Condensed Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As at	
	April 2, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 19,653	$ 20,905
Accounts receivable	94,458	72,004
Inventories	66,524	62,467
Income taxes receivable	484	807
Prepaid expenses and other assets	4,412	3,515
Total current assets	185,531	159,698
Non-current assets		
Long-term lease and note receivable	2,631	2,779
Property, plant and equipment (note 4)	35,465	30,960
Investment in properties	3,294	3,294
Investment in joint venture (note 5)	–	13,279
Deferred tax assets	4,462	2,370
Intangible assets	10,006	10,503
Goodwill	11,951	12,216
Total non-current assets	67,809	75,401
Total assets	$ 253,340	$ 235,099
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 20,558	$ 19,267
Accounts payable and accrued liabilities	83,375	75,760
Income taxes payable	4,223	1,988
Provisions	1,895	1,850
Current portion of lease and other liabilities (note 6)	3,344	3,128
Total current liabilities	$ 113,395	$ 101,993
Non-current liabilities		
Provisions	294	342
Deferred tax liabilities	6	401
Long-term portion of lease and other liabilities (note 6)	5,870	6,361
Total non-current liabilities	6,170	7,104
Total liabilities	$ 119,565	$ 109,097
Shareholders' Equity		
Share capital	15,240	14,886
Contributed surplus	2,376	2,432
Accumulated other comprehensive income (note 8)	2,021	2,109
Retained earnings	114,138	106,575
Total shareholder's equity	133,775	126,002
Total liabilities and shareholders' equity	$ 253,340	$ 235,099

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Operations

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

	Three Months Ending April 2, 2022	Three Months Ending March 27, 2021
Sales (note 9)	$ 127,782	$ 80,121
Cost of sales (note 10)	91,406	60,293
Gross margin	36,376	19,828
Selling and distribution (note 10)	14,471	9,807
General and administrative (note 10)	9,247	6,619
	$ 23,718	$ 16,426
Earnings from operations	12,658	3,402
Finance and other costs		
Interest expense	263	105
Foreign exchange loss	124	116
Share of income of investment in joint venture (note 5)	(4)	(38)
Other	33	27
Net finance and other costs	416	210
Earnings before income taxes	12,242	3,192
Income tax expense	3,673	894
Net earnings	$ 8,569	$ 2,298
Earnings per share		
Basic earnings per share	$ 0.72	$ 0.19
Diluted earnings per share	$ 0.72	$ 0.19

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending	
	April 2, 2022	March 27, 2021
Net earnings	$ 8,569	$ 2,298
Other comprehensive income		
Foreign currency translation differences for foreign operations (note 8)	(88)	(705)
Total comprehensive income for the period	$ 8,481	$ 1,593

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

(unaudited) (tabular amounts in thousands of dollars) For the three months ended April 2, 2022

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2022	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002
Total comprehensive income for the year					
Net earnings	–	–	–	8,569	8,569
Other comprehensive income					
Foreign currency translation differences (note 8)	–	–	(88)	–	(88)
Total comprehensive income for the year	–	–	(88)	8,569	8,481
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(1,006)	(1,006)
Stock options exercised (note 7)	354	(56)	–	–	298
Total transactions with shareholders	354	(56)	–	(1,006)	(708)
Balance at April 2, 2022	$ 15,240	$ 2,376	$ 2,021	$ 114,138	$ 133,775

*AOCI – Accumulated other comprehensive income
See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

(unaudited) (tabular amounts in thousands of dollars) For the three months ended March 27, 2021

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2021	$ 14,491	$ 2,498	$ 1,519	$ 95,408	$ 113,916
Total comprehensive income for the year					
Net earnings	–	–	–	2,298	2,298
Other comprehensive loss					
Foreign currency translation differences related to the joint venture	–	–	(146)	–	(146)
Foreign currency translation differences (note 8)	–	–	(559)	–	(559)
Total other comprehensive loss	–	–	(705)	–	(705)
Total comprehensive income for the year	–	–	(705)	2,298	1,593
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(1,002)	(1,002)
Stock options exercised (note 7)	395	(66)	–	–	329
Total transactions with shareholders	395	(66)	–	(1,002)	(673)
Balance at March 27, 2021	$ 14,886	$ 2,432	$ 814	$ 96,704	$ 114,836

