Q1 Report 2022

For the three months ended April 2, 2022

Hammond Power Solutions Inc.

“ HPS is well positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of other market sectors, and the Company has provided shareholders with strong earnings per share, solid cash generation and quarterly dividends paid with an attractive yield. ”

To Our Shareholders

From my perspective, I view our First Quarter financial performance as exceptional given the extremely challenging and uncertain environment that we and many others are facing today.

Our sales and margins are up in all countries and markets as we benefit from the continuing momentum of strong bookings and market share expansion, resulting in the strongest start to a year that we have ever experienced.

As noted in previous reports, the diversification of geography, channels, markets and products - an important differentiator for HPS - has our business firing on all cylinders. We are seeing record booking rates in both the United States and Canada, along with very exciting opportunities in Mexico. In India, we benefited from strong domestic and export demand, which drove our strongest quarter in sales since we acquired our Indian transformer company. Our U.S. distributor channel continues to be the biggest engine of growth, and our OEM business is growing at its fastest pace in 7 years. And all of this is being driven by demand from a broad range of markets including oil and gas, mining, data centers, hydro generation, solar power, energy storage, electric vehicle recharging stations, microchip manufacturing, industrial expansion, LNG exports, wastewater treatment, and commercial projects. Our organizational focus on the total customer experience is helping us to increase market share, which includes having the biggest and broadest inventory of products of any dry-type transformer company, providing superior customer service, and offering industry-leading support tools to our distributors.

None of this has been easy. We have been faced with the greatest number of significant challenges and uncertainties that I have seen in more than 40 years. Global supply chain issues were already challenging before the Russian invasion of Ukraine made matters even worse. Various indicators such as rising inflation and interest rates are raising concerns about the possibility of a recession or economic slowdown in the next 2-3 years. Despite these headwinds, we currently see a positive runway ahead for HPS. We recognize the importance of maintaining a strong balance sheet and delivering the best financial performance we can in this uncertain environment. At this time, I would like to recognize the tremendous contributions of our managers and employees, and sincerely thank all those who ultimately have made, and continue to make, all this possible. We should all be proud of our continuing performance and accomplishments.

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

Management's Discussion and Analysis

HPS' strategic vision and operational initiatives have supported our industry leadership, operational strength and financial stability.

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended April 2, 2022 and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2022. This information is based on Management's knowledge as at May 2, 2022. 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 2021 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2021 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: 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 term "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 represents EBITDA 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, net cash or net indebtedness, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of earnings from operations, EBITDA and Adjusted EBITDA to net earnings for the quarters ending April 2, 2022 and March 27, 2021 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 therefore may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended April 2, 2022 were at a record level of $127,782, an increase of $47,661 or 59.5% from Quarter 1, 2021 sales of $80,121.

Sales in the United States ("U.S.") and Mexico increased by $36,606 or 78.7%, finishing at $83,111 for Quarter 1, 2021 compared to $46,505 in Quarter 1, 2021. U.S. and Mexican sales, stated in U.S. dollars, were $65,624 in Quarter 1, 2022 compared to Quarter 1, 2021 of $36,665, an increase of $28,959 or 79.0%. First quarter sales were slightly unfavourably affected by a 0.1% weaker U.S. dollar ("USD"), $1.00 USD = $1.267 Canadian dollar ("CAD") compared against $1.00 USD = $1.268 CAD in Quarter 1, 2021.

The U.S. market experienced significant increases in the North American Electrical Distributor ("NAED") channel as the Company continues to add additional distributors to the network. There were also improvements in the motor control, specialty and power control markets during Quarter 1, 2022 compared to Quarter 1, 2021.

Canadian sales increased to $38,154 for the quarter, an increase of $10,353 or 37.2% from Quarter 1, 2021 sales of $27,801. The Canadian market experienced increases in the NAED and motor control markets.

The Company experienced significant volume increases in North American sales through its established NAED and Original Equipment Manufacturer ("OEM") channels. Throughout the COVID-19 pandemic, these markets were significantly impacted, resulting in an overall drop in demand, project deferrals and cancellations. In Quarter 1, 2022, a strong rebound in demand and broadened reach into NAED and OEM markets have combined to support higher year-over-year shipments.

During 2021, the Company implemented four price increases, which were necessary to offset rapidly increasing costs in commodities (copper, aluminum, and electrical steel), freight, and other components critical to manufacturing transformers. We began to see the full effect of those increases in Quarter 1, 2022, which is a significant driver of the increase over Quarter 1, 2021. The cost increases were mainly the result of continued supply chain constraints, which we expect to continue throughout much of 2022.

Indian sales for Quarter 1, 2022 finished at $6,517 versus $5,815 in Quarter 1, 2021, an increase of $702 or 12.1% due to a rise in shipments in the quarter.

Quarter 1, 2022 sales stated by geographic segment were derived from U.S. sales of 65.0% (Quarter 1, 2021 – 58.0%) of total sales, Canadian sales of 29.9% (Quarter 1, 2021 – 34.7%) and Indian sales of 5.1% (Quarter 1, 2021 – 7.3%).

HPS continues to grow its North American market share through distributor conversions and its custom transformer capabilities. The ability to continue to expand these segments is a result of new customer additions, organic customer diversity, expanded product offerings and geographically diverse manufacturing capabilities. HPS is not single-market or industry dependent, and our market diversification strategies provide a natural business hedge.

