

Management's Discussion and Analysis

HPS' reputation is that of an industry leader who continues to grow market share. The Company is both operationally and financially strong. The continued escalating sales for Quarter 3, 2019 are evidence of our strong and growing market position.

Through its strategies, the Company has aligned itself to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of market sectors.

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the nine months ended September 28, 2019, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2019. This information is based on Management's knowledge as at November 6, 2019. The Company assumes that the reader of this MD&A has access to and has read the audited Annual Consolidated Financial Statements and MD&A of the Company, contained in our 2018 Annual Report and accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2018 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com, or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward-looking information

This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HPS' strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "likely", "expect", "intend", "estimate", "anticipate", "believe", "plan", "objective" and "continue" and words and expressions of similar import. Although HPS believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to currency rates); changes in laws and regulations; legal and regulatory proceedings;

and the ability to execute strategic plans. HPS does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law.

Additional GAAP and Non-GAAP measures

This document uses the terms “earnings from operations” which represents earnings before finance and other costs/(income) and income taxes. “EBITDA” is also used and is defined as earnings before interest, taxes, depreciation and amortization. “Adjusted EBITDA” from continuing operations represents EBITDA from continuing operations adjusted for foreign exchange gain or loss. Operating earnings, EBITDA and Adjusted EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA and Adjusted EBITDA to net earnings for the quarters ending September 28, 2019 and September 29, 2018 is contained in the MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings determined in accordance with IFRS.

“Order bookings” represent confirmed purchase orders for goods or services received from our customers. “Backlog” represents all unshipped customer orders. “Book value per share” is the total shareholders’ equity divided by the average outstanding shares. The terms “earnings from operations” “EBITDA”, “Adjusted EBITDA”, “order bookings”, “backlog” and “book value per share” do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales from continuing operations for the quarter-ended September 28, 2019 were \$91,502, an increase of \$9,949 or 12.2% from Quarter 3, 2018 sales of \$81,553. Year-to-date 2019 sales from continuing operations increased

\$40,761 or 17.9% to \$268,129 compared to \$227,368 in 2018.

Sales in the United States (“U.S.”) increased by \$2,677 or 5.2%, finishing at \$54,269 for Quarter 3, 2019 compared to \$51,592 in Quarter 3, 2018. Year-to-date U.S. sales were \$167,709 in 2019 and \$144,446 in 2018, a significant increase of \$23,263 or 16.1%. The increase in the Quarter 3, 2019 sales is a result of growth in the North American Electrical Distributor (“NAED”), private branding and specialty markets, partially offset by softness in the power control and motor control markets in the quarter.

Third quarter sales were favourably affected by a 0.8% stronger U.S. dollar (“USD”) \$1.00 USD = \$1.32 Canadian dollar (“CAD”) compared against \$1.00 USD = \$1.31 CAD in Quarter 3, 2018. Year-to-date sales were positively impacted by a 3.1% stronger U.S. dollar - \$1.00 USD = \$1.33 CAD compared against \$1.00 USD = \$1.29 CAD in 2018.

U.S. sales, when stated in U.S. dollars were \$41,118 in Quarter 3, 2019, compared to Quarter 3, 2018 of \$39,468, a growth of \$1,650 or 4.2%. Year-to-date U.S. sales stated in U.S. dollars were \$126,145 in 2019 compared to \$112,663 in 2018, an increase of \$13,482 or 12.0%.

Canadian sales continued to surge and were \$31,491 for the quarter, an increase of \$7,685 or 32.3% from Quarter 3, 2018 sales of \$23,806. Year-to-date Canadian sales were \$87,015 in 2019 compared to \$67,118 in 2018, a substantial increase of \$19,897 or 29.6%. Canadian sales experienced improvements in a number of markets this quarter compared to the same quarter last year, specifically NAED, capital equipment, switchgear and utilities markets offset by a decrease in mining.

Indian sales for Quarter 3, 2019 finished at \$5,742 versus \$6,155 in Quarter 3, 2018, a decrease of \$413 or 6.7%. Year-to-date Indian sales were \$13,405 in 2019 compared to \$15,804 in 2018, a decrease of \$2,399 or 15.2%, primarily due to the delay in shipment of a state government solar project.

