CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(tabular amounts in thousands of dollars)	As at April 1, 2017	As at December 31, 2016
Current assets		
Cash	$ 11,757	$ 25,189
Accounts receivable	60,277	49,969
Inventories	42,639	41,163
Income taxes recoverable	1,142	1,155
Prepaid expenses and other assets	1,627	1,826
Total current assets	117,442	119,302
Non-current assets		
Property, plant and equipment (note 4)	39,798	40,510
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	14,423	13,272
Deferred tax assets	1,981	1,548
Goodwill (notes 10 and 11)	17,613	17,220
Intangible assets (note 6)	12,070	12,281
Total non-current assets	86,929	85,875
TOTAL ASSETS	$ 204,371	$ 205,177
LIABILITIES		
Current liabilities		
Bank operating lines of credit	$ 33,232	$ 36,507
Accounts payable and accrued liabilities	42,508	42,789
Income tax liabilities	736	557
Provisions	570	540
Derivative liabilities	44	–
Total current liabilities	$ 77,090	$ 80,393
NON-CURRENT LIABILITIES		
Provisions	100	100
Deferred tax liabilities	4,449	4,031
Total non-current liabilities	4,549	4,131
TOTAL LIABILITIES	$ 81,639	$ 84,524
SHAREHOLDERS' EQUITY		
Share capital (note 7)	13,843	13,843
Contributed surplus	2,619	2,605
Accumulated other comprehensive income (note 8)	12,500	10,992
Retained earnings	93,365	93,001
Total shareholders' equity attributable to equity holders of the Company	$ 122,327	$ 120,441
Non-controlling interests	405	212
TOTAL SHAREHOLDER'S EQUITY	122,732	120,653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 204,371	$ 205,177

See accompanying Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending April 1, 2017	Quarter Ending April 2, 2016
Sales	$ 72,362	$ 68,722
Cost of sales	54,698	51,997
Gross margin	17,664	16,725
Selling and distribution	8,205	7,637
General and administrative	6,238	6,411
Restructuring charges (note 9)	816	–
Earnings from operations	2,405	2,677
FINANCE AND OTHER COSTS		
Interest expense	316	201
Foreign exchange loss	67	321
Share of loss of investment in joint venture (note 5)	257	528
Other	33	33
Net finance and other costs	673	1,083
EARNINGS BEFORE INCOME TAXES	1,732	1,594
Income tax expense	648	710
Net earnings	$ 1,084	$ 884
Net earnings attributable to non-controlling interest	$ 18	$ 37
Net earnings attributable to the equity holders of the Company	1,066	847
Net earnings	$ 1,084	$ 884
EARNINGS PER SHARE		
Basic earnings per share (dollars)	$ 0.09	$ 0.07
Diluted earnings per share (dollars)	$ 0.09	$ 0.07

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending April 1, 2017	April 2, 2016
Net earnings	$ 1,084	$ 884
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation differences for foreign operations	1,683	(6,323)
Other comprehensive income (loss) for the period, net of income tax (note 8)	1,683	(6,323)
Total comprehensive income (loss) for the period	$ 2,767	$ (5,439)
Attributable to:		
Equity holders of the Company	$ 2,574	$ (5,169)
Non-controlling interest	193	(270)
Total comprehensive income (loss) for the period	$ 2,767	$ (5,439)

See accompanying Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) For three months ended April 1, 2017

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	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 the 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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) For three months ended April 2, 2016

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2016	$ 13,843	$ 2,434	$ 18,492	$ 94,896	$ 2,636	$ 132,301
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
Net earnings	–	–	–	847	37	884
OTHER COMPREHENSIVE INCOME						
Foreign currency translation differences (note 8)	–	–	(6,016)	–	(307)	(6,323)
Total other comprehensive income	–	–	(6,016)	–	(307)	(6,323)
Total comprehensive income for the year	–	–	(6,016)	847	(270)	(5,439)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY						
Share-based payment transactions	–	116	–	–	–	116
Dividends to equity holders (note 7)	–	–	–	(702)	–	(702)
Total transactions with shareholders	–	116	–	(702)	–	(586)
BALANCE AT APRIL 2, 2016	$ 13,843	$ 2,550	$ 12,486	$ 95,041	$ 2,366	$ 126,276