We are committed to consistent quality, competitive product design, expertise in custom engineered products and product breadth. These factors combined with a strong, effective distribution channel and multi-national manufacturing capabilities will continue to be a competitive advantage for the Company and important to continued revenue growth. HPS prides itself on providing value to our customers.

HPS is dedicated to its growth strategy through our focus on product development, our capital expenditure program to increase capacity, vertical integration strategies, geographic diversification, innovative research and development projects as well as our expanded NAED network. Expanded product offerings, the addition of new customers, geographically diverse manufacturing facilities and market influence will allow the Company to continue to grow market share globally.

Backlog

The Company's Quarter 1, 2022 backlog increased by a record 91.9% as compared to Quarter 1, 2021 and has increased 32.1% from Quarter 4, 2021. The combination of price increases, strong demand in the back half of 2021 and early 2022, along with delayed shipments due to material availability contributed to the record-high backlog. Increased bookings occurred across a number of market and geographical segments. As backlog grows, product lead times are extended and the timing of shipments in the backlog becomes more uncertain – in some cases extending to later in the year and beyond.

HPS is sensitive to the volatility and unpredictability of current global economies and the impact that this could have on booking trends. While several markets are seeing positive quotation and order trends, the Company is very aware that it may see some volatility and unpredictability in longer term booking rates. Some industry-related factors such as global supply chain constraints and low inventories may be contributing to the higher booking rates and backlog and therefore may be temporary in nature.

Gross margin

The Company saw a considerable increase in its gross margin rate for Quarter 1, 2022 which was 28.5% compared to Quarter 1, 2021 margin rate of 24.7%, an improvement of 3.8% of sales. Gross margin rate is strongly impacted through productivity gains, material procurement and engineering cost reduction initiatives. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend.

Given the rapid rise in the prices of the commodities noted above, HPS had to increase prices several times during 2021 in order to protect gross margins. In raising prices, the Company has been proactive in anticipating cost increases, judicious in maintaining margins and conscientious of our customer relationships. For some channels, particularly those with longer backlog dates and lead times, as is the case in our OEM and private label channels, raising prices is more difficult to do in a timely way due to the nature of the contracts. Because of that, we believe there was some margin deterioration during 2021 as we were catching up to cost increases. Quarter 1, 2022 was a strong quarter and reflects the price increases for the entire time period, while Quarter 1, 2021 prices were lagging the cost increases. HPS continues to focus on price realization strategies and achievement of cost reductions in an effort to maintain and increase margin rates.

Sales and margins were impacted by the Company's ability to source materials and maintain a continuous supply to meet demand, which was exacerbated by global logistical disruptions. The manufacture of transformers requires copper, aluminum and electrical steel. All of these commodities, particularly electrical steel, have seen significant price increases driven mainly by supply constraints. During 2021 and into 2022, there has been a heightened awareness of the challenges and strain on the global supply markets and a focus on ensuring that materials required for production are received on a timely basis to prevent interruptions in production.

HPS' focus during the year has been on execution of its selling price realization strategies and achievement of cost reductions in an effort to protect and eventually raise margin rates. HPS continues to commit resources to its continuous improvement program, which will result in implementing productivity enhancements, cost reductions and lead-time improvements across the entire organization. HPS is confident that these actions will enhance future margin rates and improve profitability and overall financial performance.

Selling and distribution expenses

Total selling and distribution expenses were $14,471 in Quarter 1, 2022 or 11.2% of sales versus $9,807 in Quarter 1, 2021 or 12.2% of sales, an increase of $4,664 or 47.6%. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the large increase in sales. Quarter 1, 2021 expenses were also reduced by the CEWS wage support subsidy of $25 or 0.03% of sales, there was no subsidy recorded in Quarter 1, 2022.

General and administrative expense

General and administrative expenses were $9,247 or 7.1% of sales for Quarter 1, 2022 compared to Quarter 1, 2021 expenses of $6,619 or 8.3% of sales, an increase of $2,628 or 39.7%. Key drivers for the current quarter increase are as follows:

- Quarter 1, 2021 expenses were reduced by the CEWS wage support subsidy in the amount of $130 or 0.2% of sales, there was no subsidy recorded in Quarter 1, 2022;
- Approximately $816 of the increase in the current year is associated with strategic investments in people resources and incentive plans – there were critical roles filled later in 2021 that did not have a comparable expense in early 2021;
- The Mesta acquisition contributed an additional $174 to general and administrative expenses;

- Additional general and administrative expenses of $113 relate to the new infrastructure in Mexico;
- Additional investment in information technology contributed additional expenses of $262 related to maintenance contracts;
- The higher share price and additional awards granted in Quarter 1, 2022 has caused the DSU expense to increase $181 from prior year; and
- Higher spending for outside services such as regulatory approvals represent $556 of the current year increase.

HPS continues to invest in growth while remaining very cognizant of prudent general and administrative expense management.

Earnings from operations

Quarter 1, 2022 earnings from operations were $12,658 compared to $3,402 for the same quarter last year, an increase of $9,256. The increase in the quarter earnings from operations is primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses, as well as higher income tax expense.

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

	Q1, 2022	Q1, 2021
Net earnings	$ 8,569	$ 2,298
Add (subtract):		
Income tax expense	3,673	894
Interest expense	263	105
Foreign exchange loss	124	116
Share of income of investment in joint venture	(4)	(38)
Other	33	27
Earnings from operations	$ 12,658	$ 3,402

Net Finance and other costs

Interest expense for Quarter 1, 2022 was $263, an increase of $158 compared to the Quarter 1, 2021 expense of $105. The increase in the interest expense is a result of the timing of cash usage related to the higher working capital requirements. Interest expense includes all bank fees.

