Hammond Power Solutions Inc.

Annual Information Form

March 25, 2021

Contents

FORWARD-LOOKING INFORMATION

This Annual Information Form (the "**AIF**") contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, Hammond Power Solutions Inc.'s (the "**Corporation**" or "**HPS**") strategies, intentions, plans, beliefs, expectations and estimates, general economic and business outlook, prospects and trends of the industry, expected growth in demand for products and services, product development and the Corporation's competitive position. Forward-looking statements 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 the Corporation 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 risks related to foreign currency fluctuations and changing interest rates); changes in laws and regulations; risks associated with the Corporation's business environment (such as risks associated with the financial condition of the oil and gas, mining and project business), operational risks (such as such as risks related to developing new products and services; doing business with partners; product performance; legal and regulatory proceedings; dependence on certain customers and suppliers; human resources; and business disruption and/or interruption caused by the COVID-19 pandemic) and the ability to execute strategic plans. The Corporation 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.

This forward-looking information represents our views as of the date of this AIF and such information should not be relied upon as representing our views as of any date subsequent to the date of this AIF. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated, expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

For a list of factors that could affect the Corporation, see "risk factors" highlighted in materials filed with the securities regulatory authorities in Canada from time to time.

Hammond Power Solutions Inc.

ANNUAL INFORMATION FORM

CORPORATE STRUCTURE

Hammond Power Solutions Inc. (“**HPS**”) was incorporated in 2000, under the *Business Corporations Act* (Ontario), as the result of a reorganization of Hammond Manufacturing Company Limited (“**HMCL**”). The reorganization, which split HMCL into two publicly traded companies, was implemented effective January 1, 2001. The dry-type transformer business was spun-off into HPS and the enclosure and rack businesses continued as HMCL. A surplus property in Georgetown, Ontario is also jointly owned by the Corporation and HMCL.

The predecessor company, Hammond Manufacturing Company Limited, was founded in 1917 under the name of O.S. Hammond and Son and was incorporated as Hammond Manufacturing Company Limited in 1944 by letters patent under the laws of Ontario, Canada, and continued through amalgamations, the last of which occurred on January 1, 1999.

The Corporation’s principal and registered office is located at:

595 Southgate Drive, Guelph, Ontario, N1G 3W6
Phone (519) 822-2441
Fax (519) 822-9701
E-mail ir@hammondpowersolutions.com
Website www.hammondpowersolutions.com

The Class A Subordinate Voting Shares of the Corporation trade on the Toronto Stock Exchange (“**TSX**”) under the symbol “HPS.A”.

The following is a list of the principal operating subsidiaries and the joint venture of the Corporation as at December 31, 2020, their respective jurisdictions of incorporation and the percentages of voting securities owned by the Corporation.

Subsidiary & Joint Venture	**Jurisdiction of Incorporation**	**Percentage of Votes attaching to All Voting Securities of the Subsidiary**
Hammond Power Solutions, Inc.	Wisconsin, USA	100%
Hammond Power Solutions S. A. de C.V.	Nuevo Leon, Mexico	98%
Delta Transformers Inc.	Quebec, Canada*	100%
Hammond Power Solutions Private Limited	Hyderabad, India	100%
Hammond Power Solutions S.p.A.	Torino, Italy	100%
Corefficient S. de R.L. de C.V.	Nuevo Leon, Mexico	55%

*is incorporated under the Canada Business Corporations Act, with a registered head office in Granby, Quebec.

The Corporation does not own restricted securities in the subsidiaries beneficially owned, or controlled or directed, directly or indirectly.

All reference to $ in this AIF are in Canadian currency except where stated otherwise.

DEVELOPMENT OF THE BUSINESS

The Corporation continues to pursue business opportunities that will expand its production capacity, introduce new product lines and add new geographic markets. Since 2008, the Corporation has acquired four companies, one in Quebec, two in Italy and one in India. However, the Corporation has made no acquisitions in the past four calendar years. The Corporation also entered into a joint venture, Corefficient S. de R.L. de C.V. with National Materials to manufacture transformer cores.

Three Year History

Closure of the Marnate, Italy Operation: On December 18, 2018, the Corporation announced its intention to discontinue and close its manufacturing operations at the Marnate, Italy facility. The closure process occurred over the first quarter of 2019. The decision to close the Marnate facility was a difficult one, but one made necessary due to mounting losses of the operation, resulting from the low sales volume and the weak Italian economy. The volatility and instability in the overall European economy, poor electrical market conditions, pricing pressure and lack of competitiveness were all contributing factors. As a result of this facility closure, a charge of $16,485,000 was recorded in the fourth quarter of 2018, primarily the write-off of goodwill, intangibles and the write-down of plant and equipment (in total $9,693,000) and a charge related to cash items for restructuring costs of $6,792,000). In November 2019, the Corporation entered into an agreement to divest certain assets and liabilities with an Italian company, which included the sale of inventory, machinery and equipment and the assumption of certain employee related liabilities. The Corporation retained ownership of the "Marnate" building, which is currently rented to the Italian company.

Minority Interest: On March 5, 2016, the Corporation previously signed an agreement to acquire the shares of a minority shareholder of Hammond Power Solutions Private Limited in India; acquiring an additional 15% equity ownership of its transformer business for 172,625,181 Indian Rupees (approximately $3,326,000), thereby increasing the Corporation equity ownership of Hammond Power Solutions Private Limited to 85%. On January 10, 2018, the Corporation acquired the remaining 15% equity ownership from a minority shareholder of Hammond Power Solutions Private Limited in India (now a 100% owned subsidiary) for 76,933,000 Indian Rupees (approximately $1,511,000).

