

Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)	As at	
	March 28, 2015	December 31, 2014
Assets		
Current assets		
Cash	\$ 6,143	\$ 6,456
Accounts receivable	52,316	47,381
Inventories	42,327	37,961
Income taxes recoverable	1,934	1,863
Prepaid expenses and other assets	1,887	10,169
Total current assets	\$ 104,607	\$ 103,830
Non-current assets		
Property, plant and equipment (note 4)	\$ 45,588	\$ 46,365
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	6,978	–
Deferred tax assets	1,011	937
Goodwill	18,596	17,889
Intangible assets (note 6)	14,148	14,226
Total non-current assets	87,365	80,461
Total assets	\$ 191,972	\$ 184,291
Liabilities		
Current liabilities		
Bank operating lines of credit	\$ 20,562	\$ 17,178
Accounts payable and accrued liabilities	38,920	38,041
Other liabilities	–	4,064
Income tax liabilities	780	205
Provisions	415	387
Derivative liabilities	–	105
Current portion of long-term debt (note 7)	3,938	347
Total current liabilities	\$ 64,615	\$ 60,327
Non-current liabilities		
Employee future benefits	\$ 336	\$ 294
Provisions	100	100
Long-term debt (note 7)	–	3,764
Deferred tax liabilities	5,431	5,369
Total non-current liabilities	5,867	9,527
Total liabilities	\$ 70,482	\$ 69,854
Shareholders' Equity		
Share capital (note 8)	13,800	13,800
Contributed surplus	2,427	2,339
Accumulated other comprehensive income (note 9)	11,283	4,613
Retained earnings	91,584	91,519
Total shareholders' equity attributable to equity holders of the Company	\$ 119,094	\$ 112,271
Non-controlling interests	2,396	2,166
Total shareholder's equity	121,490	114,437
Total liabilities and shareholders' equity	\$ 191,972	\$ 184,291

See accompanying notes to condensed consolidated interim financial statements

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Three Months Ending	
	March 28, 2015	March 29, 2014
Sales	\$ 63,137	\$ 59,953
Cost of sales	49,123	46,046
Gross margin	14,014	13,907
Selling and distribution	6,746	7,058
General and administrative	5,822	5,546
Earnings from operations	1,446	1,303
Finance and other costs (income)		
Interest expense	116	257
Foreign exchange gain	(290)	(97)
Other	33	33
Net finance and other (income) costs	(141)	193
Income before income taxes	1,587	1,110
Income tax expense	806	590
Net earnings	\$ 781	\$ 520
Non-controlling interests	\$ 14	\$ 8
Net income attributable to equity holders of the Company	767	512
Net earnings	\$ 781	\$ 520
Earnings per share		
Basic earnings per share (dollars)	\$ 0.07	\$ 0.04
Diluted earnings per share (dollars)	\$ 0.07	\$ 0.04

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)	Three Months Ending	
	March 28, 2015	March 29, 2014
Net earnings	\$ 781	\$ 520
Other comprehensive income		
Foreign currency translation differences for foreign operations	6,886	3,653
Other comprehensive income for the period, net of income tax (note 9)	6,886	3,653
Total comprehensive income for the period	\$ 7,667	\$ 4,173
Attributable to:		
Equity holders of the Company	6,670	3,501
Non-controlling interests	216	152
Total comprehensive income for the period	\$ 6,886	\$ 3,653

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 28, 2015

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON- CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2015	\$ 13,800	\$ 2,339	\$ 4,613	\$ 91,519	2,166	\$ 114,437
Total comprehensive income for the year						
Net earnings	—	—	—	767	14	781
Other comprehensive income						
Foreign currency translation differences (note 9)	—	—	6,670	—	216	6,886
Total other comprehensive income	—	—	6,670	—	216	6,886
Total comprehensive income for the year	—	—	6,670	767	230	7,667
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	—	88	—	—	—	88
Dividends to equity holders (note 8)	—	—	—	(702)	—	(702)
Total transactions with shareholders	—	88	—	(702)	—	(614)
Balance at March 28, 2015	\$ 13,800	\$ 2,427	\$ 11,283	\$ 91,584	\$ 2,396	\$ 121,490

