Hammond Power Solutions Inc.

Q1 Report

For the three months ending March 31 , 2018

What's Inside...

Our Vision

To be a leading global supplier of transformers and magnetics within our chosen markets.

Our Mission

We are a growing and profitable global supplier of transformers and related magnetic products dedicated to satisfying the collective needs of our shareholders, customers, suppliers, employees and community.

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

Fellow shareholder:

Positive momentum continues to build for Hammond Power Solutions Inc. ("HPS") as we enter 2018. We continue to enjoy strengthening sales and bookings in Quarter 1, especially in North America, and continue to deliver strong financial results despite some temporary head winds.

Escalating rhetoric between the United States ("U.S.") and trading partners such as Canada, Mexico and China is creating some degree of uncertainty regarding the potential impact of growing protectionism on the North American and global economy.

Our international sales results in Quarter 1, 2018 were also affected by our decision in 2017 to divest one of our Italian facilities and downsize our European business to focus on more attractive markets and products. Indian sales were also lower than expected as a result of customer delays, although these orders will be shipped in the coming quarters.

On the other hand, our North American business is growing at rates we have never seen before and our backlog is hitting record levels. It is clear that our strategic efforts through years of expanding our channel, product offering and market penetration, are producing positive results. In addition, markets such as mining, drive systems and energy that have been dormant for several years are now coming to life as the global economy begins to grow.

Even with this positive momentum, we remain focused on improving our results in 2018. Despite the strengthening economy and rising inflation our markets remain very competitive. As a result, our margins were lower than the same quarter a year ago though some of this was due to product mix.

We remain committed to Europe and continue to invest in plant improvements and new talent to grow our business there. Rising plant utilization, price increases, higher sales and a more favourable product mix will help improve our bottom line in the quarters ahead. These are the strongest market conditions that we have seen this decade, and we remain optimistic about our prospects going forward.

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

Grandson of founder Oliver Hammond

Management's Discussion and Analysis

Hammond Power Solutions is a solid company that has performed better than most of our competitors due to our diversity and operational strengths.

The combination of a secure financial foundation, strong business fundamentals and strategic vision positions HPS for growth as well as additional long-term stakeholder value.

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended March 31, 2018, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2018. This information is based on Management's knowledge as at May 3, 2018. 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 2017 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2017 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 March 31, 2018 and April 1, 2017 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 March 31, 2018 were $73,073, an increase of $711 or 1.0% from Quarter 1, 2017 sales of $72,362.

Sales in the United States ("U.S.") increased by $2,041 or 4.8%, finishing at $44,712 for Quarter 1, 2018 compared to $42,671 in Quarter 1, 2017. North American Electrical Distributor ("NAED") and motor control markets were stronger in the U.S. in Quarter 1, 2018 compared to the same quarter in 2017. These increases were offset by softness in the power control market during Quarter 1, 2018. U.S. first quarter sales were unfavourably affected by a 4.5% weaker U.S. dollar ("USD"), $1.00 USD = $1.26 Canadian dollar ("CAD") compared against $1.00 USD = $1.32 CAD in Quarter 1, 2017. U.S. sales, when stated in USD were $35,862 in Quarter 1, 2018 compared to Quarter 1, 2017 of $32,264, an increase of $3,599 or 11.2%.

Canadian sales were $20,720 for the quarter, an increase of $3,781 or 22.3% from Quarter 1, 2017 sales of $16,939. During Quarter 1, 2018 the NAED, motor control and mining markets realized increases in sales compared to the same quarter last year.

International sales for Quarter 1, 2018 finished at $7,641 versus $12,752 in Quarter 1, 2017, a decrease of $5,111 or 40.1%. Italian sales were $2,676 in Quarter 1, 2018 as compared to $4,784 in Quarter 1, 2017 a reduction of $2,108 or 44.1%, as there were no vacuum pressure impregnated ("VPI") product sales in Quarter 1, 2018 due to the sale of the VPI business in November 2017. Indian sales were $4,965 versus $7,968, a reduction of $3,003 or 37.7% due to a delay in delivery to of several Original Equipment Manufacturer ("OEM") shipments.

Quarter 1, 2018 sales stated by geographic segment were derived from U.S. sales of 61.2% (Quarter 1, 2017 – 59.0%) of total sales, Canadian sales of 28.4% (Quarter 1, 2017 – 23.4%) and International sales of 10.4% (Quarter 1, 2017 – 17.6%).

HPS' growth strategy is evidenced by its capital investment, business development activities, vertical integration strategies and recent restructuring activities.

The Company's market diversification strategy is not single market or industry dependent, resulting in a natural business hedge as some markets grow while others decline.

The Company's market share continues to grow through many avenues – organic customer diversity, expanded product offering, new customer relationships, geographically diverse manufacturing facilities and extended market reach. We continue to focus on providing exceptional value to our customers through product breadth, competitive custom engineered designs, uncompromised quality and new product development.

The Company continues to increase both its market share and sales through distributor conversions. Past acquisitions have broadened the Company's product offering and manufacturing capabilities in cast resin transformer technology as well as expanded the HPS footprint in India and Europe.

These factors combined with multi-national manufacturing capabilities and an effective distribution channel continue to be a strength to the Company and vital to revenue growth.

Order bookings and backlog

Bookings increased 3.7% over Quarter 1, 2017 due to an increase in bookings in the North American distribution channel and increased bookings in the Indian market. The distributor channel booking rate increased 18.7% from Quarter 1, 2017 due to higher economic activity in the mining and oil production sectors.