Disposal of VPI Product Line: On October 31, 2017, Hammond Power Solutions S.p.A. ("HPS Italy") sold the assets and disposed of certain liabilities of its vacuum pressure impregnated (VPI) transformers product line located in Italy, which resulted in a loss on disposition of $1,022,000. HPS Italy received a note receivable in the amount of 1,288,000 Euros (approximately $1,938,000) in consideration. Concurrent with the disposal of the VPI product line, HPS Italy entered into a lease agreement for one of its manufacturing facilities in Italy, under which the purchaser will have the use of the plant, which includes both the land and the building. In October 2020, the note receivable was settled in the amount of 614,000 Euros (approximately $956,000), 614,000 Euros of the allowance for doubtful accounts was reversed and recorded in income.

Enterprise Resource Planning (ERP): The Corporation implemented a new Enterprise Resource Planning system in the corporate office and the North American operations (except Quebec) in August 2013 to meet the requirements of our growing business. During 2014, certain modifications and reporting requirements were implemented to maximize the operational effectiveness of the system. In 2019, the Corporation completed the implementation of the ERP system in India. An implementation project began in Quarter 3, 2019 for the Company's Quebec operations to be converted to our new ERP platform. This project is expected to be completed in the second quarter of 2021. This final step of the consolidation to the ERP platform is important as it provides a global, integrated and consistent source of information and data.

Credit Agreement: The Company's North American banking agreement, consists of a USD$40,000,000 revolving credit facility and a USD$10,000,000 delayed draw credit facility. The revolving borrowing can be comprised of U.S. Prime Borrowings, Canadian Prime Borrowings, CDOR Borrowings, or LIBOR Borrowings. The delayed draw facility does not charge any fees on the unutilized balance. The use of the delayed draw facility needs to be approved by the bank. The draw is available in a minimum of two tranches of USD$5,000,000 each. The facilities are unsecured.

The delayed draw credit facility was unutilized at December 31, 2020 and December 31, 2019. Under the terms of the facility, the Group pays a commitment fee at rates ranging from 0.30% to 0.40% payable quarterly in arrears, on the daily amount of the unused portion of the revolving North American commitment.

The Group also has a 4,070,000 unsecured Euro facility that matures in May 2021 and may be renewed in writing each year to extend the maturity date for the facility for a further 365 days, subject to approval from the lender. The facility is made up of a 3,750,000 Euro revolver and 250,000 Euro overdraft facility, as well as a 70,000 Euro letter of credit line. The revolver facility bears interest at Euribor plus margin of 2.25% (2019 – plus margin of 1.75%, Euribor on December 31, 2019 – 0.249%, Euribor on December 31, 2018 – 0.373%).

This is an unsecured 5-year committed facility. This agreement better aligns the Corporation's Canadian, U.S. and European banking requirements, supports our hedging strategies and provides financing for our operational requirements and capital for our strategic initiatives.

The Company's current North American credit agreement matures in June 2021.

The Company is currently finalizing a new 5-year agreement.

Hammond Power Solutions Private Limited maintains an additional demand credit facility for an unsecured working capital loan up to 375,000,000 INR (2019 – 375,000,000 INR) consisting of the sub-facilities of an 131,000,000 INR (2019 – 131,000,000 INR) short-term working capital demand loan, a 244,000,000 INR (2019 – 244,000,000 INR) facility for bank guarantees and did not have any letters of credit at December 31, 2020 (2019 – $Nil) facility for bill discounting export facility. The demand loan bears interest at a MCLR (Marginal Cost of Funds Lending Rate) + 2.5% and the bank guarantees are at a rate of 1.0%. As at December 31, 2020, there was $nil Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2019 – $Nil). At December 31, 2020 there was $nil INR (2019 – $Nil INR) drawings against the bank guarantees.

GENERAL DESCRIPTION OF THE BUSINESS

The Corporation manufactures a wide range of custom and standard dry-type, cast resin and liquid filled transformers and wound magnetic products for the electrical and related industries. The Corporation has been designing and building transformers for over 100 years.

Transformers and related products (often referred to as magnetics) typically include equipment employing magnetic or electrical fields as a functioning principle. Transformers alter the voltage of electrical current. They are generally an assembly of wound coil of electrical grade wire, electrical insulation, mountings and a magnetic path of grain-oriented iron or alloy cores.

Dry-type transformers and related products ranging in size from 12 volts to 34,000 volts, with sizing up to 35 MVA and 200 kVBIL, are designed and manufactured at plants in Guelph and Walkerton, Ontario; Granby, Quebec; Monterrey, Mexico; Compton, California and Hyderabad, India.

Electrical transformers are used for stepping down voltages for distribution of electricity for commercial, industrial and residential use. The transformer industry may be broken down as follows:

Application	**Range of Sizes**	**Typical End User**
Transmission	Over 34,500 volts	Electrical utilities
Distribution	1,200 to 34,500 volts	Local power companies
Distribution & Control	12 to 600 volts	Commercial, industrial, residential users and original equipment manufacturers

Dry-type transformers, cast resin transformers and related products use insulation mediums other than oil and are therefore more environmentally friendly and better suited for higher risk fire areas. Virtually all transformers installed indoors, up to 34,500 volts, are dry-type transformers as they are more cost effective and have lower associated fire risks.

With the development of new insulation materials, the physical size of dry-type transformers is being reduced while the power transmitting capacity (as measured in volts) is increasing.

The Corporation operates as a single business segment.

Manufacturing Methods

The manufacturing of transformers involves the winding of copper and aluminium magnet wire on coil forms, the insertion of the core after it is encapsulated or impregnated in epoxy or polyester varnishes and the mounting of the core and coil assembly in a metal housing and cast resin products, which are encapsulated in epoxy. In the performance of these tasks, the Corporation uses automated winding machines, core cutters and welders and testers including machines with programmable controls.

The Corporation employs engineers and technicians to ensure that its products are technologically current and to engineer customized products. The Corporation's products require a high level of engineering in the design, manufacturing and testing, in order to differentiate them in the marketplace and to improve manufacturing efficiencies. The Corporation has invested in staff development and equipment employing the latest technologies. These investments allow the Corporation to provide a competitive advantage for custom Transformer customer contracts. The Corporation’s growth is supported by our product development and our ability to provide short lead-time product design and manufacturing.

