Q3 Report 2023

For the nine months ended September 30, 2023

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to our Shareholders

I am pleased to share with you my first quarterly letter as the new CEO of Hammond Power Solutions. It has been an exciting and rewarding first two months for me, as I have travelled to many of our facilities, meeting our passionate and talented people who are working hard to make HPS a leader in the electrification of our world. During this time, I have also met various stakeholders of our company, such as customers, investors and suppliers.

We continue to have a strong financial performance, with revenue growth of 20% year-over-year and an EBITDA margin of 13% in the last quarter. This is being driven by our activity in various key market segments and the continued growth of our distribution channel. We continue to see strong demand across our portfolio, especially in custom power units that serve renewable and data centre applications. HPS continues to progress with our previously announced capital plan, and we have recently approved an additional capital expenditure to address expected long-term demand in these and other industrial markets. Continuous improvement programs have progressively increased plant productivity, and the addition of staff and equipment have increased our production rates.

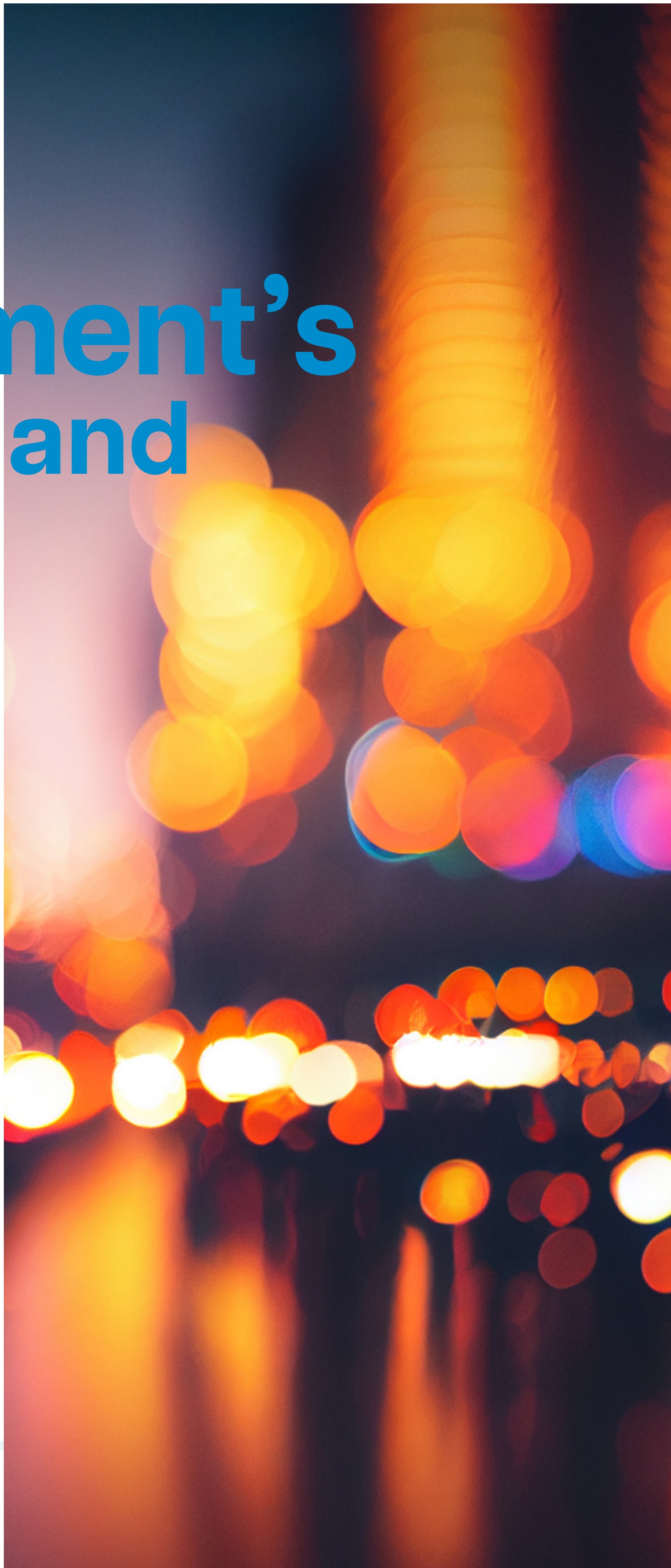
As we look ahead, we are confident that we can continue to deliver value to our shareholders, customers and employees. We continue to carefully watch for the potential of economic moderation in North America, however at this point we are still seeing strong demand across the geography. Long term, we have a clear vision and strategy for the future of HPS , which is to expand our power quality solutions and continue to develop our distribution partners, especially in the U.S., Mexico and LATAM markets. HPS is in a great position to capitalize on the growing demand for clean and efficient energy solutions.

We will continue our culture of excellence and flexibility that drives us to constantly improve and exceed customer expectations. Our commitment to sustainability and social responsibility guides us to make a positive impact on the environment and society.

I would like to close by extending my gratitude and thanks to Bill, our executive team and the board of directors for their tremendous support in this transition. I am honored and humbled to lead this amazing company and look forward to our exciting future.

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 nine months ended September 30, 2023 and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2023. This information is based on Management's knowledge as at October 26, 2023. 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 2022 Annual Report and accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2022 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. 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 September 30, 2023 and October 1, 2022 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.

"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.

