



**Hammond Manufacturing Company
Limited**

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**REPORT TO SHAREHOLDERS
THIRD QUARTER ENDED September 24, 2021**

Fellow shareholders:

Sales activity remain at the highest levels we have ever experienced. We have been adding to our production labour force to ensure we can sustain the level of output needed to meet this demand. We have started to grow back some of our depleted finished goods inventories.

We are not alone in this surge of business activity. Material lead times are moving out and our teams are closely monitoring and reacting to ensure our supply of raw materials is not impacted. Material costs (especially steel) are being impacted by the market demand.

Not unlike others we are seeing freight as an issue. Lack of available containers is impacting shipments from Asia. This is causing delays of shipments and increased freight costs. This has impacted some of our raw material inputs that come from Asia.

Some of our end-user are experiencing their own supply issues. If they cannot get the components that they put into our enclosures they are delaying projects and pushing out their orders with us.

We are combating the cost increases with price increases to help offset these.

This quarter the US dollar has started to strengthen against the Canadian dollar which is favourable to our bottom line although it is a long way back to the levels seen in 2020.

We have what we characterize as a bunch of good problems and the team is working hard to make the most out of the opportunity in front of us.

I invite you to call if you have questions.

Yours truly,

Alex Stirling
CFO

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2021 THIRD 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 third quarter of 2021. This discussion should be read in conjunction with the Company's unaudited condensed consolidated financial statements and the related notes for the nine months ended September 24, 2021 and should also be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2020 and related notes. Additional information about the Company can be found on its website, www.hammfq.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 October 25, 2021.

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, the Netherlands, 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

THIRD QUARTER RESULTS

SALES

Net product sales for the three months ended September 24, 2021 were \$46,146,000, this reflects a decrease of 0.8% from net sales of \$46,502,000 in the second quarter of 2021. All our markets remain strong. Net product sales for the current quarter are up 29.7% compared to net sales of \$35,581,000 for the three months ended September 25, 2020. The second and third quarters of 2020 felt the full impact of COVID-19. This year's sales activities are well above pre-Covid sales levels. Foreign exchange impact is lowering our comparative sales output by approximately \$2,131,000 so sales activity is actually up 35.7%.

GROSS PROFIT

Gross profit for the third quarter of 2021 was 29.8% of net product sales compared to 30.0% in the second quarter of 2021 and 29.8% in the third quarter of 2020. The impact of foreign exchange rates continue to keep our gross profit levels down as a percent of sales. We are seeing significant cost increases in steel and other product inputs and we have put through price increases to help offset these increases in cost.

SELLING & DISTRIBUTION

Expense level of \$9,694,000 was down \$95,000 or 1.0% from \$9,789,000 spend in the second quarter of 2021 and up 21.6% from \$7,974,000 spend in the third quarter of 2020. Foreign exchange had little impact compared to the previous quarter expense levels. Compared to the third quarter of 2020 foreign exchange lowered expenses by \$317,000. Comparatively this means expenses were up closer to 25.5% over the comparative quarter of 2020. The expense increase is a function of the increased sales levels.

GENERAL & ADMINISTRATION

Third quarter expenses of \$1,443,000 were up compared to spend of \$1,157,000 in the second quarter of 2021. This quarter reflects the annual board of director fees and does not include the upside recognized in the second quarter from the reduction of our allowance for credit losses. Expenses were also up \$162,000 or 12.6% compared to the third quarter of 2020. Legal and computer hardware expenses were the primary drivers of this comparative increase.

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INCOME FROM OPERATING ACTIVITIES

Overall earnings results from operating activities of \$2,597,000 (5.6% of net sales) is down from the prior quarter of \$3,008,000 (6.5% of net sales) and up from the 2020 third quarter amount of \$1,314,000 (3.7% of net sales).

INTEREST

Third quarter interest expense on bank indebtedness and loans was \$196,000 down from the second quarter expense of \$204,000 and down compared to an expense of \$204,000 for the third quarter 2020. The comparative loan base has dropped from \$21,096,000 at the end of the third quarter of 2020 to \$18,466,000 at the end of the third quarter of 2021.

