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POWER SOLUTIONS

Q1 REPORT

For the three months ended March 30, 2024

ABOUT US

HAMMOND POWER SOLUTIONS INC.

Hammond Power Solutions Inc. (“HPS” or the “Company”) enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS’ standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States (U.S.), Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

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POWER SOLUTIONS

to our Shareholders

As we entered 2024, we maintained our strong pace of production and continued to grow our quarterly sales volumes. Higher bookings versus Quarter 4, 2023 allowed us to more fully utilize our additional capacity, and as a result bookings and shipments are closely matched. On the demand side, we see a steady pace across most segments and geographies, including in the United Stated ("U.S."), Mexico and India. Canadian sales, which saw a good lift in Quarter 4, continued to be strong in Quarter 1 with high bookings and sales related to a number of large projects in commercial construction, electric vehicle ("EV") charging, data centres, public infrastructure, oil and gas, mining, and utilities, as well as a continued focus on strong customer service within our distribution channel. In consideration of persistent inflation, the lack of a price increase in 2023, and continued demand for our products, we announced a price increase that will be effective as of Quarter 2, 2024.

Our power quality and induction heating sales were lower in Quarter 1, as some large project schedules shifted and some filter orders have been delayed. Our leadership in this area, however, is being recognized both by the technical community and by our customers, where we were recently awarded the Rockwell Automation Technology Partner Innovation award for the application of our Active Harmonic Filter in a water treatment project. In January we announced our last planned leadership transition with the retirement of Bob Yusyp and the appointment of John Bailey as Chief Operations Officer. I would like to thank Bob, who was instrumental in much of our expansion in Mexico among other significant contributions, and for his dedication to Hammond Power Solutions ("HPS") over his long tenure. John has been working closely under Bob and has seamlessly taken over the role and has been critical in our recent capacity gains.

As we see continued tailwinds across North America, I'm optimistic that our planned capacity additions are positioning us well for further growth and will ensure our position as the preferred choice of power solutions by our customers.

ADRIAN THOMAS
CHIEF EXECUTIVE OFFICER

Management's Discussion and Analysis

Hammond Power Solutions Inc. ("HPS" or the "Company") enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

Hammond Power Solutions – Energizing Our World

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated financial position and performance for the three months ended March 30, 2024, and April 1, 2023, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2024. This information is based on Management's knowledge as at April 29, 2024. 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 2023 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2023 MD&A. All amounts are reported under IFRS Accounting 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.sedarplus.ca, 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, Hammond Power Solutions Inc.'s (the "Corporation" or "HPS") strategies, intentions, plans, beliefs, expectations and estimates, in connection with general economic and business outlook, prospects and trends of the industry, expected demand for products and services, product development and the Corporation's competitive position. Forward-looking statements 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 the Corporation 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 risks related to foreign currency fluctuations and changing interest rates); risks associated with the Corporation's business environment (such as risks associated with the financial condition of the oil and gas, mining and infrastructure project business); geopolitical risks; climate related risks; changes in laws and regulations; operational risks (such as risks related to existing and developing new products and services; doing business with partners and suppliers) product sales and performance; legal and regulatory proceedings; dependence on certain customers and suppliers; costs associated with raw materials, products and services; human resources; and the ability to execute strategic plans. The Corporation 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.

This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated, expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

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 represents EBITDA adjusted for foreign exchange gain or loss and share based compensation. This definition has changed in 2023 due to the significant value associated with share-based compensation during the year. Comparative figures have also been presented. Net cash or net indebtedness is defined as the bank operating lines of credit net of cash and cash equivalents. Net income taxes payable or receivable is defined as current income taxes receivable less current income taxes payable. Operating earnings, EBITDA and Adjusted EBITDA are some of the measures the Company uses to evaluate operational profitability. Net cash or net indebtedness and net income taxes payable or receivable, are measures the Company uses to evaluate balance sheet strength. 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, net income taxes payable/receivable, 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 March 30, 2024, and April 1, 2023, is contained within this MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings determined in accordance with IFRS Accounting Standards.

"Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. Customer orders in Order bookings and Backlog may not have confirmed ship dates, as the customer may not know the date at which it would like to take delivery at the time of placing the order. A significant percentage of Order bookings could be cancelled by customers without penalty, provided HPS has not commenced purchasing or production for that order. "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.

The Company's Quarter 1, 2024 consolidated financial statements, which comprise the consolidated statements of financial position as at March 30, 2024, and April 1, 2023, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the three months ended March 30, 2024, and April 1, 2023, and Notes thereto, have been prepared under IFRS Accounting Standards.

Sales

Geography	**Q1, 2024**	Q1, 2023	$ Change	% Change
U.S. & Mexico*	130,732	118,804	11,928	10.0%
Canada	48,296	36,414	11,882	32.6%
India	11,652	15,916	(4,264)	(26.8%)
Total	**190,680**	**171,134**	**19,546**	**11.4%**

* When stated in U.S. dollars, U.S. and Mexico sales have increased from $87,944 in 2023 to $97,001 in 2024, an increase of $9,057 or 10.3%.

U.S. and Mexico sales were negatively impacted by the weakening of the U.S. dollar relative to the Canadian dollar versus 2023. First quarter sales were unfavourably affected by a 0.2% weaker U.S. dollar ("USD"), $1.00 USD = $1.348 Canadian dollar ("CAD") compared against $1.00 USD = $1.351 CAD in Quarter 1, 2023.

