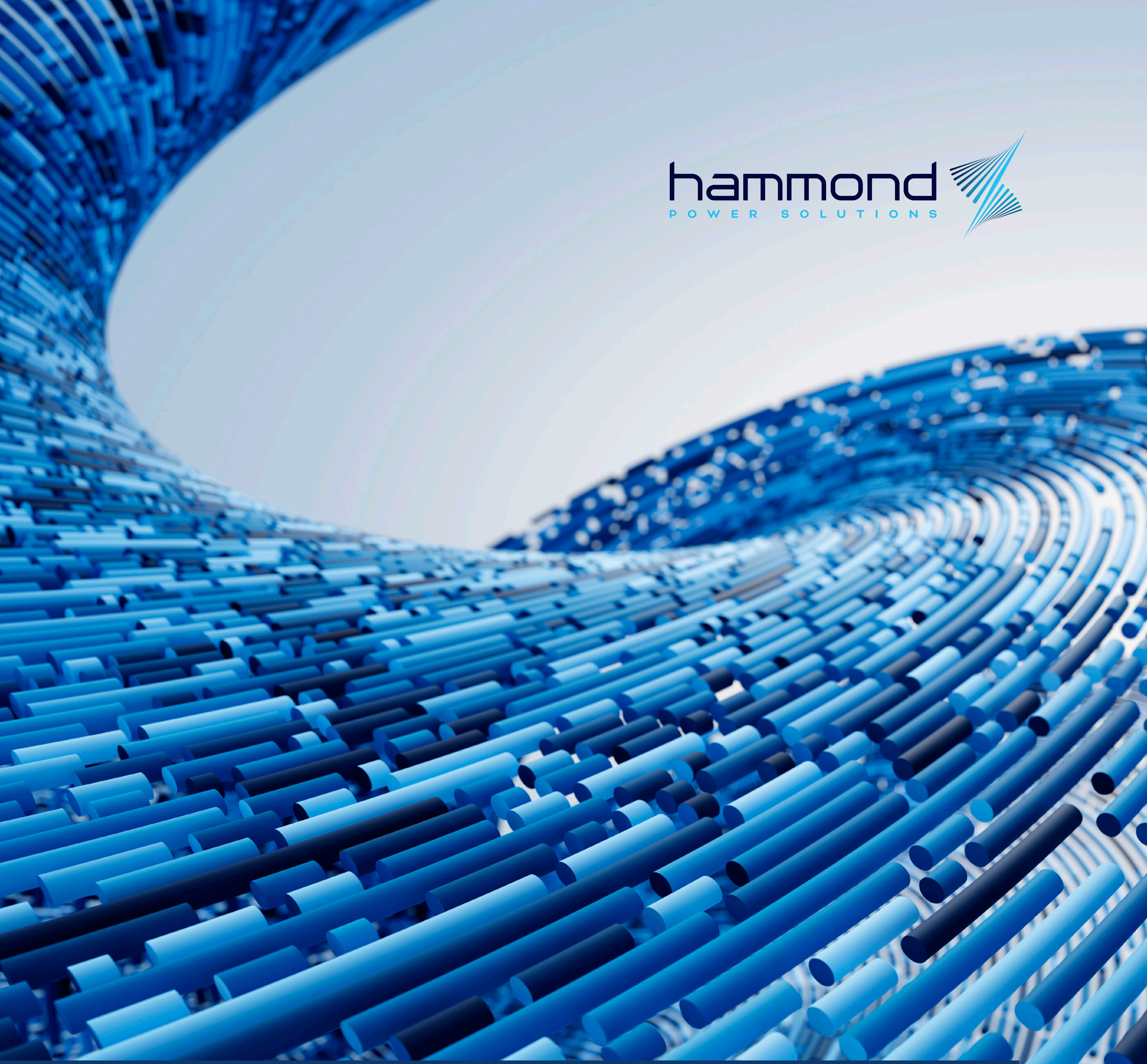


Annual Report 2024

Initiating Progress: Building a Sustainable Future

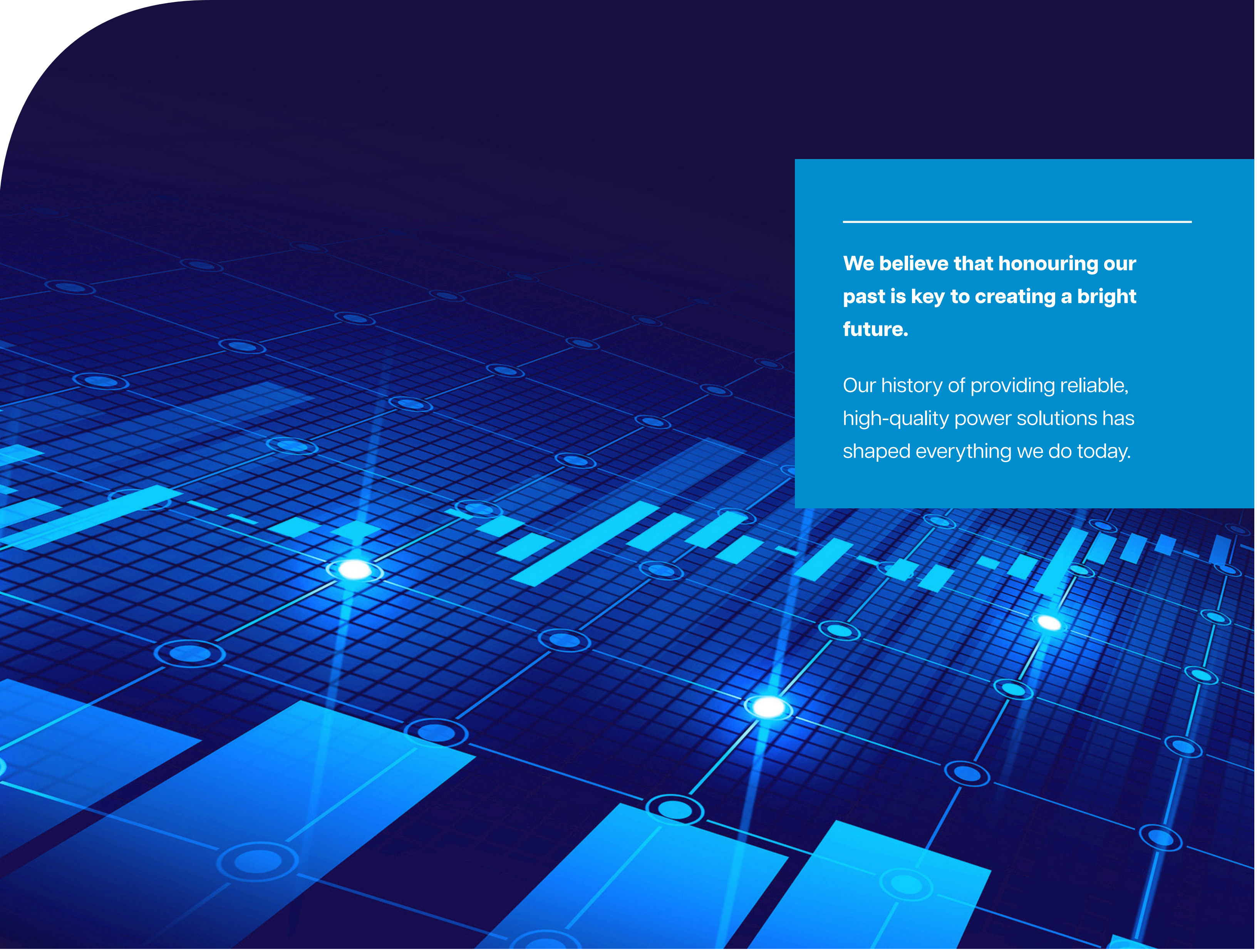
hammond
POWER SOLUTIONS

Annual General Meeting of Shareholders to be held:

May 8, 2025
1:30 pm (ET)

Delta Hotels by Marriott
Guelph Conference Centre
(John McCrae Room)
50 Stone Road West
Guelph, Ontario Canada N1G 0A9

Inside this **REPORT**



We believe that honouring our past is key to creating a bright future.

Our history of providing reliable, high-quality power solutions has shaped everything we do today.

A year of **STRATEGIC ADVANCEMENTS**

As we prepare for the future, with a clear vision for 2025 and beyond, we continue to lay the groundwork for a scalable future by investing in our manufacturing facilities, broadening our product portfolio, and building our internal systems such as customer relationship management ("CRM"), price management and global enterprise resource planning ("ERP"). These investments not only streamline operations but also position us for continued growth in emerging industries, reinforcing our commitment to building a sustainable, adaptable business that can thrive across evolving markets.

2024 Business **HIGHLIGHTS**

- Increase in planned capital program by approximately $20 million over two years.
- Acquisition of Micron Industries Corporation located in the U.S., an industrial control transformer manufacturer.
- Enhancing logistics and delivery capabilities through the U.S. and Canada by opening HPS' 12th distribution centre near Dallas, Fort Worth.
- Certified™ by Great Place to Work® at all HPS Canada, U.S., and India locations.
- Bill Hammond, retired CEO and now Chair of HPS, was honoured with the Electro Federation Canada ("EFC") Industry Recognition Award for his significant contributions to the Canadian electrical industry. This prestigious award, presented annually, recognizes individuals who have had a profound impact on the sector through strong leadership, industry involvement, and dedication to regional, national, and community initiatives.
- HPS was recognized as the top-performing company in the 2024 TSX30 ranking, highlighting the top-performing companies on the Toronto Stock Exchange. Being named the top company in the 2024 TSX30 underscores the commitment from employees and customers to the company and reinforces the focus on growth and profitability.

To our **SHAREHOLDERS**

The past year has marked another milestone of significant achievements and growth. Our success was driven by our unwavering focus on meeting the increasing demand from our customers. Although there was some softness in the overall economy and standard products during the second half of the year, our diversified exposure across multiple sectors helped us reduce the impact on our business. Our custom business performed well, particularly in emerging sectors such as data centers, infrastructure, and battery storage. Additionally, our traditional markets saw increased activity, resulting in another year of significant growth in 2024.

I am pleased to report that our year-end revenues grew by 11% in 2024. As our revenue scaled, so did our operating leverage. With strong pricing discipline and a favorable product mix, we expanded gross margins, increasing 20 basis points to 32.7%.

Throughout 2024, we increased our manufacturing capacity organically, acquired businesses to improve our power quality portfolio, and strengthened our distribution channel.

We successfully brought new production online with the opening of a new factory in Mexico and we announced an additional $20 million investment for custom transformer capacity expansion This additional capital will be deployed over the course of 2025 and early 2026.

Our continued focus on M&A opportunities led to the successful acquisition of the industrial control transformer business of Micron Industries Corporation ("Micron"). This deal expands our Original Equipment Manufacturer ("OEM") market presence and will help us expand our ability to serve more customers with our power quality portfolio. Micron's manufacturing capabilities in the United States ("U.S.") allow us to better meet the increasing demand for domestically made, energy-efficient solutions.

We continue to develop our distributor channel across the U.S. and Mexico. We have strengthened existing distributor relationships by lowering lead times, improving inventory levels and by integrating our power quality products into their networks. With approximately two-thirds of our sales coming from a well-diversified distribution channel, we are making it easier for them to do business with HPS.

Our people and culture efforts saw recognitions highlighted by our Great Place to Work™ certification in Canada, the U.S., and India. We promoted John Bailey, to become our new Chief Operations Officer, bringing deep industry expertise to our leadership team. Additionally, our Chair of the Board, Bill Hammond, received a Lifetime Achievement Award from the Electro Federation of Canada – an honour that reflects his lasting contributions to the industry.

Our teams continue to actively engage in sustainability initiatives supporting our dedication to making a meaningful impact on the planet and the communities we serve. We are committed to transparency and aligning Environmental, Social, and Governance ("ESG") efforts with our broader business goals. I encourage you to explore more about our initiatives by reviewing our 2024 ESG Report.

As we look to 2025 and beyond, we see near-term challenges presented by geopolitical uncertainties, tariff concerns, and shifting economic landscapes. These factors together are creating what futurist Jamais Cascio has described as a Brittle, Anxious, Non-linear, and Incomprehensible ("BANI") world. We are uniquely poised to respond to this BANI world, through our flexibility in how we work with customers and suppliers, the humanity built into our employee culture over many years, our diversity of sales and our nimbleness in developing both capacity and markets, and our attention to continuous improvement and innovation. These responses were key in how we adapted to the impacts of the COVID pandemic, and they will serve us well going forward. In addition to our own response, the general market of electrification continues to see accelerated demand growth. A recent S&P Global Commodity Insights report predicts a 35-50% increase in electricity demand in the U.S. from now until 2040. With our resilient business model, diversified market exposure, and continued focus on innovation, I am confident that we are well-positioned to manage through these turbulent times and to become a transformational force in the electrification of the world.

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ADRIAN THOMAS
CHIEF EXECUTIVE OFFICER

Growth **MARKETS**

2025 marks a strategic shift towards fortifying our newly expanded organization and exploring avenues for the future.

Near Shoring to North America

HPS' core markets are experiencing the benefits of manufacturing and supply chains returning to North America.

Power Quality

As the electrical grid increases in complexity and introduces more power electronics, power quality products will be essential.

Data Centres

Increasing adoption of cloud computing, the rise in data generation due to the Internet of Things ("IoT"), big data analytics and the growing demand for artificial intelligence ("AI").

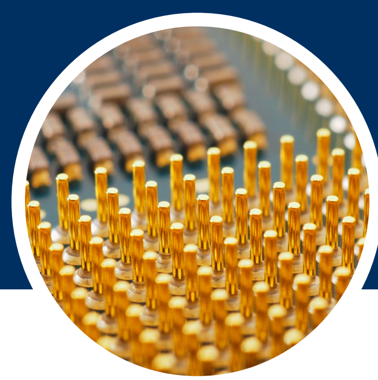
HPS is well positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of other market sectors.

Renewable and Clean Energy

Wind, natural gas and photovoltaic power are all experiencing exponential growth.

Electric Vehicle Industry/ Charging Stations

Most vehicle manufacturers are moving from conventional vehicles to electric vehicles ("EV") with double-digit annual growth rates projected.



Semiconductor Fabrication

An essential component of electronic devices, enabling advances in communications and clean energy as well as countless other applications.

HPS
GLOBAL STRATEGY

Our **VISION**

To be a transformative force that electrifies the world.

Our **MISSION**

We simplify electrification by shaping power solutions with our customers.

Our **STRATEGIC INITIATIVES**

1	**Customers and Markets**	Drive organic growth through competitive product offering and unparalleled customer experience and enhance strategic growth via acquisitions.
2	**Operational and Financial Excellence**	Achieve operational excellence through continuous improvement and efficiency plays, and grow revenue / EBITDA with opportunistic acquisitions and cost reduction initiatives.
3	**People and Culture**	Build the next leadership team, and be a preferred employer due to our clarity of purpose and employee value proposition.
4	**Sustainability**	Design energy-efficient products; shrink the ecological footprint of our operations and energize the world responsibly for generations to come.

Our **VALUES**

We Care

We do the right thing

We strive to be better

We win together

Growth is a constant reality.

We continue to offer more custom solutions and stay flexible in order to take advantage of new opportunities.

Shaping our Future **WITH POWER QUALITY**

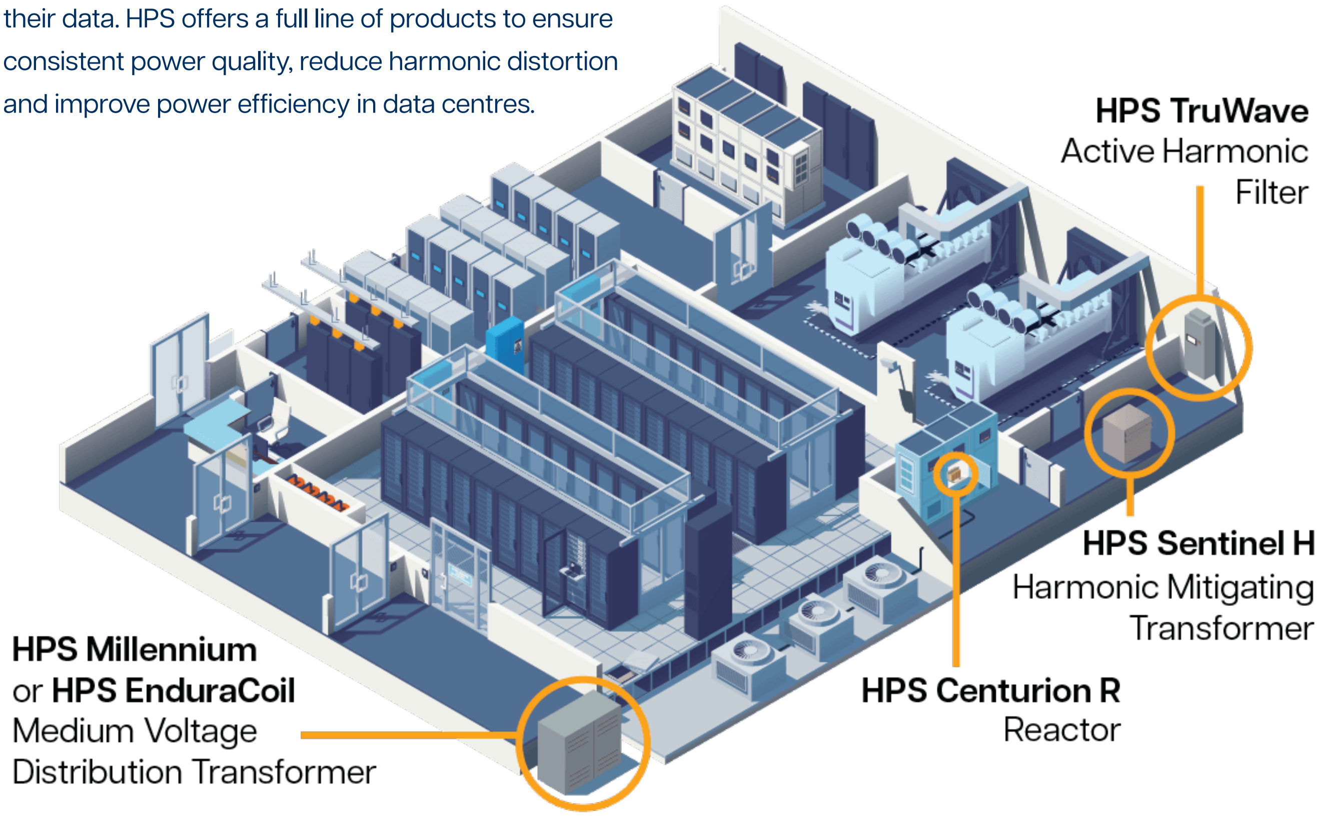
The future is bright for HPS. Growth is a constant reality as we offer more custom solutions and stay flexible to take advantage of new opportunities.

With smart investments in our infrastructure and resources, we're building the capacity to meet future demands and strengthen our foundation. This approach gives us a competitive edge and prepares us for long-term success. By prioritising innovation, flexibility and sustainability, we're excited to lead the way toward a more electrified and sustainable future.

We believe that honouring our past is key to creating a bright future – we've been around for more than 100 years. Our history of providing high-quality, reliable power solutions has shaped everything we do today. As our customers grow quickly, we're dedicated to staying ahead of the curve, making sure we have the ability to scale and adapt to fast-changing markets.

HPS offers a variety of products designed to address and mitigate power quality issues.

Data centres need reliability in their power and users expect 99.99% uptime and consistent access to their data. HPS offers a full line of products to ensure consistent power quality, reduce harmonic distortion and improve power efficiency in data centres.



The **HPS TruWave™ Active Harmonic Filter** helps mitigate harmonic distortion, correct power factor, and address voltage unbalance.

The **HPS Centurion™ P Passive Harmonic Filter** reduces harmonic current distortion to less than 5% and corrects true power factor to over 95%.

The **HPS Centurion™ S SineWave Filter** conditions the pulse width modulated ("PWM") output of a variable frequency drive ("VFD") into a nearly perfect sinusoidal waveform.

The **HPS Centurion™ D1 dV/dT Filter** protects motors by slowing down the rate of voltage increase and minimizing damaging peak voltages.

The **HPS Centurion™ Line and Load Reactors** help minimize harmonic distortion, reduce line notching, and mitigate voltage spike nuisance tripping with VFDs.

The **HPS Sentinel™ H Harmonic Mitigating Transformer** is designed to address power quality issues caused by harmonics.

2024 Review of **OPERATIONS**

Throughout 2024, we increased our manufacturing capacity organically, acquired businesses to improve our power quality portfolio, and strengthened our distribution channel.