Quarter 3, 2019 sales from continuing operations stated by geographic segment were derived from U.S. sales of 59.3% (Quarter 3, 2018 – 63.3%) of total sales, Canadian sales of 34.4% (Quarter 3, 2018 – 29.2%) and Indian sales of 6.3% (Quarter 3, 2018 – 7.5%).

The Company’s expanded product offerings, new customer business development, organic customer diversity and geographically diverse manufacturing

capabilities combine to position HPS as an industry leader with continued market share growth. The Company continues to realize substantial increases in the North American market through its strong NAED and OEM channels. Distributor conversions and the Company's manufacturing capabilities to produce both standard and custom transformers allows HPS to be a leader in the marketplace.

HPS is committed to its growth strategy as demonstrated by its business development activities, capital investment, vertical integration strategies and product development. The market diversification strategy is not industry dependent, which creates a natural business hedge as some markets grow while others decline.

The Company is committed to providing superior value to our customers through its extensive product offerings of both standard and custom engineered designs, uncompromised quality, responsive customer service and product development. These factors combined with a strong, effective distribution channel, multi-national manufacturing capabilities and global reach will continue to be a competitive advantage for the Company.

Order bookings and backlog

The Company increased bookings 13.3% over Quarter 3, 2018 due to stronger bookings in the distributor channel in North America offset by slightly lower direct channel bookings in the United States and Indian markets.

Booking rates in the distributor channel increased 29.7% over Quarter 3, 2018. On a direct channel basis, bookings were slightly lower than Quarter 3, 2018 by 3.2%. Stronger bookings in both the U.S. and Canadian distribution markets were experienced as the Company continues to grow market share in our traditional markets through its distribution channel, particularly the commercial construction market.

On a year-to-date basis overall Company bookings have increased 12.1% over the same period as last fiscal year. The distributor channel bookings increased 12.3% and the direct channel bookings are higher by 11.9%, due to higher bookings with selected North American OEM customers.

Backlog increased 2.9% over Quarter 3, 2018 and up 1.8% from Quarter 2, 2019. The company has experienced solid order activity from NAED, private label, capital equipment, utility and switchgear markets.

Quotation activity continues to be active – a good

indicator of future sales. It is expected the combination of the Company's strategic sales initiatives, expanded distributor footprint and new product development will translate into a rise in booking rates.

HPS is sensitive to the volatility and unpredictability of current global economies and the impact that this will have on booking trends. While several markets are seeing positive quotation and order trends, the Company is cognizant that it may see some volatility and unpredictability in longer term booking rates.

Gross margin

The gross margin rate for Quarter 3, 2019 was 24.9% compared to a Quarter 3, 2018 gross margin rate of 22.6%, an increase of 2.3% of sales. The year-to-date gross margin rate was 24.1% in 2019 versus 23.2% in 2018, an increase of 0.9%.

The improvement in the margin rate was realized through the attainment of implemented market specific price increases and the higher manufacturing throughput, which has a favorable impact on the absorption of factory overheads. These factors offset an unfavorable product mix, additional tariffs and aggressive competitor pricing strategies. Our custom-engineered solutions provide the customer with quality products and exceptional customer service. This is the cornerstone to delivering solid and improved gross margin performance.

The quarter quotation activity, backlog growth and surging sales provides indications of financial performance strength. While these factors are encouraging, fluctuating markets, pricing pressures and product mix can have significant impacts on financial results. The Company is optimistic about the strong performance for the remainder of the year but remains somewhat cautious longer term as there are preliminary indicators of a slowing market in 2020.

The Company can hedge the volatility of markets and sales demand given the diversified customer base. Some markets will realize growth and HPS will experience a decline in others. In the past the Company has encountered the impact of an uncertain economic environment through negatively impacted margin rates from a price realization and manufacturing capacity underutilization perspective. The implementation of productivity improvement, material procurement, engineering cost reduction initiatives, and investment in new product development mitigate these negative effects.

HPS continues to commit resources to its continuous

improvement program, which will result in implementing productivity enhancements, cost reductions and lead-time improvements across the entire organization. The Company is confident that going forward these actions will enhance margin rates and overall financial performance.

As sales grow, the accretive impact of higher manufacturing throughput has on the absorption of factory overheads, will favourably impact margin rates. The Company's capacity management strategy is fundamental for future increases in sales demand created through growth of market share and sales from newly developed products.