Direct channel bookings were lower than Quarter 1, 2017 by 7.7%, primarily a result of lower bookings from both the OEM market and lower bookings in the European market.

Backlog increased 14.3% over Quarter 1, 2017 and 9.7% over Quarter 4, 2017. The quarter change was primarily due to a significant increase in distribution bookings in the North American market.

Quotation activity remains very active, primarily in the U.S. This increased economic activity is a positive leading indicator of future sales. The combination of the Company's strategic sales initiatives, expanded distributor network and new products will translate into a rise in 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 that it may see some volatility and unpredictability in longer term booking rates.

Gross margin

The Gross margin rate for Quarter 1, 2018 was 23.4% compared to Quarter 1, 2017 margin rate of 24.4%, a decrease of 1.0% of sales. The lower margin rate was a result of a stronger Canadian dollar, escalating raw material commodity costs, sales mix and selling price pressures. The Company continues to combat competitor short sighted pricing strategies through its total value added, engineered solutions. The Company implemented price increases late in the quarter to offset material cost increases which will benefit margin rates.

Currently the Company's diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. As sales grow, the higher manufacturing throughput and related absorption of our fixed and managed factory overheads will have an accretive impact on our margin rates. The Company's capacity strategy is fundamental for future increases in sales demand created through growth of market share and sales from newly developed products.

Fluctuating markets and product mix can have significant impacts on financial results. The quarter quotation activity, backlog growth and sales volume provide some modest indications of economic improvement. HPS remains cautiously optimistic looking forward, as it will realize growth in some markets and a decline in others underscoring the volatility of markets and sales demand.

The uncertain economic environment has negatively impacted margin rates from a price realization and manufacturing capacity utilization perspective. To mitigate this effect, the Company has utilized a number of cost reduction activities, continues to actively advance its global presence and invest in new product development. A diversified geographic approach supports anticipated growth from implemented market strategies and subsequent economic improvement.

HPS is committed to its continuous improvement program which will result in gains in productivity, cost reductions and lead-time improvements across the entire organization. The Company is confident that these actions will improve margin rates and overall profitability.

Selling and distribution expense

Total selling and distribution expenses were $8,605 in Quarter 1, 2018 or 11.8% of sales versus $8,205 in Quarter 1, 2017 or 11.3% of sales, an increase of $400 or 0.5% 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 increase in sales.

General and administrative expense

General and administrative expenses for Quarter 1, 2018 totaled $6,498 or 8.9% of sales, compared to Quarter 1, 2017 expenses of $6,238 or 8.6% of sales, an increase of $260 and 0.3% of sales, primarily a result of foreign exchange translation.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Earnings from operations

Quarter 1, 2018 earnings from operations were $1,973, a decrease of $432 or 18.0% from $2,405 for the same quarter last year. The reduction in the quarter earnings from operations is primarily a result of the decrease in gross margin rates.

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

	Q1, 2018	Q1, 2017
Net earnings	**$ 895**	$ 1,084
Add:		
Income tax expense	**632**	648
Interest expense	**296**	316
Foreign exchange (gain) loss	**(162)**	67
Share of loss in investment in joint venture	**279**	257
Other	**33**	33
Earnings from operations	**$ 1,973**	$ 2,405

Interest expense

Interest expense for Quarter 1, 2018 was $296, a decrease of $20 or 6.3% compared to the Quarter 1, 2017 expense of $316. Interest expense in Quarter 1, 2018 was generated as a result of operating debt levels consistent with levels during Quarter 1, 2017 due to working capital requirements and in particular to a rise in accounts receivable and increases in inventory. Interest expense includes all bank fees.

Foreign exchange (gain) loss

The foreign exchange gain in Quarter 1, 2018 was $162 compared to a loss of $67 in Quarter 1, 2017, an improvement of $229. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past quarter where the U.S. dollar declined 2.8% from December 2017.

As at March 31, 2018 the Company had outstanding foreign exchange contracts in place for 14,350 Euros ("EUR") and $10,000 USD Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for $41,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 1, 2018 income tax expense was $632 as compared to $648 in Quarter 1, 2017 a decrease of $16 or 2.5%.

The consolidated effective tax rate for Quarter 1, 2018 was 41.4% versus 37.4% for Quarter 1, 2017, an increase of 4.0%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company as income is generated from different geographical tax jurisdictions and is subject to diverse tax rates and regulations and the share of the loss of investment in the joint venture. The effective tax rate benefited from a lower U.S. Corporate tax for 2018.

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 1, 2018 finished at $895 compared to net earnings of $1,084 in Quarter 1, 2017, a decrease of $189 or 17.4%. The decrease in the quarter earnings is a result of decreased gross margin partially offset by the foreign exchange gain.

Excluding the share of loss of investment in the joint venture, adjusted net earnings for the quarter would have been $1,174 and Quarter 1, 2017 earnings would have been $1,341, a decrease of $167 or 12.5%.

Earnings per share

Basic earnings per share were $ 0.08 for Quarter 1, 2018 versus $0.09 in Quarter 1, 2017. Adjusting for the share of loss of investment in the joint venture the basic earnings per share would have been $0.10 as compared to $0.11 earnings per share in Quarter 1, 2017.

EBITDA

EBITDA for Quarter 1, 2018 was $3,631 versus $3,902 in Quarter 1, 2017, a decrease of $271 or 6.9%. Adjusted for foreign exchange gains and 2017 restructuring charges, adjusted EBITDA for Quarter 1, 2018 was $3,469 versus $4,785 in Quarter 1, 2017, a decrease of $1,316 or 27.5%.