INTEREST EXPENSE LEASES

Interest expense on leases of \$163,000 this quarter was down \$1,000 over the previous quarter and down \$7,000 over the comparative quarter of 2020.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

The Canadian dollar weakened against the US dollar this quarter and ended very close to the beginning of the year level. This quarter the company recognized a loss of \$472,000 compared to a gain of \$344,000 in the three months ended June 25, 2021. In the third quarter of 2020 we experienced a strengthening of the Canadian dollar against the US dollar creating foreign currency gain of \$329,000. A large portion of this is from intercompany transactions and is offset in translational foreign exchange noted in the other comprehensive income section of the condensed statements.

INCOME TAX EXPENSE

Third quarter of 2021 income tax expense was \$447,000 which is 25.7% of income before tax compared to \$317,000 which is 25.6% of income before tax in the third quarter of 2020.

INCOME FOR THE PERIOD

Income for the third quarter ended September 24, 2021 was \$1,290,000 (2.8% of Net sales) compared to \$921,000 (2.6% of Net sales) in the 3 months ended September 25, 2020 and up from the last quarter net income for the period of \$2,197,000 (4.7% of Net Sales).

FOREIGN EXCHANGE TRANSLATION IMPACT

Movement in the Canadian dollar against the US dollar caused a gain of \$683,000 from translational foreign exchange in the third quarter of 2021 compared to a loss of \$417,000 in the third quarter of 2020. This was the result of the impact of movement in the US dollar. Some of this is offset in transactional foreign exchange.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the third quarter ended September 24, 2021 was \$1,973,000 (4.3% of Net Sales) up from the 3 months ended September 25, 2020 of \$504,000 (1.4% of Net sales).

2021 YEAR TO DATE RESULTS

NET PRODUCT SALES

Net product sales, for the nine months ended September 24, 2021 were \$134,788,000, up \$25,429,000 (23.3%) from net product sales of \$109,359,000 in the first nine months of 2020. Foreign exchange comparatively decreased sales by approximately \$6.0 million or 5.5%.

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This impact was primarily all US versus Canadian dollar driven. In their respective currencies our European markets are up about 30.0% while our US market is up 26.1% and the Canadian market is up 29.7% year over year. Last year we felt the major impact of the COVID-19 impact our second and third quarters. This year we have seen our markets return to, and surpass pre-COVID activity levels. We suspect part of this surge is from pent up demand caused by COVID related shut downs and slow downs.

GROSS PROFIT

Gross profits of \$40,524,000 for the first nine months of 2021 was 30.1% of net sales compared to \$34,529,000 (31.6% of net product sales) in the first nine months of 2020. A large portion of production cost are primarily in Canadian dollars so (as noted in the sales section) the loss of \$6.0 million from foreign exchange can explain about 3.0% of the margin drop. We are also combating cost increases on most of our raw materials which is a function of the increased market activity. We have put through price increases to help offset the higher costs of materials. In the first quarter of 2021 we claimed \$439,000 in Canadian Employer Wage Subsidy (CEWS) which improved our year to date margin by 0.3%.

COVID expenses recognized in our production costs this year were \$256,000 compared to \$187,000 in the first three quarters of 2020.

SELLING & DISTRIBUTION

The 2021 nine month expense levels of \$27,803,000 is up \$3,550,000 compared to spend level of \$24,253,000 in the first nine months of 2020. Foreign exchange decreased expense levels \$856,000 or 3.1% over the comparative period in 2020.

Sales activity was effectively up 28.8% compared to an effective expense increase of 18.1%. Sales expenditures remain constrained as travelling and marketing shows are limited as a result of COVID-19 restrictions. As things open up we anticipate these expense will rise back to pre-COVID-19 levels.

GENERAL & ADMINISTRATIVE

The first nine months expenses of \$4,210,000 were up \$178,000 or 4.4% over the first nine months of 2020.

Foreign exchange comparatively decreased expenses this year by roughly \$49,000. This year's expenses are up primarily from an increase in legal and consulting fees as well as general IT expenditures.

COVID expenses recognized in our administrative expenses this year were \$50,000 compared to \$7,000 in the first three quarters of 2020.

