# Q3 Report

# 2021

For the nine months ended September 25, 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,

I am pleased to present our Quarter 3, 2021 financial results. I am also very proud of how Hammond Power Solutions("HPS") is performing in one of the most challenging times. In the past forty-five years, we have never experienced the material supply shortages and logistical issues that we and the rest of the manufacturing world are currently dealing with. Some companies are literally running out of materials to build their products. Logistical delays and the cost of shipping products and raw materials in containers from Asia and other parts of the world to North America are only making matters worse.

Despite these recent challenges, we have been able to deliver solid growth in both sales and profitability. As the year has progressed, our top line is starting to reflect the three price increases that we implemented due to the most significant rise in material costs for core steel, copper, and aluminum in decades. Even though we've been more aggressive than ever before, we have not been able to increase our prices fast enough to reflect our cost increases as well as apply them to our sizeable backlog from the beginning of the year. This relationship is reflected in lower margins over last year, offset by improved factory efficiencies from the higher volumes going through our plants and a more favourable product mix. At the same time, we have been hit by a perfect storm of business opportunities. Multiple smaller competitors have been unable to acquire enough core steel to service the needs of their customers and this business has been shifting to HPS. Sales through our expanded distributor network in the United States (U.S.) have been growing at the highest rate ever seen as the U.S. economy recovers from the pandemic. In addition, we are seeing significant growth and future opportunities in sectors such as oil and gas, mining and data centers. As the global economy starts to recover, there is renewed export activity from our U.S. based Original Equipment Manufacturers ("OEMs") who ship their products abroad.

We are confident that this positive momentum will continue into the year ahead as demand and activity continues to rebound from the pandemic lows of 2020. We continue to be affected by periodic material supply limitations as well as longer lead times on components and products coming from China, Russia and India, yet we are hopeful that most of these issues will subside over the next eight months as ports work through the backlog of containers on both sides of the oceans and manufacturing capacities rise to pre-pandemic levels. These are very challenging times, but there is however, a silver lining as our consistent and decades-long strategy of diversity in geography, markets, channels and products along with the advantages of being the largest dry type transformer manufacturer in North America, HPS is well poised to weather the storm and stay afloat.

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 nine months ended September 25, 2021, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2021. This information is based on Management’s knowledge as at November 1, 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 third 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 September 25, 2021 and September 26, 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 September 25, 2021 were $95,526, an increase of $17,411 or 22.3% from Quarter 3, 2020 sales of $78,115. The increase in sales was driven by a combination of increased sales volume and higher selling price realization, partially offset by a weaker U.S. dollar relative to 2020. Sales volume increased in the quarter as a result of our continued focus on growing sales through our U.S. distribution network and a strengthening economy. The realized selling price increases in the third quarter and prior quarters were in response to rapidly rising material input cost increases, which themselves are the result of upward global pressure on commodity and logistics costs. The increase in sales 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 $21,996 or 9.1% to $263,924 compared to $241,928 in 2020.

Sales in the United States ("U.S.") stated in Canadian dollars increased by $15,730 or 34.5%, finishing at $61,338 for Quarter 3, 2021 compared to $45,608 in Quarter 3, 2020. Year-to-date U.S. sales were $160,896 in 2021 and $153,841 in 2020, an increase of $7,055 or 4.6%.

Third quarter sales were negatively impacted by a 5.3% weaker U.S. dollar ("USD") $1.00 USD = $1.26 Canadian dollar ("CAD") compared with $1.00 USD = $1.33 CAD in Quarter 3, 2020. Year-to-date sales have been negatively impacted by a 7.4% weaker U.S. dollar - $1.00 USD = $1.25 CAD compared against $1.00 USD = $1.35 CAD in 2020. These significant fluctuations mask the improvement in USD sales for 2021 compared to 2020.

U.S. sales, when stated in U.S. dollars were $48,815 in Quarter 3, 2021, compared to Quarter 3, 2020 of $34,174, an increase of $14,641 or 42.8%. Year-to-date U.S. sales stated in U.S. dollars were $128,580 in 2021 compared to $113,571 in 2020, an increase of $15,009 or 13.2%. The sales increase in the third quarter of 2021 is a result of increases in the North American Electrical Distributor ("NAED") channel, motor control, specialty and mining markets.

Canadian sales were $29,473 for the quarter, consistent with Quarter 3, 2020 sales of $28,833, an increase of $640 or 2.2%. Year-to-date Canadian sales were $89,941 in 2021 compared to $78,099 in 2020, growth of $11,842 or 15.2%. Canadian sales experienced improvements in a number of markets this quarter compared to the same quarter last year, specifically NAED and capital equipment, partially offset by a decline in the medical equipment market.

Indian sales for Quarter 3, 2021 finished at $4,715 versus $3,674 in Quarter 3, 2020, an increase of $1,041 or 28.3%. The prior year shipments were lower due to a government imposed COVID-19 pandemic lockdown of the country during the second and third quarters. Year-to-date Indian sales were $13,087 in 2021 compared to $9,988 in 2020, an increase of $3,099 or 31.0%. The severity of the pandemic and resulting lockdowns is subsiding in India, and we are beginning to see activity improve as a result.

Quarter 3, 2021 sales by geographic segment were U.S. sales of 64.2% (Quarter 3, 2020 – 58.4 %) of total sales, Canadian sales of 30.9% (Quarter 3, 2020 – 36.9 %), and Indian sales of 4.9% (Quarter 3, 2020 – 4.7%). Quarter 3, 2021. Year-to-date sales by geographic segment were U.S. sales of 60.9% (2020 – 63.6 %) of total sales, Canadian sales of 34.1% (2020 – 32.3 %), and Indian sales of 5.0% (2020 – 4.1 %).