Distribution Methods

The Corporation operates a Canadian distribution centre in Aberfoyle, Ontario which supplies product in Canada and the United States. As well, the Corporation utilizes stocking representative warehouses across the Unites States and Canada.

Sales and Marketing

The Corporation employs a direct sales force and has a number of non-exclusive, independent sales agencies. The Corporation also has sales representatives in Canada, U.S. and India. The Corporation serves three primary markets – OEMs (original equipment manufacturers), capital projects and MRO's (maintenance, repair and overhaul). Each of these three major markets consists of a wide range of sub-markets. Some of the largest markets served by the Corporation include transformers for power conditioning, crane and hoist manufacturers, mining equipment, drive systems, motor control, internet switching and power systems, oil pumping equipment and power distribution equipment. Over the last few years, the Corporation has become an important transformer supplier to many of the leading electrical equipment manufacturers in the world and distributors These companies and buying groups include General Electric, Siemens, Toshiba International, Schneider, Rockwell, ABB, Eaton Corp., Caterpillar, Metalec, Rexel, Wholesale Electric, Affiliated Distributors, Consolidated Electrical Distributors (CED), Graybar, IMARK, WESCO, Guillevin, and Sonepar.

The Corporation's sales are spread broadly among many markets, industries and customers. In 2020, no single customer or customer division accounted for more than 10% of the Corporation's sales, while the ten largest customers accounted for approximately 60% of sales. In 2020 approximately 34% (33% in 2019) of the total sales were in Canada, 62% in the U.S. and Mexico (63% in 2019) and 4% were in India (4% in 2019).

Competition

The Corporation faces competition from a large number of transformer manufacturers. Most of these competitors tend to be quite small in size and geographically or customer focused. The majority of those companies had annual sales of less than US$20 million. Other competitors include large companies, such as Asea Brown Boveri Inc., Siemens, General Electric, Eaton Corp., Schneider Electric and others who have substantially greater resources than the Corporation.

The Corporation has developed and acquired a number of key competitive advantages. These include comparatively broad product capabilities from small control transformers to large dry type power transformers and may vary from VPI, cast resin and mineral filled transformers. The Company also has significantly larger engineering resources compared to the transformer company competitors. The Corporation is one of a few that have strong manufacturing capabilities in both the standard and custom transformer business and global manufacturing network.

Human Resources

The Corporation has approximately 1,311 employees consisting of approximately 36% salaried staff and 64% hourly workers. The majority of the Corporation's hourly workers are members of associations within their individual plants. Management characterizes the Corporation's labour relations as excellent and has not experienced a work stoppage.

The Corporation has defined contribution pension plans that are available to substantially all employees. The Corporation's contribution matches the contribution of the eligible employees, who can contribute between 2 – 6.25% of their annual earnings.

Trademarks and Licenses

The Corporation markets substantially all its products under the registered trade name "Hammond Power Solutions" which the Corporation believes is significant in the marketing of its products. The Corporation also utilizes certain patents in the manufacture of its products. Management believes these patents are strategically important to the Corporation's business as a whole as it protects HPS' intellectual property and its competitive advantage.

Raw Materials

Raw materials for the Corporation's products consist primarily of metal products of various types, shapes and sizes, and other manufacturing components. The Corporation purchases its raw materials from many suppliers and is not dependent on any single supplier. Certain of the raw materials used by the Corporation, such as copper, steel and aluminium, are subject to market price fluctuations, which can be substantial. To manage its exposure to changes in commodity prices, the Corporation will enter into long-term supply contracts with certain suppliers, and from time to time will enter into forward commodity purchase contracts.

Facilities

The Corporation operates twelve manufacturing and/or distribution facilities, four of which are located in Canada (Guelph, Aberfoyle and Walkerton, Ontario and Granby, Quebec), two in the United States (Baraboo, Wisconsin – the U.S. head office, and Compton, California), two in Monterrey, Mexico and four in India. In addition, the Corporation uses eleven "stocking rep" warehouses in Canada and the United States. The Corporation's manufacturing and corporate services facilities contain a total of approximately 568,000 square feet of space of which approximately 213,000 square feet are leased. The Corporation's foreign operations are an integral part of the Corporation's growth strategy. The Indian operation provides market presence in one of the largest evolving markets in the world and market for additional transformer product offerings and provides a growing market for its domestic mineral filled and cast resin transformer products.

Research and Development

The Corporation spends in the range of $700,000 – $1,000,000 per annum on development activities. These development projects relate primarily to product development, searching for improvements in efficiencies and quality through raw material and process changes.

Environmental Issues

The environmental issues are covered in the Corporation's "Notes to the Consolidated Financial Statements" – see Notes 9 – Investment in Properties and 20 – Provisions (Site restoration) and in "Management's Discussion and Analysis" included in the Corporation's 2020 Annual Report to Shareholders, which is available on SEDAR at www.sedar.com.

Risk Factors

Risks and uncertainties are discussed in "Management's Discussion and Analysis" included in the Corporation's 2020 Annual Report to Shareholders, which is available on SEDAR at www.sedar.com.

DIVIDEND PROGRAM

The Corporation's dividend policy for Class A Subordinate Voting Shares and Class B Common Shares is reviewed on a quarterly basis by the Board of Directors of the Corporation.

The Corporation established a dividend policy providing for a dividend yield that is consistent with the yield of comparable companies' dividend rates and is reviewed on a periodic basis and assessed in relation to the growth of the operating cash flows of the Corporation.

Payment of dividends will be at the discretion of the Corporation's Board of Directors after taking into account many factors, including the Corporation's operating results, financial condition, comparability of the dividend yield to peer companies and current and anticipated cash needs of the Corporation.

In 2020, the Corporation's Board of Directors declared quarterly cash dividends of $0.085 per share (in 2019 quarterly cash dividends were $0.07 per share, 2018 quarterly cash dividends of $0.07 cents a share) for both Class A Subordinate Voting Shares and Class B Common Shares.