INCOME FROM OPERATING ACTIVITIES

Year to date earnings from operating activities of \$8,526,000 (6.3% of net product sales) is up compared to the 2020 year to date of \$6,202,000 (5.7% of net product sales).

INTEREST

Year to date interest expense on bank indebtedness and loans was \$601,000 compared to an expense of \$661,000 for the first nine months of 2020. Interest expenses are decreasing as a result of our lower borrowing levels.

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INTEREST EXPENSE LEASES

Interest expense on leases of \$496,000 in the first nine months of 2021 was down compared to \$522,000 expense in the first nine months of 2020.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

The first nine months of 2021 saw no impact from transactional foreign exchange compared to a loss of \$502,000 in the first nine months of 2020. A large portion of this is from intercompany transactions and is offset in the foreign exchange translational section noted below.

INCOME TAX EXPENSE

Year to date income tax expense of \$1,880,000 is 25.6% of the income before tax compared to a tax expense of \$1,136,000 which was 25.6% of the income before tax in the first nine months of 2020.

NET INCOME FOR THE PERIOD

Profit for the first nine months ended September 24, 2021 was \$5,464,000 (4.1% of net product sales) up from \$3,301,000 (3.0% of net product sales) for the first nine months ended September 25, 2020.

FOREIGN EXCHANGE TRANSLATION

The net result of the valuation of all our foreign entities was a loss of \$79,000 on foreign exchange balance sheet translation in the first nine months of 2021, compared to a gain of \$581,000 in the first nine months of 2020. A portion of this is offset above as noted in the foreign exchange transactional section.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the first nine months ended September 24, 2021 was \$5,385,000 (4.0% of net product sales) up from comprehensive income in the first nine months ended September 25, 2020 of \$3,882,000 (3.5% of net product sales).

CAPITAL RESOURCES AND LIQUIDITY

Net cash generated by operating activities for the first nine months of 2021 was \$8,813,000 compared to cash generated of \$7,198,000 in the first nine months of 2020. Cash flows from financing activities amounted to a use of \$3,768,000 (2020 - use of \$4,055,000). Cash used in investing activities was \$7,099,000 (2020 - used \$2,924,000).

Trade and other receivables increased 28.0% from the ending December 31, 2020 balance to \$26,284,000. Days sales outstanding (DSO) calculated on net sales was 53.3 days which is holding close our historical average of approximately 52 days. The quality of accounts receivable remains high.

Investment in inventory of \$42,521,000 was up 1.1% from the start of the year. Year to date inventory turnover of 3.1 (annualized cost of sales divided by the nine month average inventory level) increased over the 2020 average turns of 2.4 (cost of sales divided by the twelve month average inventory level). Sales continues to outpace our production capabilities and have depleted our finished goods inventories. We are increasing our workforce and ramping up production to meet the increase in demand.

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Trade and other payables increased by \$4,509,000 to \$21,626,000 from December 31, 2020 value of \$17,117,000. This is a reflection of our increase in business activities. We value our suppliers and strive to maintain acceptable payment terms.

Our total debt (long-term debt, finance leases and bank indebtedness (excluding right of use liabilities)) was at \$18,466,000 decreased by \$1,165,000 from December 31, 2020.

Property, plant, equipment asset additions in the first nine months of 2021 were \$7,073,000. The main projects are as follows. \$1,244,000 was towards putting in a sprinkler system in our main distribution center. It came on line in July and is saving us over \$450,000 a year in insurance premiums. This year we had additional spend of \$2.3 million towards a new laser cell that expands our laser cutting capacity. This year we have invested approximately \$650,000 towards new tooling.

It was announced on July 26th of this year that we are going to build a 96,000 square foot facility to provide more painting and metal fabrication capacity. The project budget is around \$24.0 million and is scheduled to be up and running by the end of 2022. To date we have spent \$717,000 toward this project.

The overall cash position decreased by \$2,155,000 in the first nine months of 2021 compared to a cash position increase of \$358,000 in the first nine months of 2020.

Other than noted above there have been no other material changes in the Company's contractual obligations for long-term debt, capital lease obligations and Right-of-use assets from that presented in our management's discussion and analysis for the year ended December 31, 2020.

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.

As at September 24, 2021 the contractual obligations showing demand loans as current was as follows.