*AOCI – Accumulated other comprehensive income
See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending	
	April 2, 2022	March 27, 2021
Cash flows from operating activities		
Net earnings	$ 8,569	$ 2,298
Adjustments for:		
Share of income of investment in joint venture	(4)	(38)
Amortization of property, plant and equipment	1,861	1,889
Amortization of intangible assets	92	163
Provisions	(3)	(34)
Interest expense	263	105
Income tax expense	3,673	894
Change in unrealized loss on derivatives included within other assets	(519)	(2,418)
	13,932	2,859
Change in non-cash working capital (note 12)	(12,280)	(8,666)
Cash used in operating activities	1,652	(5,807)
Income tax paid	(1,115)	(1,047)
Net cash generated by (used in) operating activities	537	(6,854)
Cash flows from investing activities		
Receipt of lease receivable payment	46	47
Acquisition of property, plant and equipment (note 4)	(1,573)	(1,628)
Cash used in investing activities	(1,527)	(1,581)
Cash flows from financing activities		
Advances of borrowings	1,291	5,286
Issue of common shares	298	329
Payment of lease liabilities (note 6)	(742)	(658)
Cash dividends paid (note 7)	(1,006)	(1,002)
Interest paid	(207)	(37)
Cash (used in) generated by financing activities	(366)	3,918
Foreign exchange on cash held in a foreign currency	104	(673)
Decrease in cash	(1,252)	(5,190)
Cash and cash equivalents at beginning of period	20,905	14,795
Cash and cash equivalents at end of period	$ 19,653	$ 9,605

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of 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 first quarter ended April 2, 2022 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.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on May 2, 2022.

(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, 2021.

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

3. Summary of significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2021 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, 2021, with the exception of items noted as follows:

Changes to accounting policies

- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Reference to the Conceptual Framework (Amendments to IFRS 3); and
- Annual Improvements to IFRS Standard 2018-2020.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2022. 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. Carrying amounts of owned and right of use assets are as follows:

	April 2, 2022	December 31, 2021
Property, plant and equipment owned	$ 29,738	$ 25,152
Right-of-use assets	5,727	5,808
	$ 35,465	$ 30,960

The Group had acquisitions of property, plant and equipment owned for the three months ended April 2, 2022, in the amount of $1,573,000 of machinery and equipment (2021 – $1,628,000).

The Group acquired $4,793,000 of property, plant and equipment through the joint venture ownership change. See note 5 for details of this transaction.

Right of use assets

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, 2022	$ 5,237	$ 535	$ 36	$ 5,808
Additions (note 5)	524	–	–	524
Depreciation	(458)	(121)	(4)	(583)
Effect of movements in exchange rates	(21)	(1)	–	(22)
Balance at April 2, 2022	$ 5,282	$ 413	$ 32	$ 5,727

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

5. Joint venture ownership change

The Company and National Material L.P. ("National") have operated the joint venture in Monterrey, Mexico under the name Corefficient S. de R.L. de C.V. Effective February 28, 2022, the Company and National have amicably agreed to divide the operations, with HPS retaining certain equipment, employees, obligations, and other financial assets and liabilities, and National withdrawing certain assets and capital in exchange for redeeming their ownership interest. The Corefficient name was also retained by National. The operation continues to produce transformer cores to supply the Group's facilities in Mexico.

Total consideration received by National in connection with this transaction was $10,809,000 comprised of inventory valued at $1,705,000, property, plant and equipment valued at $5,589,000 and a note payable in the amount of $3,515,000, repayable in six equal instalments, due monthly commencing March 2022. The agreement calls for adjustments to the consideration in respect of possible realization of certain tax attributes by March 2023.

As a result of this transaction, the Company now owns 100% of the equity and voting interests of the former joint venture and continues to operate the entity as a wholly owned subsidiary of the Group. As the Company has acquired control of Corefficient, the transaction constitutes a business combination. The Company has measured the fair value of its previously-held interest in the former joint venture immediately prior to obtaining control, and determined it to be equivalent to its carrying value. The Company is evaluating the recognition and measurement of possible contingent consideration and other fair value adjustments which may involve the use of third-party valuation specialists. Accordingly, amounts presented below, and their associated income tax effects, are subject to change within the measurement period.

The preliminary purchase price has been allocated as follows:

Cash	$	3,393
Accounts receiveable		16,248
Inventories and other assets		1,582
Property, plant and equipment and right of use assets		5,317
Intangibles		142
Deferred future tax asset		2,431
Assets	$	29,113
Current liabilities	$	(15,900)
Total purchase consideration	$	13,213

Included in the Group's consolidated results to February 28, 2022, the date of acquisition, for the three months ended April 2, 2022, is the Group's share of income of investment in joint centure of $4 (2021 – $38). Included in the Group's consolidated results of operations from February 29, 2022 to April 2, 2022, was revenue of $nil and net income of $74.