Future dividends will be at the discretion of the Corporation's Board of Directors after taking into account many factors, including the Corporation's operating results, financial condition, comparability of the dividend yield to peer companies and current and anticipated cash needs of the Corporation.

GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The Corporation has authorized capital of an unlimited number of Class A Subordinate Voting Shares and an unlimited number of Class B Common Shares, each without par value. As at December 31, 2020, there were issued and outstanding 8,966,624 Class A Subordinate Voting Shares and 2,778,300 Class B Common Shares.

The holders of the Class A Subordinate Voting Shares are entitled to receive notice of, attend and vote at any meeting of the shareholders of the Corporation, except to the extent that he or she has transferred ownership of such shares after the record date. There are no cumulative voting rights. The Class A Subordinate Voting Shares carry one vote per share, representing approximately 44.7% of the aggregate voting rights, entitles the holder thereof to dividends if, as and when declared by the directors, regardless of whether dividends are declared or paid in respect of any other class or series of shares, and to participate rateably in any distribution of assets of the Corporation upon liquidation, dissolution, or winding-up, subject to the prior rights of holders of shares ranking in priority to the Class B Common Shares. The Class A Subordinate Voting Shares will be deemed to have converted into Class B Common Shares on a one for one basis in the event of a change of control. A change of control is deemed to have occurred if neither the "Hammond Family" or an "Acceptable Successor", as such terms are defined in the Corporation's Articles of Incorporation, continues to beneficially own, directly or indirectly, such number of shares of the Corporation to which are attached in the aggregate not less than 50% of the votes attaching to all issued and outstanding shares of the Corporation.

The holders of Class B Common Shares are entitled to receive notice of, attend and vote at any meeting of the shareholders of the Corporation, except to the extent that he or she has transferred ownership of such shares after the record date. There are no cumulative voting rights. Each Class B Common Share carries the right to four votes, entitles the holder thereof to dividends if, as and when declared by the directors and subject to the rights of holders of the Class A Subordinate Voting Shares, and to participate rateably with the Class A Subordinate Voting Shares in any distribution of assets of the Corporation upon liquidation, dissolution, or winding-up. Each holder of a Class B Common Share is entitled at his or her option to have all or any number of their Class B Common Shares converted into Class A Subordinate Voting Shares on a one-for-one basis.

Stock Options for a total of 190,000 Class A Subordinate Voting Shares outstanding as at December 31, 2020.

Optionees	# of Shares under Option	Exercise Price per Share	Expiry Date
Named Executive Officers	10,000	$7.50	13-Mar-21
	35,000	$6.62	12-Mar-22
	30,000	$6.20	09-Mar-23
Directors	20,000	$7.50	15-Mar-21
	20,000	$6.62	12-Mar-22
	40,000	$6.20	09-Mar-23
Key Managers & Consultants	35,000	$7.50	13-Mar-21

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. Daily purchases will be limited to 1,318 Class A Subordinate Voting Shares, other than block purchase exceptions, which is 25% of the average daily trading volume of Class A Subordinate Voting Shares of HPS on the TSX in the preceding six calendar months. The purchases commenced on November 9, 2018 and were to terminate no later than November 8, 2019. The Corporation purchased 9,200 Class A Subordinate Voting Shares in 2018 and during 2019, 40,800 Class A Subordinate Voting Shares were purchased at a cost of $316,000 (an average cost of $7.78 per share) under this normal course issuer bid program. There were no authorized repurchases during 2020.

MARKET FOR SECURITIES

Trading Price and Volume
The Class A Subordinate Voting Shares are listed on the TSX and trade under the symbol "HPS.A". The following table represents price range and volume traded for the Class A Subordinate Voting Shares of the Corporation for each month of fiscal 2020.

2020	Price Range		Volume
	High	Low	Number of Shares
January	7.98	7.27	491,276
February	7.29	6.83	581,176
March	7.96	4.28	925,799
April	6.70	5.29	455,842
May	6.51	6.00	451,064
June	6.66	6.27	412,560
July	7.12	6.38	236,284
August	6.77	6.06	593,794
September	6.15	5.91	622,340
October	6.06	5.59	226,803
November	7.63	5.71	2,993,809
December	8.75	7.32	2,719,354

Prior Sales

To the knowledge of the Corporation, there are no classes of securities of HPS that are outstanding but not listed or quoted on a market place which have been issued during the year ended December 31, 2020.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

There are no securities of the Corporation that are held, to the Corporation's knowledge, in escrow, or that are subject to a contractual restriction on transfer.

DIRECTORS AND OFFICERS

As at March 25, 2021, the name, municipality of residence, position with the Corporation and principal occupations and positions with other boards of each of the directors (collectively, the "**Directors**" and each a "**Director**") and executive officers of the Corporation, and the period during which each Director has served on the Board of Directors, are as follows:

DIRECTORS:

Name, province/state and country of residence, principal occupation and positions with other boards within the past 5 years,	Position within the Corporation	Director Since
WILLIAM G. HAMMOND Guelph, Ontario, Canada Director, Chairman & Chief Executive Officer of the Corporation	Director, Chairman & Chief Executive Officer	January 2001
DONALD H. MACADAM Port Dover, Ontario, Canada Director, Xbiotech Inc.	Director	May 2001
GRANT C. ROBINSON Guelph, Ontario, Canada Former Partner, BDO Canada LLP	Lead Director	May 2007

DAVID J. FITZGIBBON Cincinnati, Ohio, U.S.A. Former Vice Chairman, Ilsco	Director	May 2009
DAHRA GRANOVSKY Toronto, Ontario, Canada CEO of Beresford Box & Accurate Rolal Folding Cartons Director, Atlantic Packaging Director of Intertape Polymer Group Director, Velan Inc.	Director	May 2011
FRED M. JAQUES Toronto, Ontario, Canada Managing Director, Premium Brands Holdings	Director	May 2014
ANNE MARIE TURNBULL Oakville, Ontario, Canada President, AMT Associates Ltd. Director, Exco Technologies Ltd.	Director	May 2020
J. DAVID M. WOOD London, Ontario, Canada Faculty Member, The Ivey Business School Board Chair, Danby Appliances	Director	May 2020

The Directors are elected at each annual meeting of the shareholders and will serve until the next annual general meeting of the shareholders.