Contractual obligations <i>(In thousands)</i>	Total	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Long-term debt	\$15,536	\$14,136	\$ 635	\$ 669	\$ 96		
Lease Liabilities	14,232	2,940	2,588	1,960	1,961	1,601	3,182
Total contractual obligations	\$29,768	\$17,076	\$ 3,223	\$ 2,629	\$ 2,057	\$ 1,601	\$ 3,182

As at September 24, 2021 the contractual obligations based on repayment not being called early.

Contractual obligations <i>(In thousands)</i>	Total	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Long-term debt	\$15,536	\$ 1,878	\$ 1,966	\$ 7,530	\$ 1,327	\$ 1,703	\$ 1,132
Lease Liabilities	14,232	2,940	2,588	1,960	1,961	1,601	3,182
Total contractual obligations	\$29,768	\$ 4,818	\$ 4,554	\$ 9,490	\$ 3,288	\$ 3,304	\$ 4,314

SHARE CAPITAL

As of September 24, 2021, 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)

	2021				Year-to-date
	Q1	Q2	Q3	Q4	Total
Net product sales	\$42,140	\$46,502	\$46,146		\$134,788
Income from operating activities	2,921	3,008	2,597		8,526
Net income for the period	1,977	2,197	1,290		5,464
Earnings per share - Basic & diluted	\$0.17	\$0.20	\$0.11		\$0.48

	2020				Year-to-date
	Q1	Q2	Q3	Q4	Total
Net product sales	\$39,641	\$34,137	\$35,581	\$38,864	\$148,223
Income from operating activities	2,284	2,604	1,314	5,480	11,682
Net income for the period	570	1,810	921	4,423	7,724
Earnings per share - Basic & diluted	\$0.05	\$0.16	\$0.08	\$0.39	\$0.68

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

EBITDA

EBITDA for the first nine months of 2021 was \$13,369,000. This was up over EBITDA of \$10,331,000 achieved in the first nine months of 2020.

EBITDA adjusted for transactional impact of foreign exchange increased the EBITDA in this quarter and decreased the comparative quarter of 2020. Year to date EBITDA adjusted for the transactional impact of foreign exchange had no impact year to date on the EBITDA and increased the comparative year to date of 2020. EBITDA is calculated as outlined in the following table:

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Reconciliation of Net Earnings to Earnings Before Interest, Taxes Depreciation and Amortization (EBITDA)*.

(In thousands of Canadian dollars)

	Nine Months Ended:		Three Months Ended:	
	September 24, 2021	September 25, 2020	September 24, 2021	September 25, 2020
Net income for the period	5,464	3,301	1,290	921
Add				
Income tax expense	1,880	1,136	447	317
Depreciation and amortization	2,825	2,615	967	886
Right-of-use depreciation	2,103	2,096	688	702
Finance costs on debt	601	661	196	204
Right-of-use finance costs	496	522	163	170
Subtotal	7,905	7,030	2,461	2,279
EBITDA*	13,369	10,331	3,751	3,200
Add:				
FX transactional loss (gain)	-	502	472	(329)
Adjusted EBITDA *	13,369	10,833	4,223	2,871

* EBITDA and Adjusted EBITDA are non-IFRS earnings measures, therefore they do not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA removes the impact of foreign exchange transactional so management can assess the impact of this on the operating results. Management uses these measurements to evaluate the operating results of the Company. These measures are also important to management since they are used by the Company's lenders to evaluate the ongoing cash generating capability of the Company and therefore the amounts those lenders are willing to lend to the Company. Investors find EBITDA and Adjusted EBITDA to be useful information because they provide measures of the Company's operating performance.

ENVIRONMENTAL ISSUES

Site restoration

The Group has committed to undertaking a joint remediation plan for the Glen Ewing property with the owner of an adjoining industrial property and the co-owner of the property. The Group has recorded a liability for its estimated portion of the joint remediation.

The Company's share of expense for legal and consulting work for 2021 related to this property was \$85,000 (2020 - \$80,000).

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 (2020 - \$170,000) with \$70,000 (2020 - \$70,000) presented as a current liability in the financial statements.

