Q3 Report

ACCELERATED IMPROVEMENT

For the nine months ended September 26, 2015

It is an exciting time to be in the transformer business and to have the strengths and diversity that we have built up in Hammond Power Solutions.

Hammond Power Solutions Inc.

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Fellow Shareholders,

I am very pleased to report as the year is coming to a close, Hammond Power Solutions Inc., ("HPS") has seen accelerated improvement in our financial performance. Both bookings and backlog are up significantly compared to Quarter 3, 2014, despite slow global economic conditions. This has resulted in stronger organic growth and an improved bottom line.

After experiencing a slow first half in the United States ("U.S.") associated to the negative impact of sliding oil prices and declining exports, our business has picked up gradually across multiple sectors and channels. Certain markets are expected to remain slow due to depressed global commodity prices and reduced consumption, while others related to markets such as non-residential and institutional construction are improving.

We are increasing our market share through our expanded distributor network and international sales continue to grow in both Europe and India despite very competitive market conditions in those regions. Even after a very soft first half in Canada, we are seeing gradually improving bookings trend from British Columbia as well as Central and Eastern Canada. We have delivered consistent overall gross margin levels compared to a year ago, in the face of intense competitive pressures and changes in our product mix due to a decline in Original Equipment Manufacturer ("OEM") markets.

Through all of this, it is clear that our diversity in geography, channels and markets have assisted us in weathering the unexpected volatility and challenges of the global economy over the last year. We are confident that our positive momentum will continue into the last quarter of 2015.

Looking forward at this time, we remain cautiously optimistic about 2016, while being mindful of the economic challenges that face us especially in Europe and in markets that are tied to commodities and energy. This muddling period of economic recovery has created the most interesting business environment in terms of both challenges and opportunities that we have faced in over 20 years. It is certainly an exciting time to be in the transformer business and to have the strengths and diversity that we have built up in HPS!

Q3 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the nine months ended September 26, 2015, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of Fiscal 2015. This information is based on Management's knowledge as at October 30, 2015. 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 2014 Annual Report and accordingly, the purpose of this document is to provide a third quarter update to the information contained in the Fiscal 2014 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 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. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings and EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending September 26, 2015 and September 27, 2014 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS. "Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended September 26, 2015 were $65,378, an increase of $3,820 or 6.2% over Quarter 3, 2014 sales of $61,558. Year-to-date sales were $193,899 compared to $183,227 in 2014, an increase of $10,672 or 5.8%.

Sales in the U.S. increased by $3,006 or 8.4%, finishing at $38,614 for Quarter 3, 2015 compared to $35,608 in Quarter 3, 2014. Year-to-date U.S. sales were $115,046 in 2015 and $104,291 in 2014, an increase of $10,755 or 10.3%. U.S. Quarter 3, 2015 sales were also favourably affected by a 19.3% weaker Canadian dollar ("CAD"), $1.00 USD = $1.30 CAD in Quarter 3, 2015 compared against $1.00 USD = $1.09 CAD in Quarter 3, 2014. Stated in U.S. dollars ("USD"), U.S. sales were $29,655 in Quarter 3, 2015 a decrease of $2,787 or 8.6% from Quarter 3, 2014 of $32,442. U.S. sales were supported by expansion of our North American Electrical Distributor ("NAED") footprint, increased sales in the switchgear market and growth in capital projects.

Canadian sales were $19,675 for the quarter, an increase of $1,357 or 7.4% from Quarter 3, 2014 sales of $18,318. Year-to-date Canadian sales were $55,519 in 2015 compared to 2014 sales of $54,883, an increase of $636 or 1.2%. Canadian sales year-to-date improvement is a result of increases in alternative energy, commercial projects and capital equipment market segments.

International sales for Quarter 3, 2015 were $7,089 versus $7,632 in Quarter 3, 2014, a decrease of $543 or 7.1%. The decrease in international sales is a result of the delayed timing of customer projects. Year-to-date international sales were $23,334 in 2015 and $24,053 in 2014, a decrease of $719 or 3.0%.

Past acquisitions have broadened the Company's product offering and manufacturing capabilities in cast resin transformer technology as well as expanded the HPS footprint into Europe and India. The Company will continue to grow its market share globally as a result of its expanded product offering, the addition of new customers, geographically diverse manufacturing capabilities and extended market reach. HPS' commitment to its growth strategy is evidenced by its acquisition activities, capital expenditure program and vertical integration strategies.

The Company continues to increase market share via its sales through distributor conversions and custom transformer capabilities. When comparing quarter over quarter, this increase has been sustained by modestly improved construction, alternative energy and capital equipment markets. The Company has generated sales opportunities in several market segments with its custom engineered product capabilities, breadth of product offering, global footprint and consistent, uncompromised quality. The increased quotation activity and lift in order booking rates support sales growth for the balance of 2015.

Geographically, Quarter 3, 2015 sales were derived from U.S. sales of 59.1% of total sales (Quarter 3, 2014 – 57.8%), Canadian sales of 30.1% (29.8%), and International sales of 10.8% (12.4%).

Global expansion continues to be an area of focus for HPS. The past several years have included strategic acquisitions that have built a foundation for global expansion, which combined with a strong distribution channel and multi-national manufacturing capacities, will continue to provide a competitive advantage and fuel revenue and profit growth.

The combination of manufacturing agility, competitive lead-times, broad product offering and global manufacturing capabilities will result in sales growth through new and existing customer sales. We are also focused on producing transformers of superior quality, engineered designs and new product development.

Order bookings and backlog

The Company increased bookings 18.4% over Quarter 3, 2014 due to stronger bookings in both the distributor and direct channels in North American and International markets.

