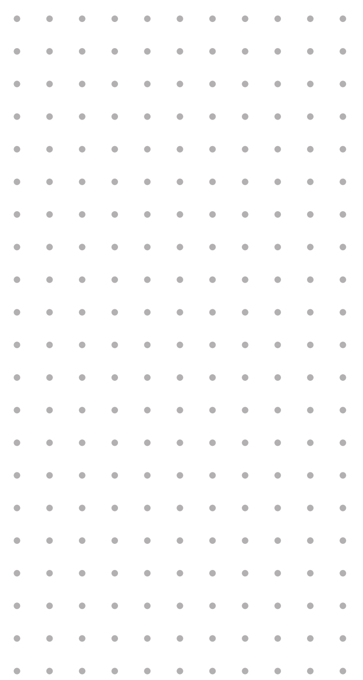
hammond
POWER SOLUTIONS



ANNUAL REPORT 2023

Breaking New Ground

ABOUT US

HAMMOND POWER SOLUTIONS INC.
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

What's inside

BUSINESS HIGHLIGHTS	3
CORPORATE HIGHLIGHTS	4
SHAREHOLDERS MESSAGE	6
OUR PURPOSE	8
LOOKING AHEAD	10
REVIEW OF OPERATIONS	12
YEAR IN REVIEW	16
MANAGEMENT'S DISCUSSION & ANALYSIS	18
AUDIT REPORT	41
FINANCIAL STATEMENTS	44
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	49
COMPANY INFORMATION	100

It’s been a groundbreaking year.

The term “groundbreaking” has a double meaning. On one hand, it’s about physically breaking the ground to construct something new or expand an existing structure. On the other hand, it signifies starting something innovative or advancing beyond past achievements.

After three years of strong growth, we embarked on a bold plan to increase our capacity to meet future demand, with investments across North America. These investments include new construction and the expansion of existing facilities. As we build physical buildings to grow our business, we are also building an organization that will support our progress in innovation, sustainability and corporate responsibility.

Over the last couple of years, we’ve undergone substantial changes, giving us more resources to explore new directions, starting with venturing into power quality beyond dry-type transformers. Acquiring complementary technologies is a strategic move to leverage our strong engineering capabilities and extensive reach in distribution and OEM markets. Our goal is to broaden the range of solutions we offer, all while maintaining the high standards of quality, service and ease of business that our customers expect.

2023 Business Highlights

HPS kept moving up, seeing growth not only in our usual commercial, industrial, mining and oil and gas markets, but also in the emerging areas of EV charging, data centres and renewables.

We kicked off a plan to increase our capacity, aiming to hit a global capacity of over $800 million by the end of 2024 and over $900 million by the end of 2025.

Sales kept growing in all areas and markets, especially in the U.S. distribution channel, OEM and private label channels. As we grow, we have to take care to maintain the high service and quality levels that our customers have come to expect.

We created a new Power Quality business unit putting even more focus on growth and making new products. At the same time, we continued to develop new products and forming strong partnerships with other companies to make sure this part of our business keeps growing.

Sales in India hit a new high, exceeding over $40 million. We continue to see India and Southeast Asia as an area of growth for our liquid-filled business as we work to continuously improve our operations there.

2023 Corporate Highlights

Adrian Thomas was appointed as HPS' new CEO, succeeding Bill Hammond, who took on the role of Executive Chair. With over two decades of experience in the electrical industry, Adrian is a seasoned leader with key positions at General Electric, TMEIC, and Schneider Electric. Recognized for championing diversity, equity and inclusion, Adrian actively participates in various not-for-profit associations, including serving as the President of the European Chamber of Commerce in Canada. Adrian looks forward to continuing to globally expand the company, while maintaining the foundation of innovation and customer dedication that has been paramount at HPS for over a century.

Groundbreaking corporate communication initiatives

Inaugural ESG (“Environmental, Social, Governance”) Report

The ESG report signifies a formal commitment to sustainability, marking the commencement of HPS’ efforts to consolidate and report on its initiatives in this vital area. In 2022, the company took a crucial stride by conducting its first formal materiality assessment. This assessment, completed in collaboration with ESG-focused third-party guidance and adhering to the Global Reporting Initiative (“GRI”) and Sustainability Accounting Standards Board (“SASB”) standards, unfolded in three stages: topic identification, prioritization and validation. This strategic move not only informs HPS’ future sustainability endeavours but also shapes and prioritizes the content of the report, emphasizing the company’s dedication to transparency and responsible corporate practices.