The U.S. market experienced its strongest growth in the distributor channel as the Company continued to grow sales with existing and new distributors. The Original Equipment Manufacturer ("OEM") channel also grew in the quarter, with strong sales to motor control, mining, and data centres.

Sales in the Canadian market experienced growth in commercial construction, electric vehicle ("EV") charging, data centres, public infrastructure, oil and gas, mining and utilities.

Indian sales for Quarter 1, 2024 were lower than Quarter 1, 2023 due to the 2023 value being bolstered by the recognition of $7,597 of revenue for an order produced and shipped in Quarter 4, 2022 that could not be recognized given sales terms of freight on board ("FOB") destination. At $11,652, sales were slightly higher than in Q4, 2023.

Quarter 1, 2024 sales stated by geographic segment were derived from U.S. sales of 68.6% (Quarter 1, 2023 – 69.4%) of total sales, Canadian sales of 25.3% (Quarter 1, 2023 – 21.3%) and Indian sales of 6.1% (Quarter 1, 2023 – 9.3%).

LATAM sales started the year at just over $2 million in US dollars, which reflects modest but steady growth in that region, while Mesta began the year with lower-than-expected sales due to order deferrals.

In total, sales are 11% higher than in Quarter 1, 2023, and 3% higher than Q4, 2023. As there was no price increase in 2023, the increase is primarily due to factors other than pricing. Overall, market pricing remained stable in Q1. While sales growth in the U.S. was strong in the first quarter at 10%, momentum has shifted in the past two quarters to Canada, which has experienced higher growth rates.

Backlog

The Company's Quarter 1, 2024 backlog increased by 11.1% as compared to Quarter 1, 2023. Strong demand in the back half of the year contributed to the high backlog increase from prior year. The Company's backlog has decreased 1.1% from the Quarter 4, 2023 value as our quarterly shipments reached record levels. For the past two quarters, bookings and shipments have been relatively well matched. As the backlog stabilizes, product lead times are no longer being pushed out and remain steady.

The backlog cycle is longer for large project driven, mostly custom product, which can be over one year for some factories. For those factories focused on standard product, the backlog does not generally extend beyond six to eight weeks. While a strong backlog should be viewed as a positive indicator of future business activity, long lead times are often a limiting factor for backlog growth, as excessive lead times will lead certain customers to seek alternate suppliers.

The backlog represents a customer's intent to buy, but not all orders in the backlog have firm ship dates, and in cases where work has not begun, many can be cancelled without penalty.

Gross margin

The Company saw a slight decrease in its gross margin rate for Quarter 1, 2024 which was 31.7% compared to Quarter 1, 2023 margin rate of 31.8%, a decrease of 0.1% of sales. The stability in gross margin is the result of operating leverage due to high factory throughput, price maintenance in the market and stabilizing cost inputs. Higher gross margins were achieved in all channels and regions and are supported by high demand for the Company's products. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend.

The increase in sales volumes in 2024, along with similar organic increases in 2023, resulted in some facilities operating close or at capacity. Over the past year and a half, we have been adding equipment to existing factories, which has allowed us to consistently increase shipping volumes without increasing overall square footage.

Offsetting this, we have begun construction on the new factory in Mexico, which, while not yet producing product, has incurred costs, resulting in lower gross margins of 0.3%. Gross margins were also negatively impacted in the quarter by lower margins in India in Q1 2024 versus 2023, and lower Mesta sales as a percentage of overall sales.

In the interest of protecting gross margins the Company has been proactive in anticipating cost increases, judicious in maintaining margins and conscientious of our customer relationships. Key inputs to our products include electrical steel, copper, aluminum, insulation, carbon steel, resin and fiberglass, as well as labour and overheads. While some of these inputs fluctuated and even eased during 2023 and early 2024, labour and overhead costs continued to increase, which necessitated a price increase in early 2024.

Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. The Company has reaped the benefits of higher absorption of factory overheads due to increased sales volume. Purchasing at scale, continuous improvement programs, a focus on higher-margin solutions and products, and maintaining flexible manufacturing capabilities will all contribute to the ability to maintain and improve margins over time.

Selling and distribution expenses

Total selling and distribution expenses were $21,067 in Quarter 1, 2024 or 11.0% of sales versus $17,489 in Quarter 1, 2023 or 10.2% of sales, an increase of $3,578 or 0.8% of sales. 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.

General and administrative expense

General and administrative expenses were $29,139 or 15.3% of sales for Quarter 1, 2024 compared to Quarter 1, 2023 expenses of $14,335 or 8.4% of sales, an increase of $14,804 or 6.9% of sales. Key drivers for the current quarter increase are as follows:

- The higher share price and additional awards granted in Quarter 1, 2024 has caused the share-based expenses to increase by $12,193 from prior year;
- Approximately $860 of the increase in the current year is associated with strategic investments in people resources and incentive plans; and
- Additional general and administrative expenses of $239 relate to the new infrastructure in Mexico.