Booking rates in the distributor channel increased 18.0% over Quarter 3, 2014. On a direct channel basis bookings exceeded Quarter 3, 2014 by 18.8%.

On a year-to-date basis, overall Company bookings have increased 14.1% over 2014. The distributor channel bookings increased by 11.8% and the direct channel bookings increased by 16.5%.

The Company also realized an increased backlog of 35.0% over Quarter 3, 2014 and an increase of 13.9% when compared to Quarter 2, 2015.

Quotation activity has increased significantly despite the slow world economy and improving North American OEM market conditions. This trends favorably going forward, as the Company is continuing to see a longer term booking horizon. It is expected that the Company's strategic sales initiatives, expanded distributor network and new products will result in growing improvement in our booking rates.

The Company is sensitive to the volatility and unpredictability of current global economies and the impact that this will have on booking trends. While several markets are seeing positive quotation and order trends, the Company is very cognizant of volatility and unpredictability in longer term booking rates.

Gross margin

Gross margin rates increased in Quarter 3, 2015 finishing at 23.8% compared to Quarter 3, 2014 margin rates of 22.2%, an improvement of 1.6% of sales. Year-to-date, the margin rate was 23.4% in 2015, an improvement of 0.5% compared to the 2014 rate of 22.9%. The Company's gross margin rates are impacted by customer and market mix, geographic blend and lower factory capacity utilization. While this quarter saw a respectable improvement in margin rates, the Company continues to see selling price pressures due to the available excess industry capacity. Raw material costs in Canada continue to be unfavourably impacted by the strengthened U.S. currency. Some of this impact has been offset by market specific pricing gains, increased U.S. sales, cost reduction and productivity initiatives which will protect gross margin rates.

There continues to be some modest signs of economic improvement, particularly in the U.S., however the markets continue to be somewhat unpredictable. The uncertain economic environment and slow global recovery have negatively impacted margin rates from a price and manufacturing throughput perspective. To mitigate this impact, the Company has continued with its cost reduction activities including variable manufacturing expense reductions and continues to advance its geographic footprint, new product development and manufacturing capabilities. A diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. While the additional fixed costs associated with capacity expansion are dilutive to net margin rates in the short-term, as sales grow, the favourable influence that higher manufacturing throughput will have on the absorption of our factory overheads, will positively impact margin rates. The Company's capacity expansion strategy is paramount for future increased sales demand from market share growth and sales from new products. HPS is confident in obtaining increased productivity improvements, cost reductions and lead-time improvements throughout the entire organization, and is confident that these actions will improve margin rates.

The Company has invested heavily in its capacity expansion initiatives in support of future sales growth, geographic diversification and new product development. The Company is steadfast in its growth strategies despite the shorter-term dilutive effect these investments have on gross margin rates, particularly during the global economic down turn. As manufacturing throughput increases, there is an accretive effect on margin rates which bodes well as sales increase. Gross margin rates are being negatively impacted by selling price pressures due to weak market conditions, as the Company is seeing unsustainable pricing from many of its competitors in the market place. Gross margin rates are supported by the maintenance of market price combined with material procurement and engineering cost reduction initiatives.

Selling and distribution expense

Total selling and distribution expenses were $7,286 in Quarter 3, 2015 or 11.1% of sales versus $7,014 in Quarter 3, 2014 or 11.4% of sales, an increase of $272 or 3.9%. Year-to-date selling and distribution expenses were $21,108 or 10.9% of sales in 2015 compared to $21,045 or 11.5% in 2014, a slight increase of $63 or 0.3%. The impact of the stronger U.S. dollar on our U.S. expenses resulted in a quarter over quarter increase of $506 or 6.9% and an increase of $1,144 dollars or 5.4% on our year-to-date expense. Despite the increased sales for the first three quarters of 2015, the associated variable commission, freight costs and the impact of the stronger U.S. dollar on our U.S. expenses, the Company effectively reduced its spending as a percentage of sales.

General and administrative expense

The general and administrative expenses for Quarter 3, 2015 totaled $5,794 or 8.9% of sales, compared to Quarter 3, 2014 expenses of $5,710 or 9.3% of sales, a slight increase of $84 or 1.5%. Year-to-date general and administrative expenses were $17,661 or 9.1% of sales in 2015, compared to $16,914 or 9.2% of sales in 2014, an increase of $747 or 4.4%. The impact of the stronger U.S. dollar on our U.S. expenses resulted in a quarter over quarter increase of $263 or 4.5% and an increase of $594 dollars or 3.4% on our year-to-date expense. The Company continues to manage its general and administrative expenses prudently.

Earnings from operations

Quarter 3, 2015 earnings from operations were $2,475, an increase of $1,560 or 170.5% from $915 for the same quarter last year. The improvement in the quarter is a result of higher sales and a substantial increase in the gross margin rate. The year-to-date earnings from operations were $6,544 in 2015 compared to $3,988 in 2014, an improvement of $2,556 or 64.1%.

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

	Quarter 3, 2015	Quarter 3, 2014	**YTD 2015**	YTD 2014
Net earnings	**$ 1,092**	$ 260	**$ 2,969**	$ 1,716
Add:				
Income tax expense	**970**	69	**2,463**	1,167
Net finance and other costs	**413**	586	**1,112**	1,105
Earnings from operations	**$ 2,475**	$ 915	**$ 6,544**	$ 3,988

Interest expense

Interest expense for Quarter 3, 2015 finished at $296, comparable to the Quarter 3, 2014 expense of $251. Year-to-date interest cost was $676, a decrease of $91 when compared to the 2014 year-to-date expense of $767. Interest expense fluctuations are impacted by changes in the level of the operating lines of credit, vacillation of changes in working capital and interest rates needs. The 2015 interest rate has increased slightly compared to the 2014 rate. Interest expense includes all bank fees.