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

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 29, 2014

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON- CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2014	\$ 13,611	\$ 2,133	\$ (524)	\$ 91,794	2,037	\$ 109,051
Total comprehensive income for the year						
Net earnings	—	—	—	512	8	520
Other comprehensive income						
Foreign currency translation differences (note 9)	—	—	3,501	—	152	3,653
Total other comprehensive income	—	—	3,501	—	152	3,653
Total comprehensive income for the year	—	—	3,501	512	160	4,173
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	—	170	—	—	—	170
Dividends to equity holders (note 8)	—	—	—	(700)	—	(700)
Total transactions with shareholders	—	170	—	(700)	—	(530)
Balance at March 29, 2014	\$ 13,611	\$ 2,303	\$ 2,977	\$ 91,606	\$ 2,197	\$ 112,694

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)	Three Months Ending	
	March 28, 2015	March 29, 2014
Cash flows from operating activities		
Net earnings	\$ 781	\$ 520
Adjustments for:		
Amortization of property, plant and equipment	1,412	1,487
Amortization of intangible assets	474	456
Provisions	31	43
Interest expense	116	257
Income tax expense	807	590
Change in unrealized gain on derivatives	(105)	51
Stock based compensation expense	88	170
	3,604	3,574
Change in non-cash working capital (note 11)	(2,880)	(4,686)
Cash provided from operating activities	724	(1,112)
Income tax paid	(303)	(533)
Net cash provided by (used in) operating activities	421	(1,645)
Cash flows from investing activities		
Investment in joint venture (note 5)	(2,480)	—
Acquisition of property, plant and equipment	(236)	(674)
Acquisition of intangible assets	(117)	—
Cash used in investing activities	(2,833)	(674)
Cash flows from financing activities		
Advances of borrowings	3,384	1,816
Repayment of long-term debt	(78)	(218)
Cash dividends paid (note 8)	(702)	(700)
Interest paid	(116)	(257)
Cash provided by financing activities	2,488	641
Foreign exchange on cash held in a foreign currency	(389)	(405)
Decrease in cash	(313)	(2,083)
Cash and cash equivalents at beginning of period	6,456	11,224
Cash and cash equivalents at end of period	\$ 6,143	\$ 9,141

See accompanying notes to condensed consolidated interim financial statements

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., (“HPS” or the “Company”) have been prepared by and are the responsibility of the Company’s Management. The Company’s independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Chartered Accountants (“CICA”) for a review of interim financial statements by an entity’s auditor.

1. Reporting entity

Hammond Power Solutions Inc. (“HPS” or the “Company”) is a company domiciled in Canada. The address of the Company’s registered office is 595 Southgate Rd. Guelph, Ontario. The Company’s Class A subordinate voting shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

The Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended March 28, 2015 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities. The Group is primarily involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, United States (“U.S.”), Mexico, Italy, and India, the latter being PETE Hammond Power Solutions Private Limited (“PETE”), subsidiary in which the Company holds a 70% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. (“the JV Agreement”) for the manufacturing of transformer cores. On March 25, 2015, the Company and National Material L.P. executed all agreements and a new company Corefficient S. de R.L. de C.V. (“Corefficient”) was established. HPS has a 55% ownership interest in Corefficient.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on April 29, 2015.

(b) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2014.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group’s 2014 annual audited financial statements, which are available on the System for Electronic Document Analysis and Retrieval (“SEDAR”). The significant accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2014.

Changes to accounting policies

Defined Benefit plans: employee contributions

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

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

Joint venture

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

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

4. Property, plant and equipment

The Group had acquisitions of fixed assets for the three months ended March 28, 2015 in the amount of \$236,000 of machinery and equipment (2014 - \$674,000).