The foreign exchange loss in Quarter 1, 2022 was $124 compared to a loss of $116 in Quarter 1, 2021 – a change of $8. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts receivable. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past quarter where the value of the U.S. dollar against the Canadian dollar decreased 0.1% from the prior year.

As at April 2, 2022, the Company had outstanding foreign exchange contracts in place for 17,350 Euros ("EUR") and $14,500 USD. Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for $50,500 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 1, 2022 income tax expense was $3,673 compared to $894 in Quarter 1, 2201 an increase of $2,779 or 310.9%.

The consolidated effective tax rate[1] for Quarter 1, 2022 was 30.0% versus 28.0% for Quarter 1, 2021, an increase of 2.0%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company as income is generated from different geographical tax jurisdictions and is subject to diverse tax rates and regulations.

The Company's deferred tax assets and liabilities are related to temporary differences in various tax

[1]Effective tax rate is calculated as the income tax expense divided by the earnings before income taxes

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

jurisdictions, primarily reserves and allowances, which are not deductible in the current year. A difference in the carrying value of property, plant and equipment and intangible assets for accounting purposes and for tax purposes is a result of business combination accounting and a different basis of depreciation utilized for tax purposes.

Net earnings

Net earnings for Quarter 1, 2022 finished at $8,569 compared to net earnings of $2,298 in Quarter 1, 2021, an increase of $6,271. The increase in the quarter earnings from operations is primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses, as well as higher income tax expense.

Earnings per share

Basic earnings per share were $0.72 for Quarter 1, 2022 versus $0.19 in Quarter 1, 2021.

EBITDA

EBITDA for Quarter 1, 2022 was $14,458 versus $5,349 in Quarter 1, 2021, an increase of $9,109 or 170.3%. Adjusted for foreign exchange loss, adjusted EBITDA for Quarter 1, 2022 was $14,582 versus $5,465 in Quarter 1, 2021, an increase of $9,117.

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

	Quarter 1, 2022	Quarter 1, 2021
Net earnings	$ 8,569	$ 2,298
Add:		
Interest expense	263	105
Income tax expense	3,673	894
Depreciation and amortization	1,953	2,052
EBITDA	$ 14,458	$ 5,349
Add:		
Foreign exchange loss	124	116
Adjusted EBITDA	$ 14,582	$ 5,465

Summary of quarterly financial information (unaudited)

Fiscal 2022 Quarters		Q1
Sales	$	127,782
Net earnings	$	8,569
Net earnings per share – basic	$	0.72
Net earnings per share – diluted	$	0.72
Average U.S. to Canadian exchange rate	$	1.267

Fiscal 2021 Quarters		Q1		Q2		Q3		Q4		Total
Sales	$	80,121	$	88,277	$	95,526	$	116,278	$	380,202
Net earnings	$	2,298	$	4,689	$	3,948	$	4,241	$	15,176
Net earnings per share – basic	$	0.19	$	0.40	$	0.34	$	0.36	$	1.29
Net earnings per share – diluted	$	0.19	$	0.40	$	0.34	$	0.35	$	1.28
Average U.S. to Canadian exchange rate	$	1.268	$	1.231	$	1.257	$	1.258	$	1.253

Quarterly sales continue to accelerate with Quarter 1, 2022 sales higher than any quarter in 2021. A portion of the sales escalation was due to price increases, but the Company has also experienced volume growth over previous quarters. There has been an upward trend over the past seven quarters due to an overall improvement in general economic activity.

Gross margin rates for the quarter have increased from the same quarter last year. This margin rate improvement is attributed to sales mix and market specific pricing which partially offset the escalating raw material commodity costs.

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Capital resources and liquidity

The Company continued to focus on generating cash from operations, debt management, investment and liquidity.

Cash generated by operating activities for Quarter 1, 2022 was $537 versus cash used in operations of $6,854 in Quarter 1, 2021, an increase in cash generated of $7,391. This change is a result of an increase in net earnings and income tax expense, offset by an increase in cash utilized for working capital.

In Quarter 1, 2022, non-cash working capital used cash of $12,280 compared to cash used of $8,666 for the same quarter last year, an increase of $3,614. The working capital changes are primarily related to a significant increase in accounts receivable and inventory as well as a decrease in accounts payable and accrued liabilities.

Total cash used by financing activities was $366 in the first three months of 2022, compared to cash generated of $3,918 in the same period in 2021. The key driver of this change is the lower advances of bank operating lines in the current year.

Cash used in investing activities were consistent year-over-year with cash used of $1,527 in Quarter 1, 2022 from $1,581 in Quarter 1, 2022. Capital expenditures were $1,573 in Quarter 1, 2022 compared to $1,628 for Quarter 1, 2021, a decrease of $55. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Bank operating lines of credit have decreased from prior year levels finishing Quarter 1, 2022 at $20,558 compared to $21,359 at the end of Quarter 1, 2021, a decrease of $801. The bank operating lines of credit have increased $1,291 since the year-end balance of $19,267.