Foreign exchange gain/loss

The foreign exchange gain in Quarter 3, 2015 was $69 compared to a loss of $303 in Quarter 3, 2014. This gain during the quarter relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. For the first nine months of 2015, the Company realized a foreign exchange loss of $117 compared to a foreign exchange loss of $240 for the same period in 2014. The foreign exchange loss is primarily related to the increased volatility in the exchange rates during the past year where the U.S. dollar gained 19.4% from September 2014.

As at September 26, 2015, the Company had outstanding foreign exchange contracts in place for 11,000 Euros ("EUR") and $7,500 USD – both implemented as a hedge against translation gains and losses on inter-company loans as well as $26,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Income taxes

Quarter 3, 2015 income tax expense was $970 as compared to $69 in Quarter 3, 2014, an increase of $901. Year-to-date income tax expense was $2,463 in 2015 and $1,167 in 2014, an increase of $1,296 or 111.1%. The significant increases in the income tax expense for the quarter and year-to-date are a result of increased income before income taxes for both periods.

The consolidated effective tax rate for Quarter 3, 2015 was 47.0% versus 21.0% for Quarter 3, 2014, an increase of 26.0%. The year-to-date effective tax rate for the first nine months of 2015 was 45.3% compared to 40.5% for the same period in 2014, an increase of 4.8%. The changes in the effective tax rates are impacted by changes in the entity earnings mix of the Company. Generated from different tax jurisdictions, the Company's income is subject to different tax rates and regulations. The effect of minimum tax regulations in Italy has a significant impact the elevated effective tax rate in the quarter and year.

Deferred tax assets and liabilities consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities, and are not deductible against current year earnings. Deferred tax assets and liabilities relate to temporary differences resulting from intangible assets and the difference between the net book value and un-depreciated capital cost of property, plant and equipment.

Net earnings

Net earnings for Quarter 3, 2015 increased by $832 or 320.0% and finished at $1,092 compared to net earnings of $260 in Quarter 3, 2014. This growth in the quarter earnings is a result of higher sales, improved gross margin rates and a foreign exchange gain this quarter compared to Quarter 3, 2014. Year-to-date net earnings were $2,969 in 2015 and $1,716 in 2014, an increase of $1,253 or 73.0%. This increase is a result of both higher sales as well as higher gross margin rates.

The Company continues to anticipate further improvements going forward as it increases traction with its operational and strategic initiatives in addition to some economic improvement.

EBITDA

EBITDA for Quarter 3, 2015 was $4,163 versus $2,234 in Quarter 3, 2014, an increase of $1,929 or 86.3%. Adjusted for foreign exchange gains and losses, EBITDA for Quarter 3, 2015 was $4,094 versus $2,537 in Quarter 3, 2014, an increase of $1,557 or 61.4%.

Year-to-date EBITDA was $11,155 in 2015 and $8,806 in 2014, an increase of $2,349 or 26.7%. Adjusted year-to-date EBITDA was $11,272 in the current year, an increase of $2,226 or 24.6% from $9,046 in 2014.

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

	Quarter 3, 2015	Quarter 3, 2014	**YTD 2015**	YTD 2014
Net earnings	**$ 1,092**	$ 260	**$ 2,969**	$ 1,716
Add:				
Interest expense	**296**	251	**676**	767
Income tax expense	**970**	69	**2,463**	1,167
Depreciation and amortization	**1,805**	1,654	**5,047**	5,156
EBITDA	**4,163**	2,234	**11,155**	8,806
Add/(Deduct):				
Foreign exchange (gain) loss	**(69)**	303	**117**	240
Adjusted EBITDA	**$ 4,094**	**$ 2,537**	**$ 11,272**	$ 9,046

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of quarterly financial information (unaudited)

Fiscal 2015 Quarters	Quarter 1, 2015	Quarter 2, 2015	Quarter 3, 2015	YTD Total
Sales	$ 63,137	$ 65,384	**$ 65,378**	**$ 193,899**
Net earnings	$ 781	$ 1,096	**$ 1,092**	**$ 2,969**
Net earnings per share – basic	$ 0.07	$ 0.09	**$ 0.10**	**$ 0.25**
Net earnings per share – diluted	$ 0.07	$ 0.09	**$ 0.10**	**$ 0.25**
Average U.S. to Canadian exchange rate	$ 1.235	$ 1.231	**$ 1.302**	**$ 1.256**

Fiscal 2014 Quarters	Q1, 2014	Q2, 2014	Q3, 2014	Q4, 2014	Total
Sales	$ 59,953	$ 61,716	$ 61,558	$ 64,529	**$ 247,756**
Net earnings	$ 520	$ 936	$ 260	$ 804	**$ 2,520**
Net earnings per share – basic	$ 0.04	$ 0.08	$ 0.02	$ 0.08	**$ 0.22**
Net earnings per share – diluted	$ 0.04	$ 0.08	$ 0.02	$ 0.08	**$ 0.22**
Average U.S. to Canadian exchange rate	$ 1.101	$ 1.092	$ 1.087	$ 1.130	**$ 1.1025**

Sales for the first three quarters of 2015 have increased from 2014 due to the favourable fluctuations in exchange rates as well as small improvements in general economic conditions. The Company has implemented cost reduction strategies which are having an impact on controlling expenses and improving profitability. The changes in exchange rates had created a larger exchange gain in the first quarter of 2015 compared to the first quarter of 2014 but the continuing fluctuations created a loss in Quarter 2, 2015 back to a gain in Quarter 3, 2015. The year-to-year quarterly fluctuations in both sales and income are affected by the changes in Canadian foreign exchange rates, product mix, changing economic conditions and competitive pricing pressures.