Mr. William G. Hammond

Mr. Hammond is Chairman, Chief Executive Officer and has served as a Director of the Corporation since 2001. He served as President of HMCL from 1994 to 2001 with responsibility for both the Transformer and Enclosure Groups. From 1978 to 1994, Mr. Hammond was directly responsible for Corporate Sales, Marketing, HR and Logistics, with HMCL. Mr. Hammond holds a B.A. from the University of Western Ontario.

Mr. Donald MacAdam

Mr. MacAdam has served as a Director of the Corporation since 2001. Currently he is a director of Xbiotech Inc. and previously was the President, Chief Executive Officer and Director of MBVax Bioscience Inc. Prior to that, Mr. MacAdam was the former president of A360 Inc. Mr. MacAdam also currently sits on the Board of Directors of Malibu Labs Inc., and has served as President, Chief Executive Officer, Director and Chairman of several other Canadian corporations.

Mr. Grant C. Robinson

Mr. Robinson has served as a Director of the Corporation since 2007. He was the managing partner of Robinson & Company LLP until January 1, 2010, when the firm merged with BDO Canada LLP, of which he is a former partner. He is also involved in various programs including the "Success Care Program", offering services to entrepreneurial and family businesses and has many years of experience as an educator. Mr. Robinson is a contributor to magazines, publications and technical editor for the C.A. Magazine's Business Advisor column. Mr. Robinson holds a B.A. from the University of Guelph, a F.C.A. designation and is a Certified Financial Planner.

Mr. David J. FitzGibbon

Mr. FitzGibbon has served as a Director of the Corporation since 2009. Mr. FitzGibbon serves on many boards of directors within the electrical manufacturing industry. Formally he was the Vice Chairman of Ilsco Corporation, an electrical connector manufacturer based in Cincinnati, Ohio.

Ms. Dahra Granovsky

Ms. Granovsky has served as a Director of the Corporation since 2011. Ms. Granovsky is CEO of Beresford Box & Accurate Rolal Co. Inc. and past President of Atlantic Packaging, as well as past President of Eco Wood Products and Meldan. Ms. Granovsky has over 16 years of experience in the manufacturing and distribution industry. She sits on the Board of Directors at Atlantic Packaging, Intertape Polymer Group and Velan Inc..

Mr. Fred M. Jaques

Mr. Jaques is the Managing Director of Premium Brands Holdings and a Strategic Advisor. Prior to that he was the President and Chief Operating Officer of SofinaFoods Inc. and previously was the Chief Executive Officer of Santa Maria Foods ULC. Mr. Jaques has served in various senior positions with Dare Foods, Labatt and Kellogg and is currently Managing Director of Premium Brands Holdings.

Ms. Anne Marie Turnbull

Ms. Turnbull is currently a Director for Exco Technologies Ltd and Chairs the HRC Committee. Ms. Turnbull is President of AMT Associates Ltd consulting to business leaders and their teams on strategic people and organization alignment issues. Prior to launching her own firm, Ms. Turnbull consulted at Egon Zehnder, a global executive talent firm and at Enns Partners, a Canadian boutique. Previously, Ms. Turnbull led the Canadian human resources consulting business of Towers Perrin Inc. which included strategy, compensation, communication, performance, change management and succession planning. Ms. Turnbull graduated with a Bachelor of Arts (Honours) degree and Master of Industrial Relations degree from the University of Toronto.

Mr. David M. Wood

He is currently a member of the faculty at the Ivey Business School and was the faculty director of the MBA. Before joining the faculty, Mr. Wood held several executive roles in industry including the President of W. C. Wood Company, a global manufacturer of home appliances. Mr. Wood also sits on the board of several other private corporations, including as the Chair of Danby Products.

Director Term Limits

The Corporation does not impose director term limits but does have an evaluation process for board renewal. The Corporation has not adopted term limits as it is committed to developing and retaining the expertise on its Board of Directors required to provide effective oversight.

OFFICERS:

Mr. William G. Hammond

Mr. Hammond is Chairman, Chief Executive Officer and has served as a Director of the Corporation since 2001. He served as President of HMCL from 1994 to 2001 with responsibility for both the Transformer and Enclosure Groups. From 1978 to 1994, Mr. Hammond was directly responsible for Corporate Sales, Marketing, HR and Logistics with HMCL. Mr. Hammond holds a B.A. from the University of Western Ontario.

Mr. Christopher R. Huether

Mr. Huether is the Corporate Secretary and Chief Financial Officer and of the Corporation. Mr. Huether held various positions including Group Controller with HMCL - Enclosure and Transformer Groups from 1985 – 2000. Mr. Huether is a Fellow Chartered Professional Accountant, FCPA, Fellow Certified Management Accountant, FCMA, a member of the Society of Management Accountants of Ontario and holds a Business Diploma from Fanshawe College.

Committee Membership

All Directors of the Corporation are members of the Audit Committee and Compensation Committee.

All Directors of the Corporation are members of the Corporate Governance Committee.

Shareholdings of Directors and Officers

William G. Hammond beneficially owns 317,081 Class A Subordinate Voting Shares of the Corporation directly. In addition, William G. Hammond beneficially owns all the outstanding shares of Arathorn Investments Inc., which beneficially owns 748,110 Class A Subordinate Voting Shares and 2,778,300 Class B Common Shares of the Corporation directly.

The Directors and Officers (excluding William G. Hammond) of the Corporation beneficially own, control or direct, directly or indirectly, in the aggregate, 1.2% of Class A Subordinate Voting Shares. Collectively, the Directors and Officers of the Corporation beneficially own, control or direct, directly or indirectly, in the aggregate, 1,172,477 Class A Subordinate Voting Shares and 2,778,300 Class B Common Shares, representing 13.1% of Class A Subordinate Voting Shares and 100% of Class B Common Shares.

