Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As at June 27, 2020	As at December 31, 2019
Assets		
Current assets		
Cash	$ 13,271	$ 23,371
Accounts receivable	62,710	64,004
Inventories	48,772	50,926
Income taxes receivable	1,278	1,626
Prepaid expenses and other assets	1,916	2,657
Total current assets	$ 127,947	$ 142,584
Non-current assets		
Long-term lease receivable	3,257	3,180
Property, plant and equipment (note 4 and 7)	30,100	32,468
Investment in properties	3,854	3,709
Investment in joint venture (note 5)	14,277	13,428
Deferred tax assets	1,440	1,944
Intangible assets (note 6)	5,761	6,331
Goodwill	11,259	11,309
Total non-current assets	69,948	72,369
Total assets	$ 197,895	$ 214,953
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 26,177	$ 32,697
Accounts payable and accrued liabilities	41,706	56,216
Income tax liabilities	1,350	1,055
Provisions	874	1,710
Current portion of lease liabilities (note 7)	2,229	2,237
Total current liabilities	$ 72,336	$ 93,915
Non-current liabilities		
Provisions	239	285
Deferred tax liabilities	1,353	1,819
Long-term portion of lease liabilities (note 7)	7,447	9,167
Total non-current liabilities	9,039	11,271
Total liabilities	$ 81,375	$ 105,186
Shareholders' Equity		
Share capital	14,491	14,491
Contributed surplus	2,498	2,498
Accumulated other comprehensive income (note 9)	9,621	7,439
Retained earnings	89,910	85,339
Total shareholders' equity	$ 116,520	$ 109,767
Total liabilities and shareholders' equity	$ 197,895	$ 214,953

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Operations

(unaudited) (tabular amounts in thousands of dollars, except per share amounts)

	Quarter Ending		Six Months Ending	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Sales (note 10)	$ 75,393	$ 91,937	$ 163,813	$ 176,627
Cost of sales (note 11)	53,968	70,314	121,514	134,750
Gross margin	21,425	21,623	42,299	41,877
Selling and distributio (note 11)	9,351	10,848	20,491	20,846
General and administrative (note 11)	5,560	6,044	12,261	11,821
Earnings from operations	6,514	4,731	9,547	9,210
Finance and other costs (income):				
Interest expense	315	409	711	641
Foreign exchange (gain) loss	(103)	44	(479)	69
Share of loss (income) of investment in joint venture (note 5)	11	(506)	(140)	(225)
Other	33	33	66	59
Net finance and other costs (income)	256	(20)	158	544
Earnings before income taxes	6,258	4,751	9,389	8,666
Income tax expense	1,838	1,399	2,821	2,806
Net earnings from continuing operations	$ 4,420	$ 3,352	$ 6,568	$ 5,860
Loss from discontinued operations, net of tax	–	(394)	–	(587)
Net earnings	$ 4,420	$ 2,958	$ 6,568	$ 5,273
Earnings per share				
Basic earnings per share	$ 0.38	$ 0.25	$ 0.56	$ 0.45
Diluted earnings per share	$ 0.38	$ 0.25	$ 0.56	$ 0.45
Basic earnings per share from continuing operations	$ 0.38	$ 0.29	$ 0.56	$ 0.50
Diluted earnings per share from continuing operations	$ 0.38	$ 0.29	$ 0.56	$ 0.50

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Quarter Ending		Six Months Ending	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Net earnings	$ 4,420	$ 2,958	$ 6,568	$ 5,273
Other comprehensive income (loss)				
Foreign currency translation differences for foreign operations (note 9)	(2,674)	(3,220)	2,182	(4,223)
Total comprehensive income (loss) for the period	$ 1,746	$ (262)	$ 8,750	$ 1,050

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the six months ended June 27, 2020

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2020	$ 14,491	$ 2,498	$ 7,439	$ 85,339	$ 109,767
Total comprehensive income for the year					
Net earnings	–	–	–	6,568	6,568
Other comprehensive income					
Foreign currency translation differences related to joint venture (note 5)	–	–	709	–	709
Foreign currency translation differences (note 9)	–	–	1,473	–	1,473
Total other comprehensive loss	–	–	2,182	–	2,182
Total comprehensive income for the year	–	–	2,182	6,568	8,750
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(1,997)	(1,997)
Total transactions with shareholders	–	–	–	(1,997)	(1,997)
Balance at June 27, 2020	$ 14,491	$ 2,498	$ 9,621	$ 89,910	$ 116,520

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the six months ended June 29, 2019