The Company's Quarter 3, 2023 consolidated financial statements, which comprise the consolidated statements of financial position as at September 30, 2023 and October 1, 2022, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the nine months ended September 30, 2023 and October 1, 2022, and Notes thereto, have been prepared under IFRS.

Sales

Sales for the quarter-ended September 30, 2023 were at a record level of $179,521, an increase of $30,568 or 20.5% from Quarter 3, 2022 sales of $148,953. Year-to-date 2023 sales increased $108,895 or 26.3% to $523,106 compared to $414,211 in 2022.

Sales in the United States ("U.S.") and Mexico increased by $25,782 or 24.8%, finishing at $129,762 for Quarter 3, 2023 compared to $103,980 in Quarter 3, 2022. Year-to-date U.S. and Mexican sales were $365,876 in 2023 and $281,015 in 2022, an increase of $84,861 or 30.2%. U.S. and Mexican sales, stated in U.S. dollars, were $96,818 in Quarter 3, 2023 compared to Quarter 3, 2022 of $79,709, an increase of $17,109 or 21.5%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were $272,008 in 2023 and $218,957 in 2022, an increase of $53,052 or 24.2%.

Third quarter sales were favourably affected by a 2.7% stronger U.S. dollar ("USD"), $1.00 USD = $1.34 Canadian dollar ("CAD") compared against $1.00 USD =

$1.30 CAD in Quarter 3, 2022. Year-to-date sales have been positively impacted by a 4.9% stronger U.S. dollar - $1.00 USD = $1.35 CAD compared against $1.00 USD = $1.28 CAD in 2022.

Year-to-date, sales growth has been driven primarily by the U.S. distribution network and private label sales. Despite the weakening of some economic sectors, our commercial and industrial segments have remained robust. The Original Equipment Manufacturer ("OEM") channel grew slightly in the quarter and year-to-date, with higher sales supporting electric vehicle ("EV") charging, data centres, variable frequency drives, private branded items and mining.

Sales from the Mesta Electronics Inc. ("Mesta") business are included in U.S. sales. Sales for Mesta for Q3 2023, stated in Canadian dollars, were $6,145 versus $5,808 in Quarter 3, 2022, an increase of $337 or 5.8%. Year-to-date Mesta sales were $15,879 in 2023 and $11,727 in 2022, an increase of $4,152 or 35.4% contributing to the overall increase in sales. The Mexico market continued to grow in the quarter and over prior year with sales of $1,549 for the quarter and $7,460 year-to-date.

Canadian sales increased to $41,969 for the quarter, an increase of $2,705 or 6.9% from Quarter 3, 2022 sales of $39,264. Year-to-date Canadian sales were $123,925 in 2023 and $114,189 in 2022, an increase of $9,736 or 8.5%. While the Canadian market has not experienced the same levels of demand as the U.S., growth is being positively impacted by many of the same market trends benefitting the U.S.

Year-to-date 2023, HPS estimates an organic sales volume increase of 13.0% (10.0% excluding the deferred India shipment referred to below), versus 2022. The Company has not implemented any price increases since the second quarter of 2022 but is still seeing some benefit from past increases in the quarter. Price increases accounted for 8.0% of the increase in sales 2023 versus 2022.

Indian sales for Quarter 3, 2023 finished at $7,790 versus $5,709 in Quarter 2, 2022, an increase of $2,081 or 36.5%. Year-to-date Indian sales were $33,305 in 2023 and $19,007 in 2022, an increase of $14,298 or 75.2%. Shipments for Quarter 1, 2023 were bolstered due to 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. Shipments were slightly down in the third quarter versus the second due to delayed shipments. Demand in the Indian and Southeast Asian market remains strong in the utility, industrial and renewable sectors.

Quarter 3, 2023 sales stated by geographic segment were derived from U.S. sales of 72.3% (Quarter 3, 2022 – 69.8%) of total sales, Canadian sales of 23.4% (Quarter 3, 2022 – 26.4%) and Indian sales of 4.3% (Quarter 3, 2022 – 3.8%). Year-to-date sales by geographic segment were U.S. sales of 69.9% (2022 – 67.8%) of total sales, Canadian sales of 23.7% (2022 – 27.6%) and Indian sales of 6.4% (2022 – 4.6%).

HPS' focus continues to be dedicated to its growth strategy. The Company's efforts are concentrated on capital expenditures to increase capacity, building out the U.S. distribution network, product and geographic diversification, and vertical integration strategies. Maintaining and strengthening the Company's reputation in the marketplace for service, quality, engineering expertise, and ease of doing business, will allow the Company to continue to grow revenue and market share globally.

Backlog

The Company's Quarter 3, 2023 backlog increased by 40.3% as compared to Quarter 3, 2022. The combination of price increases and strong demand later in 2022 and the first half of 2023 contributed to the high backlog increase from prior year. The Company's backlog has increased 11.3% from Quarter 2, 2023 as our quarterly shipments reached record levels. Increased bookings occurred across all of our geographical segments and a number of customer markets. As the backlog continues to be high, 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.

High quotation activity and a growing backlog support optimism for the future. HPS remains cautiously optimistic given the many macro-economic trends favouring the electrical industry, including onshoring, public and private investment in renewable energy, infrastructure, data centres, electrical vehicle ("EV") charging, investment in mining, oil and gas production and semi-conductor production – all of which the Company participates in. Tempering this optimism is the possibility of a general economic decline as a result of continually rising interest rates, which could affect one or more of the sectors noted above, and possibly result in backlog order cancellations. To manage the impact of sector volatility, the Company widened its distributor footprint in North America, expanded its Mexican and Indian market presence, broadened its Power Quality product portfolio, invested in new product development and developed its manufacturing capabilities.