The information as to shares beneficially owned by the Directors, not being within the knowledge of the Corporation, has been furnished by each Director.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Corporation, no current director or officer of the Corporation is, as at the date of this AIF, or was within ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including HPS) that:

(a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemptions under Canadian securities legislation, that was in effect for a period of more than thirty (30) consecutive days ("**Order**"), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to an Order that was issued after the director or chief executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of the Corporation, no current director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

(a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including HPS) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of the Corporation, no current director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

<u>Conflicts of Interest</u>

Certain of the Corporation's directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Corporation may participate, the directors and officers of the Corporation may have a conflict of interest in negotiating or concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Corporation's directors, a director who has a conflict will abstain from voting for or against the approval of such participation or such terms.
To the knowledge of the Corporation, there are no existing or potential material conflicts of interest between HPS or any of its subsidiaries or any director or officer of HPS or of any of its subsidiaries.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2020 the Company had transactions with related parties, as disclosed in Note 25 in the Notes to the Consolidated Finance Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data of the Corporation, as it relates to the five years ended December 31, is derived from the audited consolidated statements of the Corporation.

	Years ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**
					Note 1
Income Statement Data	**$000's, except per share amounts**				
Sales	**$322,097**	$358,782	$314,082	$284,635	$274,793
Gross margin - $	**86,994**	87,959	72,935	72,992	66,910
- %	**27.0%**	24.5%	23.2%	25.6%	24.3%
EBITDA **Note 2**	**29,482**	28,175	17,915	23,069	14,356
Earnings from operations	**22,041**	20,543	13,779	16,884	10,873
Net earnings for the year from continuing operations	**14,062**	13,306	8,105	10,273	1,793
Loss from discontinued operations, net of taxes	**-**	1,699	21,022	4,159	-
Net earnings	**14,062**	11,607	(12,917)	6,114	1,793
Per Share - Basic					
Earnings from continuing operations	**$1.20**	$1.13	$0.69	$0.88	$0.16
Earnings (loss)	**$1.20**	$0.99	($1.10)	$0.53	$0.16
Balance Sheet Data					
Total Assets	**189,394**	214,953	205,527	192,449	205,177
Cash (debt), net of bank indebtedness	**(1,278)**	(9,326)	(17,056)	(16,983)	(11,318)
Current Assets - Current Liabilities (net)	**53,105**	48,669	42,894	39,605	38,909
Total Shareholders' Equity	**113,916**	109,767	108,734	114,848	120,441
Other Data					
Cash provided by operating activities	**19,683**	17,810	6,474	1,032	15,216

Note 1
The financial data for the year 2016 has not been restated to reflect discontinued operations.

Note 2
The Corporation defines EBITDA as earnings from continuing operations before taxes, plus interest and amortization expense.

Quarterly Results	Sales	Earnings from continuing operations,	$000's, except per share amounts Loss from discontinued operations, net of tax	Net earnings	EPS Basic
March 28, 2020	**$88,420**	**$2,148**	**$ -**	**$2,148**	**$0.18**
June 27, 2020	**75,393**	**4,420**	**-**	**4,420**	**$0.38**
September 26, 2020	**78,115**	**3,462**	**-**	**3,462**	**$0.30**
December 31, 2020	**80,169**	**4,032**	**-**	**4,032**	**$0.34**
Full Year 2020	**322,097**	**14,062**	**-**	**14,062**	**$1.20**
March 30, 2019	$84,690	$2,508	$(193)	$2,315	$0.20
June 29, 2019	91,937	3,352	(394)	2,958	$0.25
September 28, 2019	91,502	3,595	(472)	3,223	$0.27
December 31, 2019	90,653	3,851	(640)	3,111	$0.27
Full Year 2019	358,782	13,306	(1,699)	11,607	$0.99
March 31, 2018	$70,397	$2,752	$(989)	$895	$0.08
June 30, 2018	75,418	3,082	(1,592)	(370)	($0.03)
September 29, 2018	81,553	3,219	(1,054)	1,391	$0.12
December 31, 2018	86,714	4,726	(17,387)	(14,833)	($1.27)
Full Year 2018	314,082	13,779	(21,022)	(12,917)	($1.10)

SUBSEQUENT EVENTS

Dividends

On March 5, 2021, the Corporation declared a quarterly cash dividend of eight and a half cents ($0.085) per Class A subordinate voting shares of HPS and a quarterly cash dividend of eight and a half cents ($0.085) per Class B common shares of HPS payable on March 25, 2021 to shareholders of record at the close of business on March 18, 2021. The ex-dividend date is March 17, 2021.

REVIEW OF OPERATIONS

Information is included in the Corporation's 2020 Annual Report to Shareholders, which is available on SEDAR at www.sedar.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis information is included in the Corporation's 2020 Annual Report to Shareholders, which is available on SEDAR at www.sedar.com.

PROMOTERS

As of November 2020, HPS engaged LodeRock Advisors Inc. as an investor relations firm as a promoter of HPS and its subsidiaries. Prior to this period, no person or company had been, within the two most recently completed financial years, or during the beginning of 2020, a promotor of HPS or any of its subsidiaries. The promoter does not hold any shares of HPS or any of its subsidiaries directly or indirectly.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

<u>Contingent Liability</u>

In June 2013, 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 Corporation believes there is no merit to the claim.

Regulatory Actions

There have been no: (a) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2020; (b) other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements entered into by the Corporation before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2020.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

William G. Hammond, Chairman and Chief Executive Officer, a Director and shareholder of the Corporation, controls Arathorn Investments Inc., which is the major holder of shares of the Corporation through which it exercises voting control.

Management is not aware of any interest of insiders in any material transaction with the Corporation.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The Corporation's Audit Committee operates under a written charter that sets out its responsibilities and composition requirements. A copy of this charter is attached in Schedule "A" to this AIF.

