (535)	$ 100,391	$ 117,174

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the six months ended June 27, 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	–	–	–	6,568	6,568
Other comprehensive loss					
Foreign currency translation differences related to joint venture (note 5)	–	–	709	–	709
Foreign currency translation differences (note 9)	–	–	1,473	–	1,473
Total other comprehensive income	–	–	2,182	–	2,182
Total comprehensive income for the year	–	–	2,182	6,568	8,750
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(1,997)	(1,997)
Total transactions with shareholders	–	–	–	(1,997)	(1,997)
Balance at June 27, 2020	$ 14,491	$ 2,498	$ 9,621	$ 89,910	$ 116,520

*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)

	Six Months Ending June 26, 2021	Six Months Ending June 27, 2020
Cash flows from operating activities		
Net earnings	$ 6,987	$ 6,568
Adjustments for:		
Share of income of investment in joint venture	(45)	(140)
Amortization of property, plant and equipment	3,115	3,691
Amortization of intangible assets	278	334
Provisions	(77)	(130)
Interest expense	624	711
Income tax expense	3,039	2,821
Change in unrealized (loss) gain on derivatives included within other assets	(3,463)	812
	10,458	14,667
Change in non-cash working capital (note 14)	(13,901)	(11,298)
Cash generated in operating activities	(3,443)	3,369
Income tax paid	(3,440)	(2,178)
Net cash (used by) generated by operating activities	(6,883)	1,191
Cash flows from investing activities		
Receipt of note and lease receivable	94	92
Acquisition of property, plant and equipment (note 4)	(2,108)	(1,530)
Acquisition of intangible assets	(2)	(3)
Cash used in investing activities	(2,016)	(1,441)
Cash flows from financing activities		
Advances (repayments)of borrowings	11,325	(6,520)
Issue of common shares	329	–
Payment of lease liabilities (note 7)	(1,241)	(1,323)
Cash dividends paid (note 8)	(2,004)	(1,997)
Interest paid	(497)	(711)
Cash generated by (used in) financing activities	7,912	(10,551)
Foreign exchange on cash held in a foreign currency	(802)	701
Decrease in cash	(1,789)	(10,100)
Cash and cash equivalents at beginning of period	14,795	23,371
Cash and cash equivalents at end of period	$ 13,006	$ 13,271

See accompanying notes to condensed consolidated interim financial statements

Six months ended June 26, 2021 and June 27, 2020 (tabular 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 Chartered Professional Accountants of Canada ("CPA Canada") 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 second quarter ended June 26, 2021 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily 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 July 29, 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, with the exception of items noted below:

Changes to accounting policies

Cloud computing arrangement costs

On April 28, 2021 the IFRS Interpretations Committee issued a final agenda decision on cloud computing arrangements. The agenda aimed to clarify guidance on how customers should account for implementation costs incurred in a software-as-a-service arrangement. This further builds upon the March 2019 agenda which distinguished hosting arrangements in which the customer receives a software intangible asset from those that do not, and therefore are service contracts.

Six months ended June 26, 2021 and June 27, 2020 (amounts in thousands of dollars except share and per share amounts)

The Company adopted this agenda decision on a retrospective basis. The adoption of the amendments did not have a material impact on the financial statements.

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:

	June 26, 2021	December 31, 2020
Property, plant and equipment owned	$ 23,181	$ 23,648
Right-of-use assets (note 7)	5,755	6,724
	$ 28,936	$ 30,372

The Group had acquisitions of property, plant and equipment owned for the six months ended June 26, 2021 in the amount of $2,108,000 of machinery and equipment (2020 - $1,530,000).

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:

	June 26, 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	(3,188)	(3,233)
Foreign currency translation differences related to the joint venture	(3,353)	(3,490)
	$ 13,482	$ 13,300

Selected financial information relating to Corefficient is as follows:

	June 26, 2021	December 31, 2020
Cash	$ 1,251	$ 3,553
Trade and other receivables	13,961	8,155
Inventories	3,062	2,932
Other current assets	130	89
Total current assets	$ 18,404	$ 14,729
Non-current assets	14,528	16,425
Total assets	$ 32,932	$ 31,154
Current liabilities	$ 9,428	$ 6,508
Non-current liabilities	299	746
Total liabilities	$ 9,727	$ 7,254

Six months ended June 26, 2021 and June 27, 2020 (amounts in thousands of dollars except share and per share amounts)

	Six Months Ended	
	June 26, 2021	June 27, 2020
Revenue	$ 27,576	$ 29,440
Income for the period	79	255

The income for the six months ended June 26, 2021 includes depreciation and amortization expense of $1,358,000 (Quarter 2 2020 - $1,616,000), interest expense of $2,000 (Quarter 2 2020 – $30,000) and an income tax expense of $nil (Quarter 2 2020 –$5,000) related to Corefficient.

6. Bank operating lines of credit

During the quarter the Company entered into a new banking agreement which expires on June 20, 2026, consisting of a $50,000,000 U.S. revolving credit facility, and a 3,750,000 EUR overdraft facility. This new agreement provides an additional $10,000,000 U.S. of credit to HPS. Based on exchange rates in effect at June 27, 2021, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $67,000,000.

This is an unsecured 5-year committed facility that provides financing certainty for the future. The new financing better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies, and provides financing for our operational requirements and capital for our strategic initiatives.