A statement of claim was issued on June 19, 2013, against the Company with respect to a property once held by the Company. The claim alleges that contaminants originating from the property once owned by the Company have migrated to a nearby, but not adjoining property owned by the claimants. The amount of the claim is not fully known but

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includes \$3,500,000 which is the estimated cost of construction of a barrier and related expenses. At this point in time, there is no certainty that the contaminants emanated from the property once owned by the Company. Furthermore, given the nature of the claim, there remains significant uncertainty as to any costs to be incurred as a result of the claim and accordingly management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these consolidated financial statements. The trial for this claim has been set down for September 2022. We have seen corresponding legal fees in 2020 and 2021.

A third party statement of claim was issued on March 6, 2019, against the Company with respect to an adjacent property to one of our Waterloo facilities. The claim alleges that contaminants originating from our property have migrated to the adjoining property owned by the claimants. The amount of the claim is estimated at \$160,000 to \$670,000. Our records do not show any spills of chemicals at this location and management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these condensed consolidated financial statements.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management periodically reviews its estimates and underlying assumptions relating to the following items:

i) Inventory

Inventories are valued at the lower of cost or net realizable value. When necessary, the write-down of inventory to its net realizable value is recorded as a result of industry conditions. We have made certain assumptions when determining expected future demand by utilizing information such as inventory quantities and aging, historical sales of inventory and general market understanding. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of write-down expenses in future periods.

ii) Amortization

Management makes estimates of the appropriate useful lives to be assigned to intangible assets based on the individual circumstances of an acquisition. Management reviews the appropriateness of the lives assigned and makes adjustments prospectively, where necessary.

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iii) Impairment tests

Management makes estimates of sustainable earnings, future expected cash flows and discount rates in the determination of the value-in-use or fair value less costs of disposal of cash-generating units (“CGUs”).

iv) Provision against accounts receivable

Management makes estimates on the expected credit losses (“ECLs”) of accounts receivable balances based on customer specific facts and circumstances as well as past experience of write-offs. Changes in the economic conditions in which the Company’s customers operate and their underlying financial stability may impact these estimates.

v) Employee future benefits

Management estimates the discount rates, retirement age and future costs of benefits associated with providing future employee benefits and exercises judgment to determine how many employees will utilize these benefits.

vi) Tax assets

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

vii) Depreciation

Management estimates future residual values and the rate at which the useful lives of property and equipment are consumed to determine appropriate depreciation charges. Estimates of residual value and useful lives are based on data and information from various sources, including vendors, industry practice and Company-specific history. Management reviews the appropriateness of the lives assigned and makes adjustments prospectively, where necessary.

viii) Property value

Management estimates the value of the investment property to assess if impairment has occurred. The estimate is made by reviewing local land prices and current sales of similar properties as well as property tax value assessment.

ix) Environmental remediation:

Management estimates the value to complete the remediation project on the Glen Ewing Property each year by reviewing the project status and activities still to be completed. Any changes to the project scope are updated in the cost estimation model and any change in the required reserve is recorded in the current year.

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x) Sales returns:

Management estimates the value of product that will be returned based on a historical analysis. Any change to the estimate is recorded as a reduction of revenue in the current period.

xi) Leases under IFRS 16:

For the purpose of valuing leases the Company utilizes a discounted interest rate in the lease that is readily available or the Groups incremental borrowing rate. The group also utilizes its best estimate of any costs to dismantle and remove the asset at the end of the lease.

Use of judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies and the interpretation of accounting standards. Management periodically reviews its judgments and underlying assumptions relating to the following items:

xii) Provision for claims

Judgment is exercised in deciding whether a liability for a claim meets the criteria of a present obligation and in assessing the probability of the outflow of economic resources.

xiii) Leases under IFRS 16

The Company exercises judgement as to whether it is likely to extend the term of the lease when the option is provided.

xiv) Impairment tests

Management exercises judgment to determine whether there are factors that would indicate that an asset or a CGU is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Company's operations.

xv) Intangible assets

Management exercises judgment to determine whether identifiable intangible assets were acquired in a business combination, separate from goodwill and whether they will provide future economic benefits to the Company.

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:

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- (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.