Despite questions about the economy as we entered the year, we continued to deliver growth as a result of our business diversity and continued demand for custom products. Financially, the fourth quarter ended with record shipments of $208 million globally. This represents an 11.5% increase over the fourth quarter of last year and an 11% increase on a year-to-date basis. Our strong top line performance and higher mix of custom sales supported margin rates of 32.7% for the quarter and 32.8% for the full year, up 20 basis points from 2023.

As the year progressed, we saw industrial and commercial construction markets slow, leading to a decline in our standard product sales that are primarily sold in those markets, however, project related custom orders remained resilient. Our Original Equipment Manufacturers ("OEM") and private label channels grew moderately year-over-year with notable activity in capital equipment, mining, and data centres. Overall, we set another high-water mark with strong 9.3% growth in our combined United States ("U.S.") and Mexico sales. In Canada, we saw more consistent growth across all product lines and in multiple sectors leading to a significant 22.6% year-over-year growth.

The India business saw a decline in revenue versus 2023, impacted by a large project in Q1 2023 that was not repeated in 2024. We also saw uncertainty and activity slow during the local election cycle driving more intense competition, especially around domestic projects. The renewable sector remains to be a strong contributor to our business.

Beyond transformers, our Mesta product sales were significantly lower than in 2023, mainly due to long delays to projects with a key customer. Compounding these delays were slower than anticipated ramp up of our power quality sales. Presales development cycles for both products tend to be longer and combined with some of the project delays, it became difficult to recover in the second half, however, revenue did increase in Q4. We believe that there is still an unmet need in the market for these kinds of products and as such, we have increased our training and marketing efforts to boost awareness, increased business development activities and expanded our product portfolio. We launched several additional frame sizes of filters throughout the year to better meet customer needs. Finally, with the opening of our new factory in Monterrey, we have begun the production of power quality equipment in Mexico.

A significant focus of our long-term strategic growth includes identifying strategic acquisitions. In October, we acquired Micron Industries, which is an industrial control transformer manufacturer with operations in Sterling, IL. With our focus on developing opportunities for our power quality business, and with the global focus on industrial automation, the acquisition gives us more access to OEM customers where we can develop business.

We continued to expand our capacity to meet the growing demand and needs of our customers. We continued to progress in 2024 with the completion of our Monterrey 3 facility which will allow us to produce a variety of smaller transformers and power quality products. We also announced the addition of another $20 million investment in a new factory to increase production of our power transformers. Overall, we have invested over $45 million on our $80 million capital program and expect to spend an additional $35 million by the end of 2026 to complete our capacity build outs. Already we have seen the benefits of this additional capacity, which has allowed us to reduce lead times and remove bottlenecks that limit our ability to serve customers. We will continue to monitor the market and our growth rates and are ready to expand capacity further.

In addition to capacity development, we completed a significant phase in our U.S. warehousing optimization. A new location outside of Baltimore was added in 2023, and a new location in the Dallas area was set up this year to allow us to provide fast service across the U.S. In addition, with the strategic location of our Dallas warehouse, we will be able to simplify logistic channels and flows. We expect that these changes will reduce logistic costs, optimize inventories and improve lead times.

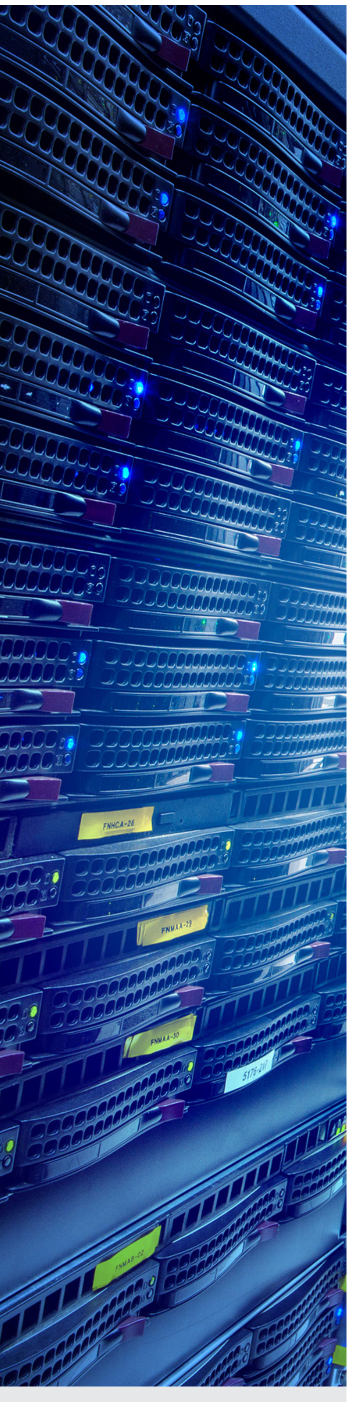
Finally, as we continue to scale, our technology platforms and tools must provide us with the ability to work faster and smarter. We implemented several commercial and financial software platforms. Our new pricing tool will help us manage the vast complexity of pricing in multiple markets and with dynamic conditions. Our customer relationship management ("CRM") deployment will give us more insights into our interactions with our customers that we can use to develop business and improve our competitiveness. We plan to continue to invest in our technological tools and infrastructure as ways to enhance our productivity and speed.

An important aspect of capacity expansion is developing the necessary workforce. We have now grown to a company of over 2,000 employees across Canada, U.S, Mexico, and India. As we grow revenues, add capacity and enter new businesses, we need to attract and retain top talent. One of our employee highlights in 2024 was our certification last June as a Great Place To Work™ certified company in Canada, U.S. and India.

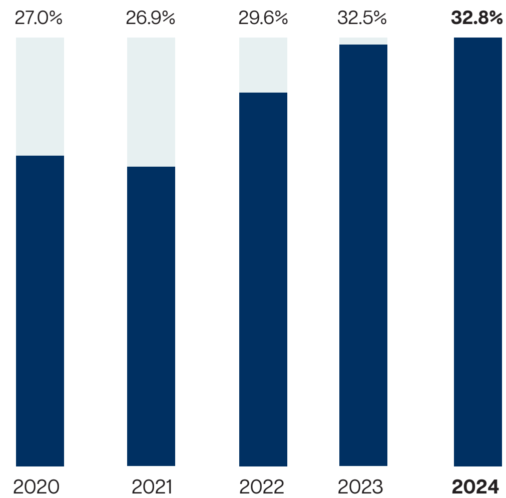
We continue to focus on progressing in the area of sustainability with focus on our 5 pillars (people, community, environment, economics and continuous improvement). In 2024, we saw continued improvements in our focus areas, especially around waste reduction where some highlights included our wood use reduction and our first external waste management certification at our Granby facility. Along with our rapid growth, our consumption of energy has increased with output. We have improved our energy efficiency, and we will continue to strive to reduce our carbon footprint further.

While 2024 started off with some economic momentum the second half of the year was held back by continued geopolitical tensions, multiple elections across the world and uncertainty around inflation. We believe that the large market access provided by our many distribution partners across all countries in North America will continue to give us exposure to a diverse set of customers and markets. This coupled with our close collaboration with our OEM and private label customers, gives us more resiliency to uncertain dynamics. We are focused on building our company for the future, continuing to grow in our existing markets while at the same time continuing to build out our power quality business.

Year in **REVIEW**

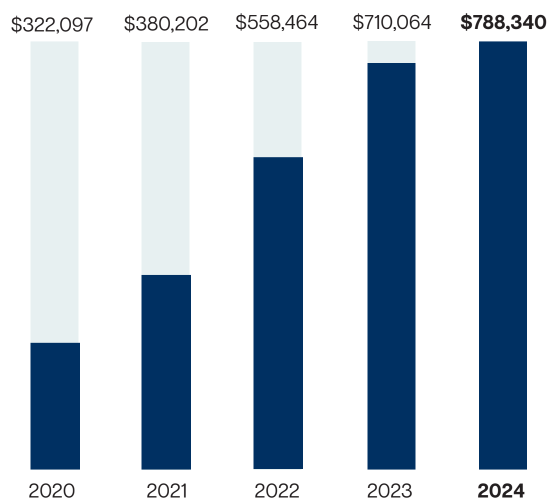


Gross Margin %



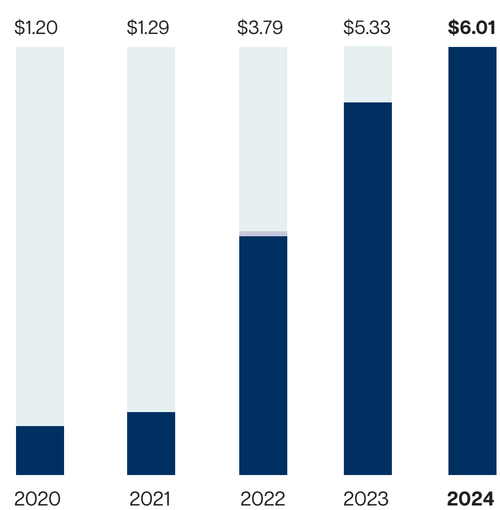
Consolidated Sales

(in thousands of dollars)



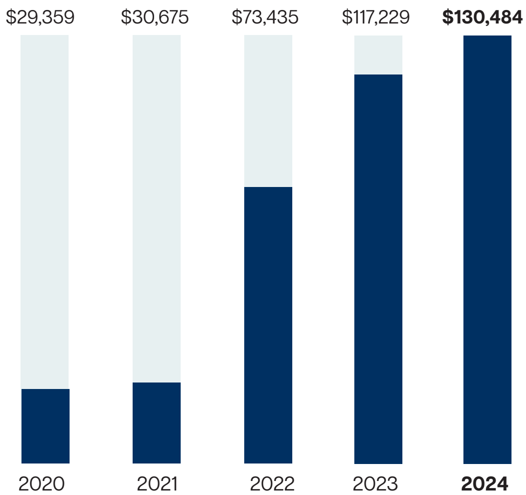
Basic Earnings Per Share

(in dollars)



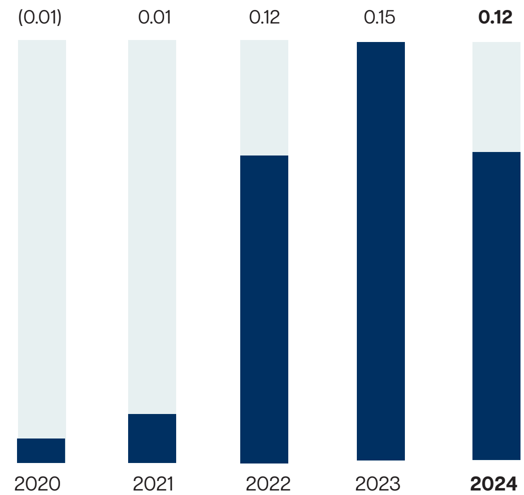
Adjusted EBITDA*

(in thousands of dollars)



* Non-GAAP financial measure, refer to page 17 of the annual report

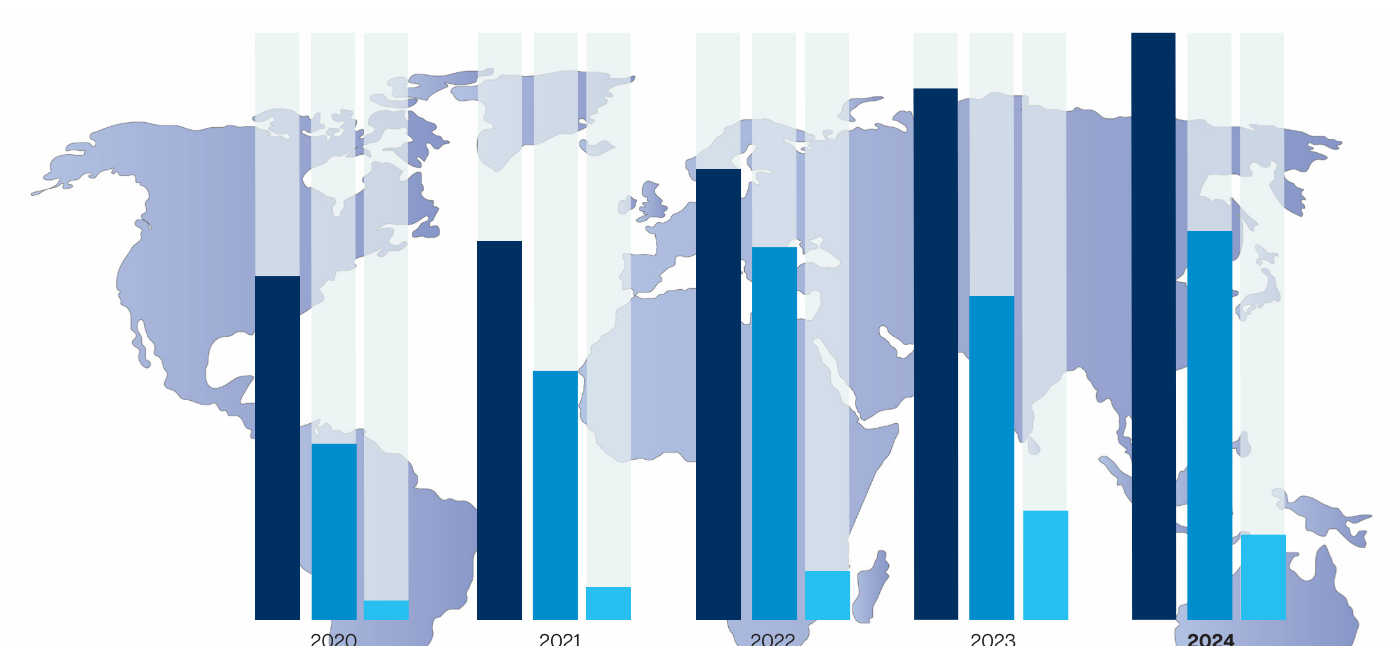
Net Operating (Debt) Cash* to Equity



* Non-GAAP financial measure, refer to page 17 of the annual report

Geographic Sales

(in thousands of dollars)



	2020	2021	2022	2023	**2024**
U.S.	$198,324	$231,738	$349,170	$489,579	**$534,888**
Canada	$109,080	$130,184	$184,495	$175,619	**$215,394**
India	$14,693	$18,280	$24,259	$44,866	**$38,058**

Management's Discussion **AND ANALYSIS**

HPS' strategic vision and operational initiatives have supported our industry leadership, operational strength and financial stability. The combination of our resilience, drive, decades of experience, commitment, engineering, expertise, solid supplier relationships and a board and unique business perspective gained through our diverse products, customers and markets are all key factors critical to our success.

Hammond Power Solutions Inc. ("HPS" or the "Company") enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

Hammond Power Solutions – Energizing our world

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated financial position and performance for the years ended December 31, 2024 and 2023, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2024 and 2023, which have been prepared in accordance with IFRS Accounting Standards ("IFRS"). This information is based on Management's knowledge as at March 20, 2025. All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward-looking information

This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, Hammond Power Solutions Inc.'s (the "Corporation" or "HPS") strategies, intentions, plans, beliefs, expectations and estimates, in connection with general economic and business outlook, prospects and trends of the industry, expected 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); risks associated with the Corporation's business environment (such as risks associated with the financial condition of the oil and gas, mining and infrastructure project business); geopolitical risks; climate related risks; changes in laws and regulations; operational risks (such as risks related to existing and developing new products and services; doing business with partners and suppliers; product sales and performance; legal and regulatory proceedings; dependence on certain customers and suppliers; costs associated with raw materials, products and services; human resources; 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 MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. 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.

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted for foreign exchange gain or loss and share based compensation. This definition changed in 2023 due to the significant value associated with share based compensation during the year. Net cash or net indebtedness is defined as the bank operating lines of credit net of cash and cash equivalents. Net income taxes payable or receivable is defined as current income taxes receivable less current income taxes payable. Operating earnings, EBITDA and Adjusted EBITDA are some of the measures the Company uses to evaluate the operational profitability. Net cash or net indebtedness and net income taxes payable or receivable are measures the Company uses to evaluate balance sheet strength. The Company presents EBITDA to show its performance before interest, taxes, and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings, net cash or net indebtedness, net income taxes payable/receivable, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of earnings from operations, EBITDA and Adjusted EBITDA to net earnings for the years ended December 31, 2024 and December 31, 2023 is contained within this MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings determined in accordance with IFRS Accounting Standards.

"Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. Customer orders in Order bookings and Backlog may not have confirmed ship dates, as the customer may not know the date at which it would like to take delivery at the time of placing the order. A significant percentage of Order bookings could be cancelled by customers without penalty, provided HPS has not commenced purchasing or production for that order. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations", "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and therefore may not be comparable to similar measures presented by other companies.

The Company's 2024 consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2024 and December 31, 2023, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2024 and December 31, 2023, and Notes thereto, have been prepared under IFRS Accounting Standards.

Overview

Demand for HPS' products increased in 2024 and HPS realized its highest annual revenues in company history. During the year, the Company saw activity increase in many of the markets we serve, including data centres, infrastructure and battery storage, while others, like electrical vehicle ("EV") charging and commercial construction had moderated over the course of the year. It is because of these market cycles that HPS strives to maintain a diverse customer and market segment base. It is our contention that despite short term cycles within certain markets, many of them have strong future growth profiles, as does electrification more generally.

HPS sells through distributors and direct to Original Equipment Manufacturer ("OEM") and private label customers. Sales through distributors tend to be made up of higher volume, standard and modified standard product, with an increasing number of custom projects, whereas OEM sales are mainly customized and project-oriented sales. Private label sales contain a mix of standard and custom products. HPS believes that its focus on developing the distributor channel as well as continuing to support the OEM channel with high levels of service and quality have supported our growth trajectory and created a more sustainable sales profile by expanding our reach.

With an established global market presence and a focus on market growth, HPS is positioned as a transformer industry leader, providing standard and custom order solutions, a broad product offering, market access through multiple sales channels, outstanding quality products and exceptional service. HPS is leveraging its expertise in transformer magnetics to broaden its market presence in terms of the products it sells, the applications it serves and the geographic regions into which it sells its solutions.

HPS' manufacturing capabilities are primarily located in North America, with most manufacturing capacity located in Mexico, followed by Canada and the United States ("U.S."). North American production is focused on dry-type transformers, power quality products and induction heating products. These facilities form an integrated supply chain serving the Canadian, U.S. and

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Mexican markets. HPS also has manufacturing facilities in India, which primarily serves the Indian domestic and Southeast Asian markets with liquid-filled transformers.

HPS' management team is proud of its commitment to producing quality, innovative, energy efficient, diverse transformers and related magnetic products. The Company's alignment of its operational initiatives and strategic vision enhances these competitive differentiators. HPS has a well-established and growing market presence and a focus on continued growth by addressing a greater share of our customers' needs with custom magnetics and power quality solutions. The Company has a strong financial footing that allows for continued focus on market share growth. The Company's broad global footprint provides a gateway to new technologies, customers and markets. These strengths are important to future revenue and earnings growth.

HPS has been focused on capacity growth to meet increasing customer needs. In the past two years, HPS has invested over $56 million in capital to maintain its capital base and support growth. HPS will continue to execute on its capacity expansion plans throughout 2025. Beyond its investment in capacity, HPS maintains a focus on acquisitions to support growth. The acquisition of Mesta Electronics LLC ("Mesta") in 2021 and Micron Group, LLC ("Micron") in 2024, were examples of investments that provided important strategic assets to support growth. Mesta added important active harmonic filter and power electronics technology, while Micron added a larger U.S. footprint, and a broadened customer base. HPS' strong balance sheet and ability to generate cash provides considerable investment capacity to continue with its plans to grow through acquisitions.

Through HPS' strategic planning process, the Company is identifying and developing new market opportunities in new customer and sales expansion, product and technology development, cost effectiveness, competitive lead-times and manufacturing flexibility. One of HPS' key advantages is its strong market access, which it can leverage to broaden its scope and scale of the solutions we offer our customers.

HPS' strategic vision and operational initiatives have supported our industry leadership, operational strength and financial stability. The combination of our resilience, drive, decades of experience, commitment, engineering expertise, solid supplier relationships and a broad and unique business perspective gained through our diverse products, customers and markets are all key factors critical to our success.

Sales

Geography	2024	2023	$ Change	% Change
U.S. & Mexico*	534,888	489,579	45,309	9.3%
Canada	215,394	175,619	39,775	22.6%
India	38,058	44,866	(6,808)	(15.2%)
Total	**788,340**	**710,064**	**78,276**	**11.0%**

* When stated in U.S. dollars, U.S. and Mexico sales have increased from $362,651 in 2023 to $390,771 in 2024, an increase of $28,120 or 7.8%.