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

	Quarter 1, 2018	Quarter 1, 2017
Net earnings	$ 895	$ 1,084
Add:		
Interest expense	296	316
Income tax expense	632	648
Depreciation and amortization	1,808	1,854
EBITDA	$ 3,631	$ 3,902
Add:		
Foreign exchange (gain) loss	(162)	67
Restructuring charges	–	816
Adjusted EBITDA	$ 3,469	$ 4,785

Summary of Quarterly Financial Information (Unaudited)

	Quarter 1, 2018
Sales	$ 73,073
Net earnings	$ 895
Net income per share – basic	$ 0.08
Net income per share – diluted	$ 0.08
Average U.S. to Canadian exchange rate	$ 1.2618

Fiscal 2017 Quarters	Q1, 2017	Q2, 2017	Q3, 2017	Q4, 2017	Total
Sales	$ 72,362	$ 78,874	$ 74,685	$ 75,829	$ 301,750
Net earnings	$ 1,084	$ 2,842	$ 1,563	$ 625	$ 6,114
Net income per share – basic	$ 0.09	$ 0.25	$ 0.14	$ 0.05	$ 0.53
Net income per share – diluted	$ 0.09	$ 0.25	$ 0.14	$ 0.04	$ 0.52
Average U.S. to Canadian exchange rate	$ 1.3225	$ 1.3468	$ 1.2531	$ 1.2704	$ 1.2982

Quarter 1, 2018 sales are slightly higher than Quarter 1, 2017. Restated to Quarter 1, 2017 U.S. dollar exchange rate, sales would be $75,791 versus $72,362, an increase of $3,429 or 4.7%. Sales for Quarter 1, 2017 were favourably impacted due to fluctuations in exchange rates, while Quarter 1, 2018 saw a decline in the exchange rates – these were offset by improvements in general economic conditions. There continues to be significant fluctuations of sales volumes in various markets.

The Company has implemented a number of cost reduction activities and continues to identify additional opportunities for savings which are having an impact on controlling expenses and improving future operational profitability. Quarter 1, 2017 included restructuring expenses of $816.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The fluctuations in exchange rates resulted in a gain in foreign exchange in the first quarter of 2018 of $162 compared to a loss of $67 in the first quarter of 2017.

Corefficient de R.L. de C.V., (Corefficient") achieved a comparable loss in Quarter 1, 2018 with the share of loss of investment in the joint venture of $279 compared to Quarter 1, 2017 loss of $257. Excluding the share of loss of investment in the joint venture, adjusted net earnings for the quarter would have been $1,174 and Quarter 1, 2017 earnings would have been $1,341.

During the quarter, the remaining minority interest of the Indian operation was purchased for cash proceeds of $1,511. This purchase provides HPS with 100% ownership and control over the Indian facility.

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

Capital resources and liquidity

Net cash used in operating activities for Quarter 1, 2018 was $1,907 versus $7,622 in Quarter 1, 2017, a decrease of $5,715. This decrease is a result of a decrease in cash utilized for working capital.

In Quarter 1, 2018, non-cash working capital used cash of $4,952 compared to cash used of $11,455 for the same quarter last year, a decrease of $6,503. The working capital changes are primarily related to a significant increase in accounts receivable, inventory and foreign exchange impacts on working capital changes.

Total cash used in financing activities changed by $7,991 from cash used in financing of $4,293 in the first three months of 2017 to cash generated by financing activities of $3,698 in the same period of 2018. The key driver of this change is the current year advances of bank operating lines.

Cash used in investing activities increased by $735 from $1,289 in Quarter 1, 2017 to $2,024 in Quarter 1, 2018. The first three months of 2018 were impacted by the purchase of the remaining 15% minority interest in the amount of $1,511. The first three months of 2017 consisted of an investment in joint venture of $626, there were no contributions in Quarter 1, 2018. Capital expenditures were $345 in Quarter 1, 2018 compared to $520 for Quarter 1, 2017, a decrease of $175. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Bank operating lines of credit have decreased slightly from prior year levels finishing Quarter 1, 2018 at $32,313 compared to $33,232 at the end of Quarter 1, 2017, a decrease of $919. The bank operating lines of credit have increased $4,558 since the year-end balance of $27,755.

The Company's overall operating debt balance net of cash has remained consistent year-over-year from $21,483 in Quarter 1, 2018 compared to $21,475 in Quarter 1, 2017, primarily reflecting the purchase of the minority interest and working capital requirements being offset by cash generated by operations.

All bank covenants continue to be met as at March 31, 2018.

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.

Contingent Liabilities

In June 2017, the Corporation received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by

Contractual obligations

	2018	2019	2020	2021	2022	Total
Operating leases	$ 2,094	$ 1,622	$ 571	$ 167	$ 128	$ 4,582
Accounts payable and accrued liabilities	41,644	–	–	–	–	$ 41,644
Capital expenditure purchase commitments	75	–	–	–	–	$75
Bank operating lines	–	–	–	32,313	–	$ 32,313
Total	$ 43,813	$ 1,622	$ 571	$ 32,480	$ 128	$ 78,614

the Corporation. At this time the Company feels that there is no merit to the claim.

Management is not aware of any contingent liabilities.

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 March 22, 2018 to shareholders of record at the close of business on March 15, 2018. The ex-dividend date was March 21, 2018.

Controls and procedures

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

During Quarter 1, 2018 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 market place, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies. If any of the following risks were to occur they could materially adversely affect HPS' financial condition, liquidity or results of operations.