Composition of Audit Committee

The Audit Committee is currently composed of all the independent Directors, all of whom are financially literate, as those terms are defined in National Instrument 52-110 – *Audit Committees.*

The Audit Committee members have relevant education or experience that supports their understanding and assessment of the accounting principles used to prepare financial statements, auditing, analysing / evaluating financial statements, and understanding of internal controls and procedures for financial reporting. For reference, please see the biographies of the Audit Committee members under "*Directors and Officers*".

EXTERNAL AUDIT AND TAX FEES

The following summarizes the professional services for continuing operations rendered by KPMG LLP to the Corporation for the years ended December 31, 2020, and December 31, 2019:

Professional Service (1)	**2020**	**2019**
Audit fees	$246,274	$261,402
Tax Fees (2)	$172,509	$190,196
All Other Fees (3)	$9,600	$9,500
Audit-Related Fees	Nil	Nil

(1) In addition to the above, during the year ended December 31, 2020 the Corporation paid:
- $166,427 (2019 - $151,255) to Deloitte (Mexico) related to the Mexican operations;
- $30,770 in audit fees and $1,180 in tax fees to PWC (India) related to the India operations;
- $45,860 in tax fees related to the Italian operations.

(2) Preparation of tax returns for the Corporation and all related subsidiaries and the U.S. income tax advisory services and miscellaneous professional tax services.

(3) Pension Plan Audit.

TRANSFER AGENT AND REGISTRAR

The Corporation's registrar and transfer agent is Computershare Investor Services Inc. in Toronto, Ontario.

MATERIAL CONTRACTS

Credit Agreement:

The Company's North American current banking agreement, consists of a USD$40,000,000 revolving credit facility and a USD$10,000,000 delayed draw credit facility. The revolving borrowing can be comprised of U.S. Prime Borrowings, Canadian Prime Borrowings, CDOR Borrowings, or LIBOR Borrowings. The delayed draw facility does not charge any fees on the unutilized balance. The use of the delayed draw facility needs to be approved by the bank. The draw is available in a minimum of two tranches of USD$5,000,000 each. The facilities are unsecured.

The delayed draw credit facility was unutilized at December 31, 2019 and December 31, 2018. Under the terms of the facility, the Group pays a commitment fee at rates ranging from 0.30% to 0.40% payable quarterly in arrears, on the daily amount of the unused portion of the revolving North American commitment.

The Group also has a €4,070,000 unsecured Euro facility that matures in May 2021 and may be renewed in writing each year to extend the maturity date for the facility for a further 365 days, subject to approval from the lender. The facility is made up of a €3,750,000 Euro revolver and €250,000 Euro overdraft facility, as well as a €70,000 Euro letter of credit line. The revolver facility bears interest at Euribor plus margin of 2.25% (2019 – plus margin of 1.75%, Euribor on December 31, 2019 – 0.249%, Euribor on December 31, 2018 – 0.373%).

This credit facility is an unsecured 5-year committed facility. This agreement aligns the Corporation's Canadian, U.S. and European banking requirements, supports the Corporation's hedging strategies and provides financing for the Corporation's operational requirements and capital for its strategic initiatives.

The Company's current North American credit agreement matures in June 2021.

The Company is currently finalizing a new 5-year agreement.

Hammond Power Solutions Private Limited maintains an additional demand credit facility for an unsecured working capital loan up to 375,000,000 INR (2019 – 375,000,000 INR) consisting of the sub-facilities of an 131,000,000 INR (2019 – 131,000,000 INR) short-term working capital demand loan, a 244,000,000 INR (2019 – 244,000,000 INR) facility for bank guarantees and did not have any letters of credit at December 31, 2020 (2019 – $Nil) facility for bill discounting export facility. The demand loan bears interest at a MCLR + 2.5% and the bank guarantees are at a rate of 1.0%. As at December 31, 2020, there was $nil Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2019 – $Nil). At December 31, 2020 there was nil INR (2019 – $Nil INR) drawings against the bank guarantees. There were no drawings against the bill discounting export facility.

Forward Contracts – Foreign Exchange

The Corporation has entered into forward foreign exchange contracts in order to reduce the Corporation's exposure to changes in the exchange rate of the U.S. dollar, Euro, Indian Rupee (INR) and Mexican Peso as compared to the Canadian dollar ("**CAD**"). As at December 31, 2020, the Corporation had outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2021.

Buy/Sell	**Buy Currency**	**Selling Currency**	**Amount of Buy Currency**	**Traded Rate**
BUY	EUR	CAD	11,800,000	1.5540
BUY	EUR	USD	5,700,000	1.1222
BUY	USD	CAD	83,500,000	1.2704 - 1.3099
BUY	USD	INR	8,949,411	73.0300 - 74.4800
BUY	USD	MXN	12,657,098	19.892
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Sell Currency**	**Traded Rate**
SELL	USD	MXN	25,000,000	19.9260 – 20.1420
SELL	EUR	CAD	23,600,000	1.5541-1.5550

SELL	EUR	USD	11,400,000	1.1846 – 1.2221
SELL	USD	CAD	46,500,000	1.2702
SELL	USD	INR	4,529,856	72.8500

Other

There are no other contracts that are material to the Corporation and that were entered into within the most recently completed financial year, or before the most recently completed financial year but are still in effect.

RISKS RELATING TO THE CORONAVIRUS (COVID-19) BUSINESS DISRUPTION/INTERRUPTION

Coronavirus (COVID-19) – Business Disruption/Interruption

Markets, governments and health organizations around the world are working to contain the pandemic of the coronavirus (COVID-19). COVID-19 presents a wide range of potential issues or complications for the Corporation, most of which the Corporation is not able to know to the full extent.

The following is a summary of what the Corporation has experienced, or believes may impact their business as a result of COVID-19:

- Disruptions to business operations resulting from quarantines of employees, customers, suppliers and third party service providers in areas affected by the pandemic;
- Disruptions to business operations resulting from travel restrictions;
- Uncertainty around the duration of the virus' impact;
- Change in classification of essential services, requiring HPS to shut down operations; and
- Availability of the COVID-19 vaccine in jurisdictions where HPS operates.