Selling and distribution expense

Total selling and distribution expenses were \$10,706 in Quarter 3, 2019 or 11.7% of sales versus \$9,283 in Quarter 3, 2018 or 11.4% of sales, an increase of \$1,423 and 0.3% of sales. Year-to-date selling and distribution expenses were \$31,552 or 11.8% of sales in 2019 compared to \$25,997 or 11.4% in 2018, an increase of \$5,555 and 0.4% of sales. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributable to the sales growth. Freight expenses have also increased due to escalating fuel costs when compared to 2018.

General and administrative expense

General and administrative expenses for Quarter 3, 2019 was \$6,604 or 7.2% of sales, compared to Quarter 3, 2018 expenses of \$5,918 or 7.3% of sales, an increase of \$686 but a decrease of 0.1% of sales. Year-to-date general and administrative expenses were \$18,425 or 6.9% of sales in 2019, compared to \$17,740 or 7.8% of sales in 2018, an increase of \$685 and a decrease of 0.9% of sales. The increase in the quarter and year-to-date general and administrative expenses is a result of higher allowance for doubtful account provisions, strategic hire recruitment costs as well as increased expense in employee incentive programs. The decrease as a percentage of sales is a result of the increase in sales during the quarter and year-to-date.

Earnings from operations

Quarter 3, 2019 earnings from operations were \$5,471, an increase of \$2,252 or 70% from \$3,219 for the same quarter last year. The year-to-date earnings from operations were \$14,681 in 2019 compared to \$9,053 in 2018, an increase of \$5,628 or 62.2%. The improvements in the quarter and year-to-date earnings from operations is a result of increased sales, improved gross margin rate and resultant lift in gross margin dollars.

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

	Quarter 3, 2019	Quarter 3, 2018	YTD 2019	YTD 2018
Net earnings from continuing operations	\$ 3,595	\$ 2,445	\$ 9,455	\$ 5,551
Add:				
Income tax expense	1,434	1,003	4,240	2,407
Interest expense	419	208	1,060	611
Foreign exchange (gain)	(149)	(125)	(80)	(32)
Share of loss (income) of investment in joint venture	139	(345)	(86)	413
Other	33	33	92	103
Earnings from operations	\$ 5,471	\$ 3,219	\$ 14,681	\$ 9,053

Interest expense

Interest expense for Quarter 3, 2019 was \$419, an increase of \$211 or 101.4% compared to the Quarter 2, 2018 expense of \$208. Year-to-date interest cost was \$1,060, an increase of \$449 or 73.5% when compared to the 2018 year-to-date expense of \$611. \$73 of the change in Quarter 3, 2019 and \$228 year-to-date was due to the accounting standard adoption of IFRS 16 for leases which allocates part of lease costs to interest expense. The increase in the interest expense is a direct result of higher operating debt levels during the quarter and year due to working capital requirements associated with the increase in our sales levels, particularly a rise in accounts receivable which was partially offset by higher accounts payable.

Interest expense includes all bank fees.

Foreign exchange loss/gain

The foreign exchange gain in Quarter 3, 2019 was \$149, an increase of \$24 compared to the gain of \$125 in Quarter 3, 2018. The year-to-date foreign exchange gain for 2019 was \$80, compared to \$32 for the same period last year. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of the foreign exchange gains and losses are related to volatility in the exchange rates during the past year.

As at September 28, 2019, the Company had outstanding foreign exchange contracts in place for 17,200 Euros ("EUR"), 130,000 Rupees ("INR") and \$11,000 USD – all of which are implemented as an economic hedge against translation gains and losses on inter-company loans as well as \$52,000 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS operations.

Income taxes

As a result of the increased earnings, Quarter 3, 2019 income tax expense was \$1,434 as compared to \$1,003 in Quarter 3, 2018, an increase of \$431 or 43.0%. Year-to-date income tax expense was \$4,240 in 2019 and \$2,407 in 2018, an increase of \$1,833 or 76.2%.

The consolidated effective tax rate for Quarter 3, 2019 was 28.5% versus 29.1% for Quarter 3, 2018,

a small decrease of 0.6%. The year-to-date effective tax rate for the first nine months of 2019 was 31% compared to 30.2% for the same period in 2018, an increase of 0.8%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company and the share of the loss or income of investment in joint venture. The Company income is generated from different tax jurisdictions and is subject to different tax rates and regulations.