Capital resources and liquidity

Net cash provided by operating activities for Quarter 3, 2015 was $6,077 versus $11,415 in Quarter 3, 2014, a decrease of $5,338. Year-to-date cash generated by operating activities was $6,958 in 2015 and $13,662 in 2014, a difference of $6,704. The decrease in both the quarter and year-to-date cash provided by operating activities was a result of a lower reduction in working capital.

During the quarter, non-cash working capital generated cash of $1,998 compared to generating cash of $9,189 for the same quarter last year. The year-to-date change in non-cash working capital was a usage of cash of $3,426 in 2015 compared to a generation of $5,736 in 2014. The quarter working capital changes are primarily related to an increase in inventories of $4,048, accounts receivable of $1,031 partially offset by an increase in accounts payable of $2,554 and foreign exchange impacts on working capital changes of $4,064.

The year-to-date working capital changes are primarily related to an increase in inventories of $8,004, accounts receivable of $6,117 and foreign exchange impacts on working capital changes of $8,478.

Capital expenditures were $449 in Quarter 3, 2015 compared to $1,596 for Quarter 3, 2014, a decrease of $1,147. Year-to-date capital expenditures were $881 in the current year compared to $4,273 in 2014, a decrease of $3,392. While the Company continues to invest in the areas of manufacturing processes and capabilities, new product development and information technology, the level of spending in 2015 has decreased compared to the prior year.

There was an additional investment to the joint venture in the amount of $860. This Quarter 3 spending was towards additional deposits and purchases of capital equipment. The 2015 year-to-date investment in the joint venture has been $5,883.

Total cash generated by financing activities for Quarter 3, 2015 was $2,771 as compared to cash used in financing activities of $2,400 in Quarter 3, 2014. The main cause of this change is additional borrowings from the bank operating lines of credit to fund changes in working capital. Year-to-date financing activities have generated cash of $9,392 compared to cash used of $4,379 in the first nine months of 2014. Bank operating lines of credit have increased from prior year levels finishing Quarter 3, 2015 at $29,514 compared to $25,994 at the end of Quarter 3, 2014, an increase of $3,520.

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The Company's overall operating debt balance net of cash was $18,866 in Quarter 3, 2015 compared to $14,976 in Quarter 3, 2014, an increase in debt position of $3,890 primarily reflecting cash used in operations during the year as well as the investment in the joint venture and capital purchases. All bank covenants continue to be met as at September 26, 2015.

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.

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.

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.

	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	$ 2,175	$ 1,637	$ 935	$ 882	$ 549	–	$ 6,178
Accounts payable and accrued liabilities	39,848	–	–	–	–	–	39,848
Capital expenditure purchase commitments	2,012	–	–	–	–	–	2,012
Bank operating lines	29,514	–	–	–	–	–	29,514
Long-term debt	4,139	–	–	–	–	–	4,139
Total	**$77,688**	**$1,637**	**$ 935**	**$ 882**	**$ 549**	**–**	**$81,691**

Contingent liabilities

We are not aware of any potential legal proceeding or action that would have a material impact on our consolidated financial position, results of operations or liquidity.

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 2014 internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2014 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 generally accepted accounting principles. 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, 2015 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.

Regular quarterly dividend declaration

The Board of Directors of HPS declared a quarterly cash dividend of six cents ($0.06) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of six cents ($0.06) per Class B Common Share of HPS payable on September 24, 2015 to shareholders of record at the close of business on September 17, 2015. The ex-dividend date was September 15, 2015. The Company has paid a cash dividend of eighteen cents ($0.18) per Class A Subordinate Voting Share and eighteen cents ($0.18) per Class B Common Share year-to-date.

Joint Venture

On March 25, 2015, the Company and National Material announced the formation of Corefficient S. de R.L. de C.V. ("Corefficient") located in Monterrey, Mexico. Corefficient will design, manufacture and market energy efficient electrical cores, a major component used in the manufacture of dry type and liquid filled transformers. Under the terms of the JV Agreement the Company will have a 55% ownership interest and on schedule to begin operations in Quarter 4, 2015.

Risks and uncertainties

As with most businesses, HPS is subject to a number of market place, industry and economic-related business risks, which could have some visible impact on our operating results. These risks include:

- The volatility, unpredictability and cyclical effects of market costs and supply pressures for commodities including, but not limited to, copper, insulation and electrical grain oriented steel;
- A significant, unexpected change in the global demand for resources;
- Instability and extreme volatility in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or recession;
- The size, timing and terms of sale for large OEM customer orders;
- Product mix impact on gross margins;
- Fluctuations of interest rates;

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- Unpredictable weather trends and conditions;
- Government protectionism or regulation changes;
- Competition and market pricing pressures;
- Credit risk; and
- Global political unrest.

The Company is very cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS strives to curtail or reduce 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.

There are, however, several risks that deserve particular attention:

Commodity prices

The cyclical effects and market cost pressures of copper commodity and steel pricing in the global markets has an impact on the Company's costs and earnings. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Currency fluctuations

With the expansion of HPS' global footprint, currency fluctuations and volatility may have a more significant impact on the financial results and continues to be an awareness area for the Company. The Company's functional currency is the Canadian dollar and its operating results are reported in Canadian dollars. A significant portion of the Company sales and material purchases are denominated in U.S. dollars. While there is a natural hedge, as sales denominated in U.S. dollars partially offset by the cost of raw materials purchased from the U.S., and commodities tied to U.S. dollar pricing, a change in the value of the Canadian dollar against the U.S. dollar will impact earnings. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results. Inversely, a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

The Company also has a U.S. operating subsidiary and U.S. dollar assets. The exchange rate between the Canadian and U.S. dollar can vary significantly from year-to-year and recently has shown significant volatility with substantial changes month-to-month. There is a corresponding positive or negative impact to the Company's Accumulated Other Comprehensive Income in the Consolidated Statement of Financial Position solely related to the foreign exchange translation of its U.S. Balance Sheet.