Quarter 3, 2021 was an outstanding quarter in terms of sales dollars. As the number of vaccinated individuals within North America and India increase, the levels of restrictions and closures have decreased. The trend began in Quarter 2, 2021 when sales activity started to return to pre-pandemic levels and in some markets is now at record levels. Specifically, the NAED market and Original Equipment Manufacturer ("OEM") channels continue to strengthen and positively impact HPS' sales. In addition to the higher volumes, significant industry-wide material and logistical cost increases have required us to respond by increasing our selling prices several times this year, contributing to higher 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. During the pandemic HPS continued to grow its market share through distributor conversions and this initiative is resulting in strong returns.

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 executed through its business development activities, vertical integration strategies and capital investment. The ability to continue to accelerate revenue growth is also a result of organic customer diversity, new customer additions, diverse manufacturing capabilities and expanded product offerings. 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 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.

### Backlog

The Company saw a significant order backlog increase of 28.8% over Quarter 3, 2020. A portion of this backlog relates to material shortages and supply constraints which are expected to continue throughout the rest of 2021 and into 2022. 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. Bookings and backlog are subject to exchange rates, customer cancellations, and orders in the backlog may take several months to ship, depending on customer requirements.

### Gross margin

The Quarter 3, 2021 gross margin was 26.8% compared to a Quarter 3, 2020 gross margin rate of 27.5%, a decline of 0.7% of sales. The year-to-date gross margin rate was 26.7% in 2021 versus 26.4% in 2020, an increase of 0.3%. The margin rate decline for the quarter is attributed to a combination of challenges with selling price realization, decrease in the Canadian Emergency Wage Subsidy ("CEWS") benefit and volatile rises in costs causing price increase timing to be difficult to predict. The year-to-date margin has been favourably impacted by product mix and the favourable impact of increased manufacturing throughput on the absorption of our fixed and managed cost structures. Generally, price increases implemented during the year have enabled us to maintain our gross margins, although the timing of increases is not always perfectly aligned to the corresponding cost increases.

HPS qualified for the CEWS benefit in Quarter 3, 2021 and Quarter 3, 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 the COVID-19 pandemic. During the current quarter, the wage subsidy received for production labour was $505 or 0.5% of sales and year-to-date CEWS related to production, was $2,425 or 0.9% of sales. In 2020, the Quarter 3 CEWS benefit was $2,057 or 2.6%, year-to-date was $4,584 or 1.9%. The company did incur additional pandemic-related operating expenses of $210 or 0.1% of sales in Quarter 3, 2021 and $666 or 0.3% year-to-date. In 2020, these expenses were $287 or 0.4% of sales in the quarter, and $1,576 or 0.7% of sales year-to-date. These expenses relate to wages paid for suspended operational employees, non-productive wage support for "at risk" employees, employee transportation, increased cleaning, sanitation and personal protective equipment expenses for the safety of its employees.

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. HPS continues to take action with responsive price realization strategies to offset the effect of surging and volatile commodity costs as well as the achievement of cost reductions to support margin rates. The Company is also focusing on procuring sufficient materials in order to meet sales demand, as there are worldwide shortages on certain components of our products. HPS' strong supplier relationships will be an asset in addressing this challenge.

The demand for our product is continuing to grow, but sales volumes will be determined primarily by which industries and customers are expanding demand and capacity. As sales continue to increase, the higher manufacturing throughput will have a strengthening 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. Gross margin rates are 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 increasing commodity and material costs. The Company is certain 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 moderate gross margin volatility.

Looking forward, our business development opportunities combined with our backlog increase support the future volume sales growth as we have experienced throughout 2021. The Company is steadfast in its implementation of initiatives to manage volatility in its markets, channels and the economy. The Company's distributor footprint in North America along with its Indian market presence, cost reduction and containment, product and market breadth and multi-national manufacturing capabilities will support the business.

**Selling and distribution expense**

Selling and distribution expenses were $11,433 in Quarter 3, 2021 or 12.0% of sales versus $9,524 in Quarter 3, 2020 or 12.2% of sales, an increase of $1,909 but a decrease of 0.2% of sales. Year-to-date selling and distribution expenses were $31,900 or 12.1% of sales in 2021 compared to $30,015 or 12.4% in 2020, an increase of $1,885 but a decrease of 0.3% of sales. The company incurred higher variable selling costs for commissions and freight expenses due to the higher sales volumes in the quarter and year-to-date. Quarter 3, 2021 selling and distribution expenses were partially reduced by the CEWS wage support subsidy of $83 or 0.1% of sales as compared to $310 or 0.4% in Quarter 3, 2020. Year-to-date expenses were partially reduced by the CEWS wage support subsidy of $346 or 0.1% of sales as compared to $696 or 0.3% in 2020.

**General and administrative expense**

General and administrative expenses for Quarter 3, 2021 were $8,222 or 8.6% of sales, compared to Quarter 3, 2020 expenses of $6,525 or 8.4% of sales, an increase of $1,697 or 0.2% of sales. Year-to-date general and administrative expenses were $21,766 or 8.2% of sales in 2021, compared to $18,786 or 7.8% of sales in 2020, an increase of $2,980 or 0.4% of sales. The quarter and year-to-date increases are attributed to additional deferred share unit compensation expenses related to higher share price and investment in human resource capital and training. These higher expenses were offset by the CEWS wage subsidy in the amount of $179 or 0.2% of sales in the quarter as compared to $657 or 0.8 % in Quarter 3, 2020. The year-to-date CEWS government wage subsidy was $820 or 0.3% of sales compared to $1,479 or 0.6% in 2020.