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

Earnings from operations[1]

Quarter 1, 2024 earnings from operations were $10,299 compared to $22,623 for the same quarter last year, a decrease of $12,324. The decrease in earnings from operations in the quarter is primarily a result of higher selling, distribution, general and administrative expenses, offset by an increase in sales and gross margin dollars and lower income tax expense.

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

	Q1, 2024	Q1, 2023
Net earnings	$ 7,952	$ 15,726
Add (subtract):		
Income tax expense	2,795	6,166
Interest expense	217	200
Foreign exchange (gain) loss	(698)	498
Other	33	33
Earnings from operations	$ 10,299	$ 22,623

Net Finance and other costs

Net interest expense for Quarter 1, 2024 was $217, an increase of $17 compared to the Quarter 1, 2023 expense of $200. Interest expense includes all bank fees.

The foreign exchange gain in Quarter 1, 2024 was $698 compared to a loss of $498 in Quarter 1, 2023 – a change of $1,196. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts receivable and payable. The change of the foreign exchange expenses for the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar.

As at March 30, 2024, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $26,292 USD. Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans

[1] Refer to Non-GAAP financial measures on page 3 of this quarterly report.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

and outstanding forward exchange contracts for $41,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 1, 2024 income tax expense was $2,795 compared to $6,166 in Quarter 1, 2023, a decrease of $3,371 or 54.7%.

The consolidated effective tax rate[1] for Quarter 1, 2024 was 26.0% versus 28.2% for Quarter 1, 2023, a decrease of 2.2%. 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 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, 2024 finished at $7,952 compared to net earnings of $15,726 in Quarter 1, 2023, a decrease of $7,774. The decrease in the quarterly earnings from operations is primarily a result of higher selling, distribution, general and administrative expenses, offset by an increase in sales and gross margin dollars, and lower income tax expense.

Earnings per share

Basic earnings per share were $0.67 for Quarter 1, 2024 versus $1.32 in Quarter 1, 2023.

EBITDA

EBITDA for Quarter 1, 2024 was $14,999 versus $24,145 in Quarter 1, 2023, a decrease of $9,146 or 37.9%. Adjusted for foreign exchange loss/gain and share based compensation expenses adjusted EBITDA for Quarter 1, 2024 was $30,972 versus $29,121 in Quarter 1, 2023, an increase of $1,851 or 6.4%.

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

	Quarter 1, 2024	Quarter 1, 2023
Net earnings	$ 7,952	$ 15,726
Add:		
Interest expense	217	200
Income tax expense	2,795	6,166
Depreciation and amortization	4,035	2,053
EBITDA	$ 14,999	$ 24,145
Add (subtract):		
Long-term incentive plan ("LTIP") Expense	5,834	280
Deferred Share Units ("DSU") Expense	10,837	4,198
Foreign exchange (gain) loss	(698)	498
Adjusted EBITDA	$ 30,972	$ 29,121

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

Summary of quarterly financial information (unaudited)

Fiscal 2024 Quarters		Q1, 2024
Sales	$	190,680
Net earnings	$	7,952
Net earnings per share – basic	$	0.67
Net earnings per share – diluted	$	0.67
Average U.S. to Canadian exchange rate	$	1.348

Fiscal 2023 Quarters		Q1		Q2		Q3		Q4		Total
Sales	$	171,134	$	172,451	$	179,521	$	186,958	$	710,064
Net earnings	$	15,726	$	13,333	$	14,437	$	19,903	$	63,399
Net earnings per share – basic	$	1.32	$	1.12	$	1.21	$	1.68	$	5.33
Net earnings per share – diluted	$	1.32	$	1.12	$	1.21	$	1.68	$	5.33
Average U.S. to Canadian exchange rate	$	1.351	$	1.345	$	1.340	$	1.365	$	1.350

HPS sales have increased quarter-over-quarter for the past nine quarters, except for Quarter 4, 2022, with quarterly sales continuing to accelerate with Quarter 1, 2024 sales higher than any previous quarter. The Quarter 4, 2022 drop was related to the large India order that was shipped but unable to be recognized until Quarter 1, 2023 given the sales terms of freight on board destination. The increase in sales over the past nine quarters is a function of increased pricing, higher volume and additional sales related to Mesta and Mexico. Sales trends have been positively impacted by the stronger U.S. dollar exchange.

Gross margin rates for the quarter have remained stable in Quarter 1, 2024 versus increases in previous quarters. This margin rate improvement is attributed to higher operating leverage, pricing, a shift to higher margin products, and margin improvements in India.

Capital resources and liquidity

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

Cash generated in operating activities for Quarter 1, 2024 was $6,285 versus cash used by operations of $10,466 in Quarter 1, 2023, a difference of $16,751. In Quarter 1, 2024, non-cash working capital used cash of $16,310 compared to $35,034 for the same quarter last year. While working capital increased in both periods, the increase was more significant in Quarter 1 2023. The increase in working capital in 2023 was the result of a steep increase in quarterly sales. In Quarter 1, 2024, the increase was due to an increase in sales, as well as large seasonal disbursements for bonuses and customer rebates.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Total cash generated by financing activities was $1,133 in the first three months of 2024, compared to $4,061 in the same period in 2023. The key driver of this change is the higher advances of bank operating lines in the current year.