The recent acquisitions in Italy and India have created assets to be denominated in Euros and Indian Rupees. There is a corresponding positive or negative impact to the Company's Statement of Comprehensive Income solely related to the foreign exchange translation of its entities Balance Sheets.

We have partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output. The Company has lessened its intercompany loan transactional exchange rate risk by entering into forward foreign exchange contracts.

Finally, HPS periodically institutes price increases to help offset the negative impact of changes in foreign exchange and product cost increases.

Natural disasters and unpredictable weather

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.

Interest rates

There has been higher operating line usage over the last few years related to global acquisitions, working capital usage and capital expenditure needs to support the Company's growth strategies. The Company's debt financing has been structured to take advantage of the current lower interest rates and reduced interest costs. The Company continues to be cognizant that a rise in interest rates will negatively impact the financial results. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

As part of hedging this risk, the Company may enter into fixed long-term rates on part of its total debt. It is the Company's determination that the interest rate premium to secure longer term interest rates does not provide an economic advantage. The Company believes that a more significant impact of a rise in interest rates would apply to our customers' investment decisions and financing capabilities

Credit

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, which is partially mitigated by progress payments. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure.

Global economic conditions

Current global economic conditions, particularly in Europe and North America, influence the Company's financial performance and the

Company's focus and strategic initiatives. To address the current uncertainty, we are focusing our efforts on projects that will increase our cost competiveness, capacity and improve our manufacturing flexibility.

The Company believes, and results have confirmed, that being an agile organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. We also believe that the key to expanding our market share during this economic slowdown is growing our access to a variety of domestic and global markets. This will be achieved through our current and new OEM and distributor channels.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in Notes to the Consolidated Financial Statements contained in our 2014 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2015, other than transactions disclosed in Note 10 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 3, 2015 Report.

Proposed transactions

The Company continues to evaluate potential business expansion initiatives and has no firm transactions as at September 26, 2015.

Financial instruments

As at September 26, 2015, the Company had outstanding foreign exchange contracts in place for 11,000 EUR and $7,500 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $26,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

The preparation of the Company's condensed consolidated interim financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances.

Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Outstanding share data

Details of the Company's outstanding share data:

8,921,624	Class A Shares
2,778,300	Class B Common Shares
11,699,924	Total Class A and B Shares

New accounting pronouncements

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective and while considered relevant to the Company, the Company has not yet adopted these Standards

Interests in joint operations

On May 6, 2014, the International Accounting Standards Board ("IASB") issued amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. The amendments require business combinations accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Methods of depreciation and amortization

On May 12, 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets. The amendments to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that the use of revenue based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning January 1, 2016. The company does not expect the amendments to have a material impact on the financial statements.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts. The extent of the impact of adoption of the standard has not yet been determined.

Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Annual improvements to IFRS (2010 – 2012) and (2011-2013) cycles

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits; and
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure initiative

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Strategic direction and outlook

HPS continues to be dedicated to its strategic investment in growth initiatives globally. This persistent commitment is demonstrated by the Company's international acquisitions, expansion of manufacturing capacity, new product development and committed capital spending for strategic projects.

The volatile and unpredictable global economic climate lingers and continues to have a pervasive effect on HPS. The erratic and unpredictable economy, as well as the variability of foreign exchange rates, manufacturing throughput, raw material commodity costs and negative market pricing stresses has had an adverse impact on the Company, but we are successfully gaining some positive traction through our operational plans and strategic projects.

These adverse influences have hindered the Company's shorter term operational and financial performance over the past few quarters. Despite these results, we continue to be confident that the business fundamentals that have been developed and implemented, will sustain and grow HPS in the near future and over the long-term. Our response to these conditions continues to be conservative but progressive, prudent but not complacent. HPS is experiencing the positive impact of these key initiatives and will continue in its pursuit of improving productivity gains, cost reduction, sales growth from new product development, geographic diversification, capacity flexibility and escalation of market share.

We continue to be an industry leader, grow market share and remaining financially and operationally strong. We are equipped to navigate through the enduring economic uncertainty and are confident in our vision of the future. Our approach to improving profitability includes new product development, global expansion, geographic manufacturing dispersion, sales growth, productivity gains and market share penetration.

Our new joint venture, Corefficient represents an attractive new business for HPS that is expected to enhance Company financial performance as it expands its presence in the North American transformer component market. Corefficient will design, manufacture and market, energy efficient electrical cores – a major component used in the manufacture of dry type and liquid filled transformers. The start-up process for the joint venture, Corefficient, is well underway and proceeding on schedule for a Quarter 4, 2015 commissioning.

While we expect sales growth to continue to be realized in several of our markets, we also are aware that it may remain at a lower level in others. Major customer projects form a portion of our sales, for which the exact timing is hard to predict; therefore we may continue to experience quarterly sales fluctuations.

HPS is agile and well positioned to meet the evolving needs of traditional markets while becoming a leading player in a growing number of new market sectors. Our commitment, drive, decades of experience, 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. The Company's resilience will ensure there is a continued focus on building value for its shareholders.