Deferred tax assets and liabilities consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities, and are not deductible against current year earnings. Deferred tax assets and liabilities relate to temporary differences resulting from intangible assets and the difference between the net book value and un-depreciated capital cost of property, plant and equipment.

Net earnings from continuing operations

Net earnings from continuing operations for Quarter 3, 2019 finished at \$3,595 compared to net earnings of \$2,445 in Quarter 3, 2018, an improvement of \$1,150 or 47%. Year-to-date net earnings from continuing operations were \$9,455 in 2019 compared to \$5,551 in 2018, a significant increase of \$3,904 or 70.3%. The increase in the earnings from continuing operations is a result of the substantial increases in sales, gross margin dollar contribution, supported by higher gross margin rate and controlled general and administrative expenses.

Discontinued operations and restructuring charges

In Quarter 4, 2018, the Company decided to close the Italian facility and cease operations as the entity struggled to generate adequate sales and profits. The restructuring charges were comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs and write-downs of goodwill, long-lived assets and inventory, totaling \$15,925. The closure of the Italian operations has been presented as discontinued operations in the financial statements.

The loss from discontinued operations for Quarter 3, 2019 was \$472 and \$1,054 in Quarter 3, 2018. The year-to-date loss from discontinued operations for 2019 was \$1,059 versus \$3,635 in 2018.

Earnings per share from continuing operations

The basic earnings per share from continuing operations was \$0.31 for Quarter 3, 2019, versus \$0.21 in Quarter 3, 2018, an improvement of \$0.10. The year-to-date basic earnings per share from continuing operations was \$0.81 in 2019 and \$0.47 in 2018, an increase of \$0.34.

EBITDA

EBITDA for Quarter 3, 2019 was \$7,302 versus \$4,802 in Quarter 3, 2018, an increase of \$2,500 or 52.1%. Year-to-date EBITDA was \$20,524 in 2019 and \$12,917 in 2018, an increase of \$7,607 or 58.9%.

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

	Quarter 3, 2019	Quarter 3, 2018	YTD 2019	YTD2018
Net earnings from continuing operations	\$ 3,595	\$ 2,445	\$ 9,455	\$ 5,551
Add:				
Interest expense	419	208	1,060	611
Income tax expense	1,434	1,003	4,240	2,407
Depreciation and amortization	1,854	1,146	5,769	4,348
EBITDA from continuing operations	\$ 7,302	\$ 4,802	\$ 20,524	\$ 12,917
Deduct:				
Foreign exchange gain	(149)	(125)	(80)	(32)
Adjusted EBITDA from continuing operations	\$ 7,153	\$ 4,677	\$ 20,444	\$ 12,885

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2019 Quarters	Quarter 1, 2019	Quarter 2, 2019	Quarter 3, 2019	YTD Total
Sales	\$ 84,690	\$ 91,937	\$ 91,502	\$ 268,129
Net earnings	\$ 2,315	\$ 2,958	\$ 3,123	\$ 8,396
Net earnings from continuing operations	\$ 2,508	\$ 3,352	\$ 3,595	\$ 9,455
Net earnings per share – basic	\$ 0.20	\$ 0.25	\$ 0.27	\$ 0.72
Net earnings per share – diluted	\$ 0.20	\$ 0.25	\$ 0.27	\$ 0.72
Net earnings per share from continuing operations – basic	\$ 0.21	\$ 0.29	\$ 0.31	\$ 0.81
Net earnings per share from continuing operations – diluted	\$ 0.21	\$ 0.29	\$ 0.31	\$ 0.81
Average U.S. to Canadian exchange rate	\$ 1.3301	\$ 1.3379	\$ 1.3198	\$ 1.3293

Fiscal 2018 Quarters	Quarter 1, 2018	Quarter 2, 2018	Quarter 3, 2018	Quarter 4, 2018	Total
Sales	\$ 70,397	\$ 75,418	\$ 81,553	\$ 86,714	\$ 314,082
Net earnings (loss)	\$ 895	\$ (370)	\$ 1,391	\$ (14,833)	\$ (12,917)
Net earnings from continuing operations	\$ 1,884	\$ 1,222	\$ 2,445	\$ 2,554	\$ 8,105
Net earnings (loss) per share – basic	\$ 0.08	\$ (0.03)	\$ 0.12	\$ (1.27)	\$ (1.10)
Net earnings (loss) per share – diluted	\$ 0.08	\$ (0.03)	\$ 0.12	\$ (1.27)	\$ (1.10)
Net earnings per share from continuing operations – basic	\$ 0.16	\$ 0.10	\$ 0.21	\$ 0.22	\$ 0.69
Net earnings per share from continuing operations – diluted	\$ 0.16	\$ 0.10	\$ 0.21	\$ 0.22	\$ 0.69
Average U.S. to Canadian exchange rate	\$ 1.2618	\$ 1.2895	\$ 1.3072	\$ 1.3185	\$ 1.2943