Cash used in investing activities increased year-over-year with cash used of $7,244 in Quarter 1, 2024 from $2,014 in Quarter 1, 2023, an increase of $5,230. Capital expenditures were $7,487 in Quarter 1, 2024 compared to $2,010 for Quarter 1, 2023, an increase of $5,477. This investment is associated with our multi-year capital expansion plans to support growth.

Bank operating lines of credit have increased from prior year levels finishing Quarter 1, 2024 at $22,981 compared to $12,615 at the end of Quarter 1, 2023, an increase of $10,366. The bank operating lines of credit have increased $4,510 since the year-end balance of $18,471. The increase in the bank operating lines of credit during Quarter 1, 2024 is due to increased working capital usage and capital expenditures.

The Company's overall net operating cash balance was $30,893[1], a decrease of $3,227 from the net operating cash balance of $34,120[2] at December 31, 2023. The Quarter 1, 2023 net operating debt balance was $7,127[3], a change of $23,766 as of Quarter 1, 2024.

All bank covenants continue to be met as at March 30, 2024.

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 investment 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.

	2024	2025	2026	2027	2028 & Thereafter	Total
Accounts payable and accrued liabilities	$ 129,861	–	–	–	–	$ 129,861
Capital expenditure purchase commitments	15,015	–	–	–	–	15,015
Bank operating lines	22,981	–	–	–	–	22,981
Lease liabilities	5,604	4,362	3,357	1,922	3,797	19,042
Contingent liabilities	2,185	–	–	–	–	2,185
Total	$ 175,646	$ 4,362	$ 3,357	$ 1,922	$ 3,797	$ 189,084

[1] Overall net operating cash balance is the cash and cash equivalents balance of $53,874 net of the bank operating lines of credit of $22,981.
[2] Overall net operating cash balance is the cash and cash equivalents of $52,591 net of bank operating lines of credit of $18,471.
[3] Overall net operating cash balance is the cash and cash equivalents of $19,742 net of bank operating lines of credit $12,615.

Regular quarterly dividend

The Board of Directors of HPS declared a quarterly cash dividend of fifteen cents ($0.15) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of fifteen cents ($0.15) per Class B Common Share of HPS paid on March 28, 2024 to shareholders of record at the close of business on March 21, 2024. The ex-dividend date was March 20, 2024.

The Board of Directors of HPS declared a quarterly cash dividend of twenty-seven and half cents ($0.275) per Class A subordinate voting shares of HPS and a quarterly cash dividend of twenty-seven and half cents ($0.275) per Class B common shares of HPS payable on June 25, 2024 to shareholders of record at the close of business on June 18, 2024. The ex-dividend date is June 18, 2024.

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 IFRS Accounting 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, 2024 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting, but nothing considered at a material level.

Risks and uncertainties

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However, as with most businesses, HPS is subject to a number of 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 curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Market supply and demand impact on commodity prices

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, therefore affecting our ability to ship products to customers. One commodity that is specific to the transformer industry is grain-oriented electrical steel ("GOES"). GOES is produced in relatively few mills in the world and as a result HPS is heavily reliant on foreign sourced products. The Company attempts to mitigate these commodity risks through supplier agreements and supplier diversification.

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 rapidly escalating commodity costs through timely and effective selling price increases. Conversely, there is a risk that decreasing commodity costs will create competitive price pressure in our market, forcing prices down and reducing our gross margins.

Other business risks

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

Attraction and retention of skilled talent

Hammond Power Solutions is known for its engineering depth and expertise. As we enter into broader power electronics solutions, a key to our continual continued growth along with maintaining our current core business, will be our ability to acquire and retain key engineering talent. As the world moves to electrification to support decarbonization, as well as on-shoring of critical components within North America, competition for top-tier engineers to rival companies has been elevated. As our world undergoes electrification, another significant transformation is occurring as a substantial number of baby boomers retire. HPS, too, experiences the effects of these demographic changes, particularly in the retirement of key and essential skill sets.

The demand for skilled engineering professionals is exceeding the available global supply, making it harder to find and attract the right talent locally or globally. This is leading to extended recruitment lead times, increased salary expectations and elevating labour costs. The need to choose a candidate quickly due to multiple competing offers can lead to a misalignment in terms of cultural fit. This misalignment has the potential to compromise both the quality of our projects and the cohesion of our teams, all while posing a challenge to maintaining our organizational culture during periods of rapid expansion. Our culture serves as a pivotal component of our brand reputation within our market.

Given organizations are competing for limited engineering resources, the risk of poaching or high turnover remains a concern. Proactive and creative recruitment strategies, competitive compensation packages and intentional retention strategies to preserve cultural fit are ways of ensuring these risks to delivering our growth initiatives are mitigated.

Fighting Against Forced Labour and Child Labour in Supply Chains Act

The *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (previously known as Bill S-211) came into force in Canada on January 1, 2024. This legislation imposes mandatory reporting obligations on Canadian and international businesses regarding forced and child labor in their supply chains. Entities falling under the *Act's* definitions must submit annual reports by May 31, 2024. Failure to comply with the *Act* can result in significant business risks, including legal penalties, reputational damage, supply chain disruptions, and market access challenges. Management of the Corporation has no knowledge of non-compliance in its supply chain and in an effort to ensure compliance, has engaged a consulting firm to assist with supply chain due diligence and to meet its reporting obligations to the Ministry of Labour.