Currently, COVID-19 has been, and will continue to be, a material disruption to the Corporation's business. Our operations in Canada, the U.S. and Mexico have been designated as "essential service" businesses. Our Indian operations were not operating from March 24, 2020 to May 2, 2020 as the government had imposed a 100% lockdown of the country, shutting down all businesses. Although the Corporation's U.S. markets remain steady, the Corporation has seen significant reductions in sales in the Canadian and Indian markets. Due to the uncertainty and unpredictability of the impacts of the COVID-19 pandemic on the business operations, the uncertainty of governmental and health authorities' legislation, the full negative financial impact of the unprecedented pandemic will be not be fully known until vaccines are widely available and the economy begins to recover.

INTERESTS OF EXPERTS

The independent auditor of the Corporation is KPMG LLP. KPMG LLP has advised the Corporation that it is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information, including Directors and named executive officer's remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, is contained in the Management Information Circular for the Annual Meeting of Shareholders to be held on May 13, 2021. Additional financial information is provided in the Corporation's Consolidated Financial Statements and Management's Discussion and Analysis for its most recently completed financial year.

Additional information concerning the Corporation including the materials listed in the preceding paragraphs is found on SEDAR at www.sedar.com.

Schedule A

Hammond Power Solutions Inc.
(the "Corporation")

AUDIT COMMITTEE CHARTER

GUIDING STANDARDS

It is the Corporation's desire to achieve the highest possible standard of responsible corporate governance. Financial reporting and financial controls are two important components of that effort. At a minimum, the Corporation must satisfy all statutory and regulatory requirements. The Audit Committee, however, shall guide its effort by, and measure its effectiveness against, the following Guiding Standards:

» The accurate, complete, and timely reporting of the Corporation's financial position, results of operations and prospects.
» The financial controls necessary to give shareholders, Directors, creditors, and employees of the Corporation the highest confidence in the integrity and sufficiency of the Corporation's financial systems, are in place and operating effectively.

Members

The Board of Directors shall appoint an Audit Committee of at least three members, consisting entirely of "independent" Directors of the Board, and shall designate one member as chairperson. For purposes hereof, "independent" shall mean a Director who meets the Toronto Stock Exchange definition of "independence" – (National Instrument 52-110 – Audit Committees).

Each member of the Audit Committee has been determined by the Board of Directors to be "independent" and "financially literate." Each member of the Audit Committee has the ability to perform his responsibilities as an Audit Committee member based on his education and/or experience.

Purpose, Duties, and Responsibilities

The Audit Committee shall represent the Board of Directors in discharging its responsibility relating to the accounting, reporting, and financial practices of the Corporation and its subsidiaries, and shall have responsibility for surveillance of internal controls and accounting and audit activities of the Corporation and its subsidiaries. The Audit Committee does not itself prepare financial statements or perform audits, and its members are not auditors or certifiers of the Corporation's financial statements. Specifically, the Audit Committee shall:

1. Recommend to the Board of Directors and evaluate the firm of independent public accountants to be appointed as auditors of the Corporation, which firm shall be ultimately accountable to the Board of Directors through the Audit Committee.
2. Review and discuss with the outside auditors their audit procedures, including the scope, fees and timing of the audit, and the results of the annual audit examination and any accompanying management letters and any reports of the outside auditors with respect to interim periods.
3. Review and discuss the written statement from the outside auditor of the Corporation concerning any relationships between the auditor and the Corporation or any other relationships that may adversely affect the independence of the auditor and, based on such review, assess the independence of the outside auditor.

4. Review and discuss the written statement from the outside auditor of the Corporation concerning any relationships between the auditor and the Corporation or any other relationships that may adversely affect the independence of the auditor and, based on such review, assess the independence of the outside auditor.
5. Review and discuss with management and the outside auditors the annual financial statements of the Corporation, including significant issues regarding accounting principles, practices, and significant management estimates and judgments.
6. Recommend to the Board of Directors whether, based on the review and discussion described in paragraphs (2) through (4) above, the financial statements should be included in the Annual Report.
7. Review and discuss with management the Corporation's quarterly financial results and related documents and approve prior to filing or distribution.
8. Review and discuss with management and the outside auditors: (a) any material financial or non-financial arrangements of the Corporation which do not appear on the financial statements of the Corporation; and (b) any transactions or courses of dealing with parties related to the Corporation which transactions are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or transactions are relevant to an understanding of the Corporation's financial statement.
9. Review and discuss with management and the outside auditors the adequacy of the Corporation's internal controls and financial reporting controls. Review and discuss with management and the outside auditors the accounting policies which may be viewed as critical, and review and discuss any significant changes in the accounting policies of the Corporation and accounting and financial reporting proposals that may have a significant impact on the Corporation's financial reports.
10. Establish policies and procedures for the engagement of the outside auditors to provide non-audit services, and consider whether the outside auditor's performance of specific non-audit services is compatible with the auditor's independence.
11. Review material pending legal proceedings involving the Corporation and other contingent liabilities.
12. Review the appropriateness of the Audit Committee Charter on an annual basis and periodically perform self-assessments of Audit Committee performance.
13. Review financial and accounting personnel succession planning within the Corporation.
14. Annually review the adequacy of insurance coverage for Directors, officers, Board of Directors committee chairs and committee members.
15. Review and approve management's decisions related to the need for internal auditing.

Meetings

The Audit Committee shall meet as often as may be deemed necessary or appropriate in its judgement, generally four times each year, either in person or by telephone. The Audit Committee shall meet in executive session with the outside auditors at least annually. The Audit Committee may create subcommittees who shall report to the Audit Committee. The Audit Committee shall report to the full Board of Directors with respect to its meeting. The majority of the members of the Audit Committee shall constitute a quorum.

Investigations

The Audit Committee shall have the authority to conduct or authorize investigations into any matters within its scope of responsibilities with full access to all books, records, facilities, and personnel and shall have the authority to retain outside counsel, experts and other advisors as it determines appropriate to assist it in the conduct of any investigation.