*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)	**April 1, 2017**	April 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 1,084	$ 884
Adjustments for:		
Share of loss of investment in joint venture	257	–
Amortization of property, plant and equipment	1,353	1,416
Amortization of intangible assets	501	576
Provisions	30	24
Interest expense	316	201
Income tax expense	648	710
Change in unrealized loss/(gain) on derivatives	83	(158)
Stock-based compensation expense	17	116
	4,289	3,769
Change in non-cash working capital (note 11)	(11,455)	(3,731)
Cash (used in) provided by operating activities	(7,166)	38
Income tax paid	(456)	(3,418)
Net cash used in operating activities	(7,622)	(3,380)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in joint venture (note 5)	(626)	(3,981)
Acquisition of property, plant and equipment	(520)	(545)
Acquisition of intangible assets	(143)	(158)
Cash used in investing activities	(1,289)	(4,684)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayments) advances of borrowings	(3,275)	884
Repayment of long-term debt	–	(44)
Cash dividends paid (note 8)	(702)	(702)
Interest paid	(316)	(201)
Cash used in financing activities	(4,293)	(63)
Foreign exchange on cash held in a foreign currency	(228)	607
Decrease in cash	(13,432)	(7,520)
Cash and cash equivalents at beginning of period	25,189	19,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 11,757	$ 12,471

See accompanying Notes to Consolidated Financial Statements.

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

1. REPORTING ENTITY

Hammond Power Solutions Inc. ("HPS" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 595 Southgate 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 April 1, 2017 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 as well as standard electrical transformers, serving the electrical transformer industry. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India, the latter being PETE-Hammond Power Solutions Private Limited ("PETE"), a subsidiary in which the Company holds an 85% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. ("National") for the manufacturing of transformer cores. On March 25, 2015, the Company and National completed the formation of the joint venture and a new company Corefficient S. de R.L. de C.V. ("Corefficient") was established, in which HPS holds a 55% partnership interest.

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 9, 2017.

(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, 2016.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2016 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, 2016.

Share-based Payment Transactions

Deferred Share Unit Plan

The Company implemented a Deferred Share Unit Plan (the "DSU Plan") for its senior-executive management and Directors. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. DSUs are increased by the dividend rate on a quarterly basis.

Under IFRS, DSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a redemption event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. As such, we recognize the expense and the liability to pay for eventual redemption when the DSUs are issued. The Company re-measures the liability at the end of each reporting date and the date of settlement, with the difference recognized in income or expense for the period. The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading-days immediately preceding the relevant date.

Changes to accounting policies

Annual Improvements to IFRS Standards (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

Amendment made to the following standard:

- Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017;

The Group adopted this amendment in its consolidated financial statements for the annual period beginning on January 1, 2017. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 with earlier applications permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Group adopted the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

4. PROPERTY, PLANT AND EQUIPMENT

The Group had acquisitions of fixed assets for the three months ended April 1, 2017 in the amount of $520,000 of machinery and equipment (2016 – $545,000).

5. JOINT VENTURE

The Company has a 55% economic interest and voting interest in Corefficient. By virtue of the contractual arrangement with National, 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, with Corefficient's principal place of business in Monterrey, Mexico. The carrying value of the Company's interest in Corefficient is as follows:

	April 1, 2017	April 2, 2016
Cost of investment in joint venture	$ 19,304	$ 17,010
Cumulative share of loss in investment in joint venture	(3,505)	(1,376)
Foreign currency translation differences related to the joint venture	(1,376)	–
	$ 14,423	$ 15,634

Selected financial information relating to Corefficient is as follows:

	April 1, 2017	April 2, 2016
Cash	$ 1,101	$ 575
Trade and other receivables	7,850	8,259
Inventories	655	665
Other current assets	104	357
Total current assets	$ 9,710	$ 9,856
Non-current assets	19,681	17,998
TOTAL ASSETS	$ 29,391	$ 27,854
Current liabilities	$ 2,702	$ 2,137
Non-current liabilities	–	–
TOTAL LIABILITIES	$ 2,702	$ 2,137