New Brand Identity

In July 2023, HPS unveiled a transformative new brand identity, marking a significant milestone as the company embraces a new era of opportunity and growth. The comprehensive development process involved evaluating the existing brand, gathering input from employees, customers and partners and analysing the company’s future direction. The modernized logo, colour scheme and a future-focused tagline, **Energizing Our World**, reflects HPS’ commitment to leading in the electrification space. The initiative includes creating sales segments for emerging markets, expanding product solutions, investing in systems and manufacturing capabilities and enhancing positive employee experiences. HPS’ continued focus on employees, customers and communities is integral to delivering global solutions for today’s challenges and tomorrow’s opportunities.

to our Shareholders

ADRIAN THOMAS
CHIEF EXECUTIVE OFFICER

We delivered exceptional results in 2023 with record sales of $710 million, up 27% over 2022 and with continued growth across all parts of the business. Organic growth continues in the low double digits in North America and 17% overall for our company. Although inflationary price increases have slowed as commodity prices stabilize, pricing remains resilient as demand continues to stretch industry capacity.

We continued to grow our standard product business by expanding our distribution base in the United States ("U.S.") and through our focus on growing sales in Mexico. The U.S. economy defied the much talked about recession in 2023 and we saw strong growth in this channel. I should mention that growth in Canada was also steady and even accelerated towards the end of the year.

India remains strong, with a 85% year-over-year improvement in sales. Quote activity remains strong, with target markets being secondary transmission, renewables, service and multi-pulse drives.

In late 2022 we embarked on the largest capital program in company's history, allocating $52 million to growing manufacturing capacity at our facilities in Mexico, Guelph, Ontario and at our Mesta location in Pittsburgh, PA. Every HPS facility surpassed 2022 shipments in 2023, with our Guelph facility seeing the highest level of growth across our operations. The capacity that we started to add through our capital projects helped us tremendously in achieving these new sales levels, however, the bulk of our announced capital expenditures will be spent during 2024. This added investment will provide us with more than $900 million allowing for continued growth in the coming years.

With high levels of growth come challenges, and in 2023 we were challenged in maintaining our exceptional service levels. While our stock levels improved on standard products, in the third quarter we had to readjust our shipping schedule for some of our custom power and original

We delivered exceptional results in 2023 with record sales of $710 million, up 27% over 2022 and with continued growth across all parts of the business.

Global urgency to limit climate impact through electrification combined with the need for electricity to support the world's growing need for data are driving significant tailwinds benefiting our business.

equipment manufacturer ("OEM") orders due to the high levels of growth that came at a faster rate than anticipated and ahead of our capacity investments. This reschedule impacted many of our customers and we have been focused on catching back up to our reputed performance levels. We thank our customers for their patience and flexibility as our teams worked tirelessly through these scheduling challenges.

I hope you noticed our new logo and colour scheme in this annual report, and that you find it contemporary and exciting. I am most thrilled about what it represents to us as a company. It aptly captures our transformer core while indicating multiple accelerations of the transitioning world and our broad mandate of power solutions. With the shift from hydrocarbon to electrical based power systems we are seeing more conversion technologies being added to our electrical systems creating issues with the quality of the power at a time when electricity needs to be even more reliable. We are accelerating our activity in this area by developing solutions that support power quality using both magnetics and power electronics technologies. To better support growth in this area, we have created a new business unit dedicated to profitably growing our sales.

As we think of the future, we must also think of how our operations and actions impact this future. To this end, we have continued to make progress on our sustainability journey. We produced our first environmental, social and governance ("ESG") report and made strides in improving our tracking and reporting capabilities. We are engaging our suppliers to understand their ESG performance and compliance and to share ideas to reduce waste together. We are committed to achieve our 5 sustainability pillars and to embed sustainability actions in all business functions.

Hammond Power Solutions is a leading enabler in the global push for electrification. Global urgency to limit climate impact through electrification combined with the need for electricity to support the world's growing need for data are driving significant tailwinds benefiting our business. I'm very excited how we can use our expertise to contribute to the electrification of our world as a strong, sustainable company that can thrive for decades to come.

Our purpose

Passionate people energizing a better world

HPS has a track record of leading the industry, being operationally strong and staying financially stable.

As the world changes the way we build things, putting more emphasis on clean energy, electric cars and advanced technology like semiconductors, HPS is using its know-how in designing and making transformers to adapt. With a diverse network for getting our products into the market, we're now part of more groundbreaking projects and serving more customers than ever before.

