Hammond Manufacturing Company Limited
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REPORT TO SHAREHOLDERS
THREE MONTHS ENDED March 31, 2017

Fellow shareholders:

We continue to see quarter-over-quarter improvement in our results as our long term capacity expansion continues. This has been assisted by a strengthening in our markets and favorable currency exchange.

2017 is also a special time for us as it was 100yrs ago that O.S. Hammond and his sons started a machining business in a small shed. From this humble beginning, the company has evolved and grown. Our focus continues on evolution and progress into new products and markets for the future.

Our strategy continues to build shareholder value, secure and rewarding jobs for our associates, and quality products for our customers.

Yours truly,

Rob Hammond
Chairman & CEO

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2017 FIRST QUARTER INTERIM REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") comments on the consolidated financial condition and results of operations of Hammond Manufacturing Company Limited (the "Company") for the first quarter of 2017. This discussion should be read in conjunction with the Company's unaudited consolidated financial statements and the related notes for the three months ended March 31, 2017 and should also be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016 and related notes. Additional information about the Company can be found on its website, www.hammfg.com, or through the SEDAR website at www.sedar.com which includes the Company's Annual Information Form. The information contained herein is dated as of May 1, 2017.

Advisory –Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

COMPANY PROFILE

Hammond Manufacturing Company Limited manufactures electronic and electrical enclosures, outlet strips and electronic transformers that are used by manufacturers of a wide range of electronic and electrical products. Products are sold both to OEM-direct and through a global network of distributors and agents.

Facilities are situated in Canada, the USA, the UK, Taiwan and Australia, with agents and distributors located worldwide. The company also maintains a 40% ownership share of RITEC Enclosures Inc. (RITEC) located in Taiwan. RITEC produces plastic and die cast enclosures for sale through the Company sales network and its own existing market channels.

OPERATIONS

FIRST QUARTER RESULTS

SALES

Net product sales for the three months ended March 31, 2017 were $31,727,000; this reflects an increase of 13.3% from net sales of $27,995,000 in the fourth quarter of 2016. Foreign exchange accounts pulled down net sales by $340,000 or 1.2% thus the overall increase in net product sales was 14.5%. All our markets saw positive improvement. Net product sales for the current quarter were flat compared to net sales of $31,774,000 for the three months ended April 1, 2016. The first quarter of 2016 was the strongest quarter of 2016. Compared to the first quarter of 2016 foreign exchange provided a drag of $1,346,000 or 4.2%, thus the group was actually up approximately 4.2% in market activity compared to the first quarter of 2016.

GROSS PROFIT

Gross profit for the first quarter of 2017 was 29.5% of net product sales compared to 28.2% in the fourth quarter of 2016 and 31.5% in the first quarter of 2016. We continue to see improvement over the previous three quarters that reflected the impact of bring our new facility on line. Our focus continues to be on increasing sales to help absorb the additional fixed cost associated with the new facility.

SELLING & DISTRIBUTION

Expense level of $6,722,000 was up $789,000 or 13.3% from $5,933,000 spend in the fourth quarter of 2016. Foreign exchange lowered comparative levels by $50,000 or 0.8%. The overall increase can be attributed to the increase in net product sales. Compared to the first quarter of 2016 total expense levels adjusted for foreign exchange were up 3.6% compared to sales activity being up 4.2%.

GENERAL & ADMINISTRATION

First quarter expenses of $1,108,000 were down $71,000 or 6.0% over the expense level of the fourth quarter of 2016 and down $166,000 or 13.0% over the comparative quarter of last year.

RESEARCH & DEVELOPMENT

Expenses of $94,000 were up $22,000 over the comparative quarter of last year.

INCOME FROM OPERATING ACTIVITIES

Overall earnings results from operating activities of $1,449,000 (4.6% of net sales) is up over the prior quarter of $672,000 (2.4% of net sales) and down from the 2016 first quarter amount of $2,022,000 (6.4% of net sales).

INTEREST

First quarter interest expense of $251,000 was up 2.5% from the prior quarter expense of $245,000 and up 74.3% compared to the prior year first quarter of $144,000. The increase over the first quarter of 2016 is from the financing impact of our expansion project that began in 2015 and was substantially completed in 2016.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

This quarter the company recognized a gain of $238,000 compared to a gain of $464,000 in the three months ended April 1, 2016. The Canadian dollar remained relatively stable over the US dollar and British pound in the first quarter of 2017.