**Earnings from operations**

Quarter 3, 2021 earnings from operations were $5,909, an increase of $462 or 8.5% from $5,447 for the same quarter last year. The year-to-date earnings from operations were $16,931 in 2021 compared to $14,994 in 2020, an increase of $1,937 or 12.9%. The improvement in the quarterly earnings from operations is the result of increased sales, increased gross margin dollars, despite the decreased gross margin rate, and higher manufacturing output. This was partially offset by increased general and administrative expenses.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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

| | Quarter 3, 2021 | Quarter 3, 2020 | YTD 2021 | YTD 2020 |
|---|---|---|---|---|
| Net earnings | $ 3,948 | $ 3,462 | $ 10,935 | $ 10,030 |
| Add (Subtract): | | | | |
| Income tax expense | 1,546 | 1,650 | 4,585 | 4,471 |
| Interest expense | 309 | 240 | 933 | 951 |
| Foreign exchange loss (gain) | 75 | (45) | 432 | (524) |
| Share of (income) loss of investment in joint venture | (2) | 107 | (47) | (33) |
| Other | 33 | 33 | 93 | 99 |
| Earnings from operations | $ 5,909 | $ 5,447 | $ 16,931 | $ 14,994 |

**Net finance and other costs**

Interest expense for Quarter 3, 2021 was $309, an increase of $69 or 28.8% compared to the Quarter 3, 2020 expense of $240. Year-to-date interest cost was $933, a decrease of $18 or 1.9% when compared to the 2020 year-to-date expense of $951. The change in the 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 3, 2021 was $75, an increase of $120 compared to the gain of $45 in Quarter 3, 2020. The year-to-date foreign exchange loss for 2021 was $432, compared to a gain of $524 for the same period last year. 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 the foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past year.

As at September 25, 2021, the Company had outstanding foreign exchange contracts in place for 17,350 Euros ("EUR") and $14,500 USD – all of which are implemented as an economic hedge against translation gains and losses on inter-company loans as well as $38,000 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 $2 for Quarter 3, 2021 compared to a loss of $107 for Quarter 3, 2020, a change of $109. Year-to-date Corefficient has generated income of $47 in 2021 compared to $33 in 2020, an increase of $14.

**Income taxes**

Quarter 3, 2021 income tax expense was $1,546 as compared to $1,650 in Quarter 3, 2020, a decrease of $104 or 6.3%. Year-to-date income tax expense was slightly higher at $4,585 in 2021 and $4,471 in 2020, an increase of $114.

The consolidated effective tax rate for Quarter 3, 2021 was 28.1% and Quarter 3, 2020 was 32.3%, a decrease of 4.2%. The year-to-date effective tax rate for the first nine months of 2021 was 29.5% compared to 30.8% for the same period in 2020, a decrease of 1.3%. The changes in the effective tax rates are greatly impacted by changes in the earnings mix of the Company and the share of the gain on investment in the 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 3, 2021 finished at $3,948 compared to net earnings of $3,462 in Quarter 3, 2020, an improvement of $486 or 14.0%. Year-to-date net earnings were $10,935 in 2021 compared to $10,030 in 2020, an increase of $905 or 9.0%. The improvement in the quarter and 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.

### Earnings per share

The basic earnings per share were $0.34 for Quarter 3, 2021, versus $0.30 in Quarter 3, 2020, an improvement of $0.04 or 13.3%. The year-to-date basic earnings per share was $0.93 in 2021 and $0.86 in 2020, an increase of $0.07 or 8.1%.

### EBITDA

EBITDA for Quarter 3, 2021 was $7,378 versus $7,466 in Quarter 3, 2020, a decrease of $88 or 1.2%. Year-to-date EBITDA was $21,421 in 2021 and $21,591 in 2020, a decrease of $170 or 0.8%. Adjusted for foreign exchange gain/loss adjusted EBITDA for Quarter 3, 2021 was $7,453 versus $7,421 in Quarter 3, 2020, an increase of $32 or 0.4%. Year-to-date adjusted EBITDA was $21,853 in 2021 and $21,067 in 2020, an increase of $786 or 3.7%.

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

| | **Quarter 3, 2021** | Quarter 3, 2020 | YTD 2021 | YTD 2020 |
|---|---|---|---|---|
| Net earnings | $ 3,948 | $ 3,462 | $ 10,935 | $ 10,030 |
| Add: | | | | |
| Interest expense | 309 | 240 | 933 | 951 |
| Income tax expense | 1,546 | 1,650 | 4,585 | 4,471 |
| Depreciation and amortization | 1,575 | 2,114 | 4,968 | 6,139 |
| EBITDA | $ 7,378 | $ 7,466 | $ 21,421 | $ 21,591 |
| Add (Subtract) : | | | | |
| Foreign exchange loss (gain) | 75 | (45) | 432 | (524) |
| Adjusted EBITDA | $ 7,453 | $ 7,421 | $ 21,853 | $ 21,067 |