5. Joint venture

Corefficient was formed on March 25, 2015. As of March 28, 2015 there were no revenues or expenses associated with the joint venture. As at December 31, 2014 other assets reflected \$8,562,000 of deposits made for capital equipment related to the joint venture by the Company and other liabilities of \$4,064,000 represented National Material L.P.'s related funding of these deposits. Given the execution of the JV Agreement these amounts have been reclassified to reflect the Company's initial investment in the joint venture of \$4,498,000. An additional investment of \$2,480,000 was contributed in Quarter 1, 2015.

6. Intangible assets

The Group had acquisitions of intangible assets for the three months ended March 28, 2015 in the amount of \$117,000 (2014 - \$nil), for the addition of software. None of the intangible assets have been developed internally.

7. Long-term debt

	Three Months Ending	
	March 28, 2015	March 29, 2014
Opening balance	\$ 4,111	\$ 5,145
Repayments		
Term loan CAD	(45)	(45)
Term Loans EUR	(25)	(164)
Term loan INR	(7)	(9)
Exchange	(96)	180
	3,938	5,107
Less current portion of long-term debt	3,938	859
Total	\$ —	\$ 4,248

8. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Three Months Ending	
	March 28, 2015	March 29, 2014
6 cents per Class A common share (2014: 6 cents)	\$ 535	\$ 533
6 cents per Class B common share (2014: 6 cents)	167	167
	\$ 702	\$ 700

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

(b) **Stock option plan**

During the three months ended March 28, 2015, the Company granted 95,000 options (2014 – 90,000) of which 55,000 vested immediately (2014 – 90,000). Stock-based compensation recognized and the amount credited to contributed surplus during the period is \$88,000 (2014 - \$170,000) and relates to options granted during Quarter 1, 2015, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is \$1.26 (2014 - \$1.52).

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

	2015	2014
Fair value of share options and assumptions		
Fair value at grant date	\$ 1.26	\$ 1.52
Share price at grant date	\$ 6.62	\$ 7.50
Exercise price	\$ 6.62	\$ 7.50
Expected volatility (weighted average volatility)	33.8%	34.1%
Option life (expected weighted average life)	3.5 years	3.5 years
Expected dividends	3.48%	3.14%
Risk-free interest rate (based on government bonds)	0.63%	1.27%

9. Accumulated Other Comprehensive Income

Changes to the accumulated other comprehensive income (“AOCI”) balance include foreign currency translation differences relating to the net assets of foreign operations. Total other comprehensive income for the three months ended March 28, 2015 was \$6,670,000 (2014 – \$3,501,000), resulting in an ending balance of accumulated other comprehensive income of \$11,283,000 (2014 – \$2,977,000).

10. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2014 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,050,921 (2014 – 1,033,540) Class A subordinate voting shares of the Company, representing approximately 11.8% (2014 – 11.6%) 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 2014– \$229,000).

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

	Note	2015	2014	Relationship
Purchase of goods and services	(i)	\$ 333	\$ 309	Companies in which key management personnel and/or their relatives have significant influence.

		2015	2014	Relationship
Amounts owed by related parties		\$ 545	\$ 677	Companies in which key management personnel and/or their relatives have significant influence.

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

Transactions with key management personnel

During the three months ended March 28, 2015, the Company purchased \$63,000 (2014 – \$54,000) of inventory from ILSCO of Canada Limited (“ILSCO”), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include \$14,000 (2014 – \$10,000), which is owed to this company.

(i) During the three months ended March 28, 2015, the Company has paid \$5,000 (2014 – \$4,000) of payments in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE – Hammond Power Solutions Private Limited in India.

11. Change in non-cash operating working capital

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

	Three Months Ending	
	March 28, 2015	March 29, 2014
Accounts receivable	\$ (4,935)	\$ 38
Inventories	(4,366)	180
Prepaid expenses	(280)	(167)
Accounts payable and accrued liabilities	879	(6,628)
Foreign exchange	5,822	1,891
	\$ (2,880)	\$ (4,686)