Gross margin

The gross margin rate for Quarter 3, 2023 was 31.7% compared to Quarter 3, 2022 margin rate of 29.2%, an improvement of 2.4% of sales. The year-to-date gross margin rate was 31.5% in 2023 versus 27.9% in 2022, an increase of 3.6%. The improvement in gross margin rate is the result of better operating leverage due to high factory throughput, past price increases, a higher proportion of Mesta and power quality sales, and margin improvements in India. 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. Higher gross margins were achieved in all channels and regions.

The continued increase in sales volumes in 2023, along with similar organic increases in 2022, resulted in many facilities operating close or at capacity. This continued volume increase has resulted in higher fixed overhead leverage and as a result, higher gross margins. The increase in capital spending on property, plant and equipment during 2023 and 2024 is to support increased sales and remove capacity limitations on certain products and locations.

Purchasing at scale, continuous improvement programs, a focus on higher-margin solutions and products, and maintaining flexible manufacturing capabilities will all contribute to maintaining and improving margins over time.

Selling and distribution expenses

Total selling and distribution expenses were $19,856 in Quarter 3, 2023 or 11.1% of sales versus $16,433 in Quarter 3, 2022 or 11.0% of sales, an increase of $3,423 and 0.1% of sales. Year-to-date selling and distribution expenses were $56,295 or 10.8% of sales in 2023 compared to $46,192 or 11.2% of sales in 2022, an increase of $10,103 but a decrease of 0.4% 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 $16,504 or 9.2% of sales for Quarter 3, 2023 compared to Quarter 3, 2022 expenses of $10,976 or 7.4% of sales, an increase of $5,528 and 1.8% of sales. Year-to-date general and administration expenses were $46,261 or 8.8% of sales in 2023 compared to $30,274 or 7.3% of sales in 2022, an increase of $15,987 or 1.5% of sales. Key drivers for the year-over-year increase are as follows:

- The higher share price and additional awards granted in Quarter 1, 2022 has caused the Deferred Share Units ("DSU") expense to increase $6,135 from prior year;

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- Higher Long Term Incentive Plan ("LTIP") costs due to increased share price;
- Compensation due to the addition of key personnel, including the CEO;
- Higher costs associated with higher business activity, such as travel, entertainment and warehousing costs; and
- Higher costs associated with strategic investments in people including performance-based incentive plans.

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

Earnings from operations[1]

Quarter 3, 2023 earnings from operations were $20,480 compared to $16,368 for the same quarter last year, an increase of $4,112. Year-to-date the earnings from operations were $62,060 in 2023 compared to $39,072 in 2022, an increase of $22,988 or 58.8%. The increase in earnings from operations in the quarter and year-to-date are 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:

	Quarter 3, 2023	Quarter 3, 2022	YTD 2023	YTD 2022
Net earnings	$ 14,437	$ 11,531	$ 43,496	$ 26,605
Add/(Subtract):				
Income tax expense	6,470	4,358	17,819	10,562
Interest expense	265	448	960	1,060
Foreign exchange (gain) loss	(725)	(2)	(313)	751
Share of income of investment in joint venture	–	–	–	(4)
Other	33	33	98	98
Earnings from operations	$ 20,480	$ 16,368	$ 62,060	$ 39,072

Net finance and other costs

Interest expense for Quarter 3, 2023 was $265, a decrease of $183 compared to the Quarter 3, 2022 expense of $448. Year-to-date interest expense was $960 in 2023 and $1,060 in 2022, a decrease of $100. The decreased interest in the quarter and year-to-date is due to higher average net cash balances. Interest expense includes all bank fees.

The foreign exchange gain in Quarter 3, 2023 was $725 compared to a foreign exchange gain of $2 in Quarter 3, 2022 – a change of $723. Year-to-date the foreign exchange gain was $313 in 2023 compared to foreign exchange loss of $751 in 2022, a change of $1,064. The year-to-date 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

[1] Refer to non-GAAP financial measures on page 6 of this quarterly report.

the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar.

As at September 30, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $30,263 USD. Both were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for $45,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 3, 2023 income tax expense was $6,470 compared to $4,358 in Quarter 3, 2022 an increase of $2,112 or 48.5%. Year-to-date income tax expenses was $17,819 in 2023 compared to $10,562 in 2023, an increase of $7,257 or 68.7%.

The consolidated effective tax rate[1] for Quarter 3, 2023 was 30.9% and Quarter 3, 2022 was 27.4%, reflecting an increase of 3.5%. Year-to-date the effective tax rates were 29.1% in 2023 and 28.4% in 2022, an increase of 0.6%. 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 3, 2023 finished at $14,437 compared to net earnings of $11,531 in Quarter 3, 2022, an increase of $2,906 or 25.2%. Net earnings year-to-date were $43,496 in 2023 and $26,605 in 2022, an increase of $16,891 or 63.5%. The increase in the quarterly and year-to-date 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 $1.21 for Quarter 3, 2023 versus $0.97 in Quarter 3, 2022, an increase of $0.24. Year-to-date the basic earnings per share were $3.65 in 2023 compared to $2.25 in 2022, an increase of $1.41.