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

### Summary of quarterly financial information (unaudited)

| Fiscal 2021 Quarters | | Q1, 2021 | Q2, 2021 | Q3, 2021 | YTD Total |
|---|---|---|---|---|---|
| Sales | | $ 80,121 | $ 88,277 | $ 95,526 | $ 263,924 |
| Net earnings | | $ 2,298 | $ 4,689 | $ 3,948 | $ 10,935 |
| Net earnings per share – basic | | $ 0.19 | $ 0.40 | $ 0.34 | $ 0.93 |
| Net earnings per share – diluted | | $ 0.19 | $ 0.40 | $ 0.34 | $ 0.93 |
| Average U.S. to Canadian exchange rate | | $ 1.268 | $ 1.231 | $ 1.257 | $ 1.252 |
| **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 3, 2021 sales were recorded at record levels. A portion of the sales escalation is due to price increases however, the Company has also experienced volume growth over previous quarters. There has been an upward trend over the past six quarters due to an overall improvement in general economic activity. This quarter was negatively impacted by the weaker USD exchange rate and ongoing surging raw material commodity costs. While there are strong indicators 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 has decreased, while year-to-date has increased, despite escalating raw material commodity costs and the resultant lagging price increase attainment to offset these increases. The Company has implemented a number of price increases to offset these heightened costs. The year-to-date 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 the effects of the COVID-19 pandemic.

Fluctuations in exchange rates resulted in a loss in foreign exchange in the first nine months of 2021 of $432 compared to a gain of $524 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 and strategic investment in human resource capital and training were offset by the CEWS wage subsidy.

Corefficient, our joint venture that manufactures transformer cores, had income for the quarter of $2 in 2021 and a loss of $107 in 2020. Year-to-date the joint venture generated income of $47 for 2021 compared $33 in 2020. The joint venture performance has struggled due to higher material costs, decreased sales and lower manufacturing throughput.

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 generated by operating activities for Quarter 3, 2021 was $7,430 versus $10,419 in Quarter 3, 2020, a decline of $2,989. In the quarter, cash from operations before changes in working capital and tax payments increased versus prior year. This was offset by an increase in cash used for working capital, primarily relating to our increased business activity during the Quarter. Year-to-date net cash generated by operating activities was $547 compared to cash generated of $11,610 in 2020, a decrease of $11,063. The year-to-date decrease is a result of higher cash utilized for working capital.

During the quarter, non-cash working capital used cash of $323 compared to cash generated of $7,131 for the same quarter last year, an increase of $7,454. The year-to-date change in non-cash working capital was a usage of cash of $14,224 in 2021 compared to $4,167 in 2020, an increase of usage of $10,057. 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 increased by $6,880 from $2,005 in the first nine months of 2020 to $8,885 in the same period of 2021. During the Quarter, the Company acquired 100% equity ownership of Mesta Electronics Inc. ("Mesta") for $5,029. Capital expenditures were $1,741 in Quarter 3, 2021 compared to $472 for Quarter 3, 2020, an increase of $1,269. Year-to-date capital expenditures were $3,849 in the current year compared to $2,002 in 2020. The Company continues to invest in the areas of manufacturing processes and capabilities, information technology and new product development.

Total cash used in financing activities for Quarter 3, 2021 was $5,940 as compared to $723 in Quarter 3, 2020, an increase of $5,217. The source of this change was repayment of operating debt in Quarter 3, 2021 compared to repayment in Quarter 3, 2020. Year-to-date financing activities generated cash of $2,006 compared to cash used of $11,182 in the first nine months of 2020.

Bank operating lines of credit as at Quarter 3, 2021 were $23,357 compared to $27,322 at the end of Quarter 3, 2020, a decrease of $3,965. The bank operating lines of credit have increased $7,284 since the year-end balance of $16,073 due to invested working capital related to the increased business activity and the Mesta acquisition.

The Company's overall operating debt balance net of cash was $15,399 in Quarter 3, 2021 compared to $4,790 in Quarter 3, 2020, an increase in debt position of $10,609.

All bank covenants continue to be met as at September 25, 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 second 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 September 25, 2021, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $69,000.

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 | $ 62,209 | – | – | – | – | $ 62,209 |
| Capital expenditure purchase commitments | 1,126 | – | – | – | – | 1,126 |
| Bank operating lines | – | – | – | – | 23,357 | 23,357 |
| Lease liabilities | 1,886 | 2,414 | 1,678 | 1,552 | 1,149 | 8,679 |
| Total | $ 65,221 | $ 2,414 | $ 1,678 | $ 1,552 | $ 24,506 | $ 95,371 |

**Regular quarterly dividend declaration**

During Quarter 3, 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 September 24, 2021 to shareholders of record at the close of business on September 17, 2021. The ex-dividend date was September 16, 2021. The Company has paid a cash dividend of twenty-five and a half cents ($0.255) per Class A Subordinate Voting Share and twenty-five and a half cents ($0.255) 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 3, 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.

## Purchase of Mesta Electronics Inc. ("Mesta")

On July 23, 2021, Hammond Power Solutions Inc. completed the acquisition of Mesta, located in the state of Pennsylvania, 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's 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 also 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 preliminary purchase price has been allocated as follows:

| (in thousands of dollars) | | |
|---|---|---|
| Cash | $ | 257 |
| Accounts receivable | | 90 |
| Inventories and other assets | | 517 |
| Property, plant and equipment | | 8 |
| Customers, technology and goodwill | | 7,098 |
| Assets | $ | 7,970 |
| | | |
| Current liabilities | $ | (836) |
| Liabilities | $ | (836) |
| Total purchase consideration | $ | 7,134 |

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as intangible assets and goodwill, which represents the expected synergies to be realized from Mesta's complementary products. The valuation of the intangible assets is in process – currently this excess of purchase price has all been recorded as goodwill.

The Agreement includes a contingent liability component for employee retention during the two years following the closing. The liability has been valued at $1,237, due in quarterly installments of equal amounts payable to the selling shareholders.