7. Lease 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	(573)	(146)	(4)	(723)
Effect of movements in exchange rates	(291)	(10)	–	(301)
Balance at June 26, 2021	$ 5,323	$ 428	$ 4	$ 5,755

Maturity analysis – contractual undiscounted cash flows	**June 26, 2021**	December 31, 2020
Less than one year	$ 2,255	$ 2,719
One to five years	6,206	7,017
More than five years	523	705
Total undiscounted lease liabilities	$ 8,984	$ 10,441
Less: effect of discounting	$ (731)	$ (1,121)
Lease liabilities included in the statement of financial position	$ 8,253	$ 9,320
Current	$ 2,097	$ 2,144
Non-current	$ 6,156	$ 7,176

Six months ended June 26, 2021 and June 27, 2020 (amounts in thousands of dollars except share and per share amounts)

	Six Months Ended	
Amounts recognized in statement of operations	**June 26, 2021**	June 27, 2020
Interest on lease liabilities	$ 127	$ 179

	Six Months Ended	
Amounts recognized in statement of cash flows	**June 26, 2021**	June 27, 2020
Payment of lease liabilities	$ 1,241	$ 1,323

8. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Six Months Ended	
	June 26, 2021	June 27, 2020
17 cents per Class A subordinate voting shares (2020: 17 cents)	$ 1,532	$ 1,525
17 cents per Class B common shares (2020: 17 cents)	472	472
	$ 2,004	$ 1,997

(b) Stock option plan

During the six months ended June 26, 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 six months ended June 27, 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 six months ended June 26, 2021, was as follows:

	Number of DSUs	Closing Share Price
Balance at January 1, 2021	160,534	$ 8.47
DSUs issued	17,498	9.25
DSUs exercised	(20,941)	10.66
Balance at June 26, 2021	157,091	$ 10.95

An expense of $501,000 (2020 – recovery of $31,000) for the six months ended June 26, 2021, was recorded in general and administrative expenses. The liability of $1,720,000 (December 31, 2020 - $1,360,000) related to these DSUs is included in accounts payable and accrued liabilities.

9. 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 six months ended June 26, 2021 was $2,054,000 (2020 –income of $2,182,000), of which $2,191,000 (2020 - $1,473,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance of accumulated other comprehensive loss of $535,000 (June 29, 2020 – accumulated other comprehensive income of $8,517,000).

Six months ended June 26, 2021 and June 27, 2020 (amounts in thousands of dollars except share and per share amounts)

10. Sales

	Three Months Ending		Six Months Ending	
	June 26, 2021	June 27, 2020	**June 26, 2021**	June 27, 2020
Canada	$ 32,667	$ 21,922	$ 60,468	$ 49,266
United States and Mexico	53,053	51,892	99,558	108,233
India	2,557	1,579	8,372	6,314
	$ 88,277	$ 75,393	$ 168,398	$ 163,813

As at June 26, 2021, the Company had contract liabilities of $883,000 (December 31, 2020 - $218,000).

11. Government subsidy

The Government of Canada implemented the Canadian 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 pandemic. In the first six months of 2021, the Company has qualified for subsidy payments. The subsidy amounts for the six months ended June 26, 2021 have been recorded as a reduction in expenses as follows: cost of sales $1,919, selling and distribution $264 and general and administrative expenses $641 for a total of $2,824. The subsidy amounts for the six months ended June 27, 2020 were recorded as a reduction in expenses as follows: cost of sales $2,527, selling and distribution $386 and general and administrative expenses $822 for a total of $3,735.

12. Related party transactions

Arathorn Investments Inc. beneficially owns 2,778,300 (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 (2020 – 1,063,152) Class A subordinate voting shares of the Company, representing approximately 11.9% (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 2 2020– $327,000).

13. Financial Instruments

Fair value

As at June 26, 2021 the Group has recognized a net unrealized gain of $1,115,000 representing the fair value of forward foreign exchange contracts, comprised of an asset within prepaids and other assets. As at June 27, 2020 the Group has recognized a net unrealized loss of $2,348,000, comprised of the obligation recognized within accounts payable and accrued liabilities.

Six months ended June 26, 2021 and June 27, 2020 (amounts in thousands of dollars except share and per share amounts)

14. Change in operating working capital

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

	Six Months Ending			
		June 26, 2021		June 27, 2020
Accounts receivable	$	(19,274)	$	1,294
Inventories		(3,598)		2,154
Prepaid expenses		871		753
Accounts payable and accrued liabilities		8,453		(15,322)
Provisions		–		(752)
Foreign exchange		(353)		575
	$	(13,901)	$	(11,298)

15. Subsequent event

On July 23, 2021, Hammond Power Solutions Inc. completed the acquisition of Mesta Electronics Inc. ("Mesta") in the United States, acquiring a 100% equity ownership. Mesta is involved in the design and manufacture of standard and custom active filter and induction heating products and has an excellent reputation in the industry for product quality, design and reliability.

Mesta's annual revenues are approximately $5,000,000 CDN. The Company will operate as Mesta Electronics Inc., a subsidiary of HPS.

Mesta not only expands HPS' U.S. presence but broadens our product offering and manufacturing capabilities in power quality solutions. Management feels that by building on the strengths of both companies, this acquisition will enhance HPS' market share, and performance going forward.

The Company has not performed a preliminary purchase price allocation as the Company is in the process of doing so.

HPS Offices, Manufacturing Facilities and Warehouse Locations

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Corporate Information

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Chairman of the Board and
Chief Executive Officer

Richard Vollering
Corporate Secretary and
Chief Financial Officer

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

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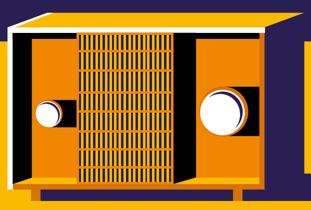
The Hammond Museum of Radio is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment.



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