The Company is committed to ensuring our strategic advantage going forward through:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- Broad product offering;
- Bringing quality and value to all stakeholders of the Company;
- Identifying and pursuing additional sales opportunities with both existing as well as new customers;
- Cash flow generation;
- Product development; and
- Capital expansion.

The Company believes in the strength of its operational plans and strategies. We will make every effort to deliver improving financial performance, provide a sustainable return to our shareholders and maintain the financial strength of the Company.

We believe in the strength of the HPS, and have many reasons to continue to be confident in the Company's future.

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 2015. 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

	2010	2011	2012	2013	2014
Sales	190,604	221,323	257,376	242,941	247,756
Earnings from operations	13,642	13,039	18,180	11,036	6,460
EBITDA	19,500	15,538	24,352	16,924	12,327
Net earnings	10,652	5,993	12,611	6,104	2,520
Total assets	118,643	137,520	160,049	186,878	184,291
Total liabilities	32,360	46,072	58,404	77,827	69,854
Total cash (debt)	17,694	1,681	(990)	(21,104)	(14,833)
Cash provided (used) by operations	14,109	6,592	21,371	765	18,450
Basic earnings per share	0.92	0.52	1.08	0.52	0.22
Diluted earnings per share	0.91	0.51	1.08	0.52	0.22
Dividends declared and paid	1,504	1,738	2,098	2,328	2,800
Average exchange rate (USD$=CAD$)	1.030	0.989	1.0005	1.029	1.1025
Book value per share	7.45	7.89	8.54	9.17	9.61

Quarterly Information

	2013		2014				2015	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q4
Sales	62,804	59,953	61,716	61,558	64,529	63,137	65,384	65,378
Earnings from operations	4,157	1,303	1,770	915	2,472	1,446	2,623	2,475
EBITDA	4,848	3,310	3,262	2,234	3,521	3,589	3,403	4,163
Net earnings	2,895	520	936	260	804	781	1,096	1,092
Total assets	186,878	185,863	182,373	191,435	184,291	191,972	193,039	206,687
Total liabilities	77,827	73,169	72,155	78,861	69,854	70,482	73,347	80,859
Total cash (debt)	(21,104)	(24,965)	(23,419)	(14,976)	(14,833)	(18,357)	(21,828)	(18,886)
Cash provided (used) by operations	(3,092)	(1,645)	3,892	11,415	4,788	421	460	6,077
Basic earnings per share	0.25	0.04	0.08	0.02	0.08	0.07	0.09	0.10
Diluted earnings per share	0.25	0.04	0.08	0.02	0.08	0.07	0.09	0.10
Dividends declared and paid	582	700	700	700	700	702	701	702
Average exchange rate (USD$=CAD$)	1.048	1.101	1.097	1.087	1.130	1.235	1.231	1.302
Book value per share	9.17	9.47	9.24	9.44	9.61	10.18	10.03	10.54

Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)		As at September 26, 2015		December 31, 2014
Assets				
Current assets				
Cash	$	14,787	$	6,456
Accounts receivable		53,498		47,381
Inventories		45,965		37,961
Income taxes recoverable		930		1,863
Prepaid expenses and other assets		1,197		10,169
Total current assets	$	116,377	$	103,830
Non-current assets				
Property, plant and equipment (note 4)	$	45,224	$	46,365
Investment in properties		1,044		1,044
Investment in joint venture (note 5)		10,167		–
Deferred tax assets		1,050		937
Goodwill		19,170		17,889
Intangible assets (note 6)		13,655		14,226
Total non-current assets		90,310		80,461
Total assets	$	206,687	$	184,291
Liabilities				
Current liabilities				
Bank operating lines of credit	$	29,514	$	17,178
Accounts payable and accrued liabilities		39,848		38,041
Other liabilities		–		4,064
Income tax liabilities		715		205
Provisions		543		387
Derivative liabilities		110		105
Current portion of long-term debt (note 7)		4,139		347
Total current liabilities	$	74,869	$	60,327
Non-current liabilities				
Employee future benefits	$	391	$	294
Provisions		100		100
Long-term debt (note 7)		–		3,764
Deferred tax liabilities		5,499		5,369
Total non-current liabilities		5,990		9,527
Total liabilities	$	80,859	$	69,854
Shareholders' Equity				
Share capital (note 8)		13,843		13,800
Contributed surplus		2,427		2,339
Accumulated other comprehensive income (note 9)	$	14,787		4,613
Retained earnings		92,318		91,519
Total shareholders' equity attributable to equity holders of the Company	$	123,375	$	112,271
Non-controlling interests		2,453		2,166
Total shareholder's equity		125,828		114,437
Total liabilities and shareholders' equity	$	206,687	$	184,291

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Earnings

(unauditied)

(tabular amounts in thousands of dollars)	Quarter Ending September 26, 2015	Quarter Ending September 27, 2014	Nine Months Ending September 26, 2015	Nine Months Ending September 27, 2014
Sales	$ 65,378	$ 61,558	$ 193,899	$ 183,227
Cost of sales	49,823	47,919	148,586	141,280
Gross margin	15,555	13,639	45,313	41,947
Selling and distribution	7,286	7,014	21,108	21,045
General and administrative	5,794	5,710	17,661	16,914
Earnings from operations	2,475	915	6,544	3,988
Finance and other costs (income)				
Interest expense	296	251	676	767
Foreign exchange (gain) loss	(69)	303	117	240
Share of loss of investment in joint venture net of tax (note 5)	153	–	220	–
Other	33	32	99	98
Net finance and other costs	413	586	1,112	1,105
Income before income taxes	2,062	329	5,432	2,883
Income tax expense	970	69	2,463	1,167
Net earnings	$ 1,092	$ 260	$ 2,969	$ 1,716
Non-controlling interests	$ (42)	$ 35	$ 65	$ 64
Net income attributable to equity holders of the Company	1,134	225	2,904	1,652
Net earnings	$ 1,092	$ 260	$ 2,969	$ 1,716
Earnings per share				
Basic earnings per share (dollars)	$ 0.10	$ 0.02	$ 0.25	$ 0.14
Diluted earnings per share (dollars)	$ 0.10	$ 0.02	$ 0.25	$ 0.14