The Agreement includes a second contingent liability component that has been valued at $868, payable 45 days after the third anniversary of the closing date. This liability payment is contingent on management achieving certain revenue targets.

Both contingent liabilities have been recorded as a liability as of September 25, 2021.

Included in the Group's consolidated results for the nine months ended September 25, 2021, is revenue of $251 and net earnings of $12 recognized by Mesta from the date of acquisition to September 25, 2021.

**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.

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 materials, specifically copper, aluminum and electrical steel pricing as well as industry supply shortages which have started to 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) Pandemic – Business Disruption/Interruption**

Markets, governments and health organizations around the world have been impacted by the COVID-19 pandemic. The COVID-19 pandemic has presented a wide range of issues and complications for the Company, some of which the Company has yet to realize the full extent.

Looking forward, while the increase in vaccination levels are increasing, there is a guarded business optimism but some uncertainty and unpredictability persist on 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 the economy fully recovers.

**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 the 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 competitiveness, 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 3, 2021 Report.

**Proposed transactions**

The Company had no proposed transactions as at September 25, 2021. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

**Financial instruments**

As at September 25, 2021, the Company had outstanding foreign exchange contracts in place for 17,350 EUR and $14,500 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $38,000 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., India 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.

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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 Enterprise Resource System ("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 the COVID-19 pandemic; and
- Ability for remote work, where able, to help manage school closures and health concerns.

While the COVID-19 pandemic continues to have an impact on the global economy, there are positive signs of improvement as many countries begin to return to pre-pandemic business practices. This ever changing landscape has required businesses to be nimble and resilient as conditions can change quickly, requiring the Company to pivot. The full extent of the impact or complete timeline continues to be unknown and governmental decisions to potentially declare a state of emergency in countries in which we operate has had, and could continue to have, an immediate impact on the economies of such countries.

The demand for our transformers particularly in North America continues to excel and sales volumes have returned 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 gross margin rates will continue to struggle as persistent commodity cost increases and some volatility in manufacturing capacity utilization, will effect HPS' financial performance for the remainder of the year and into 2022.

Our Canadian entities received a government subsidy for eligible wages in Quarter 2, 3 and 4, 2020 and Quarter 1, 2 and 3, 2021 which supported our Canadian staff employment. The wage subsidy has been extended slightly longer, currently open until October 2021. 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 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 Quarter 2, 2021 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.

The Company 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 increasing market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibly.

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. During the pandemic HPS continued to grow its market share through distributor conversions and the benefit from this initiative is resulting in strong returns.

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;
- Maximizing asset utilization across business units; 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 capital and our employees, through leadership training and development programs;
- Implementing a new Human Resources Information System to provide a global solution for human resource management, payroll, performance evaluation module, succession planning, personal learning development and people management tool; and
- Our internal continuous improvement program, Transform, to further foster a culture of innovation.

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 continues 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. The Company remains a market leader and is committed 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 Third 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** | Q4 | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** |
| Sales | 90,653 | 88,420 | 75,393 | 78,115 | 80,169 | 80,121 | 88,277 | 95,526 |
| Earnings from operations | 5,862 | 3,033 | 6,514 | 5,447 | 7,047 | 3,402 | 7,620 | 5,909 |
| EBITDA | 7,651 | 5,678 | 8,447 | 7,466 | 7,891 | 5,349 | 8,694 | 7,378 |
| Net earnings | 2,152 | 2,148 | 4,420 | 3,462 | 4,032 | 2,298 | 4,689 | 3,948 |
| Total assets | 214,953 | 212,929 | 197,895 | 203,443 | 189,394 | 192,395 | 208,865 | 221,549 |
| Non-current liabilities | 11,271 | 9,729 | 9,039 | 8,558 | 8,329 | 7,546 | 7,018 | 6,486 |
| Total liabilities | 105,186 | 97,156 | 81,375 | 87,215 | 75,478 | 77,559 | 81,375 | 98,951 |
| Total shareholders' equity attributable to equity | 109,767 | 115,773 | 116,520 | 116,228 | 113,916 | 114,836 | 117,174 | 122,598 |
| Operating debt, net of cash | (9,326) | (18,356) | (12,906) | (4,790) | (1,278) | (11,754) | (14,392) | (15,399) |
| Cash (used) provided by operations | 16,447 | (6,038) | 7,229 | 10,419 | 8,073 | (6,854) | (29) | 7,430 |
| Basic earnings per share | 0.27 | 0.18 | 0.38 | 0.30 | 0.34 | 0.19 | 0.40 | 0.34 |
| Diluted earnings per share | 0.27 | 0.18 | 0.38 | 0.30 | 0.34 | 0.19 | 0.40 | 0.34 |
| Dividends declared and paid | 823 | 998 | 999 | 998 | 998 | 1,002 | 1,002 | 1,002 |
| Average exchange rate (USD$=CAD$) | 1.320 | 1.339 | 1.391 | 1.335 | 1.309 | 1.268 | 1.231 | 1.257 |
| Book value per share | 9.36 | 9.86 | 9.92 | 9.90 | 9.70 | 9.78 | 9.94 | 10.40 |