Quarter 3, 2019 sales continue to escalate above the prior year levels. The current economic and market conditions, as well as our ability to increase market share support the growth of sales volumes to record high levels. Despite aggressive competitor pricing pressure, HPS has benefited from earlier in the year implemented price increases in the Quarter. This improved the gross margin rate for the Quarter which positively impacted the quarterly results.

The declining losses for the discontinued operation have also contributed to the improved net earnings for the quarter. The expenses related to this operation will continue to decline as the operation winds down and the sale of assets is completed.

The Company continues to identify opportunities for savings to control expenses and improve profitability. General and administrative expenses have been consistently at the same levels as the previous years and continue to be challenged and managed.

Competitive pricing pressures, challenging market conditions, product mix, and a weakened Canadian dollar all have an impact on the year-to-year quarterly fluctuations for both sales and income.

Capital resources and liquidity

Net cash used for operating activities for Quarter 3, 2019 was \$1,460 versus cash generated of \$2,468 in Quarter 3, 2018, a decrease in cash of \$3,928. Year-to-date net cash generated by operating activities was \$1,363 compared to \$1,533 in 2018, a decrease of \$170. This change is a result of an increased net earnings offset by an increase in income tax payments, increase in the cash used for working capital and an increase in depreciation of right-to-use assets as required under the accounting standard adoption of IFRS 16.

During the quarter, non-cash working capital used cash of \$3,869 compared to non-cash working capital generated of \$428 for the same quarter last year, an increase of \$4,297. The year-to-date change in non-cash working capital was a usage of cash of \$14,300 in 2019 compared to \$5,542 in 2018, an increase of usage of \$8,758. The year-to-date working capital changes are primarily related to an increase in accounts receivable and inventory, a decrease in accounts payable and provisions and foreign exchange impacts on working capital changes.

Cash used in investing activities decreased by \$167 from \$2,784 in the first nine months of 2018 to \$2,617 in the same period of 2019. This change was primarily attributed to the 2018 purchase of the remaining 15% minority interest in the Indian operation for \$1,511. Capital expenditures were \$1,054 in Quarter 3, 2019 compared to \$241 for Quarter 3, 2018, an increase of \$813. Year-to-date capital expenditures were \$2,615 in the current year compared to \$944 in 2018, an increase of \$1,671. The Company continues to invest in the areas of manufacturing processes and capabilities, information systems and technology and product development.

Total cash used in financing activities for Quarter 3, 2019 was \$865 as compared to \$3,058 in Quarter 3, 2018. The cause for this change was higher repayment of borrowings in Quarter 3, 2018. Year-to-date financing activities used cash of \$7,576 compared to cash generated of \$726 in the first nine months of 2018.

Bank operating lines of credit have decreased from prior year levels finishing Quarter 3, 2019 at \$30,007 compared to \$31,202 at the end of Quarter 3, 2018, a decrease of \$1,195. The bank operating lines of credit have decreased \$2,594 since the year-end balance of \$32,601.

The Company's overall operating debt balance net of cash was \$22,678 in Quarter 3, 2019 compared to \$20,502 in Quarter 3, 2018, an increase in debt position of \$2,176 primarily reflective of increased working capital needs.

All bank covenants continue to be met as at September 28, 2019.

The Company will utilize its cash generated from operations combined with the existing available credit facilities to finance ongoing operational cash requirements for working capital, capital expenditures and investing activities going forward.

Contractual obligations

	2019	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities	\$ 51,399	\$ -	\$ -	\$ -	\$ -	\$ 51,399
Capital expenditure purchase	695	-	-	-	-	\$ 695
Bank operating lines	-	-	30,007	-	-	\$ 30,007
Total	\$ 52,094	\$ -	\$ 30,007	\$ -	\$ -	\$ 82,101

Contingent liabilities

In June 2017, the Corporation received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by the Corporation. At this time the Company feels that there is no merit to the claim.