The Company's overall net operating debt balance[1] was $905, a decrease of $2,543 from the net operating cash balance of $1,638[2] at December 31, 2021. The Quarter 1, 2021 net operating debt balance was $11,754[3], a reduction of $10,849 as of Quarter 1, 2022.

All bank covenants continue to be met as at April 2, 2022.

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

Contractual obligations

The following table outlines payments due for each of the next 5 years and thereafter related to debt, lease, purchase and other long-term obligations.

	2022	2023	2024	2025	2026 & Thereafter	Total
Accounts payable and accrued liabilities	$ 83,375	–	–	–	–	$ 83,375
Capital expenditure purchase commitments	656	–	–	–	–	656
Bank operating lines	–	–	–	–	20,558	20,558
Lease liabilities	3,243	1,921	1,742	783	560	8,249
Contingent liabilities	302	590	521	–	–	1,413
Total	$ 87,576	$ 2,511	$ 2,263	$ 783	$ 21,118	$ 114,251

[1]Overall net operating debt balance is the bank operating lines of credit of $20,558 net of cash and cash equivalents of $19,653
[2]Overall net operating cash balance is the bank operating lines of credit of $19,267 net of cash and cash equivalents of $20,905
[3]Overall net operating debt balance is the bank operating lines of credit of $21,359 net of cash and cash equivalents of $9,605

Regular quarterly dividend

The Board of Directors of HPS declared a quarterly cash dividend of eight and a half cents ($0.085) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of eight and a half cents ($0.085) per Class B Common Share of HPS paid on March 24, 2022 to shareholders of record at the close of business on March 17, 2022. The ex-dividend date was March 16, 2022.

Controls and procedures

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

During Quarter 1, 2022 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.

Joint venture ownership change

The Company and National Material L.P. ("National") have operated the joint venture in Monterrey, Mexico under the name Corefficient S. de R.L. de C.V. Effective February 28, 2022, the Company and National have amicably agreed to divide the operations, with HPS retaining certain equipment, employees, obligations, and other financial assets and liabilities, and National withdrawing certain assets and capital in exchange for redeeming their ownership interest. The Corefficient name was also retained by National. The operation continues to produce transformer cores to supply the Group's facilities in Mexico.

Total consideration received by National in connection with this transaction was $10,809,000 comprised of inventory valued at $1,705,000, property, plant and equipment valued at $5,589,000 and a note payable in the amount of $3,515,000, repayable in six equal instalments, due monthly commencing March 2022. The agreement calls for adjustments to the consideration in respect of possible realization of certain tax attributes by March 2023.

As a result of this transaction, the Company now owns 100% of the equity and voting interests of the former joint venture and continues to operate the entity as a wholly owned subsidiary of the Group. As the Company has acquired control of Corefficient, the transaction constitutes a business combination. The Company has measured the fair value of its previously-held interest in the former joint venture immediately prior to obtaining control, and determined it to be equivalent to its carrying value. The Company is evaluating the recognition and measurement of possible contingent consideration and other fair value adjustments which may involve the use of third-party valuation specialists. Accordingly, amounts presented below, and their associated income tax effects, are subject to change within the measurement period.

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The preliminary purchase price has been allocated as follows:

Cash	$	3,393
Accounts receivable		16,248
Inventories and other assets		1,582
Property, plant and equipment and right of use assets		5,317
Intangibles		142
Deferred future tax asset		2,431
Assets	$	29,113
Current liabilities	$	(15,900)
Total purchase consideration	$	13,213
Satisfied as follows:		
Capital redemption	$	9,698
Note payable		3,515
Total consideration	$	13,213

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 marketplace, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is aware of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to mitigate the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Market supply and demand impact on commodity prices

HPS relies on a global supply chain to meet its manufacturing needs. The Company sources both raw materials and components from our own factories and third-party suppliers. Industry supply shortages, including those caused by logistics disruptions and global conflicts may interrupt manufacturing production and therefore affect our ability to ship product to customers. The company attempts to mitigate these risks through strategic supply line agreements.

The cyclical effects and unprecedented rise of global commodity prices, including prices for copper, aluminum and electrical steel may put margins at risk. There is a risk in our ability to recoup the rapid escalating commodity costs through timely and effective selling price increases.

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

Coronavirus (COVID-19) Pandemic – Business Disruption/Interruption

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

Looking forward, while the increase in vaccination levels are climbing, 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 70% 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 largely 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. 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 make it difficult or impossible to deliver our products, or disrupt our global material sourcing.

Political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.

Changing legislative mandates in the countries with which we do business may result in a number of geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. HPS' current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for us. HPS' global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships.

Our industry is highly competitive.

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

Our business is highly sensitive to global and regional economic conditions in the industries we serve.

Current global economic conditions influence the Company's focus, direction, strategic initiatives and financial performance. To address the current uncertainty, we are focusing our efforts on projects that will increase our market reach, advance our cost 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 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 managements credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure and the Company's future collection rate may differ from its historical experience.

Risk of cyber attack

Globally there have been increased incidences of outside cyber attacks and viruses on companies' information infrastructure and technologies. A successful cyber attack could result in misappropriation of assets, cause interruptions to manufacturing and our ability to take orders, as well as impact our general productivity. This risk is reduced through a number of initiatives to mitigate exposure.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements other than captital expenditure commitments disclosed in Notes to the Consolidated Financial Statements in our 2021 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2022, other than transactions disclosed in note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2022 Report.