U.S. and Mexico sales were positively impacted by the strengthening of the U.S. dollar relative to the Canadian dollar versus 2023. The average U.S. to Canadian exchange rate for 2024 was $1.369 versus $1.350 in 2023. 2024 U.S. sales at prior year exchange rates would have been $7,224 or 1.4% lower at $527,664.

Year-to-date, the U.S. market experienced its strongest growth in the distributor channel with growth primarily driven by increasing sales in custom and configured products. General economic conditions in the U.S. deteriorated mid-year with slower industrial and commercial construction markets. The lower sales primarily affected standard stock and flow product, while shipments of custom product remained resilient. OEM and private label channels grew more moderately year-over-year, with growth led by stronger sales to private label, capital equipment, mining and data centres.

The Canadian market was very strong in the year. It continued to achieve year-over-year growth through distribution channels in both stock and flow product and large projects in commercial construction, data centres, public infrastructure, mining and utilities.

Indian sales for 2024 were $38,058 compared to $44,866 in 2023, a decrease of 15.2%. A large project in the first quarter of 2023 was not repeated in 2024. Sales in India were also impacted in 2024 due to local election, intensifying competition as well as vacancies in certain key sales positions that the Company is actively working to fill.

Hammond Power Solutions Latin America S. de R.L. de C.V. ("LatAm") sales were $11,218 year-to-date, an increase of 8.4% from prior year sales of $10,348. Mesta product sales were $14,823 in 2024 compared to $18,497 in 2023, a decrease of 24.8%. The Company had challenges getting traction in power quality sales with its existing customer base, to which it has responded with increased training and marketing efforts. In addition, some large induction heating inverters ("IHI") projects were deferred to the back half of the year, which had largely shipped by the end of the year. Both Mesta and LatAm are included in the U.S. and Mexico geographic segment. The Micron acquisition that was completed in October contributed less than 1% to the annual year-over-year sales growth.

2024 sales stated by geographic segment were derived from U.S. sales of 67.9% (2023 – 68.9%) of total sales, Canadian sales of 27.3% (2023 – 24.8%) and Indian sales of 4.8% (2023 – 6.3%).

In total, sales are 11.0% higher than in 2023. There was a price increase at the end of Quarter 1, 2024 resulting in 1.7% of the increase attributed to pricing and 1.4% due to a stronger U.S. dollar. While sales growth in the U.S. was strong during the year, there was a decrease in momentum and growth has shifted in the past five quarters to Canada, which has experienced higher growth rates in markets such as data centres, public infrastructure, industrial and oil and gas markets.

Backlog

The Company's December 31, 2024 backlog decreased by 0.3% as compared to December 31, 2023 and has decreased 0.1% from Quarter 3, 2024. During the second half of the year, commercial construction and industrial markets began to moderate in their growth profile, while our capacity additions allowed us to ship more backlog than previous quarters. As the backlog stabilizes, product lead times are now shortening. The backlog tenor is longer for large project driven, mostly custom product, which can be over one year for some factories. For those factories focused on standard product, the backlog does not generally extend beyond six to eight weeks.

The general economic outlook and economic activity within certain sectors can cause volatility in backlog. Standard product tends to track closely to general business investment, macroeconomic growth rates and electro-industry growth rates while custom products are more dependent on sectoral investment trends. Backlog represents a customer's intent to buy, but as not all orders in the backlog have firm ship dates, and in cases where work has not begun, many can be cancelled without penalty.

Gross margin

The consolidated gross margin in 2024 increased to 32.8% versus 32.5% in 2023, an increase of 30 basis points. The improvement in gross margin was the result of higher volume that resulted in better operating leverage and a higher margin product mix as a result of relatively more custom and configured product sales. These areas of improvement were offset by slightly higher commodity costs and start-up costs at the new factory in Mexico.

Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. Margins in the fourth quarter of 32.7% were consistent with the previous three quarters and full year margins of 32.8%.

We completed construction on the new factory in Mexico, which officially opened in mid-June and has started production later in the year than planned. While this new factory has started operations, there was further investment announced in August 2024, to increase its planned capital program by another $20,000 over two years to build capacity to manufacture custom power transformers in Mexico. The start-up costs in Mexico had a 0.6% impact on the margin rate in 2024.

During 2024, HPS estimated a volume increase of 7.0%. This increase, along with organic increases in 2023, resulted in some facilities operating close or at capacity. This volume increase resulted in higher fixed overhead leverage and as a result, higher gross margins. While some facilities were full, there was some additional capacity built in 2024 that the Company is working to fill.

Gross margins were affected by the product sales mix, which was favourable throughout the course of 2024. Higher custom and configured product sales relative to more competitively priced high running products affected margins favourably.

In the interest of protecting gross margins the Company has been proactive in anticipating cost increases, judicious in maintaining margins and conscientious of our customer relationships. Key inputs to our products include electrical steel, copper, aluminum, insulation, carbon steel, resin and fiberglass, as well as labour and overheads. Generally, the price of commodities has been stable over the course of 2024, while labour and overhead costs continued to increase. The company has in the past increased prices as its underlying costs rise and will continue to do so as competitive conditions permit. Given past challenges and the strain on the global supply markets, HPS has heightened the focus on ensuring that materials required for production are received on a timely basis and when needed.

The Company continues to focus on long-term investment to fuel future sales and margin growth. Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. The Company has reaped the benefits of higher absorption of factory overheads due to increased sales volume. Purchasing at scale, continuous improvement programs, a focus on higher-margin solutions and products and maintaining flexible manufacturing capabilities will all contribute to the ability to maintain and improve margins over time.

Selling and distribution expenses

Total selling and distribution expenses were $83,412 for 2024 versus $76,283 in 2023, an increase of $7,129 or 9.3%. On a percentage-of-sales basis, total selling and distribution expenses decreased to 10.6% of sales for 2024 from 10.7% in 2023. The higher sales value for the year resulted in additional commission expense, higher freight costs and additional warehouse costs of $3,965 which are variable selling expenses that naturally fluctuate with sales changes. Approximately $670, or 0.1% of the selling and distribution expenses increase relates to investments in people resources to support growth, marketing and branding initiatives, as well as increased incentive plan payments related to higher sales and profits.

General and administrative expense

General and administrative expenses in 2024 were $76,106 compared to $68,007 for 2023, an increase of $8,099 or 11.9%. On a percentage-of-sales basis these costs have increased from 9.6% in 2023 to 9.7% in 2024. Key drivers for the current year increase are as follows:

- Approximately $4,400 of the increase in the current year is associated with strategic investments in people resources and employee programs;
- Higher professional fees of $3,538 were paid in 2024 compared to 2023 due to various transactions and initiatives during the year;
- Additional estimated credit losses increased expenses by $1,446 during the year;
- Investments in technology and cloud-based software increased expenses by $740;
- An additional $463 was spent on travel expenses because of increased business;
- Micron acquisition contributed an additional $931 to general and administrative expenses; and
- Share based compensation decreased expenses by $2,862 from prior year.

HPS continues to invest in growth while remaining very cognizant of prudent general and administrative expense management.

Earnings from operations[1]

Earnings from operations improved, finishing at $98,760 in 2024, as compared to earnings of $86,721 in 2023 – an increase of $12,039 or 13.9%. The increase in earnings from operations is due to higher sales and additional gross margin dollars offset by higher selling, distribution, general and administrative expenses.

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

	2024	2023
Net earnings	$ 71,531	$ 63,399
Add:		
Income tax expense	25,391	20,595
Finance and other costs	1,838	2,727
Earnings from operations	$ 98,760	$ 86,721

Net Finance and other costs

Net finance and other costs decreased $889 from $2,727 in 2023 to $1,838 in 2024. The decrease from the prior year is a result of a lower foreign exchange loss in the current year as well as lower interest expense.

Interest expense for the year-ended December 31, 2024 finished at $1,246 as compared to $1,320 in 2023, a decrease of $74. Interest expense includes all bank fees.

The foreign exchange loss in 2024 of $519 related primarily to the transactional exchange loss on the Company's U.S. dollar ("USD") trade accounts receivable, compared to a foreign exchange loss of $1,280 in 2023. The change of the foreign exchange expense for the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar.

As at December 31, 2024, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $11,000 USD – both of which were implemented as a hedge against translation gains and losses on inter-company loans as well as $90,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian HPS operations. The Company also had outstanding foreign exchange contracts to sell for $45,000 USD.

Exchange rate volatility is managed by HPS' foreign exchange contract hedging program. Details of the outstanding forward foreign exchange contracts as at December 31, 2024 can be found in note 27 in the Notes to Consolidated Financial Statements included in our 2024 Annual Report.

[1] Refer to Non-GAAP financial measures on page 17 of this annual report

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Earnings before income tax

2024 earnings before income taxes were $96,922 as compared to earnings of $83,994 in 2023 – growing by $12,928 or 15.4%. The main contributors to the higher current year earnings before income tax were higher sales and additional gross margin dollars. These gains were offset by increases in selling, distribution, general and administration expenses.

Income taxes

Income tax expense from operations for 2024 was $25,391 as compared to $20,595 in 2023 – an increase of $4,796 or 23.3%. The consolidated effective tax rate on earnings from operations for 2024 was 26.2% versus 24.5% last year – an increase of 1.7%. The effective tax rate has increased due to differences in the impact of tax rates in foreign jurisdictions.

The Company's deferred tax assets and liabilities are related to temporary differences in various tax jurisdictions, primarily reserves and allowances, which are not deductible in the current year. A difference in the carrying value of property, plant and equipment and intangible assets for accounting purposes and for tax purposes, is a result of business combination accounting and a different basis of depreciation utilized for tax purposes. The Company's income tax provision is explained further in note 16 in the Notes to Consolidated Financial Statements included in our 2024 Annual Report.

Net earnings

Net earnings for 2024 finished at $71,531 compared to net earnings of $63,399 in 2023, an increase of $8,132 or 12.8%. The main contributors to the higher current year net earnings were higher sales and additional gross margin dollars. These gains were offset by increases in selling, distribution, general and administration expenses.

EBITDA

EBITDA for the year-ended December 31, 2024 was $112,873 versus $95,995 in 2023 – an increase of $16,878 or 17.6%. Adjusted for foreign exchange loss/gain and share based compensation expenses adjusted EBITDA for 2024 was $130,484 versus $117,229 in 2023 – an increase of $13,255 or 11.3 %.

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

		2024		2023
Net earnings	$	71,531	$	63,399
Add:				
Interest expense		1,246		1,320
Income tax expense		25,391		20,595
Depreciation and amortization		14,705		10,681
EBITDA	$	112,873	$	95,995
Add (subtract):				
Long-term incentive plan ("LTIP") Expense		8,483		6,367
Deferred Share Units ("DSU") Expense		8,609		13,587
Foreign exchange loss		519		1,280
Adjusted EBITDA	$	130,484	$	117,229

Summary of quarterly financial information (unaudited)

Fiscal 2024 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 190,680	$ 197,212	$ 191,972	$ 208,476	$ 788,340
Net earnings	$ 7,952	$ 23,590	$ 16,311	$ 23,678	$ 71,531
Net earnings per share – basic	$ 0.67	$ 1.98	$ 1.37	$ 1.99	$ 6.01
Net earnings per share – diluted	$ 0.67	$ 1.98	$ 1.37	$ 1.99	$ 6.01
Average U.S. to Canadian exchange rate	$ 1.348	$ 1.368	$ 1.367	$ 1.394	$ 1.369

Fiscal 2023 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 171,134	$ 172,451	$ 179,521	$ 186,958	$ 710,064
Net earnings	$ 15,726	$ 13,333	$ 14,437	$ 19,903	$ 63,399
Net earnings per share – basic	$ 1.32	$ 1.12	$ 1.21	$ 1.68	$ 5.33
Net earnings per share – diluted	$ 1.32	$ 1.12	$ 1.21	$ 1.68	$ 5.33
Average U.S. to Canadian exchange rate	$ 1.351	$ 1.345	$ 1.340	$ 1.365	$ 1.350

HPS sales have increased quarter-over-quarter for the past two years with the exception of a dip in Quarter 3, 2024. The increase in sales over the past eight quarters is a function of increased pricing as well as higher volume and additional sales related to Mesta, Mexico and Micron (for Quarter 4, 2024). Sales have also been positively impacted by the stronger U.S. dollar exchange rate.

Gross margin rates for the quarter have increased from the same quarter last year. This margin rate improvement is attributed to higher operating leverage, pricing, a shift to higher margin products, and margin improvements in India.

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Quarter 4, 2024 financial results

	Quarter ended December 31, 2024		Quarter ended December 31, 2023	
Sales	$	208,476	$	186,958
Gross margin rate		32.7%		35.5%
Earnings from operations	$	29,706	$	24,661
Exchange (gain) loss	$	(923)	$	1,593
Net earnings	$	23,678	$	19,903
Earnings per share – basic	$	1.99	$	1.68
Earnings per share – diluted	$	1.99	$	1.68
Cash provided by operations	$	22,413	$	21,120

Sales for the quarter ended December 31, 2024 were $208,476, an increase of $21,518 or 11.5% from the comparative quarter last year. Sales were higher mainly due to higher volumes in the U.S. distributor and OEM channels.

Gross margin rates for the fourth quarter have decreased from the same quarter last year by 2.8% from 35.5% in 2023 to 32.7% in 2024. The gross margin in the quarter was lower than what would be expected primarily due to higher year-end inventory adjustments and year end reserves.

Total selling and distribution expenses amounted to $21,502 in Quarter 4, 2024 versus $19,988 in Quarter 4, 2023 – an increase of $1,514. Selling and distribution expenses as a percentage of sales have decreased to 10.3% in Quarter 4, 2024 compared to 10.7% in Quarter 4, 2023, a decrease of 0.4% of sales. The increased expenses were a result of higher commission and freight variable expenses.

General and administrative expenses as a percentage of sales have decreased to 8.1% in 2024 compared to 11.6% in 2023. General and administrative expenses for Quarter 4, 2024 totaled $16,881, a decrease of $4,865 when compared to Quarter 4, 2023 costs of $21,746. Share based compensation was a decrease of $9,203 with a recovery of $463 in Quarter 4, 2024 compared to an expense of $8,740 Quarter 4, 2023. Other general and administrative costs increased in Quarter 4, 2024 due to increased professional fees, additional estimated credit losses and higher compensation costs.

Quarter 4, 2024 net finance and other costs were a gain of $511 compared to a loss of $1,982 for the same quarter in 2023, a decrease of $2,493. The Quarter 4, 2024 interest cost increased from $360 in Quarter 4, 2023 to $438 in Quarter 4, 2024. Foreign exchange gain in Quarter 4, 2024 was $923 compared to a foreign exchange loss of $1,593 in Quarter 4, 2023.

Earnings from operations for the quarter were $29,706 in 2024 and $24,661 in 2023, an increase of $5,045 or 20.5%. Higher sales resulting in additional gross margin dollars were offset by higher general, administrative, selling and distribution expenses.

Quarter 4, 2024 income tax expense was $6,539 on earnings before income taxes of $30,217 (an effective tax rate of 21.6%) as compared to an income tax expense of $2,776 on income before income taxes of $22,679 (an effective tax rate of 12.2%) in Quarter 4, 2023. The lower Quarter 4, 2023 effective tax rate was a result of a significant deferred tax asset adjustment at year-end.

Net income for Quarter 4, 2024 was $23,678 compared to net income of $19,903 in Quarter 4, 2023 – an improvement of $3,775.

Cash provided by operations for Quarter 4, 2024 was $22,413 versus $20,120 in Quarter 4, 2023 – an increase of $2,293. The main driver for this change was an increase in net earnings for the quarter offset by an increase in cash used for working capital.

Overall net operating cash balance[1] was $21,102 as at December 31 2024, a decrease of $13,018 as compared to a net operating cash balance of $34,120[2] as at December 31, 2023, primarily reflecting the purchase of Micron during 2024.

Capital resources and liquidity

The Company continued to focus on generating cash from operations, debt management, investment and liquidity.

Cash provided from operating activities during 2024 was $64,751 versus $44,108 in 2023, an increase in cash generated of $20,643 or 46.8%. This increase in cash generated from operating activities was due to higher profitability and a decrease in non-cash working capital versus 2023. Non-cash working capital used cash of $38,090 in 2024 versus $51,708 in 2023, resulting in a decrease of $13,618 from 2023. The change in non-cash working capital in 2024 was primarily a result of increases in inventory, accounts receivable, and prepaids offset by increases in accounts payable.

Accounts receivable finished the year at $140,400 as compared to $128,030 as at December 31, 2023, an increase of $12,370 – a result of higher sales in Quarter 4, 2024 compared to Quarter 4, 2023. HPS' days sales outstanding ratio remains stable, which can be attributed to effective credit policies and tightly managed accounts receivable administration.

Inventories finished the year at $143,276 as at December 31, 2024, versus $114,590 as at December 31, 2023, an increase of $28,686. The higher inventory levels in 2024 were attributed to increased sales volume, and higher inventory required for the establishment of our new distribution centre in the U.S.

Accounts payable and accrued liabilities were $134,919 in 2024 and $126,360 in 2023, an increase of $8,559. When excluding derivative and share based compensation liabilities, this balance decreased by $727 finishing at $102,789 as at December 31, 2024 compared to $103,516 at the end of 2023. The consistency in accounts payable is due to timing of purchases from and payments to suppliers.

Net income taxes payable[3] were $780 as at December 31, 2024, versus net income taxes payable of $324[4] as at December 31, 2023 – a change of $456 due to increases in the provision and tax payments made during the year.

Cash used in financing activities was $24,208 in 2024, compared to cash generated of $755 in 2023, a change of $24,963. The change in the balance can be attributed to repayment from the operating line in 2024 compared to advances on the bank operating lines in 2023 and higher dividend payments in 2024.

Cash used in investing activities in 2024 increased $43,622 from $19,360 in 2023 to $62,982 in 2024. There was an increase in capital spending for property, plant and equipment of $20,464 over the prior year, totaling

[1] Overall net operating cash balance is the cash and cash equivalents of $34,085 net of bank operating lines of credit of $12,983
[2] Overall net operating cash balance is the cash and cash equivalents of $52,591 net of bank operating lines of credit of $18,471
[3] Net income taxes payable consists of income taxes payable of $6,054 less income taxes receivable of $5,274
[4] Net income taxes payable consists of income taxes payable of $4,602 less income taxes receivable of $4,278

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$40,633 in 2024 – compared to $20,169 for 2023. The higher capital spending is primarily the result of spending on capacity increases. The acquisition of Micron during 2024 used cash of $21,223.

Bank operating lines of credit finished the year at $12,983 as at December 31, 2024, compared to $18,471 as at December 31, 2023 resulting in a decrease of $5,488 in the year. The Company had cash and cash equivalent balances of $34,085 as at December 31, 2024 as compared to $52,591 as at December 31, 2023.

Overall net operating cash balance was $21,102[1] as at December 31 2024, a decrease of $13,018 as compared to a net operating debt balance of $34,120[2] as at December 31, 2023, primarily reflecting improved profitability and cash generated from operations.

All bank covenants were met as at December 31, 2024, and the Company was in compliance with its covenants throughout the year.

The Company's liquidity is strong. HPS is well funded, with sufficient cash and debt capacity to fund its operating activities, investments and strategic growth initiatives. The Company has several alternatives to fund future capital requirements, including its existing cash position, credit facility, future operating cash flows and debt financing. The Company continually evaluates these options to ensure that the appropriate mix of capital resources is effectively managed for current and future requirements.

The Company has outstanding capital expenditure commitments of $15,771. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives. HPS intends to focus the capital program primarily in Mexico and the U.S. In Mexico, HPS is in the process of further expansion in Mexico, while also adding equipment to existing facilities there. HPS is also actively expanding its facility in Guelph, Ontario, Canada.

Additional details of our change in non-cash working capital can be found in note 25 in the Notes to Consolidated Financial Statements contained in our 2024 Annual Report.

Contractual obligations

The following table outlines payments due for each of the next 5 years and thereafter related to debt, lease, purchase and other long-term obligations.

		2024		2025		2026		2027		2028 & Thereafter		Total
Accounts payable and accrued liabilities	$	134,919		–		–		–		–	$	134,919
Capital expenditure purchase commitments		15,711		–		–		–		–		15,711
Operating lines of credit		12,983		–		–		–		–		12,983
Lease liabilities		5,879		5,221		4,187		3,476		6,875		25,638
Contingent consideration		845		–		–		–		–		845
Total	$	170,337	$	5,221	$	4,187	$	3,476	$	6,875	$	190,096

[1] Overall net operating cash balance is cash and cash equivalents of $34,085 net of the bank operating lines of credit of $12,983

[2] Overall net operating cash balance is cash and cash equivalents of $52,591 net of the bank operating lines of credit of $18,471

Contingent liabilities

Management is not aware of any contingent liabilities.