Management is not aware of any contingent liabilities.

Regular quarterly dividend declaration

During Quarter 3, 2019 the Board of Directors of HPS declared a quarterly cash dividend of seven cents (\$0.07) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of seven cents (\$0.07) per Class B Common Share of HPS payable on September 27, 2019 to shareholders of record at the close of business on September 20, 2019. The ex-dividend date was September 25, 2019. The Company has paid a cash dividend of twenty-one cents (\$0.21) per Class A Subordinate Voting Share and twenty-one cents (\$0.21) per Class B Common Share year-to-date. The quarter and year to date dividend per share paid in 2019 has increased 16.7% over 2018.

Normal course issuer bid

On November 5, 2018, the Board of Directors of the Corporation authorized the repurchase of up to 50,000 Class A Subordinate Voting Shares by way of a normal course issuer bid through the facilities of the TSX. The purchases commenced on November 9, 2018 and will terminate no later than November 8, 2019. Purchases were made in open market transactions on the TSX. During Quarter 3, 2019 12,282 shares were repurchased, totaling 50,000 to date. The normal course issuer bid was completed in the quarter.

Controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial

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

During Quarter 3, 2019 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

Subsequent events

Sale and purchase agreement of business – Marnate, VA Italy

On October 8, 2019, the Company signed a sale and purchase agreement of business of its Marnate, Italy operation to a third party. The agreement includes the sale of the machinery and equipment, furniture and fixtures, computer equipment, inventory, the Marnate trademark, employment contracts of the employees and statutory employee liabilities. The transaction value will be approximately \$1,500 and is expected to close mid Quarter 4, 2019.

Risks and uncertainties

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However as with most businesses HPS is subject to a number of market place, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of

its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies. If any of the following risks were to occur they could materially adversely affect HPS' financial condition, liquidity or results of operations.

These risks include:

We may not realize all of the anticipated benefits of our acquisitions, divestures, joint ventures or strategic initiatives, or these benefits may take longer to realize than expected.

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

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

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

We sell to customers around the world and have global operations and, therefore, are subject to the risks of doing business in many countries.

We do business in a host of countries around the world. Approximately 75% of our sales were to customers outside of Canada. In addition, a number of our manufacturing

operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

Our global business translates into conducting business in various currencies, all of which are subject to fluctuations.

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

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

Worldwide, HPS is subject to and required to comply with multiple income and other taxes, regulations and is exposed to uncertain tax liabilities risk.

The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates which determine taxation expenses, may vary significantly in different jurisdictions and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings

taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. The determination of the consolidated tax provision and liabilities requires significant judgment. Tax filings are subject to audits which could materially change the amount of current and deferred income tax assets and liabilities.

We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.

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

The U.S. political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.

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

Our industry is highly competitive.

HPS faces competition in all of our market segments. Current and potential competitors may have greater brand name recognition, more established distribution networks, access to larger customer bases and substantially greater financial, distribution, technical, sales and market, manufacturing and other resources than HPS. As a result, those competitors may have advantages relative to

HPS; including stronger bargaining power with suppliers that may result in more favourable pricing, the ability to secure supplies at time of shortages, economies of scale in production, the ability to respond more quickly to changing customer demands and the ability to devote great resources to the development, promotion and sales of their products and services. If the Company is unable to compete effectively, it may experience a loss of market share or reduced profitability. We expect the level of competition to remain high in the future.

Our business is highly sensitive to global and regional economic conditions in the industries we serve.

Current global economic conditions influence the Company's focus, direction, strategic initiatives and financial performance. To address the current uncertainty we are focusing our efforts on projects that will increase our market reach, advance our cost competitiveness, expand capacity and improve our manufacturing flexibility.

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

The disruption to businesses that can come from unpredictable weather can have an impact on sales volume as customer projects can be delayed or cancelled.

Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present the Company may see short-term effects of such occurrences due to their unpredictability. This may impact delivery and capacity requirements.

The business practice of extending credit to customers can lead to a risk of uncollectability.

A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk which is partially mitigated by progress payments. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current

economic environment conditions elevate this exposure.

Market supply and demand impact on commodity prices

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

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in Notes to the Consolidated Financial Statements contained in our 2018 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2018, other than transactions disclosed in Note 14 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 3, 2019 Report.