(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 | |
|---|---|---|
| | **September 25, 2021** | December 31, 2020 |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 7,958 | $ 14,795 |
| Accounts receivable | 74,472 | 53,078 |
| Inventories | 61,277 | 49,206 |
| Income taxes receivable | 826 | 488 |
| Prepaid expenses and other assets | 2,287 | 2,687 |
| Total current assets | 146,820 | 120,254 |
| Non-current assets | | |
| Long-term lease and note receivable | 2,915 | 3,201 |
| Property, plant and equipment (note 4) | 29,651 | 30,372 |
| Investment in properties | 3,406 | 3,649 |
| Investment in joint venture (note 5) | 13,284 | 13,300 |
| Deferred tax assets | 1,627 | 1,809 |
| Intangible assets | 5,940 | 5,901 |
| Goodwill (note 15) | 17,906 | 10,908 |
| Total non-current assets | 74,729 | 69,140 |
| Total assets | $ 221,549 | $ 189,394 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank operating lines of credit (note 6) | $ 23,357 | $ 16,073 |
| Accounts payable and accrued liabilities | 64,314 | 46,179 |
| Income tax payable | 1,019 | 942 |
| Provisions | 1,705 | 1,811 |
| Current portion of lease liabilities (note 7) | 2,070 | 2,144 |
| Total current liabilities | $ 92,465 | $ 67,149 |
| Non-current liabilities | | |
| Provisions | 309 | 317 |
| Deferred tax liabilities | 618 | 836 |
| Long-term portion of lease liabilities (note 7) | 5,559 | 7,176 |
| Total non-current liabilities | 6,486 | 8,329 |
| **Total liabilities** | $ 98,951 | $ 75,478 |
| **Shareholders' Equity** | | |
| Share capital | 14,886 | 14,491 |
| Contributed surplus | 2,432 | 2,498 |
| Accumulated other comprehensive income (note 9) | 1,943 | 1,519 |
| Retained earnings | 103,337 | 95,408 |
| **Total shareholders' equity** | $ 122,598 | 113,916 |
| **Total liabilities and shareholders' equity** | $ 221,549 | $ 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 | | Nine Months Ending | |
|---|---|---|---|---|
| | **September 25, 2021** | September 26, 2020 | **September 25, 2021** | September 26, 2020 |
| Sales (note 10) | $ 95,526 | $ 78,115 | $ 263,924 | $ 241,928 |
| Cost of sales (note 11) | 69,962 | 56,619 | 193,327 | 178,133 |
| Gross margin | 25,564 | 21,496 | 70,597 | 63,795 |
| Selling and distribution (note 11) | 11,433 | 9,524 | 31,900 | 30,015 |
| General and administrative (note 11) | 8,222 | 6,525 | 21,766 | 18,786 |
| | 19,655 | 16,049 | 53,666 | 48,801 |
| Earnings from operations | 5,909 | 5,447 | 16,931 | 14,994 |
| **Finance and other costs** | | | | |
| Interest expense | 309 | 240 | 933 | 951 |
| Foreign exchange loss (gain) | 75 | (45) | 432 | (524) |
| Share of (income) loss of investment in joint venture (note 5) | (2) | 107 | (47) | (33) |
| Other | 33 | 33 | 93 | 99 |
| Net finance and other costs | 415 | 335 | 1,411 | 493 |
| Earnings before income taxes | 5,494 | 5,112 | 15,520 | 14,501 |
| Income tax expense | 1,546 | 1,650 | 4,585 | 4,471 |
| Net earnings | $ 3,948 | $ 3,462 | $ 10,935 | $ 10,030 |
| **Earnings per share** | | | | |
| Basic earnings per share | $ 0.34 | $ 0.30 | $ 0.93 | $ 0.86 |
| Diluted earnings per share | $ 0.34 | $ 0.30 | $ 0.93 | $ 0.86 |

See accompanying notes to condensed consolidated interim financial statements

# Condensed Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

| | Quarter Ending | | Nine Months Ending | |
|---|---|---|---|---|
| | **September 25, 2021** | September 26, 2020 | **September 25, 2021** | September 26, 2020 |
| Net earnings | $ 3,948 | $ 3,462 | $ 10,935 | $ 10,030 |
| **Other comprehensive income** | | | | |
| Foreign currency translation differences for foreign operations (note 9) | 2,478 | (2,756) | 424 | (574) |
| Total comprehensive income for the period | $ 6,426 | $ 706 | $ 11,359 | $ 9,456 |

See accompanying notes to condensed consolidated interim financial statements

# Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 25, 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 | – | – | – | 10,935 | 10,935 |
| **Other comprehensive income** | | | | | |
| Foreign currency translation differences related to joint venture (note 5) | – | – | 487 | – | 487 |
| Foreign currency translation differences (note 9) | – | – | (63) | – | (63) |
| Total other comprehensive income | – | – | 424 | – | 424 |
| Total comprehensive income for the year | – | – | 424 | 10,935 | 11,359 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to equity holders (note 8) | – | – | – | (3,006) | (3,006) |
| Stock options exercised (note 8) | 395 | (66) | – | – | 329 |
| Total transactions with shareholders | 395 | (66) | – | (3,006) | (2,677) |
| **Balance at September 25, 2021** | $ 14,886 | $ 2,432 | $ 1,943 | $ 103,337 | $ 122,598 |

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

# Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 25, 2021

| (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 | – | – | – | 10,030 | 10,030 |
| **Other comprehensive loss** | | | | | |
| Foreign currency translation differences related to joint venture (note 5) | – | – | 396 | – | 396 |
| Foreign currency translation differences (note 9) | – | – | (970) | – | (970) |
| Total other comprehensive loss | – | – | (574) | – | (574) |
| Total comprehensive income for the year | – | – | (574) | 10,030 | 9,456 |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends to equity holders (note 8) | – | – | – | (2,995) | (2,995) |
| Total transactions with shareholders | – | – | – | (2,995) | (2,995) |
| **Balance at September 26, 2020** | $ 14,491 | $ 2,498 | $ 6,865 | $ 92,374 | $ 116,228 |