Regular quarterly dividend

The Board of Directors of HPS declared a quarterly cash dividend of fifteen cents ($0.15) per Class A Subordinate Voting Share of HPS and of fifteen cents ($0.15) per Class B Common Share of HPS, for the first quarter of 2024. The Board of Directors of HPS declared a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class A Subordinate Voting Share of HPS and twenty-seven and a half cents ($0.275) per Class B Common Share of HPS, for the second, third and fourth quarters of 2024.

The Quarter 1 dividend was paid on March 28, 2024 to shareholders of record at the close of business on March 21, 2024 – the ex-dividend date was March 20, 2024. The Quarter 2 dividend was paid on June 25, 2024 to shareholders of record at the close of business on the 18th day of June 2024 – the ex-dividend date was June 18, 2024. The dividend for Quarter 3 was paid on September 27, 2024 to shareholders of record at the close of business on September 20, 2024 – the ex-dividend date was September 20, 2024. The Quarter 4 dividend was paid on December 20, 2024 to shareholders of record at the close of business on December 13, 2024 – the ex-dividend date was December 13, 2024.

In 2024, the Company has paid a total cash dividend of ninety-seven and a half cents ($0.975) per Class A Subordinate Voting Share and ninety-seven and half cents ($0.975) per Class B Common Share. In 2023, the Company had paid a total cash dividend of fifty-five cents ($0.55) per Class A Subordinate Voting Share and fifty-five cents ($0.55) per Class B Common Share.

Controls and procedures

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

As at December 31, 2024, the Company conducted an evaluation, under the direction and supervision of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2024 such disclosure controls and procedures were operating effectively.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with IFRS Accounting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Canadian Securities Administrators require that companies certify the effectiveness of internal controls over financial reporting. It also requires a company to use a control framework such as the COSO Framework to design internal controls over financial reporting. As well, the threshold for reporting a weakness of internal controls over financial reporting should be of a “material weakness” rather than “reportable deficiency.” HPS has designed its internal controls in accordance with the COSO Framework and has carried out retesting in 2024, which was completed in the fourth quarter.

As of December 31, 2024 Management, with the supervision and participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company’s internal control over financial reporting. Based on that assessment, the Chief Executive Officer and Chief Financial Officer have concluded that the internal controls are effective and that there were no material weaknesses in the Company’s internal control over financial reporting as of December 31, 2024.

Changes in internal control over financial reporting and disclosure controls and procedures

During 2024 there were no material changes identified in HPS’ internal controls over financial reporting that had materially affected or were reasonably likely to materially affect HPS’ internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting, but nothing was considered at a material level.

Subsequent events

Dividends

On March 5, 2025, the Company declared a dividend of twenty-seven and a half cents ($0.275) per Class A subordinate voting shares of HPS and a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class B common shares of HPS payable on March 28, 2025 to shareholders of record at the close of business on March 21, 2025. The ex-dividend date is March 21, 2025.

Risks and uncertainties

The Company’s goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However, as with most businesses, HPS is subject to several marketplace, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is aware of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Implementation of tariffs

The execution of executive orders that will apply 25% ad valorem duty to goods of Canadian and Mexican origin represents a significant risk to HPS. The level of risk depends on the competitive response to the higher costs that most transformer providers will face. The Company has a substantial manufacturing presence in Canada and Mexico, and as the importer of record in the U.S., will be responsible for remitting the tariffs. The company has implemented its response plan to evaluate the impact of these tariffs, and to consider the Company's response. The Company's short-term efforts are focused on protecting margins and ensuring an orderly supply to our North American customers. It is not possible to evaluate the effectiveness of the Company's response at this time.

Market supply and demand impact on commodity prices

HPS relies on a global supply chain to meet its manufacturing needs. The Company sources both raw materials and components from our own factories and third-party suppliers. Industry supply shortages including those caused by logistics disruptions and global conflicts, may interrupt manufacturing production, therefore affecting our ability to ship product to customers. One particular commodity that is specific to the transformer industry is grain-oriented electrical steel ("GOES"). GOES is produced in relatively few mills in the world and as a result HPS is heavily reliant on foreign sourced product. The Company attempts to mitigate these commodity risks through supplier agreements and supplier diversification.

The cyclical effects and unprecedented rise of global commodity prices, including prices for copper, aluminum and electrical steel may put margins at risk. There is a risk in our ability to recoup the rapid escalating commodity costs through timely and effective selling price increases. Conversely, there is a risk that decreasing commodity costs will create competitive price pressure in our market, forcing prices down and reducing our gross margins.

If any of the following risks were to occur, they could materially adversely affect HPS' financial condition, liquidity or results of operations.

Risk of cyber attack

Globally there have been increased incidences of outside cyberattacks and viruses on companies' information infrastructure and technologies. A successful cyber-attack could result in misappropriation of assets, cause interruptions to manufacturing and our ability to take orders, as well as impact our general productivity. This risk is reduced through several initiatives to mitigate exposure, including a transition to cloud-based applications, periodic risk assessments, and more robust practices around employee training and awareness and system updates.

Attraction and retention of skilled talent

Hammond Power Solutions is known for its engineering depth and expertise. As we enter into broader power electronics solutions, a key to our continued growth along with maintaining our current core business, will be our ability to acquire and retain key engineering talent. As the world moves to electrification to support decarbonization, as well as on-shoring of critical components within North America, competition for top-tier engineers to rival companies has been elevated. As our world undergoes electrification, another significant transformation is occurring as a substantial number of baby boomers retire. HPS, too, experiences the effects of these demographic changes, particularly in the retirement of key and essential skill sets.

The demand for skilled engineering professionals is exceeding the available global supply, making it harder to find and attract the right talent locally or globally. This is leading to extended recruitment lead times, increased salary expectations and elevating labour costs. The need to choose a candidate quickly due to multiple competing offers can lead to a misalignment in terms of cultural fit. This misalignment has the potential to compromise both the quality of our projects and the cohesion of our teams, all while posing a challenge to maintaining our organizational culture during periods of rapid expansion. Our culture serves as a pivotal component of our brand reputation within our market.

Given organizations are competing for limited engineering resources, the risk of poaching or high turnover remains a concern. Proactive and creative recruitment strategies, competitive compensation packages and intentional retention strategies to preserve cultural fit are ways of ensuring these risks to delivering our growth initiatives are mitigated.

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

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

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

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

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

HPS does business in a host of countries around the world. Approximately 75% of our sales are to customers outside of Canada. In addition, several of our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights; and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

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

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

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

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

The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates, which determine taxation expenses, may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in a number of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. Tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities.

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

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

Political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.

Changing legislative mandates in the countries with which we do business may result in several geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. HPS' current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for us. HPS' global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships.

Our industry is highly competitive.

HPS faces competition in all of our market segments. Current and potential competitors may have greater brand name recognition, more established distribution networks, access to larger customer bases and substantially greater financial, distribution, technical, sales and market, manufacturing and other resources than HPS does. As a result, those competitors may have advantages relative to HPS; including stronger bargaining power with suppliers that may result in more favourable pricing, the ability to secure supplies at time of shortages, economies of scale in production, the ability to respond more quickly to changing customer demands and the ability to devote greater resources to the development, promotion and sales of their products and services. If HPS is unable to compete effectively, it may experience a loss of market share or reduced profitability. We expect the level of competition to remain high in the future.

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

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

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

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

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

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

A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk. This risk is partially mitigated by management's credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure and the Company's future collection rate may differ from its historical experience.

Off-balance sheet arrangements

The Company has no off-Balance Sheet arrangements, other than capital commitments disclosed in note 15 in the Notes to the Consolidated Financial Statements contained in our 2024 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2024, as disclosed in note 23 in the Notes to the Consolidated Financial Statements contained in our 2024 Annual Report.

Proposed transactions

The Company had no proposed transactions as at December 31, 2024. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, long-term lease receivable, bank operating lines of credit, accounts payable and accrued liabilities, contingent consideration, convertible debentures and the following derivative instruments:

As at December 31, 2024, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $11,000 USD – both of which were implemented as a hedge against translation gains and losses on inter-company loans as well as $90,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian HPS operations. The Company also had outstanding foreign exchange contracts to sell for $45,000 USD.

Further details regarding the Company's financial instruments and the associated risks are disclosed in note 27 in the Notes to the Consolidated Financial Statements contained in our 2024 Annual Report.

Critical accounting estimates

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

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

The Company conducts its annual impairment assessment of goodwill, intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or Cash Generating Unit ("CGU") may not be recoverable. The Company did not identify any triggering events during the course of 2024 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Business Combinations require acquirers to recognize the identifiable assets acquired and liabilities assumed at fair value. The determination of fair value requires Management to make estimates around the value an independent third party, under no compulsion to act, would pay for an asset acquired or liability assumed on a standalone basis. Where possible, Management engages third-party appraisers to assist in the determination of the fair value of real property acquired. The fair value of acquired intangible assets are generally determined using discounted cash flow models and involve the use of cash flow forecasts, market-based discount rates, and/or market-based royalty rates. The fair values of liabilities assumed is generally based on discounted cash flow models which involve the use of market-based discount rates. The development of cash flow forecasts involve the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of discount rates and royalty rates.

The Company records a provision for warranties based on historical warranty claim information and anticipated warranty claims, based on a weighted probability of possible outcomes.

The key assumptions made by management in recording the provision are i) warranty cost, ii) probability of claim, and iii) quantum of units which may be subject to any warranty claim.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Quantifying provisions inherently involves judgment, and future events and conditions may impact these assumptions. Differences in actual future experience from the assumptions utilized may result in a greater or lower warranty cost.

Outstanding share data

Details of the Company's outstanding share data as of December 31, 2024, are as follows:

9,126,624	Class A Shares
2,778,300	Class B Common Shares
11,904,924	Total Class A and B Shares

There have been no material changes to the outstanding share data as of the date of this report.

New accounting pronouncements

The Group adopted the following amendments in its financial statements for the annual period beginning on January 1, 2024. The adoption of the amendments did not have a material impact on the consolidated financial statements.

- Classification of liabilities as current or non-current (Amendments to IAS 1) and Non-current liabilities with covenants (Amendments to IAS 1);
- Lease liability in a sale and leaseback (Amendments to IFRS 16);
- Supplier finance arrangements (Amendments to IAS 7 and IFRS 7).

New accounting pronouncements to be adopted

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective, have not yet been adopted by the Group and, the impact on the consolidated financial statements has not yet been determined.

The following amendments are effective for the annual period beginning on January 1:

- 2025: Lack of exchangeability (Amendments to IAS 21)
- 2026: Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)
- 2026: Annual improvements to IFRS Accounting Standards
- 2027: Presentation and Disclosure in Financial Statements (IFRS 18)

Strategic direction and outlook

HPS experienced a successful 2024. The Company has a rich and extensive history of growth, innovation and resilience and 2024 saw significant growth and progress. The Company has navigated through difficult and fluctuating economic times, increased globalization, adapted to changes in customers and markets and has experienced significant advances in technology. HPS has framed these challenges as opportunities and developed strategies to address these rapid changes.

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

- Developing our Customers and Markets by:
    - Driving organic growth through continuing to develop our National Association of Equipment Distributors ("NAED") channel;
    - Offering competitive products, including an expanding product quality offering;
    - Providing unparalleled service to our customers; and
    - Growing through strategic acquisitions.
- Achieving Operational and Financial Excellence by:
    - Driving continuous improvement;
    - Improving efficiency by investing in equipment, people and technology; and
    - Optimizing the efficiency of our global manufacturing footprint.

- Developing our People and Culture by:
    - Building our leadership team for the future;
    - Developing our people to excel and thrive; and
    - Making HPS a preferred employer.
- Building a Sustainability Program by
    - Designing energy efficient products;
    - Shrinking our ecological footprint; and
    - Energizing the world in a responsible way for the generations to come.

The Company will continue to grow in its existing channels by increasing its share of products by offering solutions that cater to the customer's specific needs. This will involve broadening the breath of solutions that HPS offers, including power quality solutions.

During 2024 HPS has made significant investments in capital to continue to enhance our manufacturing plants and build capacity. As we grow, we are investing in equipment and machinery that will allow us to keep up with future demand and allow us to optimize our manufacturing capabilities at our various locations. We are also investing in business technology that will help us become more efficient and provide us with the data that we need to improve our business.

With a focus on growth and advancement, HPS intends to spend approximately $80,000 on capital expansion projects over 2023 through 2025, of which approximately $45,000 has been spent to date. Included in this program was $20,000 announced in August 2024 that will be focused on increasing its planned capital program over two years to build capacity to manufacture custom power transformers in Mexico. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage distribution power, large power, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives.

During the first half of 2024, HPS took possession of an approximately 110,000 square foot small products facility in Mexico. The official opening of this location occurred at the end of Quarter 2 and has now begun production. The Company has also added equipment to the existing Mexico facilities to increase capacity and is expanding its facility in Guelph, Ontario, Canada. While the capital investments coming online in 2024 will add capacity for future years, the key capacity constraint is for large low voltage and medium voltage power products. Capacity expansions intended to address these constraints are not expected to come online until early 2025.

In March 2024, HPS signed a settlement agreement for the sale and purchase of the Italian plant. The Group exercised its put option, specifying the final plant purchase price was equal to 1,850 EUR. The final negotiations resulted in a net settlement amount of 1,050 EUR ($1,535 CAD). This agreement settled all outstanding disputed receivables and liabilities as well as the need for significant repairs to the roof of the building.

Early in Quarter 2, 2024 HPS was Certified by Great Place to Work™ at all Canada, U.S. and India locations. This accomplishment highlights the Company's focus on building talent and preserving our culture through our significant growth. This certification can also be a strong tool when recruiting future talent. HPS is preparing to begin the recertification process in early Quarter 2, 2025.

In September 2024, HPS was recognized as the top-performing company in the 2024 TSX30 ranking, highlighting the top-performing companies on the Toronto Stock Exchange. Being named the top company in the 2024 TSX30 underscores the commitment from employees and customers to the company and reinforces the focus on growth and profitability.

During Quarter 4, 2024, HPS completed an acquisition of assets and liabilities relating to the operations of Micron Industries Corporation. The acquisition was structured as a business combination through the U.S entity. The combined expertise of our teams is a significant step forward in our growth strategy to offer an even broader array of innovative solutions to our customers and strengthen our reputation for high quality products and services, especially within our OEM markets. Industrial control transformers are essential for protecting sensitive equipment and align with our focus on power quality solutions. With rising demand for U.S.-made products in energy efficiency and automation projects, integrating Micron Industries into HPS is expected to enhance our ability to meet this growing market. Micron's U.S.-based manufacturing strengthens our service to customers across the U.S. and North America, supporting our domestic growth and industrialization efforts. The integration of Micron into HPS has begun and will continue into 2025.

The Company continues to have a strong reputation for being an industry leader and is both operationally and financially strong. HPS is well positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of other market sectors. We continue to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

The Company has provided shareholders with strong earnings per share, solid cash generation and quarterly dividends paid with an attractive yield. To continue this trend HPS, is focused on sales development, continued distributor channel expansion, product development, and bringing quality and value to all that we produce. Our strategic initiatives and focused plans will continue to allow HPS to grow and expand.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information	2020	2021	2022	2023	**2024**
Sales	322,097	380,202	558,464	710,064	**788,340**
Earnings from operations	22,041	23,151	59,441	86,721	**98,760**
EBITDA	29,482	30,114	69,746	95,995	**112,873**
Net earnings	14,062	15,176	44,828	63,399	**71,531**
Total assets	189,394	235,099	302,673	408,343	**493,141**
Non-current liabilities	8,329	7,104	8,101	12,500	**17,620**
Total liabilities	75,478	109,097	125,779	177,965	**185,104**
Total shareholders' equity attributable to equity holders of the Company	113,916	126,002	176,894	230,378	**308,037**
Operating debt, net of cash	(1,278)	1,638	21,972	34,120	**21,102**
Cash provided by operations	19,683	20,447	37,013	44,108	**64,751**
Basic earnings per share	1.20	1.29	3.79	5.33	**6.01**
Diluted earnings per share	1.20	1.28	3.77	5.33	**6.01**
Dividends declared and paid	3,993	4,009	4,556	6,548	**11,607**
Average exchange rate (USD$=CAD$)	1.343	1.253	1.301	1.350	**1.369**
Book value per share	9.70	10.69	15.00	19.54	**25.87**

	2023				**2024**			
Quarterly Information	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Sales	171,134	172,451	179,521	186,958	190,680	197,212	191,972	208,476
Earnings from operations	22,623	18,957	20,480	24,661	10,299	35,090	23,665	29,706
EBITDA	24,145	21,444	23,657	26,749	14,999	36,711	27,229	33,934
Net earnings	15,726	13,333	14,437	19,903	7,952	23,590	16,311	23,678
Total assets	327,116	339,358	373,761	408,343	422,778	431,532	454,285	493,141
Non-current liabilities	9,413	9,800	8,373	12,500	11,893	11,066	15,226	17,620
Total liabilities	135,572	138,863	155,952	177,965	184,440	168,513	183,115	185,104
Total shareholders' equity attributable to equity holders of the Company	191,594	200,495	217,809	230,378	238,338	263,019	271,170	308,037
Operating cash (debt, net of cash)	7,127	11,717	22,130	34,120	30,893	34,871	32,913	21,102
Cash (used) provided by operations	(10,466)	12,295	22,159	21,053	6,285	18,656	17,397	22,413
Basic earnings per share	1.32	1.12	1.21	1.68	0.67	1.98	1.37	1.99
Diluted earnings per share	1.32	1.12	1.21	1.68	0.67	1.98	1.37	1.99
Dividends declared and paid	1,488	1,488	1,787	1,785	1,786	3,276	3,271	3,274
Average exchange rate (USD$=CAD$)	1.351	1.345	1.340	1.365	1.348	1,368	1.365	1.396
Book value per share	16.31	17.01	18.47	19.54	20.02	22.09	22.78	25.87

Management's Responsibility for Financial Statements

The Consolidated Financial Statements are the responsibility of the management of Hammond Power Solutions Inc. These statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), using management's best estimates and judgements where appropriate.

Management is responsible for the reliability and integrity of the Consolidated Financial Statements, the Notes to Consolidated Financial Statements and other financial information contained in the report. In the preparation of these statements, estimates were sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgement and have been properly reflected in the accompanying Consolidated Financial Statements. Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurances that the assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities through the Audit Committee of the Board, which is composed of all of the directors, of whom six are non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the Consolidated Financial Statements and to recommend approval of the Consolidated Financial Statements to the Board of Directors.

KPMG LLP, the independent auditors appointed by the shareholders, has audited the Company's Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards, and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting process.

March 20, 2025

Adrian Thomas
Chief Executive Officer

Richard C. Vollering
Corporate Secretary
& Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Hammond Power Solutions Inc.

Opinion

We have audited the consolidated financial statements of Hammond Power Solutions Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2024 and December 31, 2023
- the consolidated statement of operations for the years then ended
- the consolidated statement of comprehensive income for the years then ended
- the consolidated statement of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2024 and December 31, 2023, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the carrying value of goodwill for the India cash generating unit

Description of the matter

We draw attention to Notes 2(d)(i), 3(g) and 12 of the financial statements. The goodwill balance is $16,004 thousand, of which, $8,427 thousand relates to the Hammond Power Solutions Private Limited ("India") cash generating unit ("CGU"). The Entity conducts its annual impairment assessment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of a CGU may not be recoverable. Performing impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows. The determination of the recoverable amount requires management to make significant estimates and assumptions which include projected revenue, projected gross margin rates, terminal growth rates, and the discount rate.

Why the matter is a key audit matter
We identified the evaluation of the goodwill impairment analysis for the India CGU as a key audit matter. There is a significant risk of misstatement as changes to certain significant estimates and assumptions could have a significant effect on the recoverable amount of the India CGU. As a result, significant auditor judgment was required in evaluating the results of the audit procedures.

How the matter was addressed in the audit
The following are the primary procedures we performed to address this key audit matter:

- We compared the Entity's historical projected revenue and projected gross margin rates to actual results to assess the Entity's ability to accurately project revenue and gross margin rates.
- We performed sensitivity analyses over the projected revenue and gross margin rate assumptions by using average actual growth rates realized in previous years to assess the impact on the Entity's determination that the estimated recoverable amount of the CGU exceeded its carrying value.
- We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate assumption used in the estimated recoverable amount, by comparing it to a discount rate range that was independently developed using publicly available information and considering risks specific to the CGU.