These risks include:

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

These strategic initiatives can include acquisitions and joint ventures. To be successful, management will conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete complex transactions and manage post-closing matters such as the integration of acquired startup businesses. Management's due diligence reviews are subject to the completeness and accuracy of disclosures made by third parties. The Company may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation or other liabilities.

Many of the factors that could have an adverse impact will be outside of management's control and could result in increased costs and decreases in the amount of expected revenues and diversion of management's time and attention. Failure to implement an acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and result of operations.

We sell to customers around the world and have global operations and, therefore, are subject to the risks of doing business in many countries.
We do business in a host of countries around the world. Approximately 75% of our sales were to customers outside of Canada. In addition, a number of our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

Our global business translates into conducting business in various currencies, all of which are subject to fluctuations.
HPS' global footprint exposes the Company to currency fluctuations and volatility and at times, has had a significant impact on the financial results of the Company. The Company's functional currency is the Canadian dollar with its operating results reported in Canadian dollars. A significant portion of Company's sales and material purchases are denominated in U.S. dollars. There is a natural hedge as sales denominated in U.S. dollars are partially offset by the cost of raw materials purchased from the U.S. and commodities tied to U.S. dollar pricing. A change in the value of the Canadian dollar against the U.S. dollar will impact earnings significantly at times. Generally a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results while a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

HPS has partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output, periodically instituting price increases to help offset negative changes and entering into forward foreign exchange contracts.

Worldwide, HPS is subject to and required to comply with multiple income and other taxes, regulations and is exposed to uncertain tax liabilities risk.
The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates which determine taxation expenses, may vary significantly in different jurisdictions and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. The determination of the consolidated tax provision and liabilities requires significant judgment. Tax filings are subject to audits which could materially change the amount of current and deferred income tax assets and liabilities.

We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.
Our business depends on the movement of goods around the world. Natural disasters, pandemics, acts or threats of war or terrorism, international conflicts, political instability and the actions taken by governments could cause damage to or disrupt our business operations, our suppliers or our customers and could create economic instability. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products or make it difficult or impossible to deliver our products.

The U.S. political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.
The results of the last U.S. election have created a number of geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. The Company's current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for the Company. The Company's global footprint will be

critical to mitigating any impact for political changes that would modify the current trade relationships.

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

Our business is highly sensitive to global and regional economic conditions in the industries we serve.
Current global economic conditions influence the Company's focus, direction, strategic initiatives and financial performance. To address the current uncertainty we are focusing our efforts on projects that will increase our market reach, advance our cost competiveness, expand capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will hold even greater importance in order to respond quickly to both unexpected opportunities and challenges. HPS' management believes that the key to expanding our market share during this economic slowdown is growing our access to a variety of domestic and global markets. This will be achieved through our current and new OEM and distributor channels.

The disruption to businesses that can come from unpredictable weather can have an impact on sales volume as customer projects can be delayed or cancelled.
Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present the Company may see short-term effects of such occurrences due to their unpredictability. This may impact delivery and capacity requirements.

The business practice of extending credit to customers can lead to a risk of uncollectability.
A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk 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.

Market supply and demand impact on commodity prices
An area that has a definite impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of both copper commodity and steel pricing in the global markets. This risk is mitigated through strategic supply line agreements and alliances in place with major steel suppliers to ensure adequate supply and competitive market pricing.

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 2017 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2018 other than transactions disclosed in Note 12 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2018 Report.

Proposed transactions

The Company continues to evaluate potential business expansion initiatives and has no firm transactions as at March 31, 2018 other than disclosed in subsequent events.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Financial instruments

As at March 31, 2018, the Company had outstanding foreign exchange contracts in place for 14,350 EUR and $10,000 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $41,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

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

Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. The Company 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:

8,951,624	Class A Shares
2,778,300	Class B Common Shares
11,729,924	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.

Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities from all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17 while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted including the definition of a lease. The Group intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of this standard has yet to be determined.

Uncertainty over Income Tax Treatments

On June 7, 2017 the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better prediction of the resolution;
- An entity to determine if it is probable that the tax authorities will accept uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the resolution of the uncertainty.

The Group intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

Transfer of Assets between an Investor and its Associate or Joint Venture

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 were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

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 recognises the full gain on the loss of control, whereas under the existing guidance on associates and JV's the parent recognises 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 recognised 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 Group does not intend to adopt these amendments in its financial statements for the annual period beginning January 1, 2018, as the effective date for these amendments has been deferred indefinitely.

Strategic direction and outlook

HPS has a long history of strength, perseverance 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 continuously building our strategic advantage by focusing on:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- Broadened 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 has state-of-the-art facilities throughout the world that continue to be enhanced through strategic and operational capital investment.

HPS continues to focus on customer service and expanding existing relationships while exploring new opportunities. The upcoming Natural Resources Canada (NRCan) efficiency standard change has created opportunities for the Company to deliver to our customers and ensure their needs and regulations are being met. These regulation changes have resulted in new product development and manufacturing techniques.

A significant change for the Company was the implementation of an Enterprise Resource Planning ("ERP") system that has enhanced availability and quality of information accessible as well as streamlining processes. This system has been implemented in the majority of our North American facilities and is currently a project for the implementation in our Indian operation. This newest addition to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

The Company purchased the final minority interest of our Indian operation and now owns 100% of this subsidiary. This purchase allows management to make appropriate strategic decisions from a global perspective.

While there have been many successes during the first quarter of 2018 the unpredictable and fluctuating global economic climate has had a pervasive and persistent impact on HPS' profitability over a number of years. The Company has also experienced the adverse impact of unpredictability of foreign currency exchange rates, variability of raw material commodity costs, fluctuating manufacturing throughput and market pricing pressures. These deterrents are being prudently managed through the Company's operational plans and strategic initiatives and projects.