Risk of cyber attack

Globally there have been increased incidences of outside cyberattacks 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 several initiatives to mitigate exposure, including a transition to cloud-based applications, periodic risk assessments, and more robust practices around employee training and awareness and system updates.

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

HPS' 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.

HPS does business in a host of countries around the world. Approximately 75% of our sales are to customers outside of Canada. In addition, several 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 a number 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 several 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 times 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 competetiveness, expand capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will hold even greater importance in its ability 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 management's 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.

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 2023 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2024, other than transactions disclosed in Note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2024 Report.

Proposed transactions

The Company had no proposed transactions as at March 30, 2024. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at March 30, 2024, the Company had outstanding foreign exchange contracts in place for 14,500 EUR and $26,922 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $41,000 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 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 2023 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 that 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 value 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 March 30, 2024, are as follows:

9,126,624	Class A Shares
2,778,300	Class B Common Shares
11,904,924	Total Class A and B Shares

Strategic direction and outlook

HPS has a rich and extensive history of growth, innovation and resilience and continues to experience significant growth and progress. 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 National Association of Equipment Distributors ("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 has fueled HPS' recent growth and the backlog is indicative of a steady demand profile in our markets. Growth rates in certain sectors, like commercial construction and industrial applications showed evidence of beginning to level out at the end of 2023. Commodity costs stabilized during the year protecting gross margin rates. It has been, and is, HPS' objective to maintain gross margins while delivering value to our customers. We will continue to do so in the future.

We continue to add new distributors and have implemented additional infrastructure in place 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.

Our acquisition of Mesta in 2021 has expanded HPS' offering into standard and custom active filter and induction heating products. Mesta shares an excellent reputation for product quality, design and reliability. Mesta not only expands HPS' U.S. presence but also broadens our power solutions product offering and manufacturing capabilities in power quality solutions. Mesta continues to contribute to both the increase in revenue as well as the increase in profits. Expansion of Mesta's building started at the end of 2023 and continues into 2024.

During Quarter 1, 2024 HPS made significant investments in capital to continue to enhance our manufacturing plants and build capacity. As we grow, we are investing in equipment and machinery that will allow us to keep up with future demand and allow us to optimize our manufacturing capabilities at our various locations. We are also investing in business technology that will help us become more efficient and provide us with the data that we need to improve our business.

With a focus on growth and advancement, HPS intends to increase its capital program by approximately $2 million over 2023 through 2025. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage distribution power, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives. During the quarter, HPS took possession of an approximately 110,000 square foot small products facility in Mexico, while also adding equipment to existing facilities there. HPS is also expanding its manufacturing capacity at the Mesta location in Pennsylvania, U.S., as well as its facility in Guelph, Ontario, Canada.

In March 2024 HPS signed a settlement agreement for the sale and purchase of the Italian plant. The Group exercised its put option, specifying the final plant purchase price was equal to 1,850,000 Euros ("EUR"). The final negotiations resulted in a net settlement amount of 1,050,000 EUR ($1,535,000 CAD). This agreement settled all outstanding disputed receivables and liabilities as well as the need for significant repairs to the roof of the building.

HPS entered into a financing agreement with SmartD Technologies Inc. ("SmartD") during Quarter 1, 2024. In the agreement, the Corporation will invest up to $3.9 million over three years in convertible debentures of SmartD. SmartD Technologies produces advanced motor control products, most notably it's Clean Power Variable Frequency Drive™. SmartD's products combine motor drives with harmonic mitigating technology that helps businesses save energy, lower costs, and minimize their carbon footprint.

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 distributor 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.

The Company continues to have a strong reputation for 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.

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 for HPS.

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 2024. 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	2019	2020	2021	2022	**2023**
Sales	358,792	322,097	380,202	558,464	**710,064**
Earnings from operations	20,543	22,041	23,151	59,441	**86,721**
EBITDA	28,175	29,482	30,114	69,746	**95,995**
Net earnings	11,607	14,062	15,176	44,828	**63,399**
Total assets	214,953	189,394	235,099	302,673	**408,343**
Non-current liabilities	11,271	8,329	7,104	8,101	**12,500**
Total liabilities	105,186	75,478	109,097	125,779	**177,965**
Total shareholders' equity attributable to equity holders of the Company	109,767	113,916	126,002	176,894	**230,378**
Operating debt, net of cash	(9,326)	(1,278)	1,638	21,972	**34,120**
Cash provided by operations	17,810	19,683	20,447	37,013	**44,108**
Basic earnings per share	0.99	1.20	1.29	3.79	**5.33**
Diluted earnings per share	0.99	1.20	1.28	3.77	**5.33**
Dividends declared and paid	3,287	3,993	4,009	4,556	**6,548**
Average exchange rate (USD$=CAD$)	1.327	1.343	1.253	1.301	**1.350**
Book value per share	9.36	9.70	10.69	15.00	**19.54**