Evaluation of Disclosure Controls and Procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of the Company's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed as at the December 31, 2020 year end.

Evaluation of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of the Company's CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the

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company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the annual financial statements or interim financial statements. The CEO and CFO did not identify any material weaknesses in their evaluation of internal control, and concluded that the Company's internal control over financial reporting was effective, as at December 31, 2020.

There has been no change to internal controls in the most recent quarter ended on September 24, 2021 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;
- Pandemics

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

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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. In a sensitivity review, if we did not react in any way to a one cent change in the value of the Canadian to US dollar value it would have had an approximate impact on income from operations of \$696,000 for each cent movement in 2020. 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. The Company is

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also exposed to the impact from the British pound sterling and Euro as well as to the Australian dollar but not to the level of exposure of the US dollar.

Interest Rates

Bank indebtedness makes up close to 15.9% of the Company's debt financing (excluding Right of use obligations). 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

We will continue to react to the market conditions to grow our business. Our efforts over the next 12 months will continue to 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.

Global Political Unrest

Today's politics can have significant repercussions on doing business. Issues are constantly changing and management has to assess the potential outcomes of the different issues and be prepared to react or mitigate anything that would have a negative impact on our business.

BREXIT is now a reality. We have operations in the UK that service the UK and Europe. The landscape of doing business has changed as a result of the situation. Management have set up and is utilizing a European company in the Netherlands so that we have representation within the European Union. Management is closely watching the situation as it unfolds.

PANDEMICS

In 2020 a global pandemic started. The outbreak of the COVID-19 has disrupted our workforce, supply chains and the market place.

Our products are utilized in many essential services so we have been able to keep our operations going.

The first quarter sales activity of 2020 did not see much impact from the outbreak as major actions only started in early March of 2020. We did see market activity drop in the second and third quarter of 2020 and have attributed this to COVID-19's impact on markets. In the fourth quarter of 2020 sales activities increased back to pre-pandemic levels despite the ongoing situation. Sales remained strong in the first two quarters of 2021 despite concerns of increased COVID-19 outbreaks. In this quarter COVID appears to be coming under control (but we are far from it being over). We do not have an estimate of a future market outlook as these are unprecedented times. We have engaged our supply chain from the onset of the pandemic warnings and to date we have not experienced any major disruption in production caused by COVID-19 related shortages.

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We have adopted all the prescribed health and safety recommendations from Health Canada and have some employees working from home where possible.

Initially we had a number of employees who had taken leave of absences in order to care for children or parents, out of precaution due to exposure to family members or in some cases just fear of the situation. In our main production facilities in Guelph we had experienced as high as a 20% reduction in work force due to COVID-19 related absences. This was at the initial onset of the stay at home initiative. At this time most of our work force has returned with some still out with child care issues. We have been able to meet production demand with the utilization of overtime. As the bulk of our product is standard inventory we do have a buffer to work with. We promote all the recommended actions of Health Canada such as social distancing, a regiment of cleaning individual work stations and general work areas on a regular basis. We encourage employees who are not feeling well for any reason to stay at home until their symptoms clear. We have plans in place should an employee test positive with COVID-19.

Financially we are still in a stable condition. We have had customers request extended terms but have resisted at this time. We do have financing available if we are forced to stretch things for a short time.

We do have capital equipment on order with cash requirements of approximately \$2.2 million over the next three to six months. This does not include any expenditures to do with the new facility expansion.

In January of 2021 we have applied for and subsequently received CEWS as this was available to the Company based on program criteria for 2020. We have met the criteria for additional CEWS assistance in the first quarter of 2021 and successfully received the assistance.

We continue to monitor the situation and adjust where needed to mitigate the negative impact created by the pandemic.

ACCOUNTING POLICY CHANGES

Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments are effective for annual periods beginning on or after January 1, 2021. Earlier application is permitted. The impact of adoption of these amendments did not have an impact on the business.

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards,

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amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

OUTLOOK FACTORS FOR 2021

Our current market expectation remains cautious. The coronavirus impact continues to play out with unknown consequences. The US dollar remains weak and this does lower the returns from our US markets as we continue 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.

Capital spending will continue to be focused on high impact projects as accommodated by cash flows.

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