HPS has a track record of leading the industry, being operationally strong, and staying financially stable. This success comes from having a clear plan and taking action to make it happen.

With a history spanning over a hundred years, HPS has weathered economic ups and downs by keeping up with new and groundbreaking industries, making strides in growth, innovation and staying strong in the face of challenges. We are proud of how far we have come this year and with our success we can envision an even brighter future. We now have the resources to build a stronger company in terms of our manufacturing capabilities, the technology we use to scale our business up, and the development of our talent base. In the coming years, we intend to build on our strengths as a leading transformer manufacturer, while opening new avenues to grow in power quality and other power conversion solutions. We're ready to take advantage of the worldwide push for new and innovative electrical systems, showing that we're here to lead and stay strong even in dynamic times.

Our vision

To be a leader in the electrification of our world by providing power conversion solutions to our customers while positively impacting social and environmental sustainability.

Our mission

We are a talented, aligned, and collaborative team that is agile, engaged, and customer-centric. Our strong culture, technical expertise and reliability of execution allows us to meet our customers' and stakeholders' needs in an exceptional way.

Strategic pillars

	Pillar	Description
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.

Looking to 2024

In 2024, our commitment to enhancing capacity remains unwavering, with significant milestones anticipated in the coming quarters. The completion of our new factory in Monterrey, Mexico, scheduled for Q2, and the Mesta expansion in Q3 are pivotal steps in this trajectory. Concurrently, we are initiating additional expansion projects in Mexico, geared towards increasing the production capacity for large low voltage distribution transformers. While 2023 focused on stabilization, 2024 marks a strategic shift towards fortifying our newly expanded organization and exploring avenues for the future.

As we grow to $1 billion in sales and nearly 2,000 employees, we recognize the need for scalability in both personnel and tools. As part of this vision, we are investing in more software technology to elevate the sophistication of our business operations. Building on our 2021 learning and development program, we are continuing to expand these initiatives. This becomes increasingly crucial as our organization grows and integrates new members. In the upcoming year, our emphasis will be on collaborating more closely with customers, facilitated by a dedicated team focusing on collaborative application development. Additionally, we are committed to augmenting our power quality portfolio through continued product development and strategic partnerships.

Growth markets

2024 marks a strategic shift towards fortifying our newly expanded organization and exploring avenues for the future.

Data Centres

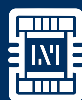
Growth is driven by new technologies such as the internet of things (IoT), edge computing and 5G.

Renewable Energy

Wind and photovoltaic power are experiencing exponential growth.

EV Industry/ Charging Stations

By 2025, the move from conventional vehicles to electric vehicles is expected to have a profound effect on the auto industry 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.

2023 Review of Operations

Hammond Power Solutions continued to deliver exceptional results with 2023 showing robust growth across all geographies and channels. Financially, the fourth quarter ended with record shipments close to $187 million globally. This represents a 30% increase over the fourth quarter last year and a 27% increase on a year-to-date basis. This is a new record top line that helped us to achieve our margin and profit targets.

Despite initial predictions of a recession, the U.S. economy contributed to our growth with increased volumes through both distribution and OEM channels. While the U.S. was the largest driver of our growth in North America, Canada grew at 16% on a year-to-date basis. Our focus on Mexico was rewarded this year with sales growing at 66% as our team gains traction and awareness with customers.

The India business remains strong, with a 85% year-over-year improvement in sales. Quote activity remains very active, with target markets being secondary transmission, renewables, service and multi-pulse drive applications. As we plan for a strong future, we have made plant and office improvements as well as centralized our employees.

Beyond transformers, our Mesta acquisition continues to grow as part of Hammond Power Solutions and achieved $18M of sales in 2023. To continue to grow this business and to build a focus on our power quality, we have created a new business unit. The new business unit will focus on profitably growing our sales of power quality, induction heating inverters and other power conversion solutions. A portion of our capital budget is dedicated to expanding our Mesta facility to allow for continued growth over the years to come. The team is also busy developing innovative solutions for the market, such as our recently launched sinewave filter, an essential element in our growing power quality portfolio.

Momentum in our rebranding initiative continues to build. The rebranding captures who we are and where we go from here. As the world shifts and becomes more electric with more renewables and more non-linear loads, the need for solutions to support the many different challenges to our power systems will need to be deployed. Our focus is to bring value to our customers by leveraging our years of domain expertise with collaboration to provide effective and reliable solutions. In keeping with this approach, we have deployed a new Technical Solutions Group to seek out opportunities in emerging markets where we can work with our customers and our own engineers to help solve customer problems.