	2022			**2023**				**2024**
Quarterly Information	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Sales	137,476	148,953	144,253	171,134	172,451	179,521	186,958	190,680
Earnings from operations	10,046	16,118	20,369	22,623	18,957	20,480	24,661	10,299
EBITDA	12,225	18,970	24,093	24,145	21,444	23,657	26,749	14,999
Net earnings	6,505	11,531	18,223	15,726	13,333	14,437	19,903	7,952
Total assets	283,852	315,864	302,673	327,166	339,358	373,761	408,343	422,778
Non-current liabilities	5,793	6,640	8,101	9,413	9,800	8,373	12,500	11,893
Total liabilities	140,791	152,187	125,779	135,572	138,863	155,952	177,965	184,440
Total shareholders' equity attributable to equity holders of the Company	143,061	163,677	176,894	191,594	200,495	217,809	230,378	238,338
Operating cash	9,542	21,843	5,352	7,127	11,717	22,130	34,120	30,893
Cash (used in) provided by operations	14,623	16,501	1,837	(10,466)	12,295	22,159	21,053	6,285
Basic earnings per share	0.55	0.97	1.55	1.32	1.12	1.21	1.68	0.67
Diluted earnings per share	0.55	0.97	1.53	1.32	1.12	1.21	1.68	0.67
Dividends declared and paid	1,183	1,184	1,183	1,488	1,488	1,787	1,785	5,062
Average exchange rate (USD$=CAD$)	1.276	1.305	1.358	1.351	1.345	1.340	1.365	1.348
Book value per share	12.13	13.88	15.00	16.31	17.01	18.47	19.54	20.29

Consolidated Statements of Financial Position

(unaudited) (in thousands of dollars)

	As at	
	March 30, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 53,874	$ 52,591
Accounts receivable	136,312	128,030
Inventories	114,081	114,590
Income taxes receivable	5,602	4,278
Prepaid expenses and other assets (note 4)	6,841	9,949
Total current assets	$ 316,710	$ 309,438
Non-current assets		
Property, plant and equipment (note 5)	71,589	65,841
Investment in properties (note 6)	4,189	2,940
Deferred tax assets	12,031	11,798
Intangible assets	6,337	6,590
Goodwill	11,922	11,736
Total non-current assets	106,068	98,905
Total assets	$ 422,778	$ 408,343
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 22,981	$ 18,471
Accounts payable and accrued liabilities	129,861	126,360
Deferred revenue	8,560	5,721
Income taxes payable	950	4,602
Provisions	3,349	3,923
Current portion of lease liabilities (note 7)	6,846	6,388
Total current liabilities	$ 172,547	$ 165,465
Non-current liabilities		
Provisions	310	307
Deferred tax liabilities	196	22
Long-term portion of lease and other liabilities (note 7)	11,387	12,171
Total non-current liabilities	11,893	12,500
Total liabilities	$ 184,440	$ 177,965
Shareholders' Equity		
Share capital	15,761	15,761
Contributed surplus	2,289	2,289
Accumulated other comprehensive income (note 9)	13,700	8,630
Retained earnings	206,588	203,698
Total shareholders' equity	$ 238,338	$ 230,378
Total liabilities and shareholders' equity	$ 422,778	$ 408,343

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Operations

(unaudited) (in thousands of dollars except for per share amounts)

	Three Months Ending			
		March 30, 2024		April 1, 2023
Sales (note 10)	$	190,680	$	171,134
Cost of sales		130,175		116,687
Gross margin		60,505		54,447
Selling and distribution		21,067		17,489
Other general and administrative		12,468		9,857
Share based compensation		16,671		4,478
Total general and administrative		29,139		14,335
		50,206		31,824
Earnings from operations		10,299		22,623
Finance and other costs				
Interest expense		217		200
Foreign exchange (gain) loss		(698)		498
Other		33		33
Net finance and other (income) costs		(448)		731
Earnings before income taxes		10,747		21,892
Income tax expense		2,795		6,166
Net earnings	$	7,952	$	15,726
Earnings per share				
Basic earnings per share	$	0.67	$	1.32
Diluted earnings per share	$	0.67	$	1.32

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of dollars except for per share amounts)

	Three Months Ending	
	March 30, 2024	April 1, 2023
Net earnings	$ 7,952	$ 15,726
Other comprehensive income		
Foreign currency translation differences for foreign operations (note 9)	5,070	28
Total comprehensive income for the period	$ 13,022	$ 15,754

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the three months ended March 30, 2024

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2024	$ 15,761	$ 2,289	$ 8,630	$ 203,698	$ 230,378
Total comprehensive income for the year					
Net earnings	–	–	–	7,952	7,952
Other comprehensive income					
Foreign currency translation differences (note 9)	–	–	5,070	–	5,070
Total other comprehensive loss	–	–	5,070	–	5,070
Total comprehensive income for the year	–	–	5,070	7,952	13,022
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(5,062)	(5,062)
Total transactions with shareholders	–	–	–	(5,062)	(5,062)
Balance at March 30, 2024	$ 15,761	$ 2,289	$ 13,700	$ 206,588	$ 238,338

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

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the three months ended April 1, 2023

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2023	$ 15,240	$ 2,376	$ 12,431	$ 146,847	$ 176,894
Total comprehensive income for the year					
Net earnings	–	–	–	15,726	15,726
Other comprehensive income					
Foreign currency translation differences (note 9)	–	–	28	–	28
Total other comprehensive loss	–	–	28	–	28
Total comprehensive income for the year	–	–	28	15,726	15,754
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(1,488)	(1,488)
Stock options exercised	521	(87)	–	–	434
Total transactions with shareholders	521	(87)	–	(1,488)	(1,054)
Balance at April 1, 2023	$ 15,761	$ 2,289	$ 12,459	$ 161,085	$ 191,594