INCOME TAX EXPENSE

First quarter 2017 income tax expense was $428,000 which is 29.9% of income before tax compared to $611,000 which is 26.2% of income before tax in the first quarter of 2016. Tax expense is impacted by the weighting of profit in our different tax jurisdictions.

INCOME FOR THE PERIOD

Income for the first quarter ended March 31, 2017 was $1,002,000 (3.2% of Net sales) compared to $1,725,000 (5.4% of Net sales) in the first 3 months ended April 1, 2016. This is an improvement over the 2016 fourth quarter loss $135,000 and is a reflection that the burden of bringing the new facility on line is being put behind us.

FOREIGN EXCHANGE TRANSLATION IMPACT

The Canadian dollar remained relatively stable over the US dollar and British pound in the first quarter of 2017 compared to a significant weakening of the Canadian dollar in the first quarter of 2016. 2017 first quarter translational loss was $136,000 compared to a loss of $1,102,000 loss in the first quarter of 2016.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the first quarter ended March 31, 2017 was $866,000 (2.7% of Net Sales) up from the first 3 months ended April 1, 2016 of $623,000 (2.0% of Net sales).

CAPITAL RESOURCES AND LIQUIDITY

Net cash used by operating activities for the first quarter of 2017 was $852,000 compared to cash used of $2,614,000 in the first 3 months of 2016. Cash flows from financing activities amounted to a source of $1,845,000 (2016 – source of $6,121,000). Cash used in investing activities was $233,000 (2016 - $2,525,000).

Trade and other receivables increased 11.4% from the ending December 31, 2016 balance to $17,303,000. This increase was driven from the increase in market activity. Days sales outstanding (DSO) calculated on net sales was 47.4 days, up 1.4 days from the April 1, 2016 level of 46.0 days. The quality of accounts receivable remains high.

Investment in inventory of $32,783,000 was flat from the start of the year. First quarter inventory turnover of 2.7 (annualized cost of sales divided by the three month average inventory level) improved over the 2016 average turns of 2.62 (cost of sales divided by the twelve month average inventory level).

Trade and other payables decreased by $1,001,000 to $11,275,000 from December 31, 2016 value of $12,276,000. We value our suppliers and strive to maintain acceptable payment terms.

Our total debt (long-term debt and bank indebtedness) increased by $1,845,000 from December 31, 2016 ending balance to $27,033,000. Primary increase was a draw on our bank line to pay down our accounts payable obligations. The Group has successfully applied for and been approved by the Canadian government program FedDev for an interest free loan up to $3,462,000 on eligible spending. As at December 31, 2016 the group had received $1,535,000 of this funding. During the first quarter the group received an additional $625,000 of this funding.

Property, plant, equipment asset additions in the first quarter of 2017 were $233,000. The group received a $60,000 credit toward our new facility and spent $212,000 toward machinery and equipment and $78,000 toward tooling.

The overall cash position increased by $514,000 in the first quarter of 2017 compared to a cash position decrease of $44,000 in the first quarter of 2016.

There have been no other material changes in the Company’s contractual obligations for long-term debt, capital lease obligations and operating leases from that presented in our management’s discussion and analysis for the year ended December 31, 2016.

The Company is in compliance with all the bank covenants, and the credit facilities are well designed to meet expected on going requirements.

Management is not aware of any contingent liabilities.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off Balance Sheet arrangements, other than operating leases disclosed in the Notes to the Consolidated Financial Statements contained in our 2016 Annual Report.

TRANSACTIONS WITH RELATED PARTIES

The Company had no transactions with related parties in 2017, other than transactions disclosed in note 17 of the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2017 Report.

SHARE CAPITAL

As of March 31, 2017, 8,556,000 Class A subordinate voting shares and 2,778,300 Class B common shares were issued and outstanding. The Company also has a management share option plan, with no options currently outstanding.