With the exceptional growth in the past two years, we are now running all of our factories near full capacity, with some fully loaded into the next few quarters. Progress with our previously announced capital plans is critical to meeting our customers' expectations. We have now allocated over $50 million to capacity expansions, with the bulk of the spending to occur in 2024. Some of the planned investments in Guelph and Mexico have been completed which have helped us gain capacity in the second half of 2023. We took over the remaining portion of one of our factories in Mexico expanding our footprint and giving us space to produce more low voltage distribution transformers ("LVDT") as well as large distribution transformers. We are making timely progress on our new control products plant which will be 109,000 square feet dedicated to building control, reactors, and potted transformer products.

Our rapid growth means we must redefine our supply chain model. It does not mean throwing out all things that work, but re-evaluating risk, exposure, costs and what is important. As recently as three to four years ago we were heavily dependent on a few key suppliers who in some cases provided over 90% of our material supply on key commodities. Today, we are focused heavily on de-risking that supply base, working to ensure consistency, evaluating and benchmarking a more diverse supply base - strengthening our team's expertise and knowledge.

Our logistics and inventory models are also being evaluated to ensure that our growth is not outpacing our capabilities. This year we implemented a new Northeast warehouse located in Baltimore, which is now fully launched using a third party logistics ("3PL") partner and has already improved service levels. The next step in our warehouse strategy is to look at how we can optimize flows to increase customer service levels while optimizing inventory and transportation costs.

Our supply chain team continues to work to ensure a robust and diversified supplier base that can meet our needs. We expect that this diversification will not only build a more resilient supply chain but will save on costs as well.

The most recent enterprise resource planning ("ERP") system upgrade was completed earlier in 2023 and was a comprehensive technology upgrade. Other investments in technology included revamping of our telecommunications and networking infrastructure to better align it with our transition to cloud computing providing higher levels of flexibility and security. We deployed additional cyber security measures as well as increased the communication and education of our employees around cyber threats.

We plan to continue to invest in our technology tools and infrastructure as ways to enhance our productivity and speed. We will be implementing pricing software in 2023 to help manage the vast complexity of pricing in multiple markets with a broad portfolio of solutions.

As we grow revenues, add capacity and enter new businesses, we need to attract and retain top talent. Employee engagement has been a strength of ours, and we continue to make investments to support our team members through various programs. In 2023 our employee population grew to just over 1,900 employees worldwide. This increase in hiring put pressure on our onboarding and training capabilities and we saw increased turnover, especially during peak hiring. Adapting quickly, we modified our methods for screening candidates, onboarding and training programs, resulting in a positive trend on new hire retention over the last four months of the year.

In 2023, we published our inaugural environmental, social and governance ("ESG") report for HPS based on 2022 measurements and implemented a set of priorities. This was our first step in formalizing our commitments and making our progress transparent. We continue to focus on our five pillars (People, Community, Environment, Economics, and Continuous Improvement) and we saw both internal improvements as well as improvement to our externally validated EcoVadis score. Furthermore, we are preparing for the requirements for reporting of sustainability risks through the International Financial Reporting Standards ("IFRS") to ensure that we can better communicate about sustainability related risks and opportunities we face.

We are proud of how far we have come this year and with our success we can envision an even brighter future. We now have the resources to build a stronger company in terms of our manufacturing capabilities, the technology we use to scale our business up, and the development of our talent base. In the coming years, we intend to build on our strengths as a leading transformer manufacturer, while opening new avenues to grow in power quality and other power conversion solutions.

We wholeheartedly thank all of our employees for their tremendous efforts during this exciting time, as well as our shareholders for their support of our vision of the future.

Data Centre Transformers

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.