	Three Months Ending	
	April 1, 2017	April 2, 2016
Revenue	$ 3,897	$ 5,036
Loss for the period	625	960

The loss for the three months ended April 1, 2017 includes depreciation and amortization expense of $498,000 (Quarter 1, 2016 – $113,000), interest expense of $17,000 (Quarter 1, 2016 – $1,000) and an income tax recovery of $268,000 (Quarter 1, 2016 – $411,000) related to Corefficient.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

6. INTANGIBLE ASSETS

The Group had acquisitions of intangible assets for the three months ended April 1, 2017 in the amount of $143,000 (2016 – $158,000), 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			
	April 1, 2017		April 2, 2016	
6 cents per Class A common share (2016: 6 cents)	$	535	$	535
6 cents per Class B common share (2016: 6 cents)		167		167
	$	702	$	702

(b) Stock option plan

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

During the three months ended April 2, 2016, the Company granted 160,000 options of which 115,000 vested immediately. Stock-based compensation recognized the amount credited to contributed surplus during the period was $116,000 and relates to options granted during Quarter 1, 2016, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period was $0.96.

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:

		2017		2016
Fair value of share options and assumptions				
Fair value at grant date	$	0.96	$	0.96
Share price at grant date	$	6.20	$	6.20
Exercise price	$	6.20	$	6.20
Expected volatility (weighted average volatility)		39.4%		39.4%
Option life (expected weighted average life)		3.8 years		3.8 years
Expected dividends		3.9%		3.6%
Risk-free interest rate (based on government bonds)		1.4%		1.4%

(c) Deferred Stock Units

The Company has 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. The fair market value of DSUs is defined in 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, 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 deferred compensation. Under the DSU Plan, outstanding DSUs as at the record date are increased by the dividend rate whenever dividends are paid to shareholders.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

The DSUs issued are not performance based.

The movement in DSUs for the three months ended April 1, 2017 is as follows:

	Number of DSUs at		Weighted Average Share Price	
Balance at January 1, 2017	$	–	$	–
DSUs Issued	$	7,481		6.30
Balance at April 1, 2017	$	7,481	$	6.30

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 April 1, 2017 was $1,508,000 (2016 comprehensive loss – $6,016,000), resulting in an ending balance of accumulated other comprehensive income of $12,500,000 (2016 – $12,476,000).

9. RESTRUCTURING CHARGES

The Company incurred restructuring charges of $816,000 for the three months ended April 1, 2017. 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 charge for the three month period ending April 1, 2017:

	Employee Termination Benefits	
Charges to expense	$	816
Cash payments		287
Accrued balance at April 1, 2017	$	529

10. RELATED PARTY TRANSACTIONS

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2016 – 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 1,055,287 (2016 – 1,052,953) Class A subordinate voting shares of the Company, representing approximately 11.8% (2016 – 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 2016– $230,000).

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

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	**2017**	2016	Relationship
Purchase of goods and services	(i)	$ 63	$ 349	Companies in which key management personnel and/or their relatives have significant influence.

		2017	2016	Relationship
Amounts owed by related parties		$ 109	$ 96	Companies in which key management personnel and/or their relatives have significant influence and key management personnel.

Transactions with key management personnel

During the three months ended April 1, 2017, the Company purchased $55,000 (2016 – $60,000) 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 $29,000 (2016 – $26,000), which is owed to this company.

(i) During the three months ended April 1, 2017, the Company has paid nil (2016 – $6,000) of payments in connection with rental agreements for office space and an apartment with K. Ravi Reddy, the minority shareholder of PETE – Hammond Power Solutions Private Limited in India.

11. CHANGE IN NON-CASH WORKING CAPITAL

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

	Three Months Ending	
	April 1, 2017	April 2, 2016
Accounts receivable	$ (10,308)	$ 7,319
Inventories	(1,476)	(734)
Prepaid expenses	160	570
Accounts payable and accrued liabilities	(282)	(5,965)
Foreign exchange	451	(4,921)
	$ (11,455)	$ (3,731)