QUARTERLY INFORMATION

HAMMOND MANUFACTURING COMPANY LIMITED

Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Year-to-date Total	2017 Q1
Net product sales	$31,774	$28,011	$27,944	$27,995	$115,724	$31,727
Income from operating activities	2,022	(586)	188	672	2,296	1,449
Net income for the period	1,725	(610)	(296)	(135)	684	1,002
Earnings per share - Basic & diluted	$0.15	($0.05)	($0.03)	($0.01)	$0.06	$0.09

	2015 Q1	2015 Q2	2015 Q3	2015 Q4	Year-to-date Total
Net product sales	$30,516	$28,993	$29,941	$27,714	$117,164
Income from operating activities	1,907	1,307	1,636	1,775	6,625
Net income for the period	828	937	705	1,080	3,550
Earnings per share - Basic & diluted	$0.07	$0.09	$0.06	$0.09	$0.31

Note: Interim consolidated financial information has not been reviewed by an auditor.

ENVIRONMENTAL ISSUES

The Glen Ewing Property is a 50% co-tenancy with Hammond Power Solutions Inc. (HPSI) of a vacant property located at 2 Glen Road, Georgetown. The soil has been contaminated by diesel oil, which is believed to be related to site operations of prior owners. The Company and HPSI, as co-tenants, have been working co-operatively with the adjacent property owner and its environmental consultant, and the Ministry of Environment to contain and remove any free flowing contaminants. The Company's share of expense for legal and consulting work for 2017 related to this property was $6,000 (2016 - $6,000). The parties started remediation of the site in October 2009. The Company has relied on its consultant's best estimate for the remaining environmental remediation costs. The Company's remaining portion of environmental remediation costs for this site is $170,000 (2016 - $170,000) with $70,000 (2016 - $70,000) presented as a current liability in the financial statements.

In June 2013, 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 the Corporation. At this time the Company feels that there is no merit to the claim.

Other than the above noted sites, management is not aware of any unusual or significant environmental issues.

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the consolidated financial statements, it is necessary for management to make some estimates and judgments that affect reported amounts in the financial statements and related disclosure of contingencies. Management determines these estimates using historical experience, assumptions and rationale that are believed to be reasonable in the circumstances. The Company evaluates these on an ongoing basis in order to form the judgment for the carrying value of certain assets and liabilities.

Specifically, the Company has assessed the property valuations related to the sites noted under “Environmental Issues” in this MD&A and in the notes to the financial statements (note 8). Based on this analysis, it is management’s judgment that the reported carrying values of these properties are reasonable.

The value of goodwill related to the Company’s UK operations was reviewed by management and tested for impairment in accordance with the guidelines set out in International Accounting Standard 36. Based on this analysis, it is management’s judgment that the reported carrying value for goodwill is not impaired.

The environmental provision has been established based on an analysis of cost estimates related to expected activities required for active remediation for Glen Ewing Property. It is management’s judgment that the reported carrying value for this provision, based on discounted cash flows over three years, is a reasonable estimate of the Company’s share of these costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

Employee future health benefits have been estimated based on eligible employees and management’s best estimates of the utilization of these benefits on a specific employee basis. It is management’s judgment that the reported carrying value for this provision, based on discounted cash flows, is a reasonable estimate of the Company’s costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

Inventory valuation includes provisions for slow moving inventory using management’s judgments based on inactivity of the specific parts. Management also reviews inventory values compared to anticipated sales values and provides a provision for lower of cost or market.

Although these estimates, which form the basis for carrying values of reported assets, liabilities, revenues and expenses, are based on reasonable assumptions, it should be noted that actual results may differ from these estimates.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

(i) financial statements prepared for external purposes are in accordance with the Company's Generally Accepted Accounting Principles,

(ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,

(iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and

(iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

Internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Chief Executive Officer and the Chief Financial Officer have caused management and other employees to design, document and evaluate our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2016. The design and evaluation of internal controls was completed using the framework and criteria established in "Internal Control – Integrated Framework" updated May 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, we have concluded that the Company's disclosure controls, procedures and our internal controls over financial reporting provide reasonable assurance that material information relating to the Company are made known to the Company by others, particularly during the period in which the annual filings are being prepared, that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

There have been no substantive changes in the Company's internal controls over financial reporting during the first three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

As with most businesses, the Company is subject to a number of marketplaces, industry and economic related business risks, which could have some material, impact on our operating results.