*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)

| | Nine Months Ending **September 25, 2021** | Nine Months Ending September 26, 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net earnings | $ 10,935 | $ 10,030 |
| Adjustments for: | | |
| Share of income of investment in joint venture | (47) | (33) |
| Amortization of property, plant and equipment | 4,551 | 5,623 |
| Amortization of intangible assets | 417 | 516 |
| Provisions | (114) | (139) |
| Interest expense | 933 | 951 |
| Income tax expense | 4,585 | 4,471 |
| Change in unrealized (loss) gain on derivatives included within other assets | (1,643) | (2,201) |
| | 19,617 | 19,218 |
| Change in non-cash working capital (note 14) | (14,224) | (4,167) |
| Cash generated in operating activities | 5,393 | 15,051 |
| Income tax paid | (4,846) | (3,441) |
| Net cash generated by operating activities | 547 | 11,610 |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiary company | (5,029) | – |
| Acquisition of property, plant and equipment (note 4) | (3,849) | (2,002) |
| Acquisition of intangible assets | (7) | (3) |
| Cash used in investing activities | (8,885) | (2,005) |
| **Cash flows from financing activities** | | |
| Advances (repayments) of borrowings | 7,284 | (5,375) |
| Receipt of lease receivable payments | 140 | 140 |
| Issue of common shares | 329 | – |
| Payment of lease liabilities (note 7) | (1,934) | (2,001) |
| Cash dividends paid (note 8) | (3,006) | (2,995) |
| Interest paid | (747) | (951) |
| Cash generated by (used in) financing activities | 2,066 | (11,182) |
| Foreign exchange on cash held in a foreign currency | (565) | 738 |
| Decrease in cash | (6,837) | (839) |
| Cash and cash equivalents at beginning of period | 14,795 | 23,371 |
| **Cash and cash equivalents at end of period** | $ 7,958 | $ 22,532 |

See accompanying notes to condensed consolidated interim financial statements

Nine months ended September 25, 2021 and September 26, 2020 (tabular amounts in thousands of dollars except share and per share)

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 third quarter ended September 25, 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 November 1, 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.

Nine months ended September 25, 2021 and September 26, 2020 (tabular amounts in thousands of dollars except share and per share)

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.

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:

| | September 25, 2021 | December 31, 2020 |
|---|---|---|
| Property, plant and equipment owned | $ 24,182 | $ 23,648 |
| Right-of-use assets (note 7) | 5,469 | 6,724 |
| | $ 29,651 | $ 30,372 |

The Group had acquisitions of property, plant and equipment owned for the nine months ended September 25, 2021 in the amount of $3,849,000 of machinery and equipment (2020 - $2,002,000).

## 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:

| | September 25, 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 | (3,186) | (3,233) |
| Foreign currency translation differences related to the joint venture | (3,353) | (3,490) |
| | $ 13,284 | $ 13,300 |

Selected financial information relating to Corefficient is as follows:

| | September 25, 2021 | December 31, 2020 |
|---|---|---|
| Cash | $ 648 | $ 3,553 |
| Trade and other receivables | 17,271 | 8,155 |
| Inventories | 2,507 | 2,932 |
| Other current assets | 118 | 89 |
| Total current assets | $ 20,544 | $ 14,729 |
| Non-current assets | 14,116 | 16,425 |
| **Total assets** | $ 34,660 | $ 31,154 |
| Current liabilities | $ 10,697 | $ 6,508 |
| Non-current liabilities | 87 | 746 |
| **Total liabilities** | $ 10,784 | $ 7,254 |

Nine months ended September 25, 2021 and September 26, 2020 (tabular amounts in thousands of dollars except share and per share)

| | Nine Months Ended | |
|---|---|---|
| | **September 25, 2021** | September 26, 2020 |
| Revenue | $ 46,006 | $ 42,997 |
| Income for the period | 85 | 60 |

The income for the nine months ended September 25, 2021 includes depreciation and amortization expense of $2,309,000 (Quarter 3, 2020 – $2,402,000), interest expense of $9,000 (Quarter 3, 2020 – $46,000) and an income tax expense of $nil (Quarter 3, 2020 – $5,000) related to Corefficient.

## 6. Bank operating lines of credit

During the second 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 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 September 25, 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 | – | 147 | – | 147 |
| Depreciation | (861) | (222) | (5) | (1,088) |
| Effect of movements in exchange rates | (313) | (1) | – | (314) |
| Balance at September 25, 2021 | $ 5,013 | $ 453 | $ 3 | $ 5,469 |

| **Maturity analysis – contractual undiscounted cash flows** | **September 25, 2021** | December 31, 2020 |
|---|---|---|
| Less than one year | $ 1,886 | $ 2,719 |
| One to five years | 6,271 | 7,017 |
| More than five years | 523 | 705 |
| Total undiscounted lease liabilities | $ 8,680 | $ 10,441 |
| Less: effect of discounting | $ (1,051) | $ (1,121) |
| Lease liabilities included in the statement of financial position | $ 7,629 | $ 9,320 |
| Current | $ 2,070 | $ 2,144 |
| Non-current | $ 5,559 | $ 7,176 |

Nine months ended September 25, 2021 and September 26, 2020 (tabular amounts in thousands of dollars except share and per share)

| | Nine Months Ended | | | |
|---|---|---|---|---|
| **Amounts recognized in statement of operations** | **September 25, 2021** | | September 26, 2020 | |
| Interest on lease liabilities | $ | 186 | $ | 257 |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| **Amounts recognized in statement of cash flows** | **September 25, 2021** | | September 26, 2020 | |
| Payment of lease liabilities | $ | 1,934 | $ | 2,001 |