HPS has a reputation of being an industry leader and is both operationally and financially strong. The

Company is positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of market sectors. The Company continues to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility. The combination of our resilience, 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 the success of the Company.

We are committed to revenue growth, building market share, cost management, cash flow generation and profitability improvement. The Company's strategic vision and operational initiatives have supported Hammond Power Solutions' industry leadership, operational strength and financial stability.

The Company is committed to delivering long-term value to all stakeholders of the company.

HPS has a long history of strength, perseverance and resilience.

Selected Annual and Quarterly Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the First Quarter of 2018. 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.

(tabular amounts in thousands of dollars)

Annual Information	2013	2014	2015	2016	**2017**
Sales	242,941	247,756	274,639	274,793	301,750
Earnings from operations	11,036	6,460	12,644	10,873	14,470
EBITDA	16,924	12,327	18,748	14,356	19,633
Net earnings	6,104	2,520	6,320	1,793	6,114
Total assets	186,878	184,291	222,969	205,177	192,449
Non-current liabilities	10,220	9,527	5,454	4,131	3,442
Total liabilities	77,827	69,854	90,668	84,524	77,438
Total shareholders' equity attributable to equity holders of the Company	107,014	112,271	129,665	120,441	114,848
Total debt	(21,104)	(14,833)	(13,202)	(11,318)	(16,983)
Cash provided by operations	765	18,450	16,065	15,216	1,032
Basic earnings per share	0.52	0.22	0.53	0.16	0.53
Diluted earnings per share	0.52	0.22	0.53	0.16	0.52
Dividends declared and paid	2,328	2,800	2,807	2,808	2,809
Average exchange rate (USD$=CAD$)	1.029	1.1025	1.274	1.325	1.298
Book value per share	9.17	9.61	11.08	10.29	9.80

		2016			2017			**2018**
Quarterly Information	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Sales	69,138	62,860	74,073	72,362	78,874	74,685	75,829	**73,073**
Earnings from operations	2,560	1,003	4,633	2,405	4,953	3,338	3,774	**1,973**
EBITDA	3,601	1,858	5,110	3,902	6,273	4,903	4,555	**3,631**
Net earnings	517	99	293	1,084	2,842	1,563	625	**895**
Total assets	203,379	200,896	205,177	204,371	197,887	194,147	192,449	**197,187**
Non-current liabilities	5,663	5,241	4,131	4,549	4,291	4,198	3,442	**3,429**
Total liabilities	76,846	79,364	84,524	81,639	76,252	80,478	77,438	**77,829**
Total shareholders' equity attributable to equity holders of the Company	120,677	121,333	120,441	122,732	121,288	116,491	114,848	**119,358**
Total debt	(31,217)	(26,640)	(11,318)	(21,475)	(20,416)	(16,407)	(16,983)	**(21,483)**
Cash (used) provided by operations	(4,941)	6,282	17,255	(7,622)	2,315	5,918	421	**(1,907)**
Basic earnings per share	0.05	0.01	0.03	0.09	0.25	0.14	0.05	**0.08**
Diluted earnings per share	0.05	0.01	0.03	0.09	0.25	0.14	0.04	**0.08**
Dividends declared and paid	702	702	702	702	702	702	703	**704**
Average exchange rate (USD$=CAD$)	1.287	1.306	1.332	1.323	1.347	1.253	1.270	**1.262**
Book value per share	10.31	10.37	10.29	10.46	10.37	9.96	9.80	**10.18**

Condensed Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)	As at March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash	$ 10,830	$ 10,772
Accounts receivable	61,628	59,170
Inventories	40,911	38,340
Income taxes receivable	1,466	1,701
Prepaid expenses and other assets	3,187	3,419
Total current assets	118,022	113,402
Non-current assets		
Long-term lease and note receivable	4,772	4,605
Property, plant and equipment (note 4)	31,954	32,276
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	12,215	12,158
Deferred tax assets	817	776
Goodwill	17,476	17,022
Intangible assets (note 6)	10,887	11,166
Total non-current assets	79,165	79,047
Total assets	$ 197,187	$ 192,449
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 32,313	$ 27,755
Accounts payable and accrued liabilities	41,644	45,647
Income tax liabilities	43	137
Provisions	400	457
Total current liabilities	74,400	73,996
Non-current liabilities		
Provisions	100	100
Deferred tax liabilities	3,329	3,342
Total non-current liabilities	3,429	3,442
Total liabilities	$ 77,829	$ 77,438
Shareholders' Equity		
Share capital	14,070	13,986
Contributed surplus	2,586	2,600
Accumulated other comprehensive income (note 8)	7,522	1,916
Retained earnings	95,180	96,346
Total shareholders' equity attributable to equity holders of the Company	$ 119,358	$ 114,848
Non-controlling interests (note 9)	–	163
Total shareholder's equity	119,358	115,011
Total liabilities and shareholders' equity	$ 197,187	$ 192,449