Proposed transactions

The Company continues to evaluate strategic business development initiatives and has no firm transactions as at September 28, 2019.

Financial instruments

As at September 28, 2019, the Company had outstanding foreign exchange contracts in place for 17,200 EUR, 130,000 INR and \$11,000 USD – all of which are implemented as a hedge against translation gains and losses on inter-company loans as well as \$52,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

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

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

The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

The Group has recorded restructuring charges during 2018 and 2017. The restructuring provision is comprised of severance and benefits costs related to workforce reductions, closure and cancellation costs. While management has made reasonable efforts to estimate these costs, actuals could differ from what has been accrued. For details of the restructuring charges, refer to note 13 in the Condensed Interim Consolidated Financial Statements of the Company.

Outstanding share data

Details of the Company's outstanding share data:

8,961,624	Class A Shares
2,778,300	Class B Common Shares
11,739,924	Total Class A and B Shares

Adopted accounting pronouncements

Leases

On January 13, 2016 the IASB issued IFRS 16, Leases, which became effective for the Company's annual and interim financial statements commencing for the period beginning January 1, 2019.

Under this standard, the Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The modified retrospective approach was applied when implementing this standard. This approach calculated the lease assets and lease liabilities and recognized an equity adjustment at January 1, 2019

and does not restate prior-period financial information. The Group recorded a right-of-use asset for the Company's premises and other leases in the amount of \$8,437,000, a corresponding lease obligation of \$11,041,000 and an adjustment to retained earnings of \$2,603,000. Effective January 1, 2019, amounts which previously would have been characterized as rent expense for these leases are now included in the Statement of Operations as depreciation and interest expense.

New accounting pronouncements

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective and while considered relevant to the Company, the Company has not yet adopted these Standards.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seeks to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or as a group of similar identifiable assets. If the preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the adoption of the Amendments to have a material impact on the consolidated financial statements.

Strategic direction and outlook

HPS has undergone significant growth and expansion over the past few years:

- Escalating growth of the NAED channel;
- Expanded relationships with existing customers;
- Growth through strategic acquisition;
- New global customers;
- Compliance with regulatory changes;
- New product development;

- Expanded product offering using cast resin technology;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Establishment of a state of the art core manufacturing facility in Mexico; and
- Development and further Implementation of our ERP system to enhance availability of information and streamline processes.

The Company's facilities throughout the world continue to be enhanced through strategic and operational initiatives and capital investment. The increase in sales volume continues to utilize plant capacity and absorb production costs, therefore increasing gross margin rate. It is imperative to continue to upgrade and maintain the facilities and related production equipment to continue to accommodate further growth.

The implementation of the ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, improve customer service, strategic decision making and audit and control. An implementation project has begun in Quarter 3, 2019 for the Company's remaining operation that will be converted to our ERP platform, and is expected to be fully implemented in late 2020. This common integrated system is an important step towards providing one global, consistent source of information and data.

At the end of 2018 the decision was made to close the Italian facility and cease operations due to low sales volume and inability to cover fixed costs related to these operations. The closure resulted in restructuring charges and the presentation of the Italian operations as discontinued. Subsequently as part of this closure, the Company signed a sale and purchase agreement of business of this operation to a third party in early Quarter 4, 2019.

HPS is sensitive to the impact the global economy's volatility has on the Company's ability to maintain competitiveness and market share growth. Our international operations development has allowed the Company to expand its product offering with cast resin and liquid filled transformer technology and opened up additional markets and customers that were previously not accessible.

HPS continues to focus on customer service and growth, while expanding existing relationships and exploring new opportunities. Past regulatory requirements to comply with the U.S. Department of Energy and the Canadian efficiency standard changes (NRCan) has created opportunities for the Company to deliver energy efficient, regulatory compliant transformers fulfilling the needs of our customers. These regulation changes

have resulted in new product development and manufacturing techniques.

The Company has also experienced the unpredictability of foreign currency exchange rates, variability of raw material commodity costs, fluctuating manufacturing throughput and market pricing pressures. These deterrents are being prudently managed through the Company's operational plans and strategic initiatives and projects.