EBITDA

EBITDA for Quarter 3, 2023 was $23,657 versus $18,970 in Quarter 3, 2022, an increase of $4,687 or 24.7%. Year-to-date EBITDA was $69,246 in 2023 compared to $45,653 in 2022, an increase of $23,593 or 51.7%. Adjusted for foreign exchange gains and loss and deferred share unit expense, adjusted EBITDA for Quarter 3, 2023 was $23,489 versus $19,233 in Quarter 3, 2022, an increase of $4,256 or 22.1%. Year-to-date adjusted EBITDA was $76,318 in 2023 and $47,654 in 2022, an increase of $28,664 or 60.2%.

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

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

	Quarter 3, 2023	Quarter 3, 2022	YTD 2023	YTD 2022
Net earnings	$ 14,437	$ 11,531	$ 43,496	$ 26,605
Add:				
Interest expense	265	448	960	1,060
Income tax expense	6,470	4,358	17,819	10,562
Depreciation and amortization	2,485	2,633	6,971	7,426
EBITDA	$ 23,657	$ 18,970	$ 69,246	$ 45,653
Add:				
Foreign exchange (gain) loss	(725)	(2)	(313)	751
DSU expense	557	265	7,385	1,250
Adjusted EBITDA	$ 23,489	$ 19,233	$ 76,318	$ 47,654

Summary of quarterly financial information (unaudited)

Fiscal 2023 Quarter	Q1, 2023	Q2, 2023	Q3, 2023	YTD Total
Sales	$ 171,134	$ 172,451	$ 179,521	$ 523,106
Net earnings	$ 15,726	$ 13,333	$ 14,437	$ 43,496
Net earnings per share – basic	$ 1.32	$ 1.12	$ 1.21	$ 3.65
Net earnings per share – diluted	$ 1.32	$ 1.12	$ 1.21	$ 3.65
Average U.S. to Canadian exchange rate	$ 1.351	$ 1.345	$ 1.340	$ 1.345

Fiscal 2022 Quarters	Q1, 2022	Q2, 2022	Q3, 2022	Q4, 2022	Total
Sales	$ 127,782	$ 137,476	$ 148,953	$ 144,253	$ 558,464
Net earnings	$ 8,569	$ 6,505	$ 11,531	$ 18,223	$ 44,828
Net earnings per share – basic	$ 0.72	$ 0.55	$ 0.97	$ 1.55	$ 3.79
Net earnings per share – diluted	$ 0.72	$ 0.55	$ 0.97	$ 1.53	$ 3.77
Average U.S. to Canadian exchange rate	$ 1.267	$ 1.276	$ 1.305	$ 1.358	$ 1.301

HPS has continued a trend of sales increases quarter-over-quarter for the past two years, with the exception of Quarter 4, 2022. Quarterly sales continue to grow, with Quarter 3, 2023 sales significantly higher than any quarter in 2022. The Quarter 4, 2022 drop was related to a 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 eleven quarters is a function of increased pricing as well as higher volume and additional sales related to Mesta and Mexico. There continues to be an upward trend over the past eleven quarters due to sector tailwinds in the markets and applications into which Company sells – namely EV charging, renewables, data centres, semiconductors, as well as our traditional mining, oil and gas, and commercial and industrial markets. Sales have also been positively impacted by the stronger U.S. dollar exchange.

Gross margin rates for the quarter have increased from the same quarter last year. 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 by operating activities for Quarter 3, 2023 was $22,159 versus $16,501 in Quarter 3, 2022, an increase in cash generated of $5,658. Year-to-date the net cash generated by operating activities was $23,988 in 2023 compared to $31,661 in 2022, a decrease of $7,673. This decrease in operating cash flow is the result of an increase in cash used for working capital and tax payments offset by an increase in net earnings.

In Quarter 3, 2023, non-cash working capital generated cash of $8,326 compared to cash generation of $4,386 for the same quarter last year, an increase of $3,940. Year-to-date, non-cash working capital used cash of $20,502 in 2023 compared to cash generated of $882 in 2022, a change of $21,384. Working capital changes are primarily related to a significant increase in accounts receivables, as a result of increasing sales partially offset by an increase in accounts payable and accruals related to increased purchases.

Total cash generated by financing activities was $1,150 in the third quarter of 2023, compared to $4,083 in the same period in 2022. Year-to-date the cash generated by financing activities was $7,693 in 2023, and cash generated of $998 in 2022. 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 $9,225 in Quarter 3, 2023 from $3,127 in Quarter 3, 2022, an increase of $6,098. Year-to-date cash used in investing activities was $15,548 in 2023 and $6,250 in 2022, an increase of $9,298. Capital expenditures were $9,231 in Quarter 3, 2023 compared to $3,129 for Quarter 3, 2022, an increase of $6,102. Year-to-date capital expenditures were $15,550 in 2023 and $6,006 in 2022. The previously announced investments in increased capacity are contributing to increased spending in capital expenditures as the year progresses. HPS also purchased the building that houses the Mesta operations in the second quarter of 2023.

Bank operating lines of credit have decreased from prior year levels finishing Quarter 3, 2023 at $22,423 compared to $26,633 at the end of Quarter 3, 2022, a decrease of $4,210. The bank operating lines of credit have increased $16,269 since the year-end balance of $6,154. The increase in the bank operating lines of credit during 2023 is due to increased working capital usage and increased capital expenditures.