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Earnings

(unaudited) (tabular amounts in thousands of dollars, except per share amounts)	Three Months Ending March 31, 2018	April 1, 2017
Sales (note 10)	$ 73,073	$ 72,362
Cost of sales	55,997	54,698
Gross margin	17,076	17,664
Selling and distribution	8,605	8,205
General and administrative	6,498	6,238
Restructuring charges (note 11)	–	816
Earnings from operations	1,973	2,405
Finance and other costs		
Interest expense	296	316
Foreign exchange (gain) loss	(162)	67
Share of loss of investment in joint venture (note 5)	279	257
Other	33	33
Net finance and other costs	446	673
Earnings before income taxes	1,527	1,732
Income tax expense	632	648
Net earnings	$ 895	$ 1,084
Net earnings attributable to non-controlling interests	–	18
Net earnings attributable to the equity holders of the Company	895	1,066
Net earnings	$ 895	$ 1,084
Earnings per share		
Basic earnings per share (dollars)	$ 0.08	$ 0.09
Diluted earnings per share (dollars)	$ 0.08	$ 0.09

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)	Three Months Ending March 31, 2018	Three Months Ending April 1, 2017
Net earnings	$ 895	$ 1,084
Other comprehensive income		
Foreign currency translation differences for foreign operations	5,597	1,683
Total comprehensive income for the period	$ 6,492	$ 2,767
Attributable to:		
Equity holders of the Company	$ 6,492	$ 2,574
Non-controlling interest	–	193
Total comprehensive income for the period	$ 6,492	$ 2,767

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 31, 2018

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2018	$ 13,986	$ 2,600	$ 1,916	$ 96,346	$ 163	$ 115,011
Total comprehensive income for the year						
Net earnings	–	–	–	895	–	895
Other comprehensive income						
Foreign currency translation differences related to joint venture (note 5)	–	–	335	–	–	335
Foreign currency translation differences (note 8)	–	–	5,262	–	–	5,262
Total other comprehensive income	–	–	5,597	–	–	5,597
Total comprehensive income for the year	–	–	5,597	895	–	6,492
Transactions with owners, recorded directly in equity						
Stock options exercised (note 7)	84	(14)	–	–	–	70
Dividends to equity holders (note 7)	–	–	–	(704)	–	(704)
Non-controlling interest (note 9)	–	–	9	(1,357)	(163)	(1,511)
Total transactions with shareholders	84	(14)	9	(2,061)	(163)	(2,145)
Balance at March 31, 2018	$ 14,070	$ 2,586	$ 7,522	$ 95,180	$ –	$ 119,358

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the three months ended April 1, 2017

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2017	$ 13,843	$ 2,605	$ 10,992	$ 93,001	$ 212	$ 120,653
Total comprehensive income for the year						
Net earnings	–	–	–	1,066	18	1,084
Other comprehensive income						
Foreign currency translation differences related to joint venture (note 5)	–	–	782	–	–	782
Foreign currency translation differences (note 8)	–	–	726	–	175	901
Total other comprehensive income	–	–	1,508	–	175	1,683
Total comprehensive income for the year	–	–	1,508	1,066	193	2,767
Transactions with owners, recorded directly in equity						
Share-based payment transactions	–	14	–	–	–	14
Dividends to equity holders (note 7)	–	–	–	(702)	–	(702)
Total transactions with shareholders	–	14	–	(702)	–	(688)
Balance at April 1, 2017	$ 13,843	$ 2,619	$ 12,500	$ 93,365	$ 405	$ 122,732

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Cash Flows

(unaudited) tabular amounts in thousands of dollars)	Three Months Ending March 31, 2018	Three Months Ending April 1, 2017
Cash flows from operating activities		
Net earnings	$ 895	$ 1,084
Adjustments for:		
Share of loss of investment in joint venture	279	257
Amortization of property, plant and equipment	1,157	1,353
Amortization of intangible assets	651	501
Provisions	(57)	30
Interest expense	296	316
Income tax expense	632	648
Change in unrealized (loss) gain on derivatives	(317)	83
Stock-based compensation expense	–	17
	3,536	4,289
Change in non-cash working capital (note 13)	(4,952)	(11,455)
Cash (used in) generated by operating activities	(1,416)	(7,166)
Income tax paid	(491)	(456)
Net cash used in operating activities	(1,907)	(7,622)
Cash flows from investing activities		
Purchase of non-controlling interest (note 9)	(1,511)	–
Investment in joint venture	–	(626)
Acquisition of property, plant and equipment	(345)	(520)
Acquisition of intangible assets	(168)	(143)
Cash used in investing activities	(2,024)	(1,289)
Cash flows from financing activities		
Advances (repayments) of borrowings	4,558	(3,275)
Receipt of lease receivable payment	70	–
Issue of common shares	70	–
Cash dividends paid (note 7)	(704)	(702)
Interest paid	(296)	(316)
Cash generated (used) in financing activities	3,698	(4,293)
Foreign exchange on cash held in a foreign currency	291	(228)
Increase (decrease) in cash	58	(13,432)
Cash and cash equivalents at beginning of period	10,772	25,189
Cash and cash equivalents at end of period	$ 10,830	$ 11,757

See accompanying notes to condensed consolidated interim financial statements

Notes to the Condensed Consolidated Financial Statements

Three months ended March 31, 2018 and April 1, 2017 (amounts in thousands of dollars except share and per share amounts)

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

The Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended March 31, 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India, the latter being Hammond Power Solutions Private Limited, a subsidiary in which the Company now holds an 100% equity ownership. The Company also holds a 55% economic interest in a joint venture located in Mexico called Correfficient de R.L. de C.V. ("Corefficient").

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on May 3, 2018.

(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, 2017.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2017 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, 2017, with the exception of items noted below:

Three months ended March 31, 2018 and April 1, 2017 (amounts in thousands of dollars except share and per share amounts)

Changes to accounting policies

Classification and Measurement of Share-Based Payment Transactions

On June 20, 2016 the IASB issued amendments to IFRS 2 Share-Based Payments clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2017. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period ending December 31, 2018. The adoption of the amendment did not have a material impact on the consolidated financial statements.