Proposed transactions

The Company had no proposed transactions as at April 2, 2022. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at April 2, 2022, 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 $50,500 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 conducts its annual impairment assessment of goodwill, intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or Cash Generating Unit ("CGU") may not be recoverable. The Company did not identify any triggering events during the course of 2021 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Business Combinations requires acquirers to recognize the identifiable assets acquired and liabilities assumed at fair value. The determination of fair value requires Management to make estimates around the value an independent third party, under no compulsion to act, would pay for an asset acquired or liability assumed on a standalone basis. Where possible, Management engages third-party appraisers to assist in the determination of the fair value of real property acquired. The fair value of acquired intangible assets are generally determined using discounted cash flow models and involve the use of cash flow forecasts, market-based discount rates, and/or market-based royalty rates. The fair values of liabilities assumed is generally based on discounted cash flow models which involves the use of market-based discount rates. The development of cash flow forecasts involves the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of discount rates and royalty rates.

The Company records a provision for warranties based on historical warranty claim information and anticipated warranty claims, based on a weighted probability of possible outcomes.

The key assumptions made by management in recording the provision are i) warranty cost, ii) probability of claim, and iii) quantum of units which may be subject to any warranty claim.

Quantifying provisions inherently involves judgment, and future events and conditions may impact these assumptions. Differences in actual future experience from the assumptions utilized may result in a greater or lower warranty cost.

Outstanding share data

Details of the Company's outstanding share data as of April 2, 2022, are as follows:

9,056,624	Class A Shares
2,778,300	Class B Common Shares
11,834,924	Total Class A and B Shares

There have been no material changes to the outstanding share data as of the date of this report.

Strategic direction and outlook

HPS has a rich and extensive history of growth, innovation and resilience. The Company has navigated through difficult and fluctuating economic times, increased globalization, adapted to changes in customers and markets and has experienced significant advances in technology. HPS has framed these challenges as opportunities and developed strategies to address these rapid changes.

The Company is confronting these challenges and continuously building our strategic advantage by focusing on:

- Developing our Customers and Markets by:
  - Driving organic growth through continuing to develop our NAED channel;
  - Offering competitive products, including an expanding product quality offering;
  - Providing unparalleled service to our customers; and
  - Growing through strategic acquisitions.
- Achieving Operational and Financial Excellence by:
  - Driving continuous improvement;
  - Improving efficiency by investing in equipment, people and technology; and
  - Optimizing the efficiency of our global manufacturing footprint.
- Developing our People and Culture by:
  - Building our leadership team for the future;
  - Developing our people to excel and thrive; and
  - Making HPS a preferred employer.
- Building a Sustainability Program by
  - Designing energy efficient products;
  - Shrinking our ecological footprint; and
  - Energizing the world in a responsible way for the generations to come.

The demand for our transformers, particularly in North America, continues to accelerate at an unprecedented rate and sales volumes have exceeded 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 and is working diligently to ensure there is adequate material supply to fulfill this growth. It is difficult to know for how long higher commodity prices will be sustained, in particular those for grain-oriented electrical steel, but at this time there are few factors that would indicate that these costs will come down during the second half of the year. It has been, and is, HPS' objective to maintain gross margins in the face of rising prices. We will continue to do so in the future.

We continue to add new distributors and have implemented additional infrastructure to support our growth initiative into Mexico. We believe that Mexico has strong potential for us as a sales market due to its proximity to our manufacturing locations and our ability to leverage existing people, product, and supply chain.

As of January 1, 2022, the Company went live with a new HRIS platform to move the Company to a common payroll and human resource system. This platform will enhance our internal communications, create efficiencies, improve controls, incorporate additional career planning and allow for better data analysis.

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 our traditional markets while becoming a leading player in a growing number of other market sectors. We continue to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

The Company has provided shareholders with strong earnings per share, solid cash generation and quarterly dividends paid with an attractive yield. To continue this trend HPS is focused on sales development, continued NAED channel expansion, product development and bringing quality and value to all that we produce. Our strategic initiatives and focused plans will continue to allow HPS to grow and expand.

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.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the First Quarter of 2022. 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)]	2017	2018	2019	2020	**2021**
Sales	301,750	314,082	358,792	322,097	**380,202**
Earnings from operations	14,470	13,779	20,543	22,041	**23,151**
EBITDA	23,069	17,915	28,175	29,482	**30,114**
Net earnings (loss)	6,114	(12,917)	11,607	14,062	**15,176**
Total assets	192,449	205,527	214,953	189,394	**235,099**
Non-current liabilities	3,641	2,528	11,271	8,329	**7,104**
Total liabilities	77,438	96,793	105,186	75,478	**109,097**
Total shareholders' equity attributable to equity holders of the Company	114,848	108,734	109,767	113,916	**126,002**
Operating debt, net of cash	(16,983)	(17,056)	(9,326)	(1,278)	**1,638**
Cash provided by operations	1,032	6,474	17,810	19,683	**20,447**
Basic earnings per share	0.53	(1.10)	0.99	1.20	**1.29**
Diluted earnings per share	0.52	(1.10)	0.99	1.20	**1.28**
Dividends declared and paid	2,809	2,818	3,287	3,993	**4,009**
Average exchange rate (USD$=CAD$)	1.298	1.294	1.327	1.343	**1.253**
Book value per share	9.80	9.26	9.36	9.70	**10.69**