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2019	$ 14,217	$ 2,559	$ 12,740	$ 79,218	$ 108,734
Impact of application of new accounting standard	–	–	–	(2,603)	(2,603)
Adjusted balances as of January 1, 2019	14,217	2,559	12,740	76,615	106,131
Total comprehensive income for the year					
Net earnings	–	–	–	5,273	5,273
Other comprehensive loss					
Foreign currency translation differences related to joint venture (note 5)	–	–	(620)	–	(620)
Foreign currency translation differences (note 9)	–	–	(3,603)	–	(3,603)
Total other comprehensive loss	–	–	(4,223)	–	(4,223)
Total comprehensive (loss) income for the year	–	–	(4,223)	5,273	1,050
Transactions with owners, recorded directly in equity					
Repurchase of shares	(45)	(8)	–	(161)	(214)
Stock options exercised	111	(16)	–	–	95
Dividends to equity holders (note 8)	–	–	–	(1,643)	(1,643)
Total transactions with owners	66	(24)	–	(1,804)	(1,762)
Balance at June 29, 2019	$ 14,283	$ 2,535	$ 8,517	$ 80,084	$ 105,419

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Six Months Ending June 27, 2020	Six Months Ending June 29, 2019
Cash flows from operating activities		
Net earnings	$ 6,568	$ 5,273
Adjustments for:		
Share of income of investment in joint venture	(140)	(225)
Amortization of property, plant and equipment	3,691	3,554
Amortization of intangible assets	334	361
Provisions	(130)	(547)
Interest expense	711	641
Income tax expense	2,821	2,806
Change in unrealized gain on derivatives included in accounts payable and accrued liabilities	812	4,083
	14,667	15,946
Change in non-cash working capital (note 13)	(11,298)	(10,431)
Cash generated in operating activities	3,369	5,515
Income tax paid	(2,178)	(2,692)
Net cash generated by operating activities	1,191	2,823
Cash flows from investing activities		
Acquisition of property, plant and equipment (note 4)	(1,530)	(1,561)
Acquisition of intangible assets (note 6)	(3)	(1)
Cash used in investing activities	(1,533)	(1,562)
Cash flows from financing activities		
Repayments of borrowings	(6,520)	(3,366)
Receipt of lease receivable payments	92	92
Issue of common shares	–	95
Share repurchase	–	(214)
Payment of lease liabilities (note 7)	(1,323)	(1,034)
Cash dividends paid (note 8)	(1,997)	(1,643)
Interest paid	(711)	(641)
Cash used in financing activities	(10,459)	(6,711)
Foreign exchange on cash held in a foreign currency	701	558
Decrease in cash	(10,100)	(4,892)
Cash and cash equivalents at beginning of period	23,371	15,545
Cash and cash equivalents at end of period	$ 13,271	$ 10,653

See accompanying notes to condensed consolidated interim financial statements

Six months ended June 27, 2020 and June 29, 2019 (amounts in thousands of dollars except share and per share amounts)

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. 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 second quarter ended June 27, 2020 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is 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 Group has manufacturing plants in Canada, the United States ("U.S."), Mexico and India. The Company also holds a 55% economic interest in a joint venture located in Mexico called Correfficient de R.L. de C.V. ("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 July 30, 2020.

(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, 2019.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2019 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, 2019, with the exception of items noted below:

Six months ended June 27, 2020 and June 29, 2019 (amounts in thousands of dollars except share and per share amounts)

Changes to accounting policies

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.

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 adopted the amendments in its financial statements for the annual period beginning on January 1, 2020. The adoption of the amendments did not have a material impact on the consolidated financial statements.

4. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

	June 27, 2020	December 31, 2019
Property, plant and equipment owned	$ 22,532	$ 23,415
Right-of-use assets (note 7)	7,568	9,053
	$ 30,100	$ 32,468

The Group had acquisitions of fixed assets for the six months ended June 27, 2020 in the amount of $1,530,000 of machinery and equipment (2019 – $1,561,000).

5. Joint venture

The Company has a 55% economic and voting interest in Corefficient, whose principal place of business is in Monterrey, Mexico. The Company treats its investment in Corefficient as a joint arrangement. The carrying value of the Company's interest in Corefficient is as follows:

	June 27, 2020	December 31, 2019
Cost of investment in joint venture	$ 20,032	$ 20,032
Cumulative share of loss in investment in joint venture, net of tax	(3,255)	(3,395)
Foreign currency translation differences related to the joint venture	(2,500)	(3,209)
	$ 14,277	$ 13,428

Six months ended June 27, 2020 and June 29, 2019 (amounts in thousands of dollars except share and per share amounts)

Selected financial information relating to Corefficient is as follows:

	June 27, 2020	December 31, 2019
Cash	$ 2,847	$ 4,341
Trade and other receivables	10,078	11,286
Inventories	2,523	3,047
Other current assets	86	118
Total current assets	$ 15,534	$ 18,792
Non-current assets	18,820	19,697
Total assets	$ 34,354	$ 38,489
Current liabilities	$ 7,427	$ 12,744
Non-current liabilities	1,243	1,603
Total liabilities	$ 8,670	$ 14,347

	Six Months Ending	
	June 27, 2020	June 29 2019
Revenue	$ 29,440	$ 25,669
Income for the period	255	410

The income for the six months ended June 27, 2020 includes depreciation and amortization expense of $1,616,000 (2019 – $1,187,000), interest expense of $30,000 (2019 – interest income of $17,000) and an income tax expense of $5,000 (2019 – $102,000) related to Corefficient.