Evaluation of the acquisition date fair values of intangible assets related to the Micron Industries Corporation business acquisition
Description of the matter
We draw attention to Notes 2(d)(i), 2(d)(ii), 3(g), 11, 12, 30 of the financial statements. On October 7, 2024, the Entity completed the acquisition of assets and liabilities of Micron Industries Corporation ("Micron") for total consideration of $21,223. The acquisition date fair value of the customer relationships and brands were determined to be $6,396 and $1,225, respectively. The Company used the multi-period excess earnings method to value acquired customer relationships. The Company used the relief from royalty method to value acquired brands. The valuations involve subjectivity and significant estimation uncertainty, including assumptions related to forecasted revenues and forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") margins, estimated customer attrition rates, royalty rate and discount rates.

Why the matter is a key audit matter
We identified the evaluation of the acquisition date fair values of intangible assets related to the Micron business acquisition as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of the intangible assets fair value, and high degree of estimation uncertainty and subjectivity in determining the fair value of the intangible assets. In addition, significant auditor judgment and specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the fair value of the intangible assets to changes in the assumptions noted above.

How the matter was addressed in the audit
The following are the primary procedures we performed to address this key audit matter:

- We evaluated the appropriateness of the forecasted revenues and EBITDA margins by considering past performance and against publicly available market data from comparable entities.
- We evaluated the appropriateness of the estimated customer attrition rates by comparing to historical attrition rates.
- We involved valuation professionals with specialized skills and knowledge, who assisted with:
  - Assessing the appropriateness of the discount rates. The discount rates used were compared against a range of discount rates that were independently developed using publicly available market data for comparable entities.
  - Evaluating the appropriateness of the royalty rate by comparing it against publicly available market data for comparable entities.

Other Information
Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document entitled "Annual Report 2024".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the Annual Report 2024 as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Andrew Watson.

March 20, 2025
Kitchener, ON, Canada

Consolidated Statements of Financial Position

(in thousands of dollars)

	As at December 31, 2024	 December 31, 2023
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ 34,085	$ 52,591
Accounts receivable (note 5)	140,400	128,030
Inventories (note 6)	143,276	114,590
Income taxes receivable	5,274	4,278
Prepaid expenses and other assets (notes 7 and 8)	10,692	9,949
Total current assets	333,727	309,438
Non-current assets		
Property, plant and equipment (note 9)	110,323	65,841
Investment in properties (note 10)	5,390	2,940
Deferred tax assets (note 16)	13,967	11,798
Intangible assets (note 11)	13,730	6,590
Goodwill (note 12)	16,004	11,736
Total non-current assets	159,414	98,905
Total assets	$ 493,141	$ 408,343
Liabilities		
Current liabilities		
Bank operating lines of credit (note 13)	$ 12,983	$ 18,471
Accounts payable and accrued liabilities (notes 17 and 27)	134,919	126,360
Deferred revenue (note 22)	4,277	5,721
Income taxes payable	6,054	4,602
Provisions (note 21)	3,168	3,923
Current portion of lease and other liabilities (notes 14 and 27)	6,083	6,388
Total current liabilities	$ 167,484	$ 165,465
Non-current liabilities		
Provisions (note 21)	454	307
Deferred tax liabilities (note 16)	2	22
Long-term portion of lease and other liabilities (notes 14 and 27)	17,164	12,171
Total non-current liabilities	17,620	12,500
Total liabilities	$ 185,104	$ 177,965
Shareholders' Equity		
Share capital (note 17)	15,761	15,761
Contributed surplus	2,289	2,289
Accumulated other comprehensive income (note 18)	26,365	8,630
Retained earnings	263,622	203,698
Total shareholders' equity	$ 308,037	$ 230,378
Commitments (note 15)		
Subsequent events (note 31)		
Total liabilities and shareholders' equity	$ 493,141	$ 408,343

See accompanying Notes to Consolidated Financial Statements.

On behalf of the Board:

William G. Hammond
Chair of the Board

David Wood
Audit Chair

Consolidated Statements of Operations

Years ended December 31, 2024 and 2023 (in thousands of dollars except for per share amounts)

		2024		2023
Sales (note 22)	$	788,340	$	710,064
Cost of sales (notes 6)		530,062		479,053
Gross margin		258,278		231,011
Selling and distribution (note 27)		83,412		76,283
General and administrative		59,014		48,053
Share based compensation		17,092		19,954
Total general and administrative		76,106		68,007
		159,518		144,290
Earnings from operations		98,760		86,721
Finance and other costs				
Interest expense		1,246		1,320
Foreign exchange loss		519		1,280
Other (note 27)		73		127
Net finance and other costs		1,838		2,727
Earnings before income taxes		96,922		83,994
Income tax expense (recovery) (note 16):				
Current		27,914		23,961
Deferred		(2,523)		(3,366)
		25,391		20,595
Net earnings	$	71,531	$	63,399
Earnings per share (note 19)				
Basic earnings per share	$	6.01	$	5.33
Diluted earnings per share	$	6.01	$	5.33

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2024 and 2023 (in thousands of dollars)

	2024	2023
Net earnings	$ 71,531	$ 63,399
Other comprehensive income		
Items that will be recognized within profit and loss:		
Foreign currency translation differences for foreign operations	17,735	(3,801)
Other comprehensive income (loss), net of income tax	17,735	(3,801)
Total comprehensive income	$ 89,266	$ 59,598

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2024 and 2023 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2023	$ 15,240	$ 2,376	$ 12,431	$ 146,847	$ 176,894
Total comprehensive income for the period					
Net income	–	–	–	63,399	63,399
Other comprehensive income					
Foreign currency translation differences	–	–	(3,801)	–	(3,801)
Total other comprehensive income	–	–	(3,801)	–	(3,801)
Total comprehensive income for the period	–	–	(3,801)	63,399	59,598
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 17)	–	–	–	(6,548)	(6,548)
Stock options exercised (note 17)	521	(87)	–	–	434
Total transactions with owners	521	(87)	–	(6,548)	(6,114)
Balance at December 31, 2023	$ 15,761	$ 2,289	$ 8,630	$ 203,698	$ 230,378
Balance at January 1, 2024	$ 15,761	$ 2,289	$ 8,630	$ 203,698	$ 230,378
Total comprehensive income for the period					
Net income	–	–	–	71,531	71,531
Other comprehensive income					
Foreign currency translation differences	–	–	17,735	–	17,735
Total other comprehensive income	–	–	17,735	–	17,735
Total comprehensive income for the period	–	–	17,735	71,531	89,266
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 17)	–	–	–	(11,607)	(11,607)
Total transactions with owners	–	–	–	(11,607)	(11,607)
Balance at December 31, 2024	$ 15,761	$ 2,289	$ 26,365	$ 263,622	$ 308,037

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

Consolidated Statements of Cash Flows

Years ended December 31, 2024 and 2023 (in thousands of dollars)

		2024		2023
Cash flows from operating activities				
Net earnings	$	71,531	$	63,399
Adjustments for:				
Depreciation of property, plant and equipment, right-of-use assets and investment properties		13,264		9,381
Amortization of intangible assets		1,441		1,300
Provisions		1,420		2,713
Interest expense		1,246		1,320
Income tax expense		25,391		20,595
Unrealized (gain) loss on derivatives		(1,447)		1,138
Share-based compensation expense		17,092		19,954
		129,938		119,800
Change in non-cash working capital (note 25)		(38,090)		(51,708)
Cash generated from operating activities		91,848		68,092
Income tax paid		(27,097)		(23,984)
Cash provided from operating activities		64,751		44,108
Cash flows from investing activities				
Repayment of note and lease receivable		1,545		1,193
Acquisition (note 30)		(21,223)		–
Purchase of investment (note 10)		(2,600)		–
Acquisition of property, plant and equipment		(40,633)		(20,169)
Acquisition of intangible assets		(71)		(384)
Cash used in investing activities		(62,982)		(19,360)
Cash flows from financing activities				
Proceeds from issue of share capital (note 17)		–		434
Cash dividends paid (note 17)		(11,607)		(6,548)
Net (repayments) advances of bank operating lines of credit		(5,488)		12,317
Interest paid		(458)		(867)
Payment of lease liabilities (note 14)		(5,305)		(3,906)
Payment of contingent consideration		(1,350)		(675)
Cash (used in) provided by financing activities		(24,208)		755
Foreign exchange on cash and cash equivalents held in a foreign currency		3,933		(1,038)
(Decrease) increase in cash and cash equivalents		(18,506)		24,465
Cash and cash equivalents at beginning of period		52,591		28,126
Cash and cash equivalents at end of period	$	34,085	$	52,591

See accompanying Notes to Consolidated Financial Statements.

1. Reporting entity

Hammond Power Solutions Inc. ("HPS" or "the Company") is a company domiciled in Canada. The address of the Company's registered office is 595 Southgate Drive, Guelph, Ontario. The Company's Class A subordinate voting shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), and were approved by the Board of Directors on March 20, 2025.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for inventories carried at net realizable value, derivative financial instruments, convertible debentures and share based payments which are measured at fair value, and the initial present value of finance leases receivable which are determined using cash flows implicit in the lease and a discount rate reflecting the interest rate implicit in the lease. Assets acquired and liabilities assumed in connection with business combinations are recorded based on their fair values at the date of acquisition, and contingent consideration granted concurrent with a business combination is recognized initially at fair value, with subsequent measurement occurring at fair value. Changes in the fair value of contingent consideration are recorded either through the statement of operations, or through equity, depending on the characteristics of the consideration granted.

c) Functional and presentation currency

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar, being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account within accumulated other comprehensive income.

The functional currency of the Company's Canadian operations and its subsidiaries are as follows:

Canadian and Subsidiary Operations	Functional Currency	
Hammond Power Solutions Inc. Delta Transformers Inc.	Canadian dollar	($)
Hammond Power Solutions, Inc. Mesta Electronics LLC 11020 Parker Drive LLC Hammond Power Solutions Latin America S. de R.L. de C.V. Micron Group, LLC 1801 Westwood Drive, LLC	U.S. dollar	($ USD)
Hammond Power Solutions S. A. de C.V.	Mexican Peso	(Pesos)
Hammond Power Solutions S.p.A. Continental Transformers s.r.l.	Euro	(EU €)
Hammond Power Solutions Private Limited	Rupee	(INR)

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires Management to make judgements, 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.

i) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that Management has made in the process of applying the Group's accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements.

Cash generating units

As indicated in note 3(g) and 3(j); the Group conducts its impairment tests at the individual asset level or, where the recoverable amount cannot be determined for an individual asset, or for goodwill, at the cash generating unit ("CGU") level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The identification of a cash-generating unit involves judgment.

The Company has defined its cash generating units primarily as each manufacturing and contract manufacturing location, due to the fact that each location is managed separately and has its own dedicated human resources and property, plant and equipment. Each manufacturing facility produces products largely independent of the other facilities and is ultimately responsible for producing products that generate revenue. Management monitors the performance of each manufacturing unit through the use of profitability analysis, and also considers the profitability of each manufacturing unit relative to the Group's business plan.

Initial lease term

The Group leases certain manufacturing facilities, warehouse facilities, vehicles and other assets. In determining the value of a right-of-use asset and lease liability, IFRS 16 requires the Group to determine the lease payments to be made over the initial term of the lease, including renewal options which are reasonably certain to be exercised. Such payments are then discounted based on the interest rate implicit in the lease or the Group's incremental borrowing rate. In determining the initial lease term, Management makes an assessment of the renewal periods available to the Group within each lease and evaluates the likelihood and corresponding time horizon of available renewal options. Such assessments involve judgment and ultimately may differ from the terms of leases actually experienced.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The determination of operating segments involves judgment. Management has determined that the Group operates as a single operating segment, being the design, manufacture and sale of transformers.

Identification of acquired assets and liabilities

IFRS 3, Business Combinations, requires acquirers to recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed. The identification of acquired assets and liabilities involves judgment.

ii) Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next twelve months.

Recoverability of goodwill and intangible assets

The Group tests annually or more frequently if necessary, whether goodwill or other long-lived assets have suffered any impairment in accordance with the accounting policies provided in note 3(g) and 3(j). Performing impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money.

The key assumptions made by management in deriving the recoverable amount are i) projected revenue, ii) projected gross margin rates, iii) terminal growth rates, and iv) the discount rate.

Impairment assessments inherently involve judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact the Company's assumptions as to prices, costs or other factors that may result in changes in the Company's estimates of future cash flows. Failure to realize the assumed revenues at an appropriate gross margin or failure to improve the financial results of a CGU could result in impairment losses in the CGU in future periods.

For assumptions relating to impairment testing, refer to note 12.

Acquired long-lived assets, intangible assets, and assumed liabilities

IFRS 3, Business Combinations, requires acquirers to recognize the identifiable assets acquired and liabilities assumed at fair value. The determination of fair value requires Management to make estimates around the value an independent third party, under no compulsion to act, would pay for an asset acquired or liability assumed on a standalone basis. Where possible, Management engages third-party appraisers to assist in the determination of the fair value of real property acquired. The fair value of acquired intangible assets are generally determined using discounted cash flow models and involve the use of forecasted revenues, forecasted earnings before interest, tax, depreciation and amortization margins ("EBITDA"), market-based discount rates, estimated customer attrition rates and/or market-based royalty rates. The fair values of liabilities assumed is generally based on discounted cash flow models which involve the use of market-based discount rates. The development of cash flow forecasts involve the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of forecasted revenue and EBITDA, discount rates, estimated customer attrition rates and royalty rates.

Provisions for warranty claims

The Group records a provision for warranties based on historical warranty claim information and anticipated warranty claims, based on a weighted probability of possible outcomes.

The key assumptions made by management in recording the provision are i) warranty cost, ii) probability of claim, and iii) quantum of units which may be subject to any warranty claim.

Quantifying provisions inherently involves judgment, and future events and conditions may impact these assumptions. Differences in actual future experience from the assumptions utilized may result in a greater or lower warranty cost. For further information on the Group's provisions, refer to note 21.

3. Summary of material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Group entities.

a) Basis of consolidation

The consolidated financial statements include the accounts of Hammond Power Solutions Inc. and its wholly-owned subsidiaries:

- Hammond Power Solutions, Inc.
- Hammond Power Solutions, S.A. de C.V.
- Delta Transformers Inc.
- Hammond Power Solutions Private Limited
- Continental Transformers s.r.l.
- Hammond Power Solutions S.p.A.
- Mesta Electronics, LLC
- 11020 Parker Drive LLC
- Hammond Power Solutions Latin America S. de R.L. de C.V.
- Micron Group, LLC
- 1801 Westwood Drive, LLC

Joint operations arise from an arrangement in which the interested parties are bound by a contract which gives two or more parties joint control of the arrangement, and those parties have rights to the assets and obligations for the liabilities relating to the arrangement. The Company has a 50% interest in Glen Ewing Properties, an unincorporated co-tenancy. The consolidated financial statements include the Group's share of the entity's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis.

All significant inter-company transactions and balances have been eliminated.

b) Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Group becomes a party to the financial instrument or derivative contract.

The Group classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Group reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Group has applied the following classifications:

- Cash and cash equivalents, accounts receivable and lease receivable are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.
- Accounts payable, accrued liabilities and bank operating lines of credit are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of operations, as applicable.
- Convertible debentures are recognized at fair value on the date of the investment payment and is subsequently re-measured at fair value at the end of each reporting period, which changes recognized through the statement of operations. Interest income on this investment is recorded in the consolidated statement of operations.
- Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated. The Group has not historically designated such items as hedging instruments and accordingly changes in fair value are recorded through the statement of operations.
- Contingent consideration issued in connection with a business combination that meets the definition of a financial liability is initially recognized at fair value at the acquisition date and is subsequently re-measured at fair value at the end of each reporting period, with changes recognized through the statement of operations.

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods.

The Group assesses all information available, including, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Group applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables.

c) Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of three months or less.

d) Property, plant and equipment

Property, plant and equipment are shown in the statement of financial position at their historical cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings — 14-30 years
- Leaseholds and improvements — lesser of 5 years and lease term
- Machinery and equipment — 4-10 years
- Office equipment — 4-10 years
- Land is not depreciated

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Assets included in construction-in-progress are not depreciated until the assets are available for use. Idle assets that are available for use are depreciated.

e) Intangible assets other than goodwill

Intangible assets that are acquired either separately or in a business combination are recognized when they are identifiable and can be reliably measured. Intangible assets are considered to be identifiable if they arise from contractual or other rights, or if they are separable (i.e. they can be disposed of either individually or together with other assets). Intangible assets comprise finite life intangible assets.

Finite life intangible assets are those for which there is an expectation of obsolescence that limits their useful economic life or where the useful life is limited by contractual or other terms. They are amortized over the shorter of their contractual or useful economical lives.

The estimated useful lives for the current and comparative periods are as follows:

- Customer lists and relationships 15 years
- Technology and other patents 10-20 years
- Software and other 4-14 years
- Branding 5-15 years

Amortization methods, useful lives and residual values are reviewed at each year-end and adjusted if appropriate.

f) Research and development expenses

Research expenses are recognized as expenses in the financial period incurred.

Development expenses are recognized as an intangible asset if the Group can demonstrate the technical feasibility of making the intangible asset ready for commissioning or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of the appropriate resources (technical, financial or other) to complete development and use or sell the intangible asset; and its ability to provide a reliable estimate of expenses attributable to the intangible asset during its development.

g) Business Combinations and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

For an acquisition achieved in stages, under which the Group did not previously control an investee but subsequently obtains control, the carrying value of the Group's investment is remeasured to fair value immediately prior to the business combination, with any gain or loss reflected through the statement of operations.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values.

Goodwill is allocated as of the date of the business combination to the Company's cash generating units that are expected to benefit from the synergies of the business combination, and is tested for impairment at least annually and upon the occurrence of an indication of impairment.

The impairment tests are performed at the CGU level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value, less costs to sell. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate. The cash flows correspond to estimates made by Group management in financial and strategic business plans covering a period of five years. They are then projected beyond five years using a steady or declining terminal growth rate given that the Group businesses are of a long-term nature. The Group assesses the uncertainty of these estimates by conducting sensitivity analyses. The discount rate used approximates the CGUs weighted average cost of capital, with business risk incorporated into the development of the cash flow projections.

An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual goodwill impairment tests at December 31, 2024.

h) Investments

Investment in properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business use in the production or supply of goods or services or for administrative purposes. The Group measures its investment properties, being the property held by Glen Ewing Properties and the Italian Marnate properties, at historical cost.

Investment in convertible debentures

Investment convertible debentures are held to earn interest income. The Group measures its investment in convertible debentures at fair value.

i) Inventories

Inventories are valued at the lower of cost and net realizable value.

The cost of inventories is based on the first-in first-out principle and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When circumstances which previously caused inventories to be written down to their net realizable value no longer exist, the previous impairment is reversed.

j) Impairment of property, plant and equipment and finite life intangible assets

The Group periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. Consideration is given at each reporting date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment and finite life intangible assets. The Group reviews for impairment of long-lived assets, or asset groups, held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

The recoverable amount is the greater of the fair value less cost of disposal and value in use. If the recoverable amount cannot be determined for one individual asset, the Group conducts its impairment test at the CGU level. In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. Assets that suffer impairment are assessed for possible reversal of the impairment at each reporting date.

k) Share-based payment transactions

Stock option plan

The Group has a stock-based compensation plan, which is described in note 17. The Group accounts for all stock-based payments using the fair value based method.

Under the fair value based method, compensation cost for stock options and direct awards of stock is measured at fair value at the grant date. Compensation cost is recognized in earnings on a straight-line basis over the relevant vesting period, with a corresponding amount recorded in contributed surplus. The amount recognized as an expense, is adjusted to reflect the number of awards for which the related services are expected to be met. Upon exercise of a stock option, share capital is recorded at the sum of the proceeds received and the related amount of contributed surplus.

Deferred share unit plan

The Company maintains a deferred share unit plan ("DSU Plan") for its senior-executive management and Directors. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. The number of DSUs issued to each holder are increased as dividends on common shares are paid to compensate the holders for dividends paid on a quarterly basis, while the DSUs are outstanding.

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

Long Term Incentive Plan

The Company maintains a long-term Incentive plan ("LTIP") for the Executive Officers of the Company. This plan replaces the Deferred Share Unit plan for executives. The LTIP consists of an annual grant made to the Chief Executive Officer and other executive officers of Performance Share Units ("PSU") and Restricted Share Units ("RSU"). According to the plan, the PSUs constitute 60% of the total grant and will vest at the end of a three-year period at a ratio of 0% - 150%, depending on whether management met pre-determined EPS and return on net asset ("RONA") targets. The RSUs constitute the remaining 40% of the grant and will vest at the end of a three-year period at 100%. The increase or decrease in value of the vested PSU's and RSU's over the three-year period will be determined by the increase or decrease of the share price.