These risks include:

- Security Breaches or Disruptions of Information Technology Systems Risk
- Key personnel;
- The cyclical effects, unpredictability and volatility of market driven commodity costs, raw materials such as copper and steel pricing and supply and demand;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the US dollar;
- Rising interest rates;
- Economic slowdown in the US and Canada;
- Brexit;
- Trade restrictions;
- Labour costs and labour relations;
- Competition; and
- Global political unrest.

The Company continuously works to minimize the negative impact of these risks and strengthen its position through diversification of its core business, market channel expansion, geographic diversity of its operations and business hedging strategies. There are, however, several risks that deserve particular attention.

Security Breaches or Disruptions of Information Technology Systems Risk

The Corporation utilizes a variety of information technology systems to manage and operate its businesses. These information systems may be owned and maintained by the Corporation, outsource providers or third parties such as customers, vendors and contractors. These information systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines and networking equipment. Despite the implementation of extensive security measures (including access controls, data encryption, vulnerability assessments, continuous monitoring, and maintenance of back-up and protective systems), the Corporation's information technology systems are potentially vulnerable to interruptions or delays, unauthorized access, computer viruses, cyber-attack and other events, ranging from individual attempts to advanced persistent threats. It is possible a security breach could result in theft of trade secrets or other intellectual property or disclosure of confidential customer, supplier or employee information. Should the Corporation be unable to prevent security breaches, disruptions could have an adverse effect on the

Corporation's operations and financial results, as well as expose the Corporation to litigation, increased cyber security protection costs, and reputational damage.

Key Personnel

The Company is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If the Company were to experience a substantial turnover in its leadership or other key employees, business results from operations and financial condition could be materially adversely affected.

Commodity Prices

An area that has had a definite effect on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper commodity and steel pricing in the global market. Due to this unpredictability and volatility, particularly with copper pricing, the Company does not currently utilize future contracts. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. A significant portion of our sales is denominated in US dollars. A change in the value of the Canadian dollar against the US dollar will impact revenues and earnings. We have created a bit of a natural hedge as this is partially offset by a corresponding change in the cost of materials purchased from the US and commodities tied to US dollar pricing. In general, a lower value for the Canadian dollar compared to the US dollar will have a beneficial impact on the Company's results; or, inversely, a higher value for the Canadian dollar compared to the US dollar will have a negative impact on the Company's profitability. The Company also has a US operating subsidiary and US dollar assets. The exchange rate between the Canadian and US dollar can vary significantly from year to year. There is a corresponding positive or negative impact to the Company's Consolidated Statements of Comprehensive Income solely related to the foreign exchange translation of its Consolidated Statements of Financial Position. We have partially reduced the impact of foreign exchange fluctuations through increasing our US dollar driven manufacturing output. Finally, the Company periodically institutes price increases / reductions to help offset the negative / positive impact of changes in foreign exchange and product cost increases / decreases.

Interest Rates

Bank indebtedness makes up close to 34% of the company debt financing. The rates for this financing are low but variable. The company is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews this strategy of hedging this risk by fixing interest rates on part of its total debt.

North American Economy

The Canadian dollar is highly leveraged to natural resources and especially oil. We have seen a weakening of the Canadian dollar against the US dollar as oil prices have fallen. A strengthening US market place has also contributed to the strengthening US dollar.

Since our costs are highly Canadian dollar based, this is providing an opportunity to price aggressively in the US market place and increase our market activity. Current outlook sees the US dollar remaining strong for some time. We will continue to react to the market conditions to grow our business. Our efforts over the next 12 months will be on projects that will reduce our costs and improve our manufacturing flexibility. We believe that being nimble as an organization will become even more important in order to respond quickly to both unexpected opportunities as well as challenges. We also believe that our growing access to a variety of markets both global and domestic through our OEM and distributor channels will help the Company expand market share.

OUTLOOK FACTORS FOR 2017

The first quarter activity in our markets exceeded our expectations. We will continue to monitor our markets closely and adjust accordingly. The strong US dollar is providing us the opportunity to competitively price our products and stimulate market share growth. The Company continues with the objective of sales growth and increased market share but will weigh this against achieving acceptable margins.

Phase I of our capacity expansion project (Wilbert Facility) which started in 2015 was completed in 2016. We are now planning for Phase II of the project which is a re-layout and refurbishment of our Edinburgh Rd facility. Capital spending on this phase will be made when it can be properly supported by cash flows and financing.

Our primary focus continues to be on productivity and margin improvement.