The Company is confronting these challenges and continuously building our competitive and strategic advantage by focusing on:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- NAED channel expansion;
- Broadened product offering;
- Bringing quality and value to all stakeholders of the Company;
- Cash flow generation;
- Product development;
- Capital investment; and
- Strategic planning;

HPS' reputation is that of an industry leader who continues to grow market share. The Company is both operationally and financially strong. The continued escalating sales for Quarter 3, 2019 are evidence of our strong and growing market position. Through its strategies, the Company has aligned itself to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of market sectors.

The Company has navigated through fluctuating and challenging economic times, increased globalization, adapted to changes in customers and markets, regulatory changes and has experienced significant advances in technology. HPS has framed these challenges as opportunities and developed strategies to address these rapid changes.

HPS continues to focus on increasing market share, driving sales growth from new product development, continue geographic diversification, capturing productivity gains and cost reductions and further enhancing capacity flexibility.

The combination of our resilience, decades of experience, customer service commitment, engineering expertise, solid supplier relationships, product breadth, diverse customers and markets are all critical to the success of HPS.

The Company will deliver solid financial performance, provide a sustainable return to our shareholders, maintain the Balance Sheet strength and deliver long-term value to all stakeholders.

Selected Annual and Quarterly Information

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the Third Quarter of 2019. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

(tabular amounts in thousands of dollars)

Annual Information ⁽¹⁾	2014	2015	2016	2017	2018
Sales	247,756	274,639	274,793	301,750	321,802
Earnings (loss) from operations	6,460	12,644	10,873	14,470	(8,245)
EBITDA	12,327	18,748	14,356	19,633	17,915
Net earnings (loss)	2,520	6,320	1,793	6,114	(12,917)
Total assets	184,291	222,969	205,177	192,449	205,527
Non-current liabilities	9,527	5,454	4,131	3,641	2,528
Total liabilities	69,854	90,668	84,524	77,438	96,793
Total shareholders' equity attributable to equity holders of the Company	112,271	129,665	120,441	114,848	108,734
Total debt	(14,833)	(13,202)	(11,318)	(16,983)	(17,056)
Cash provided by operations	18,450	16,065	15,216	1,032	6,474
Basic earnings (loss) per share	0.22	0.53	0.16	0.53	(1.10)
Diluted earnings (loss) per share	0.22	0.53	0.16	0.52	(1.10)
Dividends declared and paid	2,800	2,807	2,808	2,809	2,818
Average exchange rate (USD\$=CAD\$)	1.1025	1.274	1.325	1.298	1.294
Book value per share	9.61	11.08	10.29	9.80	9.26

Quarterly Information ⁽²⁾	2017 Q4	Q1	2018 Q2	Q3	Q4	Q1	2019 Q2	Q3
Sales	75,829	70,397	75,418	81,553	86,714	84,690	91,937	91,502
Earnings from operations	3,774	2,752	3,028	3,219	4,780	4,479	4,731	5,471
EBITDA	4,555	4,410	3,705	4,802	4,998	6,111	7,111	7,302
Net earnings	625	1,884	1,222	2,445	2,554	2,508	3,352	3,595
Total assets	192,449	197,187	202,635	200,954	205,527	206,554	205,059	206,586
Non-current liabilities	3,442	3,429	3,383	3,291	2,528	10,914	10,558	9,947
Total liabilities	77,438	77,829	83,210	83,253	96,793	99,939	99,640	96,870
Total shareholders' equity attributable to equity holders of the Company	114,848	119,358	119,425	117,701	108,734	106,615	105,419	109,716
Total debt	(16,983)	(21,483)	(21,578)	(20,502)	(17,056)	(27,133)	(28,853)	(32,433)
Cash provided by (used in) operations	421	(1,907)	972	2,468	4,941	2,316	507	(1,460)
Basic earnings per share	0.05	0.08	(0.03)	0.12	(1.27)	0.20	0.25	0.27
Diluted earnings per share	0.04	0.08	(0.03)	0.12	(1.27)	0.20	0.25	0.27
Dividends declared and paid	703	704	704	704	706	822	821	821
Average exchange rate (USD\$=CAD\$)	1.270	1.262	1.290	1.307	1.319	1.330	1.338	1.320
Book value per share	9.80	10.18	10.16	10.02	9.26	9.09	8.99	9.33

(1) Balances not restated to reflect discontinued operations

(2) Balances for 2017 not restated to reflect discontinued operations, 2019 balances reflect information from continuing operations