HPS TruWave
Active Harmonic Filter

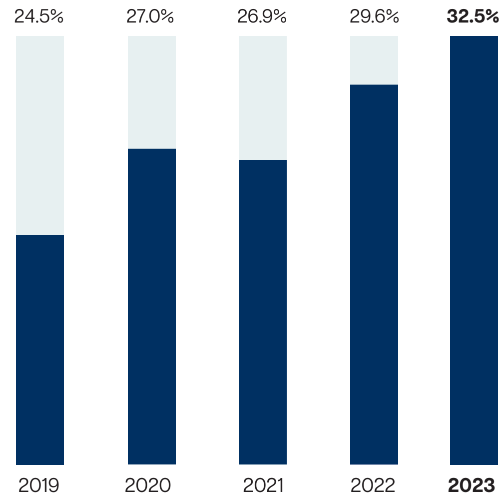
HPS Sentinel H
Harmonic Mitigating Transformer

HPS Centurion R
Reactor

HPS Millennium
or **HPS EnduraCoil**
Medium Voltage Distribution Transformer

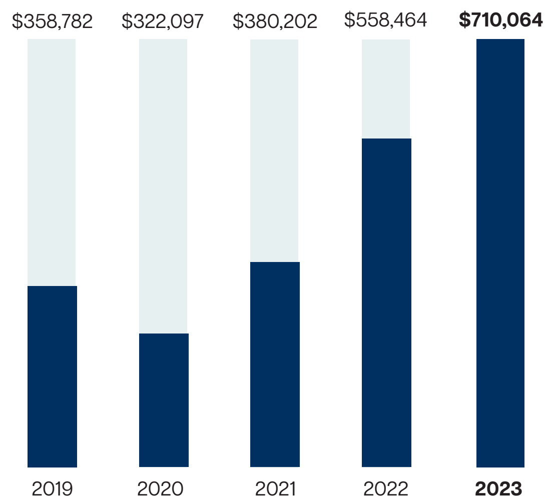
Year in review

Gross Margin %



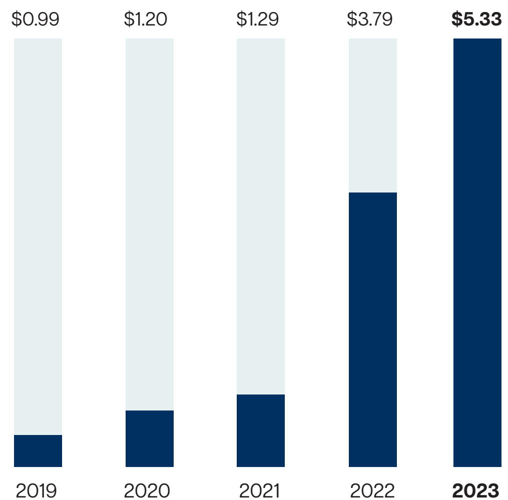
Consolidated Sales

(in thousands of dollars)



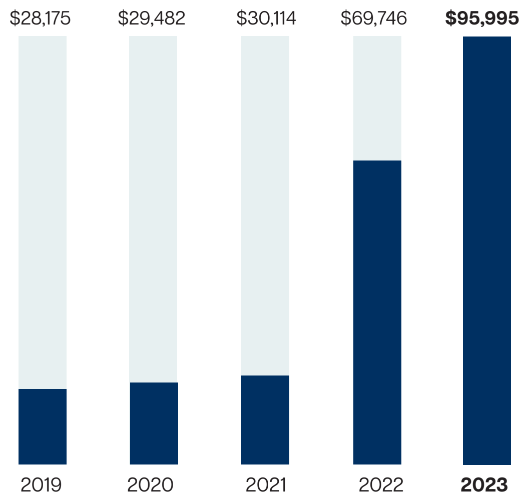
Basic Earnings Per Share

(in dollars)



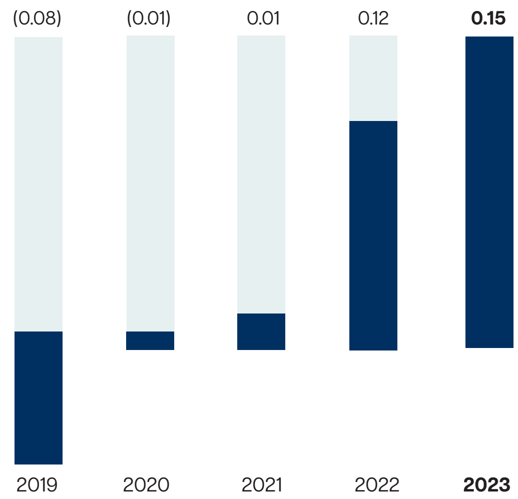
EBITDA*

(in thousands of dollars)