The Company's overall net operating cash balance was $22,130[1], an increase of $158 from the net operating cash balance of $21,972[2] at December 31, 2022. The Quarter 3, 2022 net operating cash balance was $21,843[3], a change of $287 as of Quarter 3, 2023.

All bank covenants continue to be met as at September 30, 2023.

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.

[1] Overall net operating cash balance is the cash and cash equivalents of $44,553 net of the bank operating lines of credit of $22,423.

[2] Overall net operating cash balance is the cash and cash equivalents of $28,126 net of bank operating lines of credit of $6,154.

[3] Overall net operating cash balance is the cash and cash equivalents of $48,476 net of bank operating lines of credit of $26,633.

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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.

	2023	2024	2025	2026	2027 & Thereafter	Total
Accounts payable and accrued liabilities	$ 107,438	–	–	–	–	$ 107,438
Capital expenditure purchase commitments	13,694	–	–	–	–	13,694
Bank operating lines	22,423	–	–	–	–	22,423
Lease liabilities	3,979	3,354	2,015	1,008	185	10,541
Contingent liabilities	834	1,350	–	–	–	2,184
Total	$ 148,368	$ 4,704	$ 2,015	$ 1,008	$ 185	$ 156,280

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 September 22, 2023 to shareholders of record at the close of business on September 15, 2023. The ex-dividend date was September 14, 2023. The Company has paid a cash dividend of forty cents ($0.40) per Class A Subordinate Voting Share and forty cents ($0.40) per Class B Common Shares year-to-date.

Controls and procedures

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

During Quarter 3, 2023 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.

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

Market supply and demand impact on commodity prices

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 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 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.

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 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.

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. Recent public investment in electrical infrastructure, particularly in the U.S. is a key driver for demand in the electrical industry. A reversal of these policies could lead to reduced demand for our products.

Our industry is highly competitive.

HPS faces competition in all 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. Although backlog is a useful indicator of future economic activity, a portion of the orders in the backlog could be canceled without penalty, thereby affecting future sales. 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 its ability to respond quickly to both unexpected opportunities and challenges. HPS' management believes that the key to expanding our market share is increasing our access to a variety of domestic and global markets. This will be achieved through our current and new OEM and distributor channels.

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 a number of 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, divestures, 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. Over 70% 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, making it difficult or impossible to deliver our products or disrupting our global material sourcing.

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 the manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk. This risk is partially mitigated by management's credit policy under which each new customer is analyzed individually for creditworthiness before the 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 2022 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2023, other than transactions disclosed in Note 9 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 3, 2023 Report.

Proposed transactions

The Company had no proposed transactions as at September 30, 2023. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at September 30, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 EUR and $30,263 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $45,000 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 2022 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 by 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 involves 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 September 30, 2023 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. 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 expedite with sales volumes climbing at an accelerating rate. Commodity costs and supply shortages appear to have stabilized and are not as a significant challenge as they were a year ago. We have seen improvements in business activity and demand and the Company expects to see continued growth in revenues. 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.

HPS has continued 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. We are seeing gains in this market as we focus on relationship building.

Our most recent 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. During Quarter 2, 2023 the Mesta manufacturing location building, which was previously leased, was purchased. Expansion of this building is planned for the end of 2023 and into 2024.

HPS has modern manufacturing facilities throughout the world, and this continues to be enhanced through our committed capital investment. 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. Our focus in this area is evident by the high spending on capital expenditures for the first nine months of 2023.

With a continued focus on growth and advancement, HPS intends to increase its planned capital program by approximately $50 million over 2023 and 2024. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives. HPS intends to focus the capital program primarily in Mexico and the U.S. In Mexico, HPS is working on building an approximately 80,000 square foot small products facility, while also adding equipment to existing facilities there. HPS also expects to expand its manufacturing capacity at the Mesta location in Pennsylvania, USA, as well as its facility in Guelph, Ontario, Canada.

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 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 Third Quarter of 2023. 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	2018	2019	2020	2021	**2022**
Sales	314,082	358,792	322,097	380,202	**558,464**
Earnings from operations	13,779	20,543	22,041	23,151	**59,441**
EBITDA	17,915	28,175	29,482	30,114	**69,746**
Net (loss) earnings	(12,917)	11,607	14,062	15,176	**44,828**
Total assets	205,527	214,953	189,394	235,099	**302,673**
Non-current liabilities	2,528	11,271	8,329	7,104	**8,101**
Total liabilities	96,793	105,186	75,478	109,097	**125,779**
Total shareholders' equity attributable to equity holders of the Company	108,734	109,767	113,916	126,002	**176,894**
Operating debt, net of cash	(17,056)	(9,326)	(1,278)	1,638	**21,972**
Cash provided by operations	6,474	17,810	19,683	20,447	**37,013**
Basic (loss) earnings per share	(1.10)	0.99	1.20	1.29	**3.79**
Diluted (loss) earnings per share	(1.10)	0.99	1.20	1.28	**3.77**
Dividends declared and paid	2,818	3,287	3,993	4,009	**4,556**
Average exchange rate (USD$=CAD$)	1.294	1.327	1.343	1.253	**1.301**
Book value per share	9.26	9.36	9.70	10.69	**15.00**