		2020			2021			2022
Quarterly Information	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	75,393	78,115	80,169	80,121	88,277	95,526	116,278	127,782
Earnings from operations	6,514	5,447	7,047	3,402	7,620	5,909	6,220	12,658
EBITDA	8,447	7,466	7,891	5,349	8,694	7,378	8,693	14,458
Net earnings	4,420	3,462	4,032	2,298	4,689	3,948	4,241	8,569
Total assets	197,895	203,443	189,394	192,395	208,865	221,549	235,099	253,340
Non-current liabilities	9,039	8,558	8,329	7,546	7,018	6,486	7,104	6,170
Total liabilities	81,375	87,215	75,478	77,559	91,691	98,951	109,097	119,565
Total shareholders' equity attributable to equity holders of the Company	116,520	116,228	113,916	114,836	117,174	122,598	126,002	133,775
Operating debt, net of cash	(12,906)	(4,790)	(1,278)	(11,754)	(14,392)	(15,399)	1,638	(905)
Cash provided by (used in) operations	7,229	10,419	8,073	(6,854)	(29)	7,430	19,900	537
Basic earnings per share	0.38	0.30	0.34	0.19	0.40	0.34	0.36	0.72
Diluted earnings per share	0.38	0.30	0.34	0.19	0.40	0.34	0.35	0.72
Dividends declared and paid	999	998	998	1,002	1,002	1,002	1,002	1,006
Average exchange rate (USD$=CAD$)	1.391	1.335	1.309	1.268	1.231	1.257	1.258	1.267
Book value per share	9.92	9.90	9.70	9.78	9.94	10.40	10.69	11.39

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

Condensed Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As at	
	April 2, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 19,653	$ 20,905
Accounts receivable	94,458	72,004
Inventories	66,524	62,467
Income taxes receivable	484	807
Prepaid expenses and other assets	4,412	3,515
Total current assets	185,531	159,698
Non-current assets		
Long-term lease and note receivable	2,631	2,779
Property, plant and equipment (note 4)	35,465	30,960
Investment in properties	3,294	3,294
Investment in joint venture (note 5)	–	13,279
Deferred tax assets	4,462	2,370
Intangible assets	10,006	10,503
Goodwill	11,951	12,216
Total non-current assets	67,809	75,401
Total assets	$ 253,340	$ 235,099
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 20,558	$ 19,267
Accounts payable and accrued liabilities	83,375	75,760
Income taxes payable	4,223	1,988
Provisions	1,895	1,850
Current portion of lease and other liabilities (note 6)	3,344	3,128
Total current liabilities	$ 113,395	$ 101,993
Non-current liabilities		
Provisions	294	342
Deferred tax liabilities	6	401
Long-term portion of lease and other liabilities (note 6)	5,870	6,361
Total non-current liabilities	6,170	7,104
Total liabilities	$ 119,565	$ 109,097
Shareholders' Equity		
Share capital	15,240	14,886
Contributed surplus	2,376	2,432
Accumulated other comprehensive income (note 8)	2,021	2,109
Retained earnings	114,138	106,575
Total shareholder's equity	133,775	126,002
Total liabilities and shareholders' equity	$ 253,340	$ 235,099

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Operations

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

	Three Months Ending	
	April 2, 2022	March 27, 2021
Sales (note 9)	$ 127,782	$ 80,121
Cost of sales (note 10)	91,406	60,293
Gross margin	36,376	19,828
Selling and distribution (note 10)	14,471	9,807
General and administrative (note 10)	9,247	6,619
	$ 23,718	$ 16,426
Earnings from operations	12,658	3,402
Finance and other costs		
Interest expense	263	105
Foreign exchange loss	124	116
Share of income of investment in joint venture (note 5)	(4)	(38)
Other	33	27
Net finance and other costs	416	210
Earnings before income taxes	12,242	3,192
Income tax expense	3,673	894
Net earnings	$ 8,569	$ 2,298
Earnings per share		
Basic earnings per share	$ 0.72	$ 0.19
Diluted earnings per share	$ 0.72	$ 0.19

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending	
	April 2, 2022	March 27, 2021
Net earnings	$ 8,569	$ 2,298
Other comprehensive income		
Foreign currency translation differences for foreign operations (note 8)	(88)	(705)
Total comprehensive income for the period	$ 8,481	$ 1,593

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

(unaudited) (tabular amounts in thousands of dollars) For the three months ended April 2, 2022

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2022	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002
Total comprehensive income for the year					
Net earnings	–	–	–	8,569	8,569
Other comprehensive income					
Foreign currency translation differences (note 8)	–	–	(88)	–	(88)
Total comprehensive income for the year	–	–	(88)	8,569	8,481
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(1,006)	(1,006)
Stock options exercised (note 7)	354	(56)	–	–	298
Total transactions with shareholders	354	(56)	–	(1,006)	(708)
Balance at April 2, 2022	$ 15,240	$ 2,376	$ 2,021	$ 114,138	$ 133,775

*AOCI – Accumulated other comprehensive income
See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

(unaudited) (tabular amounts in thousands of dollars) For the three months ended March 27, 2021