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

Condensed Consolidated Statements of Cash Flows

(unaudited) (in thousands of dollars) For the three months ended April 1, 2023

	Three Months Ended	
	March 30, 2024	April 1, 2023
Cash flows from operating activities		
Net earnings	$ 7,952	$ 15,726
Adjustments for:		
Amortization of property, plant and equipment	3,763	1,843
Amortization of intangible assets	272	210
Provisions	(571)	55
Interest expense	217	200
Income tax expense	2,795	6,166
Share-based compensation expense	16,671	4,478
Change in unrealized (gain) loss of derivatives included within other assets	(733)	279
	30,366	28,957
Change in non-cash working capital (note 12)	(16,310)	(35,034)
Cash generated by (used in) operating activities	14,056	(6,077)
Income tax paid	(7,771)	(4,389)
Net Cash generated by (used in) operating activities	6,285	(10,466)
Cash flows from investing activities		
Receipt of lease receivable payment	1,545	46
Investment (note 6)	(1,300)	–
Acquisition of intangible assets	(2)	(50)
Acquisition of property, plant and equipment (note 5)	(7,487)	(2,010)
Cash used in investing activities	(7,244)	(2,014)
Cash flows from financing activities		
Net advances of bank operating lines of credit	4,510	6,461
Proceeds from issue of share capital	–	434
Payment of lease liabilities (note 7)	(1,585)	(887)
Cash dividend paid (note 8)	(1,786)	(1,488)
Payment of contingent consideration	–	(336)
Interest paid	(6)	(123)
Cash generated by financing activities	1,133	4,061
Foreign exchange on cash held in a foreign currency	1,109	35
Increase (decrease) in cash	1,283	(8,384)
Cash and cash equivalents at beginning of period	52,591	28,126
Cash and cash equivalents at end of period	$ 53,874	$ 19,742

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

The Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended March 30, 2024 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe.

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 April 29, 2024.

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, 2023.

Three months ended March 30, 2024 and April 1, 2023 (tabular 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 2023 annual audited financial statements, which are available on SEDAR+'s website at www.sedarplus.ca. 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, 2023, with the exception of items noted below:

Changes to accounting policies

- Classification of liabilities as current or non-current (Amendments to IAS 1) and Non-current liabilities with covenants (Amendments to IAS 1); and
- Lease liability in a sale and leaseback (Amendments to IFRS 16).

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2024. The adoption of the amendments did not have a material impact on the consolidated financial statements.

4. Prepaid expenses and other assets

	March 30, 2024	December 31, 2023
Prepaid expenses	$ 6,841	$ 8,414
Current portion of long-term lease and note receivable	–	1,535
	$ 6,841	$ 9,949

On March 14, 2024 the Group and the purchaser signed a settlement agreement for the sale of one of its buildings in Italy. The Group exercised its put option, specifying the final plant purchase price was equal to 1,850,000 EUR. The final negotiations resulted in a net settlement amount of 1,050,000 EUR ($1,535,000 CAD). This agreement settled all outstanding disputed receivables and liabilities as well as the need for significant repairs to the roof of the building. The transfer of ownership and title was executed on March 28, 2024.

5. 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:

	March 30, 2024	December 31, 2023
Property, plant and equipment owned	$ 56,380	$ 50,357
Right-of-use asset	15,209	15,484
	$ 71,589	$ 65,841

The Group had acquisitions of property, plant and equipment owned for the three months ended March 30, 2024, in the amount of $7,487,000 (2023 – $2,010,000).

Three months ended March 30, 2024 and April 1, 2023 (tabular amounts in thousands of dollars except share and per share amounts)

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, 2024	$ 14,707	$ 769	$ 8	$ 15,484
Additions	–	173	–	173
Depreciation	(1,287)	(101)	(3)	(1,391)
Disposals	(448)	–	–	(448)
Effects of movement in exchange rates	1,369	22	–	1,391
Balance at March 30, 2024	$ 14,341	$ 863	$ 5	$ 15,209

6. Investments

	March 30, 2024	December 31, 2023
Investment in properties	$ 2,889	$ 2,940
Investment in convertible debentures	1,300	–
	$ 4,189	$ 2,940

On March 22, 2024, HPS entered into a financing agreement with SmartD Technologies Inc. (“SmartD”). In the agreement, the Corporation will invest up to $3.9 million over three years in convertible debentures of SmartD. SmartD Technologies produces advanced motor control products, most notably it’s Clean Power Variable Frequency DriveTM. SmartD’s products combine motor drives with harmonic mitigating technology that help businesses save energy, lower costs and minimize their carbon footprint.