6. Intangible assets and goodwill

The Group had acquisitions of intangible assets for the six months ended June 27, 2020 in the amount of $3,000 (2019 – $1,000), for the addition of software. None of the intangible assets have been developed internally.

7. Lease assets and liabilities

The Group leases many assets including buildings, vehicles and office equipment. Information about leases for which the Group is a lessee is presented below.

	Buildings	Vehicles	Office Equipment	Total
Balance at January 1, 2020	$ 8,503	$ 523	$ 27	$ 9,053
Additions	–	143	–	143
Depreciation	(995)	(157)	(12)	(1,164)
Effect of movements in exchange rates	(475)	11	–	(464)
Balance at June 27, 2020	$ 7,033	$ 520	$ 15	$ 7,568

Six months ended June 27, 2020 and June 29, 2019 (amounts in thousands of dollars except share and per share amounts)

Maturity analysis – contractual undiscounted cash flows		**June 27, 2020**		December 31, 2019
Less than one year	$	2,683	$	2,602
One to five years		8,657		9,318
More than five years		409		696
Total undiscounted lease liabilities	$	11,749	$	12,616
Less: effect of discounting	$	(2,073)	$	(1,212)
Lease liabilities included in the statement of financial position	$	9,676	$	11,404
Current	$	2,229	$	2,237
Non-current	$	7,447	$	9,167

	Six Months Ending			
Amounts recognized in statement of operations		**June 27, 2020**		June 29 2019
Interest on lease liabilities	$	179	$	155

	Six Months Ending			
Amounts recognized in statement of cash flows		**June 27, 2020**		June 29, 2019
Payment of lease liabilities	$	1,323	$	1,034

8. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Six Months Ending			
		June 27, 2020		June 29, 2019
17 cents per Class A subordinate voting shares (2019: 14 cents)	$	1,525	$	1,255
17 cents per Class B common shares (2019: 14 cents)		472		388
	$	1,997	$	1,643

(b) Deferred Share Units

The Company maintains a deferred share unit plan in order to issue deferred share units ("DSUs") to non-employee directors and senior-executives of HPS.

The movement in DSUs for the six months ended June 27, 2020 is as follows:

	Number of DSUs	Closing Share Price	
Balance at January 1, 2020	121,571	$	7.68
DSUs Issued	19,472		7.17
DSUs exercised	(14,788)		6.24
Balance at June 27, 2020	126,255	$	6.42

A recovery of $31,000 (2019 – expense of $305,000) for the six months ended June 27, 2020 was recorded in general and administrative expenses. The liability of $811,000 (December 31, 2019 – $699,000) related to these DSUs is included in accounts payable and accrued liabilities.

Six months ended June 27, 2020 and June 29, 2019 (amounts in thousands of dollars except share and per share amounts)

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 which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive income for the six months ended June 27, 2020 was $2,182,000 (2019 – loss of $4,223,000), of which $1,473,000 (2019 – $3,603,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance of accumulated other comprehensive income of $9,621,000 (June 29, 2019 – $8,517,000).

10. Sales

	Three Months Ending		Six Months Ending	
	June 27, 2020	**June 29, 2019**	**June 27, 2020**	June 29, 2019
Canada	$ 21,922	$ 29,283	$ 49,266	$ 55,524
United States and Mexico	51,892	59,246	108,233	113,440
India	1,579	3,408	6,314	7,663
	75,393	91,937	163,813	176,627
Italy – discontinued operations	–	–	–	281
	$ 75,393	$ 91,937	$ 163,813	$ 176,908

As at June 27, 2020, the Company has deferred revenue of $16,000 (December 31, 2019 – $197,000).

11. Government Subsidy

The Government of Canada implemented the Canadian Emergency Wage Subsidy program (CEWS) that provided a subsidy of 75% of eligible remuneration, paid by an eligible entity that experienced significant revenue declines due to the COVID-19 global pandemic. During Quarter 2, 2020 the Company qualified for a subsidy payment. The subsidy amounts have been recorded as a reduction in expenses as follows: cost of sales $2,527, selling and distribution $386 and general and administrative expenses $822 for a total of $3,735.

12. Related party transactions

Arathorn Investments Inc. beneficially owns 2,778,300 (2019 – 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 1,063,152 (2019 – 1,061,202) Class A subordinate voting shares of the Company, representing approximately 11.9% (2019 – 11.9%) 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 $326,523 (Quarter 2 2019– $269,000).

Six months ended June 27, 2020 and June 29, 2019 (amounts in thousands of dollars except share and per share amounts)

13. Change in operating working capital

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

	Six Months Ending			
		June 27, 2020		June 29, 2020
Accounts receivable	$	1,294	$	2,055
Inventories		2,154		(4,296)
Prepaid expenses		753		338
Accounts payable and accrued liabilities		(15,322)		(3,655)
Provisions		(752)		(2,208)
Foreign exchange		575		(2,665)
	$	(11,298)	$	(10,431)