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

*AOCI – Accumulated other comprehensive income
See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending April 2, 2022	Three Months Ending March 27, 2021
Cash flows from operating activities		
Net earnings	$ 8,569	$ 2,298
Adjustments for:		
Share of income of investment in joint venture	(4)	(38)
Amortization of property, plant and equipment	1,861	1,889
Amortization of intangible assets	92	163
Provisions	(3)	(34)
Interest expense	263	105
Income tax expense	3,673	894
Change in unrealized loss on derivatives included within other assets	(519)	(2,418)
	13,932	2,859
Change in non-cash working capital (note 12)	(12,280)	(8,666)
Cash used in operating activities	1,652	(5,807)
Income tax paid	(1,115)	(1,047)
Net cash generated by (used in) operating activities	537	(6,854)
Cash flows from investing activities		
Receipt of lease receivable payment	46	47
Acquisition of property, plant and equipment (note 4)	(1,573)	(1,628)
Cash used in investing activities	(1,527)	(1,581)
Cash flows from financing activities		
Advances of borrowings	1,291	5,286
Issue of common shares	298	329
Payment of lease liabilities (note 6)	(742)	(658)
Cash dividends paid (note 7)	(1,006)	(1,002)
Interest paid	(207)	(37)
Cash (used in) generated by financing activities	(366)	3,918
Foreign exchange on cash held in a foreign currency	104	(673)
Decrease in cash	(1,252)	(5,190)
Cash and cash equivalents at beginning of period	20,905	14,795
Cash and cash equivalents at end of period	$ 19,653	$ 9,605

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

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 Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended April 2, 2022 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Group has manufacturing plants in Canada, the United States ("U.S."), Mexico and India.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on May 2, 2022.

(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, 2021.

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

3. Summary of significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2021 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, 2021, with the exception of items noted as follows:

Changes to accounting policies

- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Reference to the Conceptual Framework (Amendments to IFRS 3); and
- Annual Improvements to IFRS Standard 2018-2020.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2022. The adoption of the amendments did not have a material impact on the consolidated financial statements.

4. Property, plant and equipment

Property, plant and equipment comprise 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:

	April 2, 2022	December 31, 2021
Property, plant and equipment owned	$ 29,738	$ 25,152
Right-of-use assets	5,727	5,808
	$ 35,465	$ 30,960

The Group had acquisitions of property, plant and equipment owned for the three months ended April 2, 2022, in the amount of $1,573,000 of machinery and equipment (2021 – $1,628,000).

The Group acquired $4,793,000 of property, plant and equipment through the joint venture ownership change. See note 5 for details of this transaction.

Right of use assets

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, 2022	$ 5,237	$ 535	$ 36	$ 5,808
Additions (note 5)	524	–	–	524
Depreciation	(458)	(121)	(4)	(583)
Effect of movements in exchange rates	(21)	(1)	–	(22)
Balance at April 2, 2022	$ 5,282	$ 413	$ 32	$ 5,727

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

5. Joint venture ownership change

The Company and National Material L.P. ("National") have operated the joint venture in Monterrey, Mexico under the name Corefficient S. de R.L. de C.V. Effective February 28, 2022, the Company and National have amicably agreed to divide the operations, with HPS retaining certain equipment, employees, obligations, and other financial assets and liabilities, and National withdrawing certain assets and capital in exchange for redeeming their ownership interest. The Corefficient name was also retained by National. The operation continues to produce transformer cores to supply the Group's facilities in Mexico.

Total consideration received by National in connection with this transaction was $10,809,000 comprised of inventory valued at $1,705,000, property, plant and equipment valued at $5,589,000 and a note payable in the amount of $3,515,000, repayable in six equal instalments, due monthly commencing March 2022. The agreement calls for adjustments to the consideration in respect of possible realization of certain tax attributes by March 2023.

As a result of this transaction, the Company now owns 100% of the equity and voting interests of the former joint venture and continues to operate the entity as a wholly owned subsidiary of the Group. As the Company has acquired control of Corefficient, the transaction constitutes a business combination. The Company has measured the fair value of its previously-held interest in the former joint venture immediately prior to obtaining control, and determined it to be equivalent to its carrying value. The Company is evaluating the recognition and measurement of possible contingent consideration and other fair value adjustments which may involve the use of third-party valuation specialists. Accordingly, amounts presented below, and their associated income tax effects, are subject to change within the measurement period.

The preliminary purchase price has been allocated as follows:

Cash	$	3,393
Accounts receiveable		16,248
Inventories and other assets		1,582
Property, plant and equipment and right of use assets		5,317
Intangibles		142
Deferred future tax asset		2,431
Assets	$	29,113
Current liabilities	$	(15,900)
Total purchase consideration	$	13,213

Included in the Group's consolidated results to February 28, 2022, the date of acquisition, for the three months ended April 2, 2022, is the Group's share of income of investment in joint centure of $4 (2021 – $38). Included in the Group's consolidated results of operations from February 29, 2022 to April 2, 2022, was revenue of $nil and net income of $74.