The annual grant is determined by the Compensation Committee, and are currently set at 35% of the executive's salary and 100% (2023 - 50%) of CEO's salary. The grant vests after a three-year performance period and is dependent on continuous employment with the Company over that period, with exceptions for retirement and involuntary terminations. After vesting, the value of the PSUs and RSUs will be determined based on the PSU vesting factor and the share price. The value will be paid in cash to the participant, after which, the PSUs and RSUs will be extinguished. Under IFRS, RSUs and PSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a Redemption Event, as defined in the LTIP Plan. LTIP units contain vesting conditions, as they are issued in exchange for deferred compensation. As such, the Company recognizes the expense and the liability to pay for eventual redemption when RSUs and PSUs are issued. Thereafter, the Company re-measures the fair-value of the liability at the end of each reporting date and the date of settlement, with the difference recognized in income or expense for the period. The fair value of RSUs and PSUs is determined in accordance with the LTIP Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date. The LTIP liability is included within accrued liabilities.

l) Provisions

Provisions comprise liabilities of uncertain timing or amounts that arise from restructuring plans, environmental, litigation, commercial or other risks. Provisions are recognized when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. A restructuring provision relating to a sale or termination of a line of business, the closure of business locations in a country or region, changes in management structure or fundamental reorganizations that have a material effect of the nature or focus of the Group's operations are recognized when the Group has a detailed, formal plan for the restructuring that identifies:

- The business or part of a business concerned;
- The principal locations affected;
- The location, function and approximate number of employees affected;
- The expenditures that will be undertaken; and
- When the plan will be implanted.

Notwithstanding the above, no provision is recorded until such time a valid expectation by those affected by the plan has been raised.

m) Revenue

The Group recognizes revenue using a 5-step approach:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation.

The Group considers a performance obligation satisfied when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. The Group typically satisfies its performance obligation upon shipment of its transformers. Any required testing or compliance requirements will have been satisfied prior to shipment of the transformer. Payment is typically due within 30 days of shipment, with limited customers being granted extended terms of up to 60 days. As a result, consideration is generally fixed and does not contain any significant financing components. The Group has a return policy for credit on standard stocked items and no custom build product can be returned. Historically, returns have been minimal and are expected to continue to remain low. The Group's product is purchased with a standard warranty and there is no option to purchase any additional warranty coverage.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration in that only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Incremental costs to obtain a contract are typically short-term in nature and the Group applies the practical expedient permitted under IFRS 15 to recognize such costs as an expense when incurred if the amortization of the asset that the Group would have otherwise recognized is less than one year.

n) Income taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Employee benefits

The Group maintains a defined contribution plan, which is described in note 20, and have short-term employee benefits.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, are recognized as an employee benefit expense in profit or loss in the periods in which services are rendered by employees.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

p) Finance income and finance costs

Finance income and finance costs comprise interest income, interest expense on borrowings, foreign currency losses (including changes in fair value of derivative foreign currency financial instruments measured at fair value through profit and loss).

Foreign currency gains and losses are reported on a net basis.

q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing net earnings of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted EPS are computed similar to basic EPS except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that proceeds from such exercises along with any unamortized stock-based compensation were used to acquire common shares at the average market price during the year.

r) Leases

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The group applies a single discount rate to the portfolio of leases with reasonably similar characteristics.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate or the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group does not recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less or are low-value assets (under $5,000).

s) New accounting pronouncements adopted during the period

The Group adopted the following amendments in its financial statements for the annual period beginning on January 1, 2024. The adoption of the amendments did not have a material impact on the consolidated financial statements.

- Classification of liabilities as current or non-current (Amendments to IAS 1) and Non-current liabilities with covenants (Amendments to IAS 1) ;
- Lease liability in a sale and leaseback (Amendments to IFRS 16);
- Supplier finance arrangements (Amendments to IAS 7 and IFRS 7).

t) New accounting pronouncements

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective, have not yet been adopted by the Group and the impact on the consolidated financial statements has not yet been determined.

The following amendments are effective for the annual period beginning on January 1:

- 2025: Lack of exchangeability (Amendments to IAS 21)
- 2026: Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)
- 2026: Annual improvements to IFRS Accounting Standards
- 2027: Presentation and Disclosure in Financial Statements (IFRS 18)

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

4. Cash and cash equivalents

	December 31, 2024	December 31, 2023
Cash	$ 21,735	$ 17,131
Cash equivalents	12,350	35,460
	$ 34,085	$ 52,591

5. Accounts receivable

	December 31, 2024	December 31, 2023
Trade accounts receivable	$ 123,573	$ 110,938
Value added tax receivable	10,984	10,169
Other receivables	5,843	6,923
	$ 140,400	$ 128,030

Trade accounts receivable is presented net of expected credit losses of $3,534,000 (December 31, 2023 – $2,616,000).

A continuity of the Group's allowance for doubtful accounts is as follows:

	December 31, 2024	December 31, 2023
Opening balance	$ 2,616	$ 2,806
Additional allowances	1,446	611
Writeoffs	(603)	(31)
Adjustments	75	(770)
	$ 3,534	$ 2,616

6. Inventories

	December 31, 2024	December 31, 2023
Raw materials	$ 68,974	$ 59,786
Work in progress	4,612	5,332
Finished goods	69,690	49,472
	$ 143,276	$ 114,590

Raw materials and changes in finished goods, and work in progress recognized as cost of sales during the year amounted to $529,828,000 (2023 – $478,499,000). In addition, during the year, reversal of write-downs in the amount of $32,000 were recognized (2023 – write-downs of $12,000). Inventories carried at net realisable value as at December 31, 2024 were $202,000 (December 31, 2023 – $578,000).

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

7. Prepaid and other assets

	December 31, 2024	December 31, 2023
Prepaid expenses	$ 9,245	$ 8,414
Current portion of long-term lease and note receivable (note 8)	–	1,535
Derivative asset (note 27)	1,447	–
	$ 10,692	$ 9,949

8. Lease receivable

Concurrent with the disposal of a product line in 2017, the Group entered into a lease agreement for one of its manufacturing facilities in Italy, under which the purchaser had the use of the plant, which included both the land and the building, until October 2023. Consideration was in the form of a lease receivable, which the Company had determined meet the definition of a finance lease.

The lease receivable was calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the lease inception date, determined to be 1.15%.

On March 14, 2024 the Group and the purchaser signed a settlement agreement for the sale of one of its buildings in Italy. The Group exercised its put option, specifying the final plant purchase price was equal to 1,850,000 EUR. The final negotiations resulted in a net settlement amount of 1,050,000 EUR ($1,535,000 CAD). This agreement settled all outstanding disputed receivables and liabilities as well as the need for significant repairs to the roof of the building. The transfer of ownership and title was executed on March 28, 2024.

Put and call option

The lease agreement included a put and call option related to the leased premises, exercisable within 60 days after September 30, 2023. The call option granted the purchaser an option to purchase the premises for consideration equal to 2,225,000 Euros (approximately $3,249,000). The put option granted HPS an option to sell the plant to the purchaser for consideration equal to the initial plant purchase price of 2,225,000 Euros. Under both the call and put option the plant purchase price was to be reduced by 50% of the monthly rent installments received, to a maximum of 375,000 Euros (approximately $548,000). If the purchaser failed to complete the acquisition of the leased premises upon the exercise of the put option by the Company and pay the required consideration, the purchaser would pay 500,000 Euros (approximately $730,000) in liquidated damages.

On November 22, 2023, given that the expiry date to exercise its put option was approaching and that the parties had not yet entered into any settlement agreement or a preliminary agreement for the sale and purchase of the plant, the Group exercised its put option, specifying that the final plant purchase price, inclusive of any reduction agreed in the lease agreement, was equal to Euro 1,885,000. The final negotiations resulted in a net settlement amount of 1,050,000 EUR ($1,535,000 CAD). This agreement settled all outstanding disputed receivables and liabilities as well as the need for significant repairs to the roof of the building. The transfer of ownership and title was executed on March 28, 2024.

As at December 31, consideration receivable was $nil (2023 - $1,535,000 (1,050,000 EUR) with monthly payments of 13,000 EUR, bearing interest of 1.15% per annum).

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

9. 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:

	December 31, 2024	December 31, 2023
Property, plant and equipment owned	$ 90,765	$ 50,357
Right-of-use assets	19,558	15,484
	$ 110,323	$ 65,841

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

	Land	Buildings	Leaseholds & Improvements	Machinery & Equipment	Office Equipment	Construction in Progress & Deposits	**Total**
Cost							
Balance at January 1, 2023	$ 4,182	$ 19,651	$ 2,422	$ 69,551	$ 13,482	$ 3,036	$ 112,324
Additions	181	2,190	238	4,561	1,696	13,072	21,938
Disposal	–	–	–	(95)	–	–	(95)
Effect of movements in exchange rates	(14)	(60)	146	(1,069)	77	(69)	(989)
Balance at December 31, 2023	$ 4,349	$ 21,781	$ 2,806	$ 72,948	$ 15,255	$ 16,039	$ 133,178
Balance at January 1, 2024	$ 4,349	$ 21,781	$ 2,806	$ 72,948	$ 15,255	$ 16,039	$ 133,178
Acquisition (note 30)	191	1,953	–	3,380	67	32	5,623
Additions	–	4,200	6,612	26,895	3,885	121	41,713
Disposal	–	–	–	(2)	(13)	–	(15)
Effect of movements in exchange rates	52	368	(464)	4,382	(29)	435	4,744
Balance at December 31, 2024	$ 4,592	$ 28,302	$ 8,954	$ 107,603	$ 19,165	$ 16,627	$ 185,243
Accumulated Depreciation							
Balance at January 1, 2023	$ –	$ 13,725	$ 1,564	$ 50,614	$ 11,632	$ –	$ 77,535
Depreciation for the year	–	1,156	211	3,676	848	–	5,891
Disposal	–	–	–	(70)	–	–	(70)
Effect of movements in exchange rates	–	(24)	152	(703)	40	–	(535)
Balance at December 31, 2023	$ –	$ 14,857	$ 1,927	$ 53,517	$ 12,520	$ –	$ 82,821
Balance at January 1, 2024	$ –	$ 14,857	$ 1,927	$ 53,517	$ 12,520	$ –	$ 82,821
Depreciation for the year	–	1,303	780	5,418	1,333	–	8,834
Disposal	–	–	–	(2)	(11)	–	(13)
Effect of movements in exchange rates	–	84	(122)	2,782	92	–	2,836
Balance at December 31, 2024	$ –	$ 16,244	$ 2,585	$ 61,715	$ 13,934	$ –	$ 94,478
Carrying amounts							
At December 31, 2023	$ 4,349	$ 6,924	$ 879	$ 19,431	$ 2,735	$ 16,039	$ 50,357
At December 31, 2024	$ 4,592	$ 12,058	$ 6,369	$ 45,888	$ 5,231	$ 16,627	$ 90,765

Depreciation is recorded in the statement of earnings as follows: cost of sales $8,424,000 (2023 – $5,510,000), selling and distribution $nil (2023 – $nil) and general and administrative $397,000 (2023 – $381,000).

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

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, 2023	$ 6,529	$ 403	$ 21	$ 6,953
Additions	11,852	685	–	12,537
Disposal	(438)	–	–	(438)
Depreciation	(2,964)	(329)	(13)	(3,306)
Effect of movements in exchange rates	(272)	10	–	(262)
Carrying amount at December 31, 2023	$ 14,707	$ 769	$ 8	$ 15,484
Balance at January 1, 2024	$ 14,707	$ 769	$ 8	$ 15,484
Additions	8,510	378	–	8,888
Disposal	–	(30)	–	(30)
Depreciation	(3,861)	(377)	(6)	(4,244)
Effect of movements in exchange rates	(563)	25	(2)	(540)
Carrying amount at December 31, 2024	$ 18,793	$ 765	$ –	$ 19,558

Certain building leases maintained by the Group contain renewal options. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The majority of the Group's lease payments related to its production facilities located in Mexico.

- The first renewal option commenced in May 2020, with annual lease payments of $676,000, and is for a five-year term. The Group retains rights to renew this lease for three successive five-year periods.
- There was additional space leased during 2023 as an extension of this plant which commenced on March 15, 2023 with annual lease payments of $445,000 and is for a five-year term.
- The Group's lease on its second Mexican production facility was renewed on March 31, 2023 and carries annual lease payments of $690,500 and is for a four-year term.
- There was a third space leased at the end of 2023 with a lease commencement date of February 2024 with annual lease payments of $1,495,000 and is for a seven year term. The Group retains rights to renew this lease for two successive five-year terms. The Company had accessed this facility as of December 31, 2023 to begin installing equipment and completing leasehold improvements.
- The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the options.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

10. Investments

	December 31, 2024	December 31, 2023
Glen Ewing Property	$ 1,044	$ 1,044
Marnate Property (net of accumulated depreciation of $2,007 (2023 - $1,808))	1,746	1,896
Investment in convertible debentures	2,600	–
	$ 5,390	$ 2,940

Glen Ewing Property

The Group has a 50% ownership interest in a property in Georgetown, Ontario, (referred to as the Glen Ewing Property). It is a vacant plot of land currently under environmental remediation, and no revenue was derived from it in 2024 or 2023. The property is carried at cost of $1,044,000. The estimated fair value of the property as at December 31, 2024 is $1,150,000 (2023 – $1,150,000). The fair value was determined based on independent available market evidence, with reference to comparable market transactions. The Group's share of ongoing legal, consulting and remediation costs during the year was $136,000 (2023 – $78,000).

Marnate Property

The Group owns a property in Marnate, Italy, (referred to as the Marnate Property). As part of the sale transaction of certain of the assets and liabilities of the Italian company in 2019, the purchaser has leased the Marnate Property for a period of five years at an annual rental amount of 100,400 EUR (approximately $149,000). The operating expenses for this property were 182,000 EUR (approximately $270,000) in 2024 and 160,000 EUR (approximately $234,000) in 2023. Depreciation on the facility was recorded in the statement of earnings as general and administrative expenses in the amount of $135,000 (2023 - $124,000). The estimated fair value of the property as at December 31, 2024 is 2,130,000 Euros (approximately $3,201,000). The fair value was determined based on independent available market evidence, based on comparable property sales, by an independent valuator.

Investment in convertible debentures

On March 22, 2024, HPS entered into a financing agreement with SmartD Technologies Inc. ("SmartD"). In the agreement, the Corporation can invest up to $3,900,000 over three years in convertible debentures of SmartD. SmartD Technologies produces advanced motor control products, most notably it's Clean Power Variable Frequency Drive™. SmartD's products combine motor drives with harmonic mitigating technology that help businesses save energy, lower costs and minimize their carbon footprint.

During 2024 there was an investment of $2,600,000 and is included in Level 3 of the fair value hierarchy, measured at fair value through profit and loss. To determine the fair value of the investment, Management considered the progress of the development of the technology as well as the need to generate additional funding.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

11. Intangible assets

Intangible assets		Technology and Patents		Customer lists, relationships and branding		Externally acquired software		**Total**
Cost								
Balance at January 1, 2023	$	7,809	$	11,695	$	9,094	$	28,598
Additions		–		–		384		384
Effect of movements in exchange rates		(120)		(119)		–		(239)
Balance at December 31, 2023	$	7,689	$	11,576	$	9,478	$	28,743
Balance at January 1, 2024	$	7,689	$	11,576	$	9,478	$	28,743
Acquisition (note 30)		–		7,621		54		7,675
Additions		–		–		71		71
Effect of movements in exchange rates		298		819		11		1,128
Balance at December 31, 2024	$	7,987	$	20,016	$	9,614	$	37,617
Accumulated Amortization								
Balance at January 1, 2023	$	5,090	$	8,367	$	7,491	$	20,948
Amortization for the year		309		328		663		1,300
Effect of movements in exchange rates		(55)		(42)		2		(95)
Balance at December 31, 2023	$	5,344	$	8,653	$	8,156	$	22,153
Balance at January 1, 2024	$	5,344	$	8,653	$	8,156	$	22,153
Amortization for the year		311		591		539		1,441
Effect of movements in exchange rates		135		152		6		293
Balance at December 31, 2024	$	5,790	$	9,396	$	8,701	$	23,887
Balance at								
At December 31, 2023	$	2,345	$	2,923	$	1,322	$	6,590
At December 31, 2024	$	2,197	$	10,620	$	913	$	13,730

Amortization of $404,000 (2023 – $560,000) has been recognized in cost of sales, $119,000 (2023 – $119,000) has been recognized in selling and distribution and $918,000 (2023 – $621,000) has been recognized in general and administrative.

None of the intangible assets has been internally developed.

Research and development expenses of $202,000 (2023 – $566,000) have been recognized in cost of sales in the consolidated statements of earnings. No research and development costs have been capitalized (2023 – $nil).

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

12. Goodwill and impairment testing for cash-generating units

Goodwill	**December 31, 2024**	December 31, 2023
Opening balance	$ 11,736	$ 12,024
Acquisition (note 30)	3,472	–
Effect of movements of exchange rates	796	(288)
Ending balance	$ 16,004	$ 11,736

The Company conducts its annual impairment assessment of CGUs which contain goodwill, as well as any corresponding acquired long-lived assets including intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. The Company did not identify any triggering events during the course of 2024 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Impairment testing for cash-generating units containing goodwill

The Company has four subsidiaries identified as CGUs that contain goodwill. The CGUs and their respective goodwill balances are as follows: Delta Transformers Inc. ("Delta") $2,180,000 (2023 – $2,180,000), Hammond Power Solutions Private Limited ("India") $8,427,000 (2023 – $7,975,000), Mesta Electronics LLC ("Mesta") $1,720,000 (2023 – $1,581,000) and Micron Group, LLC $3,677,000.

For its 2024 annual impairment assessment of CGUs containing goodwill, the Company used cash flow projections based primarily on its business plan for the following year, and projections for the ensuing four year period. The Company's business plan is primarily based on financial projections submitted by its subsidiaries in the fourth quarter of each year, together with inputs from customer teams. This plan is subjected to reviews by various levels of management as part of the Company's annual planning cycle, and is approved by the Board of Directors. The values used in the cash flow projections are based on historical sales, internal growth rate assumptions, and available market data.

India

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 17.50% (2023 – 18.10%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rates of 28.0% (2023 – 40.60%). The annual sales growth rates for year 2 to year 5 are in the range of 24.0% – 26.0% (2023 – year 2 to year 5 – 15.0% – 25.3%) based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 8.0% (2023 – 8.0%).

Delta

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 15.6% (2023 –17.1%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rates of 1.7% (2023 – 2.2%). The annual sales growth rates for year 2 to year 5 are 3.0% (2023 – year 2 to year are 3.0%) based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 3.0% (2023 – 3.0%).

Mesta

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 25.3% (2023 – 26.7%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rate of 80.8% (2023 – 24.9%). The annual sales growth rates for year 2 to year 5 are 3.0% (2023 – 3.0%) based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 3.0% (2023 – 3.0%).

Micron

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 20.0%. Through the five year cash flow projections, the Company's model also incorporated annualized year 1 sales growth rate of 10.8%. The annual sales growth rates for year 2 to year 5 are 3.0% - 6.0% based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 3.0%.

Management's approach to determining projected revenue includes consideration of current bookings, consultation with its salesforce and historical results. The Company's process for determining projected gross margin rates includes consideration of current pricing information from suppliers and historical gross margin rates realized by the Company. The Company determines the terminal growth rate with reference to published economic data pertaining to the applicable industry and country in which the cash generating unit operates. The discount rate is determined with reference to the cash generating unit's weighted average cost of capital.

For the Delta, Mesta, India and Micron CGUs, management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amount to exceed the recoverable amount.

Upon completion of the annual impairment assessment it was determined that the recoverable amount of the CGUs exceeded their respective carrying values and no impairment existed as at December 31, 2024.

13. Bank operating lines of credit

The Group's North American current banking agreement, which expires in June 2026, consists of a $50,000,000 U.S. revolving credit facility. The revolving credit facility can be drawn in U.S. Prime borrowings, Canadian Prime borrowings, Canadian Dollar Offered Rate ("CDOR") borrowings or the London Inter-Bank Offered rate ("LIBOR") benchmark replacement rate borrowings. The facilities are unsecured.

Interest on the revolving credit lines is dependent on certain financial ratios and ranges from Canadian bank prime rate plus 0.0% to Canadian bank prime rate plus 0.4% for the Canadian dollar denominated revolving credit lines or, if designated, the bank's CDOR rate plus 1.40% to 1.90% and the Canadian overdraft loans at Canadian bank prime rate; and from U.S. base rate minus 1.00% to U.S. base rate minus 0.50% for the U.S. dollar denominated revolving credit lines or, USD overdraft loan at USD prime minus 1.00%.