## 8. Share capital

### (a) Dividends

The following dividends were declared and paid by the Company:

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | **September 25, 2021** | | September 26, 2020 | |
| 25.5 cents per Class A subordinate voting shares (2020: 25.5 cents) | $ | 2,298 | $ | 2,287 |
| 25.5 cents per Class B common shares (2020: 25.5 cents) | | 708 | | 708 |
| | $ | 3,006 | $ | 2,995 |

### (b) Stock option plan

During the nine months ended September 25, 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 nine months ended September 26, 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 nine months ended September 25, 2021 was as follows:

| | **Number of DSUs** | Closing Share Price | |
|---|---|---|---|
| Balance at January 1, 2021 | 160,534 | $ | 8.47 |
| DSUs issued | 38,131 | | 10.05 |
| DSUs exercised | (20,941) | | 10.66 |
| **Balance at September 25, 2021** | 177,724 | $ | 10.76 |

An expense of $853,000 (2020 – $38,000) for the nine months ended September 25, 2021 was recorded in general and administrative expenses. The liability of $2,072,000 (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 income for the nine months ended September 25, 2021 was $424,000 (2020 – loss of $574,000), of which $487,000 (2020 – $970,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance of accumulated other comprehensive income of $1,943,000 (September 26, 2020 – accumulated other comprehensive income of $6,865,000).

Nine months ended September 25, 2021 and September 26, 2020 (tabular amounts in thousands of dollars except share and per share)

## 10. Sales

| | Three Months Ending | | Nine Months Ending | |
|---|---|---|---|---|
| | **September 25, 2021** | September 26, 2020 | **September 25, 2021** | September 26, 2020 |
| Canada | $ 29,473 | $ 28,833 | $ 89,941 | $ 78,099 |
| United States and Mexico | 61,338 | 45,608 | 160,896 | 153,841 |
| India | 4,715 | 3,674 | 13,087 | 9,988 |
| | $ 95,526 | $ 78,115 | $ 263,924 | $ 241,928 |

As at September 25, 2021, the Company had contract liabilities of $4,678,000 (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 nine months of 2021, the Company has qualified for subsidy payments. The subsidy amounts for the nine months ended September 26, 2021 have been recorded as a reduction in expenses as follows: cost of sales $2,425, selling and distribution $346 and general and administrative expenses $820 for a total of $3,591. The subsidy amounts for the nine months ended September 26, 2020 were recorded as a reduction in expenses as follows: cost of sales $4,584, selling and distribution $696 and general and administrative expenses $1,479 for a total of $6,759.

## 12. Related party transactions

William G. Hammond, Chief Executive Officer and Chairman of the Company, directly and indirectly, through 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 920,330 (2020 – 1,064,108) Class A subordinate voting shares of the Company, representing approximately 10.2% (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 owns all 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 3 2020– $327,000).

## 13. Financial Instruments

**Fair value**

As at September 25, 2021 the Group has recognized a net unrealized loss of $309,000 representing the fair value of forward foreign exchange contracts, comprised of a liability within accounts payable and accrued liabilities. As at September 25, 2020 the Group has recognized a net unrealized gain of $809,000, comprised of the obligation recognized within prepaid expenses and other assets.

Nine months ended September 25, 2021 and September 26, 2020 (tabular amounts in thousands of dollars except share and per share)

## 14. Change in operating working capital

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

| | Nine Months Ending | |
|---|---|---|
| | **September 25, 2021** | September 26, 2020 |
| Accounts receivable | $ (21,394) | $ 3,837 |
| Inventories | (12,071) | 1,707 |
| Prepaid expenses | 389 | 1,161 |
| Accounts payable and accrued liabilities | 17,673 | (8,339) |
| Provisions | – | (752) |
| Foreign exchange | 1,179 | (1,781) |
| | $ (14,224) | $ (4,167) |

## 15. Acquisition

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's 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 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 preliminary purchase price has been allocated as follows:

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as intangible assets and goodwill, which represents the expected synergies to be realized from Mesta's complementary products. The valuation of the intangible assets is in process, currently this excess of purchase price has all been recorded as goodwill.

The Agreement includes a contingent liability component for employee retention during the two years following the closing. The liability has been valued at $1,237,000, due in quarterly installments of equal amounts payable to the selling shareholders.

The Agreement includes a second contingent liability component that has been valued at $868,000, payable 45 days after the third anniversary of the closing date. This liability payment is contingent on management achieving certain revenue targets.

Both contingent liabilities have been recorded as a liability as of September 25, 2021.

Included in the Group's consolidated results for the nine months ended September 25, 2021, is revenue of $251,000 and net earnings of $12,000 recognized by Mesta from the date of acquisition to September 25, 2021.

# 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.

# 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

### Mesta Electronics, Inc.

11020 Parker Drive
North Huntington, Pennsylvania 15642

# Corporate Information

## Corporate Officers and Directors

William G. Hammond *
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

## Registrar and Transfer Agent

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

## Auditors

KPMG LLP
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

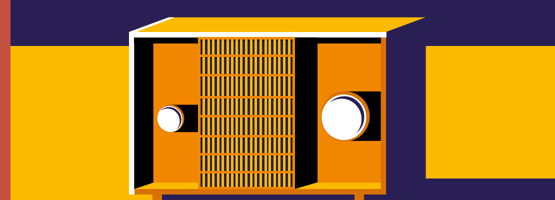
## Banking Institution

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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