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

6. Lease and other long-term liabilities

	April 2, 2022	December 31, 2021
Lease liabilities	$ 7,801	$ 7,980
Contingent consideration	1,413	1,509
	$ 9,214	$ 9,489
Current	3,344	3,128
Non-Current	5,870	6,361

Maturity analysis – contractual undiscounted cash flows	April 2, 2022	December 31, 2021
Less than one year	$ 3,243	$ 2,762
One to five years	5,006	5,457
More than five years	–	94
Total undiscounted lease liabilities	$ 8,249	$ 8,313
Less: effect of discounting and foreign exchange	$ (448)	$ (333)
Lease liabilities included in the statement of financial position	$ 7,801	$ 7,980
Current	$ 3,041	$ 2,512
Non-current	$ 4,760	$ 5,468

	Three Months Ending	
Amounts recognized in statement of operations	April 2, 2022	March 27, 2021
Interest on lease liabilities	$ 56	$ 70

	Three Months Ending	
Amounts recognized in statement of cash flows	April 2, 2022	March 27, 2021
Payment of lease liabilities	$ 742	$ 658

7. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending	
	April 2, 2022	March 27, 2021
8.5 cents per Class A common share (2021: 8.5 cents)	$ 770	$ 766
8.5 cents per Class B common share (2021: 8.5 cents)	236	236
	$ 1,006	$ 1,002

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

(b) Stock option plan

During the three months ended April 2, 2022, there were 45,000 options exercised at an exercise price of $6.62. During the three months ended March 27, 2021 there were 45,000 options exercised, 10,000 at an exercise price of $6.62 and 35,000 at an exercise price of $7.50.

(d) Deferred Share Units

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

The movement in DSUs for the three months ended April 2, 2022 was as follows:

	Number of DSUs		Closing Share Price
Balance at January 1, 2022	160,534	$	8.47
DSUs issued	6,365		11.75
Balance at April 2, 2022	166,899	$	12.71

An expense of $340,000 (Quarter 1, 2021 - $159,000) for the quarter was recorded in general and administrative expenses. The liability of $2,310,000 (December 31, 2021 - $1,519,000) related to these DSUs is included in accounts payable and accrued liabilities.

8. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive loss for the three months ended April 2, 2022 was $88,000 (Quarter 1, 2021 – deficit of $705,000), of which $88,000 (Quarter 1, 2021 – $559,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at April 2, 2022 of accumulated other comprehensive income of $2,021,000 (March 27, 2021 – $814,000).

9. Sales

	Three Months Ending			
		April 2, 2022		March 27, 2021
Canada	$	38,154	$	27,801
United States and Mexico		83,111		46,505
India		6,517		5,815
	$	127,782	$	80,121

As at April 2, 2022 the Company had contract liabilities of $5,468,000 (December 31, 2021 – $5,027,000).

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

10. Government assistance

During 2020 and 2021, the Government of Canada implemented the Canada Emergency Wage Subsidy program ("CEWS") that provides a subsidy of up to 75% of eligible remuneration paid by an eligible entity that experienced significant revenue declines due to the COVID-19 pandemic. In Quarter 1, 2021, the Company has qualified for subsidy payments. The subsidy amounts relating to the quarter were recorded as a reduction in expenses as follows: cost of sales $324,000, selling and distribution $26,000 and general and administrative $130,000 for a total of $480,000.

No subsidy amounts were recorded in Quarter 1, 2022.

11. Related party transactions

Related parties

William G. Hammond, Chief Executive Officer and Chairman of the Compnay, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 2021 – 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 947,450 (December 31, 2021 – 921,808) Class A subordinate voting shares of the Company, representing approximately 10.5% (2021 – 11.9%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $317,000 (Quarter 1 2021 – $327,000).

12. Change in non-cash operating working capital

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

	Three Months Ending	
	April 2, 2022	March 27, 2021
Accounts receivable	$ (6,206)	$ (10,507)
Inventories	(2,598)	2,117
Prepaid expense	(354)	72
Accounts payable and accrued liabilities	(4,063)	(770)
Foreign exchange	941	422
	$ (12,280)	$ (8,666)

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

Annual General Meeting of Shareholders to be held:

Thursday May 12, 2022
1:30 p.m. (EASTERN STANDARD TIME)
Via teleconference
Audio Conference Details:
Calling from Canada or the United States:
1-800-207-0148 United States, Brooklyn and International 1-646-828-8082

Participant Code: 610283

Corporate Information

Corporate Officers and Directors

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

Richard C. 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

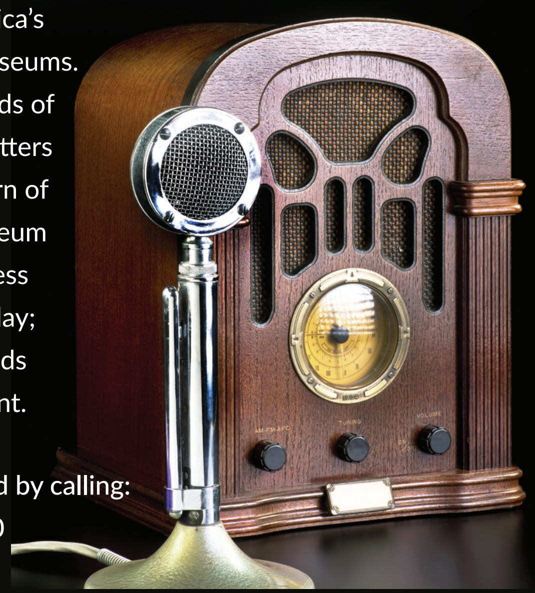
JP Morgan Chase
Bank N.A. 66 Wellington Street West,
Suite 4500
Toronto, Ontario M5K 1E7

Investor Relations

Contact: David Feick,
Investor Relations
Phone: 519.822.2441 x453
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

YOU DON'T KNOW WHAT'S GOING TO HAPPEN IN BUSINESS
A YEAR FROM NOW... SO YOU HAVE TO BE FLEXIBLE AND
ADAPTABLE, AND THAT'S WHAT WE TRY TO DO

Hammond Power Solutions Inc.

HAMMONDPOWERSOLUTIONS.COM