	2021		2022				2023	
Quarterly Information	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	116,278	127,782	137,476	148,953	144,253	171,134	172,451	179,521
Earnings from operations	6,220	12,658	10,046	16,368	20,369	22,623	18,957	20,480
EBITDA	8,693	14,458	12,225	18,970	24,093	24,145	21,444	23,657
Net earnings	4,241	8,569	6,505	11,531	18,223	15,726	13,333	14,437
Total assets	235,099	253,340	283,852	315,864	302,673	327,166	339,358	373,761
Non-current liabilities	7,104	6,170	5,793	6,640	8,101	9,413	9,800	8,373
Total liabilities	109,097	119,565	140,791	152,187	125,779	135,572	138,863	155,952
Total shareholders' equity attributable to equity holders of the Company	126,002	133,775	143,061	163,677	176,894	191,594	200,495	217,809
Operating debt, net of cash	1,638	(905)	9,542	21,843	5,352	7,127	11,717	22,130
Cash (used in) provided by operations	19,900	537	14,623	16,501	1,837	(10,466)	12,295	22,159
Basic earnings per share	0.36	0.72	0.55	0.97	1.55	1.32	1.12	1.21
Diluted earnings per share	0.35	0.72	0.55	0.97	1.53	1.32	1.12	1.21
Dividends declared and paid	1,002	1,006	1,183	1,184	1,183	1,488	1,488	1,787
Average exchange rate (USD$=CAD$)	1.258	1.267	1.276	1.305	1.358	1.351	1.345	1.340
Book value per share	10.69	11.39	12.13	13.88	15.00	16.31	17.01	18.47

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of dollars)

	As at			
		September 30, 2023		December 31, 2022
Assets				
Current assets				
Cash and cash equivalents	$	44,553	$	28,126
Accounts receivable		125,301		86,701
Inventories		109,042		106,353
Income taxes receivable		3,696		1,995
Prepaid expenses and other assets		7,515		6,948
Total current assets		290,107		230,123
Non-current assets				
Property, plant and equipment (note 4)		55,418		41,742
Investment in properties		2,958		3,121
Deferred tax assets		6,436		8,013
Intangible assets		6,865		7,650
Goodwill		11,977		12,024
Total non-current assets		83,654		72,550
Total assets	$	373,761	$	302,673
Liabilities				
Current liabilities				
Bank operating lines of credit	$	22,423	$	6,154
Accounts payable and accrued liabilities		107,438		92,301
Deferred revenue		7,665		10,607
Income taxes payable		3,675		2,342
Provisions		1,837		1,840
Current portion of lease liabilities (note 5)		4,541		4,434
Total current liabilities	$	147,579	$	117,678
Non-current liabilities				
Provisions		746		979
Deferred tax liabilities		-		117
Long-term portion of lease liabilities (note 5)		7,627		7,005
Total non-current liabilities		8,373		8,101
Total liabilities	$	155,952	$	125,779
Shareholders' Equity				
Share capital		15,761		15,240
Contributed surplus		2,289		2,376
Accumulated other comprehensive income (note 7)		14,179		12,431
Retained earnings		185,580		146,847
Total shareholders' equity		217,809		176,894
Total liabilities and shareholders' equity	$	373,761	$	302,673

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		Nine Months Ending	
	September 30, 2023	October 1, 2022	**September 30, 2023**	October 1, 2022
Sales (note 8)	$ 179,521	$ 148,953	$ 523,106	$ 414,211
Cost of sales	122,681	105,176	358,490	298,673
Gross margin	56,840	43,777	164,616	115,538
Selling and distribution	19,856	16,433	56,295	46,192
General and administrative	16,504	10,976	46,261	30,274
	36,360	27,409	102,556	76,466
Earnings from operations	20,480	16,368	62,060	39,072
Finance and other costs				
Interest expense	265	448	960	1,060
Foreign exchange (gain) loss	(725)	(2)	(313)	751
Share of income of investment in joint venture	–	–	–	(4)
Other	33	33	98	98
Net finance and other costs	(427)	479	745	1,905
Earnings before income taxes	20,907	15,889	61,315	37,167
Income tax expense	6,470	4,358	17,819	10,562
Net earnings	$ 14,437	$ 11,531	$ 43,496	$ 26,605
Earnings per share				
Basic earnings per share	$ 1.21	$ 0.97	$ 3.65	$ 2.25
Diluted earnings per share	$ 1.21	$ 0.97	$ 3.65	$ 2.25

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of dollars)	Three Months Ending				Nine Months Ending			
	September 30, 2023		October 1, 2022		**September 30, 2023**		October 1, 2022	
Net earnings	$	14,437	$	11,531	$	43,496	$	26,605
Other comprehensive income								
Foreign currency translation differences for foreign operations (note 7)		4,664		10,269		1,748		14,145
Total comprehensive income for the period	$	19,101	$	21,800	$	45,244	$	40,750

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the nine months ended September 30, 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	–	–	–	43,496	43,496
Other comprehensive income					
Foreign currency translation differences (note 7)	–	–	1,748	–	1,748
Total comprehensive income for the year	–	–	1,748	43,496	45,244
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 6)	–	–	–	(4,763)	(4,763)
Stock options exercised (note 6)	521	(87)	–	–	434
Total transactions with shareholders	521	(87)	–	(4,763)	(4,329)
Balance at September 30, 2023	$ 15,761	$ 2,289	$ 14,179	$ 185,580	$ 217,809