The Group also has a 4,000,000 EUR unsecured Euro facility that matures June 2026 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 comprised of a 3,750,000 Euro revolver and 250,000 Euro overdraft facility. The revolver facility bears interest at 2.25% plus the relevant Market Index, Euribor of 2.845% (2023 – plus margin of 2.25%, Euribor on December 31, 2023 – 3.845%, Euribor).

Hammond Power Solutions Private Limited maintains an additional demand credit facility for an unsecured working capital loan up to 515,000,000 Indian Rupee (INR) (2023 – 515,000,000 INR) consisting of the sub-facilities of a 40,000,000 INR (2023 – 40,000,000 INR) short-term working capital demand loan, a 475,000,000 INR (2023 – 475,000,000 INR) facility for bank guarantees. The demand loan bears interest at the relevant Market Index + 2.5% and the bank guarantees are at a rate of 1.0%. As at December 31, 2024, there was $nil Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2023 – $nil). As at December 31, 2024 there was 401,266,000 INR, Canadian equivalent $6,471,000 (2023 – 351,156,000 INR, Canadian equivalent $5,583,000) drawings against the bank guarantees.

Based on exchange rates in effect at December 31, 2024, the combined Canadian dollar equivalent available across all facilities, prior to any utilization of the facilities was $86,722,000 (2023 – $80,353,000).

As at December 31, 2024, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit facility was $9,152,000 consisting of $6,299,000 Canadian dollars drawn and the Canadian equivalent of $2,853,000 U.S. dollars drawn (2023 – $13,902,000 – consisting of $5,902,000 Canadian dollars drawn and the Canadian equivalent of $8,000,000 U.S. dollars drawn). As well, $3,832,000 (2023 – $4,569,000) Canadian dollar equivalent of Euros was outstanding under the Euro facility, and $nil (2023 – $nil) Canadian dollar equivalent of Indian rupees under the Rupee facility. Amounts drawn on the facility have been recognized as current liabilities based on the Company's anticipated repayment plans.

The Company is required to comply with certain bank covenants and files certifications of compliance on a quarterly basis. The bank operating lines of credit are subject to the following covenants:

- Debt service coverage covenant – impacted by EBITDA, cash flow available for debt service and total debt service.
- Leverage covenant – calculated as net debt divided by EBITDA to determine leverage ratio.

There are no indicators that the Company may have difficulty complying with future covenants.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

14. Lease and other long-term liabilities

	December 31, 2024	December 31, 2023
Lease liabilities	$ 22,402	$ 16,421
Contingent consideration (note 27)	845	2,138
	$ 23,247	$ 18,559
Current	$ 6,083	$ 6,388
Non-Current	$ 17,164	$ 12,171

Right of use liability maturity analysis – contractual undiscounted cash flows	December 31, 2024	December 31, 2023
Less than one year	$ 5,879	$ 5,500
One to five years	16,295	11,838
More than five years	3,464	2,877
Total undiscounted lease liabilities	$ 25,638	$ 20,215
Less: effect of discounting and foreign exchange	$ (3,236)	$ (3,794)
Lease liabilities included in the statement of financial position	$ 22,402	$ 16,421
Current	$ 5,238	$ 4,250
Non-current	$ 17,164	$ 12,171

Amounts recognized in statement of operations	Year Ended December 31, 2024	Year Ended December 31, 2023
Interest on lease liabilities	$ 788	$ 395

Amounts recognized in statement of cash flows	Year Ended December 31, 2024	Year Ended December 31, 2023
Payment of lease liabilities	$ 5,305	$ 3,906

15. Commitments

	December 31, 2024	December 31, 2023
Capital expenditure commitments	$ 15,771	$ 12,252

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

16. Income taxes

Income tax expense		2024		2023
Current tax expense				
Current period	$	27,914	$	23,961
Deferred tax recovery				
Origination and reversal of temporary differences		(2,545)		(3,329)
Decrease (increase) in tax rate		22		(37)
		(2,523)		(3,366)
Total income tax expense	$	25,391	$	20,595

Reconciliation of effective tax rate	2024		2024	2023		2023
Net earnings		$	71,531		$	63,399
Income tax expense			25,391			20,595
Earnings before income taxes			96,922			83,994
Income tax expense using the Company's domestic tax rate	39.50%		38,284	39.50%		33,178
Effect of tax rates in foreign jurisdictions	(8.15%)		(7,903)	(11.04%)		(9,268)
Decrease (increase) in tax rate	0.02%		22	(0.04%)		(37)
Non-deductible expenses/non-taxable income	1.19%		1,151	(1.25%)		(1,052)
Reduced rate for active business and manufacturing and processing	(6.52%)		(6,315)	(2.94%)		(2,468)
Losses for which no deferred tax asset was recognized	0.21%		200	0.30%		252
Other	(0.05%)		(48)	(0.01%)		(10)
	26.20%	$	25,391	24.52%	$	20,595

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

Unrecognized temporary differences

At December 31, 2024, pre-tax temporary differences of $241,286,000 (2023 – $179,057,000) related to investments in subsidiaries were not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future. The tax liability in the event the Company were to sell these investments would be $30,161,000 (2023 – $22,382,000) based on current tax rates.

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2024	December 31, 2023
Tax losses	$ 10,642	$ 9,848
Basis difference in subsidiary	33,423	31,643
Financial interests deductible in a future period	4,714	4,586
Provisions	870	883
Inventory	453	441
Property, plant and equipment	721	623
	$ 50,823	$ 48,024

The tax losses, financial interests deductible, provisions, inventory and property, plant and equipment deductions carry forward indefinitely and relate to HPS S.p.A and Continental Transformers s.r.l. The basis difference in subsidiary, when realized, will provide the Company a capital loss that carries forward indefinitely. The benefit of these items has not been reflected in the consolidated financial statements as it is uncertain as to whether the Company will be able to utilize the deductions.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2024	2023	**2024**	2023
Property, plant and equipment	$ 464	$ 335	$ (8,032)	$ (6,488)
Intangible assets	324	346	(332)	(378)
Scientific research and experimental development and other tax credits	–	–	(29)	(41)
Inventories	1,360	712	–	–
Note receivable	–	–	(3,147)	(3,062)
Loans and borrowings	5,612	4,636	–	–
Employee benefits	8,041	5,445	(198)	(159)
Unrealized losses (gains) on forward contracts and foreign currency-denominated loans payable/receivable	96	164	–	(38)
Provisions and tax reserves	3,662	2,882	–	(4)
Tax loss carry-forwards	4,399	5,631	–	–
Basis difference in subsidiary	1,745	1,795	–	–
Tax assets (liabilities)	25,703	21,946	(11,738)	(10,170)
Set off of tax	(11,736)	(10,148)	11,736	10,148
Net tax assets (liabilities)	$ 13,967	$ 11,798	$ (2)	$ (22)

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year ended December 31, 2024:

	Balance December 31, 2023	Recognized in retained earnings	Recognized in profit or loss	**Recognized in other comprehensive income**	Balance December 31, 2024
Property, plant and equipment	$ 6,153	$ –	$ 1,415	$ –	$ 7,568
Intangible assets	32	–	(24)	–	8
Scientific research and experimental development and other tax credits	41	–	(12)	–	29
Inventories	(712)	–	(648)	–	(1,360)
Note receivable	3,062	–	85	–	3,147
Loans and borrowings	(4,636)	–	(976)	–	(5,612)
Employee benefits	(5,286)	–	(2,557)	–	(7,843)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(126)	–	30	–	(96)
Provisions and tax reserves	(2,878)	–	(784)	–	(3,662)
Tax loss carry-forwards	(5,631)	–	1,232	–	(4,399)
Basis difference in subsidiary	(1,795)	–	50	–	(1,745)
	$ (11,776)	$ –	$ (2,189)	$ –	$ (13,965)
Foreign exchange			$ (334)		
Income tax expense			$ (2,523)		

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year ended December 31, 2023:

	Balance December 31, 2022	Recognized in retained earnings	Recognized in profit or loss	**Recognized in other comprehensive income**	Balance December 31, 2023
Property, plant and equipment	$ 2,373	$ –	$ 3,780	$ –	$ 6,153
Intangible assets	53	–	(21)	–	32
Scientific research and experimental development	(27)	–	68	–	41
Inventories	(653)	–	(59)	–	(712)
Long-term lease and note receivable	3,832	–	(770)	–	3,062
Loans and borrowings	(1,833)	–	(2,803)	–	(4,636)
Employee benefits	(1,284)	–	(4,002)	–	(5,286)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(182)	–	56	–	(126)
Provisions and tax reserves	(3,299)	–	421	–	(2,878)
Tax loss carry-forwards	(5,140)	–	(491)	–	(5,631)
Basis difference in subsidiary	(1,736)	–	(59)	–	(1,795)
	$ (7,896)	$ –	$ (3,880)	$ –	$ (11,776)
Foreign exchange			$ 514		
Income tax expense			$ (3,366)		

Pillar Two Income Taxes

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Company operates. The legislation was effective for the Company's financial year beginning on January 1, 2024. The Company has performed an assessment of its potential exposure to Pillar Two income taxes. This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the Company. Based on the assessment performed, the Pillar Two effective tax rates in all jurisdictions in which the Company operates are above 15% and management is not aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

17. Share capital

a) Authorized:

Unlimited number of special shares, discretionary dividends, non-voting, redeemable and retractable.

Unlimited number of Class A subordinate voting shares, no par value.

Unlimited number of Class B common shares with four votes per share, convertible into Class A subordinate voting shares on a one-for-one basis. Annual dividends on the Class B common shares may not exceed the annual dividends on the Class A subordinate voting shares, no par value.

b) Issued:

	December 31, 2024	December 31, 2023
9,126,624 Class A subordinate voting shares (2023 – 9,126,624)	$ 15,754	$ 15,754
2,778,300 Class B common shares (2023 – 2,778,300)	7	7
11,904,924 Total A and B shares (2023 – 11,904,924)	$ 15,761	$ 15,761

During the year ended December 31, 2024, nil Class A shares were issued upon exercise of stock options. During the year ended December 31, 2023, 70,000 Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $434,000 and a transfer of $87,000 from contributed surplus.

The following dividends were declared and paid by the Company:

	December 31, 2024	December 31, 2023
97.5 cents per Class A subordinate voting shares (2023 – 55 cents)	$ 8,898	$ 5,020
97.5 cents per Class B common shares (2023 – 55 cents)	2,709	1,528
	$ 11,607	$ 6,548

c) Stock option plan

The Company uses a stock option plan to attract and retain key employees, officers and directors. Shareholders have approved a maximum of 1,200,000 Class A shares for issuance under the Stock Option Plan, with the maximum reserved for issuance to any one person at 5% of the Class A shares outstanding calculated immediately prior to the time of the grant. As per the Stock Option Plan, the Board of Directors may, at its sole discretion, determine the time during which the options shall vest and the method of vesting, or that no vesting restriction shall exist. The stock option exercise price is the price of the Company's common shares on the Toronto Stock Exchange at closing for the day prior to the grant date on which the Class A shares traded. The period during which an option will be outstanding shall be 7 years, or such other time fixed by the Board of Directors, subject to earlier termination upon the option holder ceasing to be a director, officer or employee of the Company. Options issued under the plan are non-transferable unless specifically provided in the Stock Option Plan. Any option granted, which is cancelled or terminated for any reason prior to exercise, shall become available for future stock option grants. All options are to be settled by physical delivery of shares.

There were no options granted for the year ended December 31, 2024, or the year ended December 31, 2023. During 2023, there were 70,000 options exercised at a weighted average price of $6.20. There were no options outstanding and exercisable as at December 31, 2024.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

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. Under the Company's DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. The first DSUs were issued in March 2017. The number of DSUs was determined by dividing the amount of deferred compensation by the fair market value ("FMV") of DSUs, defined in the DSU Plan as the weighted average closing price of HPS shares for the five business days immediately preceding the relevant date. Upon the occurrence of the redemption event, which could include ceasing to hold any position in the Company and/or any subsidiary or upon death of the participant, the affected participant will be entitled to receive a lump sum cash payment, net of applicable withholding taxes, equal to the product of number of DSUs held by that participant and the FMV on the date of the redemption event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation, nor are they performance based. Under the DSU Plan, outstanding DSUs as at the record date are increased by the dividend rate whenever dividends are paid to shareholders.

The movement in DSUs for the years ended December 31, 2023 and 2024 is as follows:

	Number of DSUs	Closing Share Price
Balance at January 1, 2023	213,975	$ 20.12
DSUs issued	18,677	27.84
DSUs redeemed	(64,517)	8.36
Balance at December 31, 2023	168,135	$ 81.70

	Number of DSUs	Closing Share Price
Balance at January 1, 2024	168,135	$ 81.70
DSUs issued	6,382	94.51
DSUs redeemed	–	–
Balance at December 31, 2024	174,517	$ 128.04

An expense of $8,609,000 (2023 – $13,587,000) was recorded in general and administrative expenses. The liability of $22,345,000 (2023 - $13,737,000) related to these DSUs is included in accounts payable and accrued liabilities.

e) Long Term Incentive Plan

In February 2022, the Board of Directors approved a new Long Term Incentive plan ("LTIP") for the Executive Officers of the Company. This plan replaces the Deferred Share Unit plan described above for executives. The LTIP consists of an annual grant made to the Chief Executive officer and other executive officers of Performance Share Units ("PSU") and Restricted Share Units ("RSU"). According to the plan, the PSUs constitute 60% of the total grant and will vest at the end of a three-year period at a ratio of 0% - 150%, depending on whether management met pre-determined EPS and RONA targets. The RSUs constitute the remaining 40% of the grant and will vest at the end of a three-year period at 100%. The increase or decrease in value of the vested PSU's and RSU's over the three-year period will be determined by the increase or decrease of the share price.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

The annual grant is determined by the Compensation Committee, and are currently set at 35% of the executive's salary and 100% (2023 - 50%) of CEO's salary. The grant vests after a three-year performance period and is dependent on continuous employment with the Company over that period, with exceptions for retirement and involuntary terminations. After vesting, the value of the PSUs and RSUs will be determined based on the PSU vesting factor and the share price. The value will be paid in cash to the participant, after which, the PSUs and RSUs will be extinguished.

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Issued Balance at January 1, 2023	35,716	23,811	59,527	
Units issued	31,523	21,014	52,537	
Issued Balance at December 31, 2023	67,239	44,825	112,064	$ 30.98

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Vested Balance at January 1, 2023	11,941	7,937	19,878	
Units vested	54,402	22,602	77,004	
Vested Balance at December 31, 2023	66,343	30,539	96,882	$ 81.70

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Issued Balance at January 1, 2024	67,239	44,825	112,064	
Units issued	6,232	4,156	10,388	
Units settled	(26,574)	(17,716)	(44,290)	
Issued Balance at December 31, 2024	46,897	31,265	78,162	$ 115.80

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Vested Balance at January 1, 2024	66,343	30,539	96,882	
Units vested	22,980	9,621	32,601	
Units settled	(39,862)	(17,716)	(57,578)	
Vested Balance at December 31, 2024	49,461	22,444	71,905	$ 128.04

An expense of $8,483,000 (2023 – $6,367,000) was recorded in general and administrative expenses. The liability of $9,785,000 (2023 - $7,969,000) related to these PSUs and RSUs is included in accounts payable and accrued liabilities.

The market value of the granted PSUs and RSUs is $19,985,000 as of December 31, 2024. The difference between the market value and the accrual value is due to units granted but not yet vested.

For accounting purposes, the grants vest evenly over a three year period. It is assumed that the 2022 and 2023 PSU grants will vest at 150% and the 2024 PSU grant will vest at 100%.

18. 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 year ended December 31, 2024 was $17,735,000 (2023 – loss of $3,801,000), of which $17,735,000 (2023 – loss of $3,801,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at December 31, 2024 of accumulated other comprehensive income of $26,365,000 (2023 – $8,630,000).

19. Earnings per share

The computations for basic and diluted earnings per share from net earnings are as follows:
(earnings in thousands of dollars)

	2024	2023
Basic earnings per share	$ 6.01	$ 5.33
Calculated as:		
Net earnings attributable to the equity holders of the Company	$ 71,531	$ 63,399
Weighted average number of shares outstanding	11,904,924	11,904,924
Fully diluted earnings per share	$ 6.01	$ 5.33
Calculated as:		
Net earnings attributable to the equity holders of the Company	$ 71,531	$ 63,399
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares	11,904,924	11,904,924
Reconciliation of weighted average number of shares outstanding:		
Weighted average number of shares outstanding used to calculate basic earnings per share	11,904,924	11,904,924
Adjustment for dilutive effect of stock option plan	–	–
Weighted average number of shares outstanding used to calculate diluted earnings per share	11,904,924	11,904,924

As at December 31, 2024, nil options (2023 – nil) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

20. Pension plans

Defined contribution plan

The Group has defined contribution pension plans that are available to virtually all of its Canadian employees with eligible employee contributions based on 2.0% – 7.0% (2023 – 2.0% - 7.0%)of annual earnings. The Group's contributions of $2,244,000 (2023 – of $1,964,000) matches the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $1,662,000 (2023 – $1,460,000) in cost of sales, $283,000 (2023 – $246,000) in selling and distribution, and $300,000 (2023 - $258,000) in general and administrative.

21. Provisions

		Warranties		Site restoration		Benefits and incentives		Total
Balance at January 1, 2023	$	1,676	$	197	$	946	$	2,819
Provisions made during the period		1,904		130		679		2,713
Provisions used during the period		(418)		(102)		(782)		(1,302)
Balance at December 31, 2023	$	3,162	$	225	$	843	$	4,230
Balance at January 1, 2024	$	3,162	$	225	$	843	$	4,230
Provisions made during the period		825		132		463		1,420
Provisions used during the period		(957)		(132)		(675)		(1,764)
Recovery during the period		(264)		–		–		(264)
Balance at December 31, 2024	$	2,766	$	225	$	631	$	3,622
Current portion	$	2,766	$	80	$	322	$	3,168
Non-current portion	$	–	$	145	$	309	$	454

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2024 and December 31, 2023. The provision is based on estimates made from historical warranty data associated with similar products and claims experience. The Group expects to incur most of the liability over the next year.

Site restoration

The Group has committed to undertaking a joint remediation plan for the Glen Ewing property with the owner of an adjoining industrial property and the co-owner of the property. The Group has recorded a liability for its estimated portion of the joint remediation.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

Benefits and incentives

The benefit provision relates to statutory pension and leave benefits related to the India facility. Substantially all of this benefit is long-term. An incentive agreement dependent on revenue achievements was entered into in 2022 given Mesta's strong performance, was paid in February 2024.

22. Sales and deferred revenue

a) Sales

Sales have been captured based on the geography of where the product was sold, as follows:

		2024		2023
Canada	$	215,394	$	175,619
United States and Mexico		534,888		489,579
India		38,058		44,866
	$	788,340	$	710,064

b) Deferred revenue

Movements in the Group's contract liabilities (deferred revenue) was as follows:

		2024		2023
Opening balance	$	5,721	$	10,607
Revenue recognized		(5,721)		(6,766)
Increase in contract liabilities		4,277		1,880
Ending balance	$	4,277	$	5,721

From time to time, the Company will require certain customers to advance payment prior to the satisfaction of performance obligations, which generally occurs at a point in time, upon the assumption of ownership of the transformer ordered by the customer.

23. Related party transactions

Related parties

William G. Hammond, Chair of the Board, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (2023 – 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 424,636 (2023 – 923,802) Class A subordinate voting shares of the Company, representing approximately 4.7% (2023 – 10.1%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the year, directly and indirectly to William G. Hammond were $3,335,000 (2023 – $2,040,000).

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

During the year there were professional fees of $351,000 paid by the Company to facilitate the sale of 500,000 Class A Subordinate Voting Shares owned by Arathorn Investments Inc. These expenses were recorded in general and administrative expenses.

Key management personnel compensation

Key management personnel include the Company's directors and members of the executive management team. Compensation awarded to key management is as follows:

		2024		2023
Salaries and benefits	$	4,494	$	7,554
Share-based awards		17,092		9,028
	$	21,586	$	16,582

24. Personnel expenses

		2024		2023
Wages and salaries	$	116,994	$	105,808
Group portion of government pension and employment pension and employment benefits		28,096		23,472
Contributions to defined contribution plans		2,274		1,962
	$	147,364	$	131,242

25. Change in operating working capital

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

		2024		2023
Accounts receivable	$	(9,028)	$	(41,330)
Inventories		(25,738)		(8,237)
Prepaid expenses and other assets		(661)		(4,305)
Accounts payable and accrued liabilities		(10,481)		11,475
Deferred revenue		(1,444)		(4,886)
Provisions		(2,028)		(1,302)
Settlement of derivatives		(1,138)		(276)
Foreign exchange		12,428		(2,847)
	$	(38,090)	$	(51,708)

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

26. Segment disclosures

The Company operates in a single operating segment, being a manufacturer of transformers. The Company and its subsidiaries operate in Canada, the United States, Mexico and India.