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 and interim periods beginning on or after January 1, 2018. 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. On April 12, 2016, the IASB issued Clarification to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

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 contract-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.

Transition considerations

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of initially applying IFRS 15 recognized in opening retained earnings at the date of initial application (the "modified retrospective method"). The Group decided to adopt IFRS 15 using the modified retrospective method, without restatement of comparative figures.

IFRS 15 provides for certain optional practical expedients, including upon the initial adoption of the standard. The Group applied the following practical expedients upon adoption of IFRS 15 on January 1, 2018:

- Completed contract – the Group applied IFRS 15 retrospectively only to contracts that were not completed contracts as at January 1, 2018. There were no uncompleted contracts at January 1, 2018.
- Contract modifications – the Group did not apply IFRS 15 retrospectively to contract modifications that occurred before January 1, 2018.

The adoption of IFRS 15 did not have a material impact on the consolidated financial statements.

Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual and interim 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.

Three months ended March 31, 2018 and April 1, 2017 (amounts in thousands of dollars except share and per share amounts)

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 Group has adopted IFRS 9 (2014) in its consolidated financial statements for the annual and interim periods beginning on January 1, 2018.

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements.

4. Property, plant and equipment

The Group had acquisitions of fixed assets for the three months ended March 31, 2018 in the amount of $345,000 of machinery and equipment (2017 – $520,000).

5. Joint venture

The Company has a 55% economic and voting interest in Coreefficient. By virtue of the contractual arrangement with National Material L.P., the other shareholder in Corefficient, decisions about significant, relevant, operating and strategic activities require the unanimous consent of both parties, and therefore the Company jointly controls Corefficient. Distributions of dividends and returns of capital from Corefficient are subject to unanimous Corefficient shareholder approval. Accordingly, the Company has treated its investment in Corefficient as a joint arrangement. Corefficient's principal place of business is in Monterrey, Mexico. The carrying value of the Company's interest in Corefficient is as follows:

	March 31, 2018	December 31, 2017
Cost of investment in joint venture	$ 19,304	$ 19,304
Cumulative share of loss in investment in joint venture	(4,056)	(3,778)
Foreign currency translation differences related to the joint venture	(3,033)	(3,368)
	$ 12,215	$ 12,158

Selected financial information relating to Corefficient is as follows:

	March 31, 2018	December 31, 2017
Cash	$ **2,121**	$ 2,261
Trade and other receivables	**5,247**	5,546
Inventories	**879**	1,050
Other current assets	**174**	162
Total current assets	$ **8,421**	$ 9,019
Non-current assets	**16,606**	16,487
Total assets	$ **25,027**	$ 25,506
Current liabilities	$ **3,128**	$ 3,671
Non-current liabilities	**–**	–
Total liabilities	$ **3,218**	$ 3,671

Three months ended March 31, 2018 and April 1, 2017 (amounts in thousands of dollars except share and per share amounts)

	Three Months Ending			
		March 31, 2018		April 1, 2017
Revenue	$	**5,910**	$	3,897
Loss for the period		**507**		625

The loss for the three months ended March 31, 2018 includes depreciation and amortization expense of $520,000 (Quarter 1, 2017 – $498,000), interest income of $73,000 (Quarter 1, 2017 – $17,000) and an income tax expense of $7,000 (Quarter 1, 2017 – recovery of $268,000) related to Corefficient.

6. Intangible assets

The Group had acquisitions of intangible assets for the three months ended March 31, 2018 in the amount of $168,000 (Quarter 1, 2017 – $143,000), for the addition of software. None of the intangible assets have been developed internally.

7. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending			
		March 31, 2018		April 1, 2017
6 cents per Class A common share (2017: 6 cents)	$	537	$	535
6 cents per Class B common share (2017: 6 cents)		167		167
	$	704	$	702

(b) Stock option plan:

There were no stock options issued during the three months ended March 31, 2018 or April 1, 2017. Stock-based compensation recognized the amount credited to contributed surplus during the period is nil (Quarter 1, 2017 – $14,000) and relates to options granted in prior years that vested during the period.

During the three months ended March 31, 2018 there were 10,000 options exercised, 5,000 at an exercise price of $6.62 and 5,000 at an exercise price of $7.50.

(c) Deferred Stock Units:

During 2017, the Company enacted a deferred share unit plan (the "DSU Plan") in order to issue deferred share units ("DSUs") to non-employee directors and senior-executives (collectively "participants") of HPS. The DSU Plan was adopted to allow participants the opportunity to defer compensation and encourage a sense of ownership in HPS. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. The first DSUs were issued in March 2017. The number of DSUs was determined by dividing the amount of deferred compensation by the Fair Market Value of DSUs, defined under the DSU Plan as the weighted average closing price of HPS shares for the five business days immediately preceding the relevant date. Upon the occurrence of the Redemption Event, which could include ceasing to hold any position in the Company and/or any Subsidiary or upon death of the participant, the affected participant will be entitled to receive a lump sum cash payment, net of applicable withholding taxes, equal to the product of number of DSUs held by that participant and the Fair Market Value on the date of the Redemption Event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for past service. Under the DSU Plan, outstanding DSUs as at the record date, are increased by the dividend rate whenever dividends are paid to shareholders.

Three months ended March 31, 2018 and April 1, 2017 (amounts in thousands of dollars except share and per share amounts)

The DSUs issued are not performance based.