*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 nine months ended October 1, 2022

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2022	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002
Total comprehensive income for the year					
Net earnings	–	–	–	26,605	26,605
Other comprehensive income					
Foreign currency translation differences (note 7)	–	–	14,145	–	14,415
Total comprehensive income for the year	–	–	14,145	26,605	40,750
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 6)	–	–	–	(3,373)	(3,373)
Stock options exercised (note 6)	354	(56)	–	–	298
Total transactions with shareholders	354	(56)	–	(3,373)	(3,075)
Balance at October 1, 2022	$ 15,240	$ 2,376	$ 16,254	$ 129,807	$ 163,677

*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)

	Nine Months Ending	
	September 30, 2023	October 1, 2022
Cash flows from operating activities		
Net earnings	$ 43,496	$ 26,605
Adjustments for:		
Share of income of investment in joint venture	–	(4)
Amortization of property, plant and equipment	6,342	5,878
Amortization of intangible assets	629	1,548
Provisions	(236)	(189)
Interest expense	960	1,060
Income tax expense	17,819	10,562
Change in unrealized loss on derivatives included within other assets	(290)	(2,226)
Share based compensation	(6,043)	(873)
	62,677	42,361
Change in non-cash working capital (note 10)	(20,502)	882
Cash generated by operating activities	42,175	43,243
Income tax paid	(18,187)	(11,582)
Net cash generated by operating activities	23,988	31,661
Cash flows from investing activities		
Receipt of lease receivable payments	140	129
Acquisition of intangible assets	(138)	(373)
Acquisition of property, plant and equipment (note 4)	(15,550)	(6,006)
Cash used in investing activities	(15,548)	(6,250)
Cash flows from financing activities		
Net advances of bank operating lines of credit	16,269	7,366
Proceeds from issue of share capital (note 6)	434	298
Payment of lease liabilities (note 5)	(2,914)	(2,396)
Cash dividends paid (note 6)	(4,763)	(3,373)
Payment of contingent consideration	(675)	–
Interest paid	(658)	(897)
Cash generated by financing activities	7,693	998
Foreign exchange on cash held in a foreign currency	294	1,162
Increase in cash	16,427	27,571
Cash and cash equivalents at beginning of period	28,126	20,905
Cash and cash equivalents at end of period	$ 44,553	$ 48,476

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 third quarter ended September 30, 2023 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 October 26, 2023.

(b) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires Management to make judgements, 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, 2022.

Nine months ended September 30, 2023 and October 1, 2022 (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 2022 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, 2022, with the exception of items noted below:

Changes to accounting policies

- Insurance contracts (IFRS 17 and amendments to IFRS 17);
- Definition of accounting estimates (Amendments to IAS 8);
- Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements); and
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes).

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2023. 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:

	September 30, 2023	December 31, 2022
Property, plant and equipment owned	$ 46,673	$ 34,789
Right-of-use assets	8,745	6,953
	$ 55,418	$ 41,742

The Group had acquisitions of property, plant and equipment owned for the nine months ended September 30, 2023, in the amount of $10,917,000 of machinery and equipment and $4,633,000 of land and building (2022 –$6,006,000 of machinery and equipment).

Nine months ended September 30, 2023 and October 1, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

Right of use of 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, 2023	$ 6,529	$ 403	$ 21	$ 6,953
Additions	1,895	2,615	–	4,510
Depreciation	(2,024)	(469)	(6)	(2,499)
Disposal	(449)	–	–	(449)
Effect of movements in exchange rates	216	14	–	230
Balance at September 30, 2023	$ 6,167	$ 2,563	$ 15	$ 8,745

5. Lease and other long-term liabilities

	September 30, 2023	December 31, 2022
Lease liabilities	$ 9,984	$ 8,593
Contingent consideration	2,184	2,846
	$ 12,168	$ 11,439
Current	4,541	4,434
Non-current	7,627	7,005

Maturity analysis – contractual undiscounted cash flows	**September 30, 2023**	December 31, 2022
Less than one year	$ 3,979	$ 3,198
One to five years	6,562	5,905
More than five years	–	–
Total undiscounted lease liabilities	$ 10,541	$ 9,103
Less: effect of discounting and foreign exchange	$ (557)	$ (510)
Lease liabilities included in the statement of financial position	$ 9,984	$ 8,593
Current	$ 3,707	$ 2,925
Non-current	$ 6,277	$ 5,668

	Nine Months Ended	
Amounts recognized in statement of operations	**September 30, 2023**	October 1, 2022
Interest on lease liabilities	$ 302	$ 163

	Nine Months Ended	
Amounts recognized in statement of cash flows	**September 30, 2023**	October 1, 2022
Payment of lease liabilities	$ 2,914	$ 2,396

Nine months ended September 30, 2023 and October 1, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

6. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Nine Months Ending	
	September 30, 2023	October 1, 2022
40 cents per Class A subordinate voting shares (2022: 28.5 cents)	$ 3,651	$ 2,581
40 cents per Class B common shares (2022: 28.5 cents)	1,112	792
	$ 4,763	$ 3,373

(b) Stock option plan

During the nine months ended September 30, 2023, there were 70,000 options exercised at an exercise price of $6.20 resulting in cash proceeds of $434,000 and a transfer of $87,000 from contributed surplus. During the nine months ended October 1, 2022 there were 45,000 options exercised at an exercise price of $6.62 resulting in cash proceeds of $298,000 and a transfer of $56,000 from contributed surplus.