Geographic Segments		**2024**		2023
Sales				
Canada	$	215,394	$	175,619
United States and Mexico		534,888		489,579
India		38,058		44,866
	$	788,340	$	710,064
Property, plant and equipment and right-of-use assets – net				
Canada	$	26,169	$	20,153
United States		35,424		16,945
Mexico		42,977		23,813
India		5,753		4,930
	$	110,323	$	65,841
Investment in properties				
Canada	$	3,644	$	1,044
Italy		1,746		1,896
	$	5,390	$	2,940
Intangibles, net				
Canada	$	815	$	1,271
United States		11,689		3,913
India		1,226		1,406
	$	13,730	$	6,590
Goodwill				
Canada	$	2,180	$	2,180
United States		5,397		1,581
India		8,427		7,975
	$	16,004	$	11,736

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27. Financial instruments

Fair value

The fair value of the Group's financial instruments measured at fair value has been segregated into three levels. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Fair value of assets and liabilities included in Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Group's financial instruments measured at fair value consist of foreign exchange forward contracts, convertible debentures and contingent consideration issued in conjunction with a business combination. The forward foreign exchange contracts have a fair value of an asset of $1,447,000 as at December 31, 2024 (2023 – a liability of $1,138,000) and are included in Level 2 in the fair value hierarchy. To determine the fair value of the forward foreign exchange contracts, Management used a valuation technique in which all significant inputs were based on observable market data. The gains and losses from these contracts are grouped with foreign exchange gain on the statement of operations. The convertible debenture investment is valued at $2,600,000 as at December 31, 2024 (2023 - $nil) and is included in Level 3 of the fair value hierarchy. The contingent consideration liability is valued at $845,000 as at December 31, 2024 (2023 - $2,138,000) and is included in Level 3 of the fair value hierarchy. There have been no transfers between levels in 2024 or 2023.

The contingent consideration is comprised of three components:

	Revenue achievement	Deferred tax losses	Total
Current	$ 1,320	$ 818	$ 2,138
Balance at December 31, 2023	$ 1,320	$ 818	$ 2,138
Current	$ –	$ 845	$ 845
Balance at December 31, 2024	$ –	$ 845	$ 845

- Revenue achievement

  To determine the fair value of the contingent consideration, Management calculated the fair value of the liability based on the present value of the expected payment and a probability weighted formula, discounted using a risk-adjusted discount rate of 2.5%. Management considers the risk of non-payment to be low. The estimated fair value would increase (decrease) if:

  - the risk-adjusted discount rate were lower (higher)
- Deferred tax asset – unused tax losses

  To determine the fair value of the contingent consideration, Management assessed the probability of realization of future tax losses based on the current year profitability of the entity and expected future forecasted earnings. It was determined that all available losses will be expected to be realized for which the benefit component for National's 45% realization of certain tax losses. As of December 31, 2024 it was determined to be probable that sufficient future taxable profit will be available against which the unused tax losses can be recovered and utilized. The future tax asset value related to these losses was $1,861,000 and a corresponding liability to National of $845,000.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

The carrying values of cash and cash equivalents, accounts receivable, bank operating lines of credit, and accounts payable and accrued liabilities and other liabilities approximate their fair value due to the relatively short period to maturity of the instruments.

Derivative instruments

The Group has entered into forward foreign exchange contracts in order to reduce the Company's exposure to changes in the exchange rate of the U.S. dollar, Euro, Mexican Peso and Indian Rupee as compared to the Canadian dollar. At December 31, 2024, the Company had outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2025.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	USD	CAD	90,000	1.40 – 1.44
BUY	EUR	CAD	14,500	1.49
BUY	USD	MXN	11,000	20.68
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Sell Currency**	**Traded Rate**
SELL	EUR	CAD	29,000	1.46 – 1.49
SELL	USD	CAD	45,000	1.44

At December 31, 2023, the Company has outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2024.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	USD	CAD	45,000	1.4485
BUY	USD	INR	6,044	83.26 – 83.48
BUY	USD	MXN	6,614	16.97
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Sell Currency**	**Traded Rate**
SELL	USD	MXN	13,000	17.03 – 17.268
SELL	EUR	CAD	14,500	1.493
SELL	USD	INR	3,656	83.15

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

As at December 31, 2024 the Group has recognized a net unrealized recovery of $1,447,000 representing the fair value of these forward foreign exchange contracts, comprised of an asset of $1,447,000 included within prepaid expenses and other assets. As at December 31, 2023 the Group recognized a net unrealized expense of $1,138,000, comprised of a liability of $1,138,000 included within accounts payable and accrued liabilities. The income statement impact for both years has been recorded in foreign exchange gains and losses.

Financial risk management:

The Group is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, interest rate risk and commodity price risk) credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. There were no changes to types of risk arising from the Group's financial instruments from the previous period.

Risk management is carried out by the finance department under the guidance of the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

Currency risk:

The Group operates internationally and is exposed to foreign exchange risk from various currencies, primarily U.S. dollars, Mexican Pesos, the Euro and the Indian Rupee. Foreign exchange risk arises mainly from U.S. dollar denominated purchases in Canada and Canadian sales to the U.S. as well as recognized financial assets and liabilities denominated in foreign currencies. The Company manages its foreign exchange risk by having geographically diverse manufacturing facilities and purchasing U.S. dollar raw materials in Canada. The Company also monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by entering into forward foreign exchange contracts. Forward foreign exchange contracts are only entered into for the purposes of managing foreign exchange risk and not for speculative purposes.

The following table represents the Group's balance sheet exposure to currency risk as at December 31, 2024:

	U.S. Dollars		**Mexican Pesos**		**Euros**		**Indian Rupees**	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023
Cash	$ 15,172	$ 29,113	5,684	777	€ 1,317	€ 895	465,555	310,754
Accounts receivable	55,107	53,188	89,538	35,275	172	-	379,154	552,742
Long-term lease receivable	–	–	–	–	–	1,050	–	–
Bank operating lines of credit	–	–	–	–	(2,555)	(3,112)	–	–
Accounts payable	(19,864)	(18,139)	(22,858)	(26,513)	(160)	(331)	(366,159)	(473,545)
Lease obligation	(15,654)	(12,902)	–	–	–	–	–	–
Contingent consideration	(618)	(1,614)	–	–	–	–	–	–
Net exposure	$ 34,143	$ 49,646	72,364	9,539	€ (1,226)	€ (1,498)	478,550	389,951

A one cent ($0.01) decline in the Canadian dollar against the U.S dollar as at December 31, 2024 would have decreased net earnings by $639,000 and increased equity by $467,000. This analysis assumes that all other variables, in particular interest rates, remained constant. Inversely, a one cent ($0.01) increase in the Canadian dollar against the U.S. dollar as at December 31, 2024 would have had an equal but opposite effect.

A one cent ($0.01) decline in the Canadian dollar against the Euro as at December 31, 2024 would have decreased net earnings by $20,000 and decreased equity by $18,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Euro as at December 31, 2024 would have had an equal but opposite effect.

A one cent ($0.01) decline in the Canadian dollar against the Indian Rupee as at December 31, 2024 would have increased net earnings and equity by $78,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2024 would have had an equal but opposite effect.

A one cent ($0.01) decline in the Canadian dollar against the Peso as at December 31, 2024 would have decreased net earnings by $57,000 and increased equity by $54,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2024 would have had an equal but opposite effect.

Credit risk:

Credit risk arises from the possibility that the Group's customers and counter parties may experience difficulty and be unable to fulfill their contractual obligations. The Group manages this risk by applying credit procedures whereby analyses are performed to control the granting of credit to its customer and counter parties based on their credit rating. As at December 31, 2024, the Group's accounts receivable are not subject to significant concentrations of credit risk. The long-term lease receivable is subject to credit risk, which is mitigated by the security of the related plant. The Company's maximum exposure to credit risk associated with the Group's financial instruments is limited to their carrying amount.

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

Management has a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management.

The Group limits its exposure to credit risk from trade receivables by establishing a reasonable payment period. Many of the Group's customers have been transacting with the Group for a number of years, and none of these customers' balances have been written off or are credit-impaired at the reporting date.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

An allowance account for accounts receivable is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts are considered to be uncollectible and are written off against the specific accounts receivable amount attributable to a customer. The number of days outstanding of an individual receivable balance is the key indicator for determining whether an account is at risk of being impaired.

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Expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses or full lifetime expected credit losses. The Group has used past due information to determine that there have been no significant increases in credit risk since initial recognition. There are balances in excess of 30 days past due but the Group does not presume that credit risk has increased given the characteristics of the Group's customers, the industries in which they operate, the customer payment track records and the nature of the products the Group sells.

During the year, the expected credit losses for trade accounts receivables increased $918,000 (2023 – decreased $190,000), for which an expense (2023 – recovery) was recognized in general and administrative expenses. The aging of accounts receivable and the related allowance is as follows:

	December 31, 2024		December 31, 2023	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	$ 100,479	$ –	$ 95,888	$ –
Past due 0-30 days	32,648	–	25,809	–
Past due 31-120 days	7,976	703	5,819	–
Past due more than 120 days	2,831	2,831	3,130	2,616
	$ 143,934	$ 3,534	$ 130,646	$ 2,616

Credit risk:

The carrying amount of financial assets representing the maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	December 31, 2024	December 31, 2023
Cash and cash equivalents	$ 34,085	$ 52,591
Accounts receivable	140,400	128,030
Lease receivable	–	1,535
	$ 174,485	$ 182,156

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The maximum exposure to credit risk for accounts receivable at the reporting date by geographic region was:

	Carrying Amount	
	December 31, 2024	December 31, 2023
Canada	$ 37,879	$ 31,463
United States	82,269	70,052
Mexico	11,881	13,659
Italy	11	689
India	8,360	12,167
	$ 140,400	$ 128,030

Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Group to cash flow interest rate risk. Changes in market interest rates also directly affect cash flows associated with the Group's bank operating lines of credit that bear interest at floating interest rates.

The Group manages its interest rate risk by minimizing the bank operating lines of credit balances by applying excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis as well as actively monitoring interest rates. A 1% increase or decrease in interest rates as at December 31, 2024 would increase or decrease net earnings by approximately $211,000 (2023 – $340,000) respectively.

Commodity price risk:

A large component of the Group's cost of sales is comprised of copper and steel, the costs of which can vary significantly with movements in demand for these resources and other macroeconomic factors. To manage its exposure to changes in commodity prices, the Group will enter into supply contracts with certain suppliers, and from time to time will enter into forward commodity purchase contracts. As at December 31, 2024, no forward commodity purchase contracts were outstanding (2023 – none).

Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations as they become due.

The Group manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior Management is also actively involved in the review and approval of planned expenditures.

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

The following are the carrying amounts and related anticipated contractual maturities of the Group's financial liabilities:

December 31, 2024	**Carrying amount**	**1 year or less**	**1-2 years**	**2-5 years**
Bank operating lines of credit	$ 12,983	$ 12,983	$ –	$ –
Accounts payable and accrued liabilities	134,919	134,919	–	–
Contingent consideration	845	845	–	–
	$ 148,747	$ 148,747	$ –	$ –

December 31, 2023	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 18,471	$ 18,471	$ –	$ –
Accounts payable and accrued liabilities	126,360	126,360	–	–
Contingent consideration	2,138	2,138	–	–
Derivative liabilities	1,138	1,138	–	–
	$ 148,107	$ 148,107	$ –	$ –

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Reconciliation of movements of liabilities to cash flows arising from financing activities:

The following is a reconciliation between the opening and closing balances for liabilities arising from financing activities:

	LIABILITIES			EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Contingent Consideration	Share Capital	Retained Earnings	Total
Balance January 1, 2024	$ 18,471	$ 16,421	$ 2,138	$ 15,761	$ 203,698	$ 256,489
Advances of bank operating lines of credit, net	(5,488)	–	–	–	–	(5,488)
Payment of contingent consideration	–	–	(1,350)	–	–	(1,350)
Interest payments	(1,246)	788	–	–	–	(458)
Cash dividends paid	–	–	–	–	(11,607)	(11,607)
Repayment of lease liability	–	(5,305)	–	–	–	(5,305)
Total changes from financing cash flows	$ (6,734)	$ (4,517)	$ (1,350)	$ –	$ (11,607)	$ (24,208)
Other changes						
Liability-related						
Interest expense	1,246	–	–	–	–	1,246
Foreign exchange	–	1,640	57	–	–	1,697
Non-cash disposals to lease liabilities	–	(30)	–	–	–	(30)
Non-cash additions to lease liabilities	–	8,888	–	–	–	8,888
Total liability-related other changes	$ 1,246	$ 10,498	$ 57	$ –	$ –	$ 11,801
Equity-related						
Net income	–	–	–	–	71,531	71,531
Total equity-related other changes	$ –	$ –	$ –	$ –	$ 71,531	$ 71,531
Balance December 31, 2024	$ 12,983	$ 22,402	$ 845	$ 15,761	$ 263,622	$ 315,613

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

	LIABILITIES			EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Contingent Consideration	Share Capital	Retained Earnings	Total
Balance January 1, 2023	$ 6,154	$ 8,593	$ 2,846	$ 15,240	$ 146,847	$ 179,680
Advances of bank operating lines of credit, net	12,317	–	–	–	–	12,317
Payment of contingent consideration	–	–	(675)	–	–	(675)
Interest payments	(1,320)	434	19	–	–	(867)
Exercise of stock options	–	–	–	434	–	434
Cash dividends paid	–	–	–	–	(6,548)	(6,548)
Repayment of lease liability	–	(3,906)	–	–	–	(3,906)
Total changes from financing cash flows	$ 10,997	$ (3,472)	$ (656)	$ 434	$ (6,548)	$ 755
Other changes						
Liability-related						
Interest expense	1,320	–	–	–	–	1,320
Foreign exchange	–	(800)	(52)	–	–	(852)
Non-cash disposals to lease liabilities	–	(437)	–	–	–	(437)
Non-cash additions to lease liabilities	–	12,537	–	–	–	12,537
Total liability-related other changes	$ 1,320	$ 11,300	$ (52)	$ –	$ –	$ 12,568
Equity-related						
Exercise of stock options	–	–	–	87	–	87
Net income	–	–	–	–	63,399	63,399
Total equity-related other changes	$ –	$ –	$ –	$ 87	$ 63,399	$ 63,486
Balance December 31, 2023	$ 18,471	$ 16,421	$ 2,138	$ 15,761	$ 203,698	$ 256,489

For the years ended December 31, 2024 and 2023 (tabular amounts in thousands of dollars, except share and per share amounts)

28. Capital risk management

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Group includes cash, bank operating lines, long-term debt and equity, comprising of share capital, contributed surplus and retained earnings in the definition of capital. The Group is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2024.

The following table sets out the Group's capital quantitatively at the following reporting dates:

	December 31, 2024	December 31, 2023
Cash and cash equivalents	$ 34,085	$ 52,591
Bank operating lines of credit	(12,983)	(18,471)
Lease liabilities	(22,402)	(16,936)
Contingent consideration	(845)	(2,138)
Share capital	15,761	15,761
Contributed surplus	2,289	2,289
Retained earnings	263,622	203,698
	$ 279,527	$ 236,794

29. Determination of fair values:

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability.

a) Derivatives

The fair value of forward exchange contracts is based on valuations obtained from third parties, based on observable market inputs.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

b) Non-derivative financial assets

The fair value of the lease receivable is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

c) Share-based payment transactions

The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date.

d) Investment properties

The fair values of the investment properties are based on available market evidence as determined by third party valuators using comparable property sale transactions and is considered to be valued at Level 3 of the fair value hierarchy.

e) Investment convertible debentures

The fair values of the convertible debentures are based on specific milestones being achieved as determined by internal financial information related to the investment and the proximity of the second payment being prior to year-end. This investment is considered to be valued at Level 3 of the fair value hierarchy.

30. Acquisition:

On October 7, 2024, the Company completed the acquisition of assets and liabilities of Micron Industries Corporation ("Micron") in the U.S. The acquisition is structured as a business combination through the U.S entity. Micron is involved in the design and manufacture of control transformers as well as low voltage transformers and DC power supplies.

Micron's annual revenues for 2022 and 2023 have ranged from approximately $26,655,000 - $30,644,000. The Company will operate as Micron Group, LLC, a subsidiary of HPS.

The purchase price has been allocated as follows:

Accounts receivable		3,342
Inventories and other assets		3,118
Property, plant and equipment		5,623
Software		54
Customer relationships		6,396
Brands		1,225
Goodwill		3,472
Assets	$	23,230
Current liabilities	$	(2,007)
Total purchase consideration	$	21,223

Satisfied as follows (in thousands of dollars):

Cash	$	21,223

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill, which represents the expected synergies to be realized from Micron's complementary products. The goodwill recognized is anticipated to be fully deductible for income tax purposes.

The fair values of customer relationships and brands acquired in the business acquisition were determined using an income approach. The Company used the multi-period excess earnings approach to value acquired customer relationships. This method calculated the estimated fair value based on the forecasted cash flows that the asset can be expected to generate over its remaining useful life, and isolates the cash flows attributable to the existing customer relationships alone. The valuation involves subjectivity and significant estimation uncertainty, including assumptions relating to forecasted revenues and forecasted earnings before interest, tax, depreciation and amortization margins attributable to the customer relationships, estimated customer attrition rates and discount rate.

The Company used the relief from royalty method to value acquired brands. This method calculates the cost savings associated with owning rather than licensing the trade name. The valuation involves subjectivity and significant estimation uncertainty, including assumptions related to forecasted revenues, royalty rate and discount rate.

The acquisition costs incurred related to this transaction during the year were $288,000 which were included in general and administrative expense.

Included in the Group's consolidated results for the twelve months ended December 31, 2024, is revenue of $4,859,000 and net losses of $158,000 recognized by Micron from the date of acquisition to December 31, 2024. If the Company had acquired Micron effective January 1, 2024, the revenue would have been approximately $26,623,000 and there would have been net loss of approximately $92,000. The revenue of the consolidated group would have been approximately $810,104,000 and net income of the consolidated group would have been $71,597,000.

31. Subsequent events

Dividends

On March 5, 2025, the Company declared a dividend of twenty-seven and a half cents ($0.275) per Class A subordinate voting shares of HPS and a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class B common shares of HPS payable on March 28, 2025 to shareholders of record at the close of business on March 21, 2025. The ex-dividend date is March 21, 2025.

Tariffs

On February 1, 2025, executive orders were signed and filed in the federal register that would apply up to a 25% ad valorem duty to goods of Canadian and Mexican origin. Implementation of the tariffs was subsequently postponed to became effective on March 4, 2025 and then further delayed until April 2, 2025. The Company has a substantial manufacturing presence in Canada and Mexico, and as the importer of record in the U.S. will be responsible for remitting the tariffs. In February, the Company established a team to evaluate the impact of tariffs and to consider the Company's response. While the Company's goal is to maintain margins, it is not possible at this time to evaluate the impact and/or the broader economic effects on the electro-industry.

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Baraboo, Wisconsin 53913

Mesta Electronics LLC
11020 Parker Drive,
North Huntington, Pennsylvania 15642

Micron Group, LLC
1801 Westwood Drive
Sterling, IL 61081

Corporate Information

Auditors

KPMG LLP
120 Victoria Street South,
Kitchener, ON N2G 0E1

Transfer Agent and Registrar

Computershare Investor Share Services Inc.
100 University Avenue
Toronto, Ontario Canada M5J 2Y1

Investor Relations

Contact: David Feick, Investor Relations
Phone: 519.822.2441 x453
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Stock Exchange Listing

Toronto Stock Exchange (TSX)
Trading Symbol: HPS.A

Corporate Officers and Directors

Officers

Catherine McKeown
Chief People Officer

Adrian Thomas
Chief Executive Officer
& Director

Richard C. Vollering
Chief Financial Officer
& Corporate Secretary

John Bailey
Chief Operations Officer

Paul Gaynor
Chief Information Officer

David Kinsella
Chief Commercial Officer

Directors

William G. Hammond
Chair of the Board

Grant C. Robinson
Lead Director
Audit Member

Dahra Granovsky
Human Resources &
Compensation Member

Christopher R. Huether
Governance Member

Frederick M. Jaques
Governance Chair

Anne Marie Turnbull
Human Resources &
Compensation Chair

David Wood
Audit Chair

THOSE WHO LOOK ONLY TO THE PAST OR THE PRESENT
ARE CERTAIN TO MISS THE FUTURE.

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