The movement in DSUs for the three months ended:

	March 31, 2018			March 31, 2017		
	Number of DSUs	Weighted Average Share Price	Carrying Amount	Number of DSUs	Weighted Average Share Price	Carrying Amount
Opening Balance	32,578	$ 9.16	$ 285	–	$ –	$ –
DSUs Issued	9,418	$ 9.44	105	7,481	$ 6.30	47
Balance at March 31, 2018	41,996	$ 9.30	$ 391	7,481	$ 6.30	$ 47

Given the DSUs are cash settled instruments, they have been included within accounts payable and accrued liabilities in the condensed consolidated statement of financial position.

8. Accumulated Other Comprehensive Income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations. Total other comprehensive income for the three months ended March 31, 2018 was $5,597,000 (Quarter 1, 2017 – $1,508,000), resulting in an ending balance as at March 31, 2018 of accumulated other comprehensive income of $7,522,000 (April 1, 2017 – $12,500,000).

9. Non-controlling interest

On January 10, 2018, the terms and conditions under an agreement to acquire the remaining 15% economic interest of Hammond Power Solutions Private Limited from a minority shareholder, which included the mutually agreed upon resignation from the Board of the minority shareholder, at a discounted amount of 76,933,000 INR (approximately $1,511,000 Canadian dollars) were fulfilled, resulting in the Company's equity ownership in Hammond Power Solutions Private Limited becoming 100%. As a result, the Company recorded an elimination of non-controlling interests on the condensed consolidated statement of financial position in the amount of $163,000, a reduction in retained earnings of $1,357,000, and an increase in accumulated other comprehensive income in the amount of $9,000.

10. Sales

	Three Months Ending	
	March 31, 2018	April 1, 2017
Canada	$ 20,720	$ 16,939
United States and Mexico	44,712	42,671
Italy	2,676	4,784
India	4.965	7,968
	$ 73,073	$ 72,362

As at March 31, 2018 the Company has deferred revenue of $1 (2016 - $55).

Three months ended March 31, 2018 and April 1, 2017 (amounts in thousands of dollars except share and per share amounts)

11. Restructuring charges

During 2017, the Company incurred restructuring charges. These charges were comprised of severance and benefit costs relating to workforce reductions. The restructuring activities were undertaken to adjust the Company's cost structure, to streamline various support activities in consideration of the current and expected industry market conditions. These charges are reported in the restructuring charge line within the consolidated statement of earnings.

The following table highlights the activity and balance of the restructuring charges for the three month period ending March 31, 2018:

		Employee Termination Benefits
Opening balance January 1, 2018	$	329
Cash payments		(188)
Accrued balance at March 31, 2018	$	141

12. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2017 – 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 1,057,918 (2017 – 1,055,287) Class A subordinate voting shares of the Company, representing approximately 11.8% (2017 – 11.8%) 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 1 2017– $230,000).

Transactions with key management personnel

During the three months ended March 31, 2018, the Company purchased $69,000 (2017 – $55,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman. 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 $30,000 (2017 – $29,000), which is owed to this company.

13. Change in non-cash operating working capital

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

	Three Months Ending			
		March 31, 2018		April 1, 2017
Accounts receivable	$	(2,458)	$	(10,308)
Inventories		(2,571)		(1,476)
Prepaid expenses		345		160
Accounts payable and accrued liabilities		(3,736)		(282)
Foreign exchange		3,468		451
	$	(4,952)	$	(11,455)

Canada
Hammond Power Solutions Inc.

Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.

795 Industriel Boul.
Granby, Quebec J2G 9A1

3850 place de Java
Suite 200
Brossard, Québec J4Y 0C4

India
Hammond Power Solutions
Private Limited

2nd Floor
Icon Plaza, H. No. 5-2/222/IP/B
Allwyn X-Roads
Miyapur, Hyderabad – 500049

Italy
Hammond Power Solutions S.p.A.

Via A. Gramsci, 98
21050 Marnate (VA), Italy

Mexico
Hammond Power Solutions S.A.
de C.V.

Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Ave. Avante #900
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Mexico
Corefficient, S. de R.L. de C.V.

Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

United States
Hammond Power Solutions, Inc.

1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

ANNUAL GENERAL MEETING

Shareholders are cordially
invited to attend the
Annual General Meeting held:
Wednesday May16, 2018
1:00 p.m. (EST)

Cutten Fields
190 College Avenue East
Guelph, Ontario N1H 6L3
(The Cutten Room)

Corporate Officers and Directors

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

Chris R. Huether
Corporate Secretary and
Chief Financial 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

* Corporate Governance Committee
\+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

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

Auditors

KPMG LLP
115 King Street South
Waterloo, Ontario N2J 5A3

Legal Representation

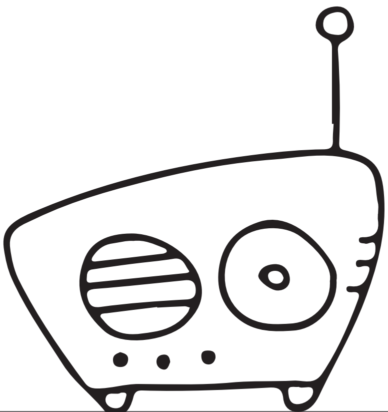
Borden Ladner Gervais LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, Ontario
Canada M5H 4E3

Banking Institution

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

Investor Relations

Contact: Dawn Henderson,
Manager Investor Relations
Phone: 519.822.2441
Email: ir@hammondpowersolutions.com



The Hammond Museum of Radio is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment.

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

Hammond Power Solutions Inc.

THE PATH TO SUCCESS IS TO
TAKE DETERMINED ACTION