(c) Deferred Share Units

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

The movement in DSUs for the nine months ended September 30, 2023 was as follows:

	Number of DSUs	**Closing Share Price**
Balance at January 1, 2023	213,975	$ 20.12
DSUs issued	16,380	45.31
DSUs settled	(30,654)	43.79
Balance at September 30, 2023	199,701	$ 51.06

An expense of $7,385,000 (Quarter 3, 2022 - $1,250,000) for the nine months ended September 30, 2023 was recorded in general and administrative expenses. The liability of $10,196,000 (December 31, 2022 - $4,153,000) related to these DSUs is included in accounts payable and accrued liabilities.

7. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive income for the nine months ended September 30, 2023 was $1,748,000 (Quarter 3, 2022 – $14,145,000), of which $1,748,000 (Quarter 3, 2022 – $14,145,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at September 30, 2023 of accumulated other comprehensive income of $14,179,000 (October 1, 2022 – $16,254,000).

Nine months ended September 30, 2023 and October 1, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

8. Sales

	Three Months Ending		Nine Months Ending	
	September 30, 2023	October 1, 2022	**September 30, 2023**	October 1, 2022
Canada	$ 41,969	$ 39,264	$ 123,925	$ 114,189
United States and Mexico	129,762	103,980	365,876	281,015
India	7,790	5,709	33,305	19,007
	$ 179,521	$ 148,953	$ 523,106	$ 414,211

As at September 30, 2023, the Company had contract liabilities of $7,665,000 (December 31, 2022 – $10,607,000).

9. Related party transactions

Related parties

William G. Hammond, Chairman of the Company, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 2022 – 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, 2022 – 924,802) Class A subordinate voting shares of the Company, representing approximately 10.1% (2022 – 10.2%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, 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 $462,000 (Quarter 3, 2022 – $373,000).

10. Change in non-cash operating working capital

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

	Nine Months Ending	
	September 30, 2023	October 1, 2022
Accounts receivable	$ (38,600)	$ (14,692)
Inventories	(2,689)	(22,951)
Prepaid expenses	(720)	306
Accounts payable and accrued liabilities	21,456	25,271
Deferred revenue	(2,942)	–
Foreign exchange	2,993	12,948
	$ (20,502)	$ 882

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

Our purpose

We are passionate people energizing a better world

Our vision

To be a leader in the electrification of our world by providing power conversion solutions to our customers while positively impacting social and environmental sustainability.

Our mission

We are a talented, aligned, and collaborative team that is agile, engaged, and customer-centric. Our strong culture, technical expertise and reliability of execution allows us to meet our customers' and stakeholders' needs in an exceptional way.

Our values

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

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

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

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

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

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
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Brossard, Québec J4Y 0C4

India

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Patancheru Mandal, Sangreddy District,
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Italy

Hammond Power Solutions S.p.A.
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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

Hammond Power Solutions Latin America S. de R.L. de C.V.
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C.P. 67190

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Reno, Nevada 89511

Mesta Electronics, Inc.
11020 Parker Drive,
North Huntington, Pennsylvania 15642

Corporate Information

Corporate Officers and Directors

William G. Hammond
Chairman of the Board
Executive Chairman

Adrian Thomas
Director
Chief Executive Officer

Richard C. Vollering
Corporate Secretary
Chief Financial Officer

Dahra Granovsky
Director
Corporate Human Resources
and Compensation Member

Christopher R. Huether
Director
Governance Member

Fred M. Jaques
Director
Governance Chair

Grant C. Robinson
Lead Director
Audit Member

Anne Marie Turnbull
Director
Corporate Human Resources
and Compensation Chair

David M. Wood
Director
Audit Chair

Stock Exchange Listing

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

Registrar and Transfer Agent

Computershare Investor Share
Services Inc.
100 University Avenue
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Auditors

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Kitchener, ON N2G 0E1

Legal Representation

Dentons Canada LLP
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Toronto Dominion Centre
Toronto, Ontario M5K 0A1

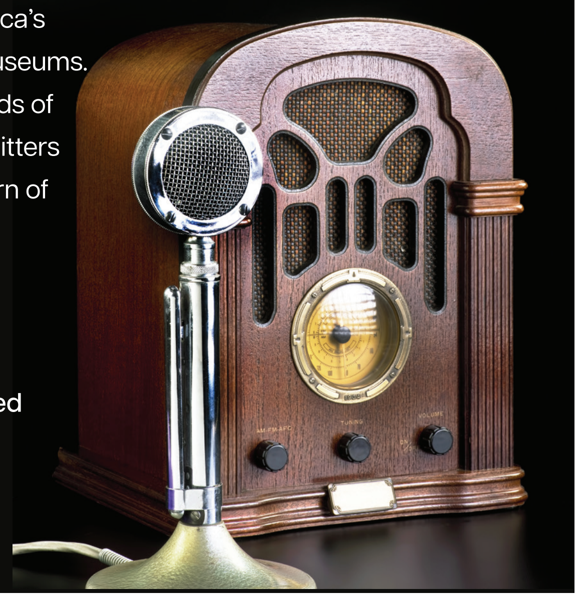
Banking Institution

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.



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

THE BEST WAY TO PREDICT THE FUTURE IS TO CREATE IT

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