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unauditied)

(tabular amounts in thousands of dollars)	Quarter Ending September 26, 2015	Quarter Ending September 27, 2014	Nine Months Ending September 26, 2015	Nine Months Ending September 27, 2014
Net earnings	$ 1,092	$ 260	$ 2,969	$ 1,716
Other comprehensive income				
Foreign currency translation differences for foreign operations	5,710	2,773	10,396	3,535
Other comprehensive income for the period, net of income tax (note 9)	5,710	2,773	10,396	3,535
Total comprehensive income for the period	$ 6,802	$ 3,033	$ 13,365	$ 5,251
Attributable to:				
Equity holders of the Company	$ 6,758	$ 2,940	$ 13,078	$ 5,060
Non-controlling interests	44	93	287	191
Total comprehensive income for the period	$ 6,802	$ 3,033	$ 13,365	$ 5,251

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 26, 2015

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2015	$ 13,800	$ 2,339	$ 4,613	$ 91,519	2,166	$ 114,437
Total comprehensive income for the year						
Net earnings	–	–	–	2,904	65	2,969
Other comprehensive income						
Foreign currency translation differences (note 9)	–	–	10,174	–	222	10,396
Total other comprehensive income	–	–	10,174	–	222	10,396
Total comprehensive income for the year	–	–	10,174	2,904	287	13,365
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	43	88	–	–	–	131
Dividends to equity holders (note 8)	–	–	–	(2,105)	–	(2,105)
Total transactions with shareholders	43	88	–	(2,105)	–	(1,974)
Balance at September 26, 2015	$ 13,843	$ 2,427	$ 14,787	$ 92,318	$ 2,453	$ 125,828

*AOCI – Accumulated other comprehensive income
See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 27, 2014

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2014	$ 13,611	$ 2,133	$ (524)	$ 91,794	2,037	$ **109,051**
Total comprehensive income for the year						
Net earnings	–	–	–	1,652	64	**1,716**
Other comprehensive income						
Foreign currency translation differences (note 9)	–	–	3,408	–	127	**3,535**
Total other comprehensive income	–	–	3,408	–	127	**3,535**
Total comprehensive income for the year	–	–	3,408	1,652	191	**5,251**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	189	183	–	–	–	**372**
Dividends to equity holders (note 8)	–	–	–	(2,100)	–	**(2,100)**
Total transactions with shareholders	189	183	–	(2,100)	–	**(1,728)**
Balance at September 27, 2014	$ 13,800	$ 2,316	$ 2,884	$ 91,346	$ 2,228	$ **112,574**

*AOCI – Accumulated other comprehensive income
See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Cash Flows

(unauditied)

(tabular amounts in thousands of dollars)	Nine Months Ending September 26, 2015	Nine Months Ending September 27, 2014
Cash flows from operating activities		
Net earnings	$ 2,969	$ 1,716
Adjustments for:		
Amortization of property, plant and equipment	3,617	3,855
Amortization of intangible assets	1,430	1,301
Provisions	156	109
Interest expense	676	767
Income tax expense	2,463	1,167
Change in unrealized gain on derivatives	5	(5)
Stock based compensation expense	88	183
	11,404	9,093
Change in non-cash working capital (note 11)	(3,426)	5,736
Cash provided from operating activities	7,978	14,829
Income tax paid	(1,020)	(1,167)
Net cash provided by operating activities	6,958	13,662
Cash flows from investing activities		
Investment in joint venture (note 5)	(5,883)	–
Acquisition of property, plant and equipment	(881)	(4,273)
Acquisition of intangible assets	(230)	(243)
Cash used in investing activities	(6,994)	(4,516)
Cash flows from financing activities		
Advances of borrowings	12,336	(1,189)
Issue of common shares	43	189
Repayment of long-term debt	(206)	(512)
Cash dividends paid (note 8)	(2,105)	(2,100)
Interest paid	(676)	(767)
Cash provided by (used in) financing activities	9,392	(4,379)
Foreign exchange on cash held in a foreign currency	(1,025)	(483)
Increase in cash	8,331	4,284
Cash and cash equivalents at beginning of period	6,456	11,224
Cash and cash equivalents at end of period	$ 14,787	$ 15,508

See accompanying notes to condensed consolidated interim financial statements

Quarters ended September 26, 2015 and September 27, 2014 (amounts in thousands of dollars)

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 Charted 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 Rd. 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 26, 2015 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, United States ("U.S."), Mexico, Italy and India, the latter being PETE Hammond Power Solutions Private Limited ("PETE"), a subsidiary in which the Company holds a 70% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. ("the JV Agreement") for the manufacturing of transformer cores. On March 25, 2015, the Company and National Material L.P. executed all agreements and a new company Corefficient S. de R.L. de C.V. ("Corefficient") was established. HPS has a 55% ownership interest in Corefficient.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on October 30, 2015.

(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, 2014.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2014 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, 2014.