Three months ended March 30, 2024 and April 1, 2023 (tabular amounts in thousands of dollars except share and per share amounts)

7. Lease and other long-term liabilities

	March 30, 2024	December 31, 2023
Lease liabilities	$ 16,048	$ 16,421
Contingent consideration	2,185	2,138
	$ 18,233	$ 18,559
Current	$ 6,846	$ 6,388
Non-Current	$ 11,387	$ 12,171

Maturity analysis – contractual undiscounted cash flows	March 30, 2024	December 31, 2023
Less than one year	$ 5,604	$ 5,500
One to five years	11,022	11,838
More than five years	2,416	2,877
Total undiscounted lease liabilities	$ 19,042	$ 20,215
Less: effect of discounting and foreign exchange	$ (2,994)	$ (3,794)
Lease liabilities included in the statement of financial position	$ 16,048	$ 16,421
Current	$ 4,661	$ 4,250
Non-current	$ 11,387	$ 12,171

	Three Months Ended	
Amounts recognized in statement of operations	March 30, 2024	April 1, 2023
Interest on lease liabilities	$ 211	$ 77

	Three Months Ended	
Amounts recognized in statement of cash flows	March 30, 2024	April 1, 2023
Payment of lease liabilities	$ 1,585	$ 887

Three months ended March 30, 2024 and April 1, 2023 (tabular amounts in thousands of dollars except share and per share amounts)

8. Share capital

a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ended			
	March 30, 2024		December 31, 2023	
42.5 cents per Class A common share (2023: 12.5 cents)	$	3,881	$	1,141
42.5 cents per Class B common share (2023: 12.5 cents)		1,181		347
	$	5,062	$	1,488

On March 27, 2024, the Company declared a dividend of twenty-seven and a half cents ($0.275) per Class A subordinate voting shares of HPS and a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class B common shares of HPS payable on June 25, 2024 to shareholders of record at the close of business on June 18, 2024. The ex-dividend date is June 18, 2024. The liability of $3,276,000 has been included in accounts payable and accrued liabilities.

b) Deferred Share Units

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

The movement in DSUs for the three months ended March 30, 2024 was as follows:

	Number of DSUs		**Closing Share Price**
Balance at January 1, 2024	168,135	$	81.70
DSUs issued	1,335		115.80
Balance at March 30, 2024	169,470	$	145.00

An expense of $10,836,500 (Quarter 1, 2023 - $4,198,000) for the quarter was recorded in general and administrative expenses. The liability of $24,573,000 (December 31, 2023 - $8,531,000) related to these DSUs is included in accounts payable and accrued liabilities.

c) Long Term Incentive Plan

The Long Term Incentive Plan ("LTIP") consists of an annual grant made to the Chief Executive officer and other executive officers of Performance Share Units ("PSU") and Restricted Share Units ("RSU").

The movement in DSUs for the three months ended March 30, 2024 was as follows:

	Number of PSUs	**Number of RSUs**	**Total Number of Units**		**Closing Share Price**
Balance at January 1, 2024	67,239	44,825	112,064	$	81.70
Units issued	6,232	4,156	10,388		117.26
Balance at March 30, 2024	73,471	48,981	122,452	$	145.00

An expense of $5,834,000 (2023 – $280,000) was recorded in general and administrative expenses. The liability of $13,803,000 (2023 - $1,882,000) related to these PSUs and RSUs is included in accounts payable and accrued liabilities.

Three months ended March 30, 2024 and April 1, 2023 (tabular amounts in thousands of dollars except share and per share amounts)

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 three months ended March 30, 2024 was $5,070,000 (Quarter 1, 2023 – $28,000), of which $5,070,000 (Quarter 1, 2023 – $28,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at March 30, 2024 of accumulated other comprehensive income of $13,700,000 (April 1, 2023 – $12,459,000).

10. Sales

	Three Months Ended	
	March 30, 2024	April 1, 2023
United States and Mexico	$ 130,732	$ 118,804
Canada	48,296	36,414
India	11,652	15,916
	$ 190,680	$ 171,134

As at March 30, 2024 the Company had contract liabilities of $8,560,000 (December 31, 2023 – $10,062,000).

11. Related party transactions

Related parties

William G. Hammond, Chair of the Board, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 2023 – 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 923,802 (December 31, 2023 – 923,802) Class A subordinate voting shares of the Company, representing approximately 10.1% (2023 – 10.1%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chair of the Board, 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 $555,000 (Quarter 1, 2023 – $466,500).

Three months ended March 30, 2024 and April 1, 2023 (tabular amounts in thousands of dollars except share and per share amounts)

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 Ended	
	March 30, 2024	April 1, 2023
Accounts receivable	$ (8,282)	$ (36,115)
Inventories	509	4,175
Prepaid expenses	2,030	(136)
Accounts payable and accrued liabilities	(16,170)	(3,595)
Deferred revenue	2,839	(545)
Foreign exchange	2,764	1,182
	$ (16,310)	$ (35,034)

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
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Delta Transformers Inc.
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Corporate Information

Corporate Officers and Directors

Officers

John Bailey
Chief Operations Officer

Paul Gaynor
Chief Information Officer

David Kinsella
Chief Commercial Officer

Catherine McKeown
Chief People Officer

Adrian Thomas
Chief Executive Officer & Director

Richard C. Vollering
Chief Financial Officers & Corporate Secretary

Directors

Dahra Granovsky
Corporate Human Resources and Compensation Member

William G. Hammond
Chair of the Board

Christopher R. Huether
Governance Member

Frederick M. Jaques
Governance Chair

Grant C. Robinson
Lead Director
Audit Member

Anne Marie Turnbull
Corporate Human Resources and Compensation Chair

David Wood
Audit Chair

Stock Exchange Listing

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

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