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

6. Lease and other long-term liabilities

	April 2, 2022	December 31, 2021
Lease liabilities	$ 7,801	$ 7,980
Contingent consideration	1,413	1,509
	$ 9,214	$ 9,489
Current	3,344	3,128
Non-Current	5,870	6,361

Maturity analysis – contractual undiscounted cash flows	April 2, 2022	December 31, 2021
Less than one year	$ 3,243	$ 2,762
One to five years	5,006	5,457
More than five years	–	94
Total undiscounted lease liabilities	$ 8,249	$ 8,313
Less: effect of discounting and foreign exchange	$ (448)	$ (333)
Lease liabilities included in the statement of financial position	$ 7,801	$ 7,980
Current	$ 3,041	$ 2,512
Non-current	$ 4,760	$ 5,468

	Three Months Ending	
Amounts recognized in statement of operations	April 2, 2022	March 27, 2021
Interest on lease liabilities	$ 56	$ 70

	Three Months Ending	
Amounts recognized in statement of cash flows	April 2, 2022	March 27, 2021
Payment of lease liabilities	$ 742	$ 658

7. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending	
	April 2, 2022	March 27, 2021
8.5 cents per Class A common share (2021: 8.5 cents)	$ 770	$ 766
8.5 cents per Class B common share (2021: 8.5 cents)	236	236
	$ 1,006	$ 1,002

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

(b) Stock option plan

During the three months ended April 2, 2022, there were 45,000 options exercised at an exercise price of $6.62. During the three months ended March 27, 2021 there were 45,000 options exercised, 10,000 at an exercise price of $6.62 and 35,000 at an exercise price of $7.50.

(d) 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 three months ended April 2, 2022 was as follows:

	Number of DSUs		Closing Share Price
Balance at January 1, 2022	160,534	$	8.47
DSUs issued	6,365		11.75
Balance at April 2, 2022	166,899	$	12.71

An expense of $340,000 (Quarter 1, 2021 - $159,000) for the quarter was recorded in general and administrative expenses. The liability of $2,310,000 (December 31, 2021 - $1,519,000) related to these DSUs is included in accounts payable and accrued liabilities.

8. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive loss for the three months ended April 2, 2022 was $88,000 (Quarter 1, 2021 – deficit of $705,000), of which $88,000 (Quarter 1, 2021 – $559,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at April 2, 2022 of accumulated other comprehensive income of $2,021,000 (March 27, 2021 – $814,000).

9. Sales

	Three Months Ending			
		April 2, 2022		March 27, 2021
Canada	$	38,154	$	27,801
United States and Mexico		83,111		46,505
India		6,517		5,815
	$	127,782	$	80,121

As at April 2, 2022 the Company had contract liabilities of $5,468,000 (December 31, 2021 – $5,027,000).

Three months ended April 2, 2022 and March 27, 2021 (amounts in thousands of dollars except share and per share amounts)

10. Government assistance

During 2020 and 2021, the Government of Canada implemented the Canada Emergency Wage Subsidy program ("CEWS") that provides a subsidy of up to 75% of eligible remuneration paid by an eligible entity that experienced significant revenue declines due to the COVID-19 pandemic. In Quarter 1, 2021, the Company has qualified for subsidy payments. The subsidy amounts relating to the quarter were recorded as a reduction in expenses as follows: cost of sales $324,000, selling and distribution $26,000 and general and administrative $130,000 for a total of $480,000.

No subsidy amounts were recorded in Quarter 1, 2022.

11. Related party transactions

Related parties

William G. Hammond, Chief Executive Officer and Chairman of the Compnay, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 2021 – 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 947,450 (December 31, 2021 – 921,808) Class A subordinate voting shares of the Company, representing approximately 10.5% (2021 – 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 $317,000 (Quarter 1 2021 – $327,000).

12. Change in non-cash operating working capital

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

	Three Months Ending	
	April 2, 2022	March 27, 2021
Accounts receivable	$ (6,206)	$ (10,507)
Inventories	(2,598)	2,117
Prepaid expense	(354)	72
Accounts payable and accrued liabilities	(4,063)	(770)
Foreign exchange	941	422
	$ (12,280)	$ (8,666)