Changes to accounting policies

Defined Benefit plans: employee contributions

IAS 19 was amended in November 2013 to reduce the complexity of account for certain contributions from employees or third parties. When employee contributions are eligible, a Company is permitted to recognize them as a reduction of the service cost in the period in which the service is rendered. The Group adopted the amendments to IAS 19 in its consolidated financial statements for the year commencing January 1, 2015. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Quarters ended September 26, 2015 and September 27, 2014 (amounts in thousands of dollars)

Joint venture

The Company has a 55% ownership interest in the joint venture. The Company applies the equity method of accounting for its investment in the joint venture. Under the equity method of accounting, interests in joint ventures are initially recognized in the Consolidated Statement of Financial Position at initial cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in the income statement and in other comprehensive income respectively. When the Group's share of losses in a joint venture equals or exceeds it interest in the joint venture the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains or transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

4. Property, plant and equipment

The Group had acquisitions of fixed assets for the nine months ended September 26, 2015 in the amount of $881,000 of machinery and equipment (2014 - $4,273,000).

5. Joint venture

Corefficient was formed on March 25, 2015. As at December 31, 2014 other assets reflected $8,562,000 of deposits made for capital equipment related to the joint venture by the Company and other liabilities of $4,064,000 represented National Material L.P.'s related funding of these deposits. Given the execution of the JV Agreement these amounts have been reclassified to reflect the Company's initial investment in the joint venture of $4,498,000.

An additional investment of $5,883,000 was contributed during the first nine months of 2015.

The Company's share of loss in its investment in the joint venture for the first nine months of 2015 was $220,000. These expenses are a result of start-up activities.

6. Intangible assets

The Group had acquisitions of intangible assets for the nine months ended September 26, 2015 in the amount of $43,000 (2014 - $243,000), for the addition of software. None of the intangible assets have been developed internally.

7. Long-term debt

	Nine Months Ending	
	September 26, 2015	September 27, 2014
Opening balance	**$ 4,111**	$ 5,145
Repayments		
Term loan CAD	**(136)**	(136)
Term Loans EUR	**(63)**	(358)
Term loan INR	**(7)**	(18)
Exchange	**234**	(143)
	4,139	4,490
Less current portion of long-term debt	**4,139**	648
Total	**$ –**	$ 3,842

8. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Nine Months Ending	
	September 26, 2015	September 27, 2014
18 cents per Class A common share (2014: 18 cents)	**$ 1,604**	$ 1,599
18 cents per Class B common share (2014: 18 cents)	**501**	501
	$ 2,105	$ 2,100

Quarters ended September 26, 2015 and September 27, 2014 (amounts in thousands of dollars)

(b) **Stock option plan**

During the nine months ended September 26, 2015, the Company granted 95,000 options (2014 – 90,000) of which 55,000 vested immediately (2014 – 90,000). Stock-based compensation recognized and the amount credited to contributed surplus during the period is $101,000 (2014 - $183,000) and relates to options granted during Quarter 1, 2015, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $1.26 (2014 - $1.52).

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

	2015	2014
Fair value of share options and assumptions		
Fair value at grant date	$ 1.26	$ 1.52
Share price at grant date	$ 6.62	$ 7.50
Exercise price	$ 6.62	$ 7.50
Expected volatility (weighted average volatility)	33.8%	42.4%
Option life (expected weighted average life)	3.5 years	3.8 years
Expected dividends	3.48%	1.4%
Risk-free interest rate (based on government bonds)	0.63%	1.72%

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. Total other comprehensive income for the nine months ended September 26, 2015 was $10,174,000 (2014 – $3,408,000), resulting in an ending balance of accumulated other comprehensive income of $14,787,000 (2014 – $2,884,000).

10. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2014 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,050,921 (2014 – 1,044,857) Class A subordinate voting shares of the Company. This represents approximately 11.8% (2014 – 11.7%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $230,000 (Quarter 3 2014– $229,000).

In the ordinary course of business, the Company enters into transactions with affiliated entities. A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. All related party transactions in the normal course of operations are recorded at the exchange amount of consideration established by and agreed to by the related parties. The Group entered into the following trading transactions with other related parties:

	Note	2015	2014	Relationship
Purchase of goods and services	(i)	$ 761	$ 1,761	Companies in which key management personnel and/or their relatives have significant influence.

		2015	2014	Relationship
Amounts owed by related parties		$ 249	$ 531	Companies in which key management personnel and/or their relatives have significant influence.

Quarters ended September 26, 2015 and September 27, 2014 (amounts in thousands of dollars)

Transactions with key management personnel

During the nine months ended September 26, 2015, the Company purchased $180,000 (2014 – $137,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $13,000 (2014 – $18,000), which is owed to this company.

(i) During the nine months ended September 26, 2015, the Company has paid $16,000 (2014 – $28,000) of payments in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE – Hammond Power Solutions Private Limited in India.

11. Change in non-cash operating working capital

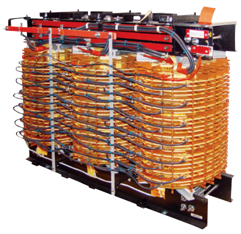
The table below depicts the receipt of (use of) cash for working capital purposes by the Company:

	Nine Months Ending	
	September 26, 2015	September 27, 2014
Accounts receivable	**$ (6,117)**	$ 762
Inventories	**(8,004)**	2,481
Prepaid expenses	**410**	(4,255)
Accounts payable and accrued liabilities	**1,807**	2,847
Foreign exchange	**8,478**	3,901
	$ (3,426)	$ 5,736

CAST RESIN

DISTRIBUTION

CONTROL



DRIVE ISOLATION

SHOVEL DUTY

PRODUCT STRENGTH

POWER

OIL-FILLED

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Chief Executive Officer

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Jay Davis
Chief Operating Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
Director

Stock Exchange Listing

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

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