* Non-GAAP financial measure, refer to page 19 of the annual report

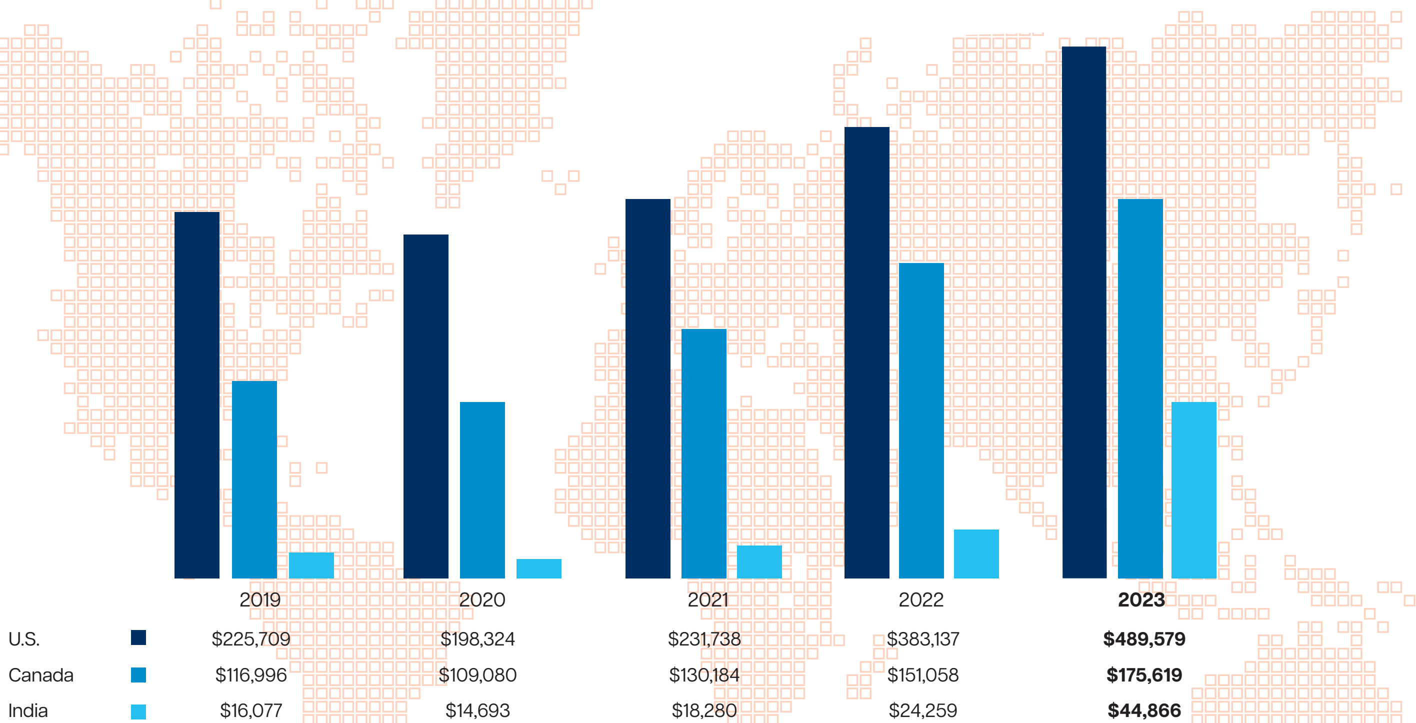
Net Operating (Debt) Cash* to Equity



* Non-GAAP financial measure, refer to page 19 of the annual report

Geographic Sales

(in thousands of dollars)



	2019	2020	2021	2022	**2023**
U.S.	$225,709	$198,324	$231,738	$383,137	**$489,579**
Canada	$116,996	$109,080	$130,184	$151,058	**$175,619**
India	$16,077	$14,693	$18,280	$24,259	**$44,866**

Management's Discussion and Analysis

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, 2023 and 2022, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2023 and 2022, which have been prepared in accordance with IFRS Accounting Standards ("IFRS"). This information is based on Management's knowledge as at March 27, 2024. 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.sedarplus.ca 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 has changed in 2023 due to the significant value associated with share based compensation during the year. Comparative figures have also been presented. 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, 2023 and December 31, 2022 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 2023 consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and December 31, 2022, and Notes thereto, have been prepared under IFRS Accounting Standards.

Overview

Demand for HPS' products increased at a rapid rate in 2023, and in the year-ended December 31, 2023 HPS realized its highest annual revenues in company history. HPS' customers and end-users operate in a variety of industries and the varying levels of economic activity within those industries will have an impact on HPS' overall sales. During the year, we saw activity increase in many of the markets we serve, such as industrial and commercial construction, utilities, infrastructure, data centers, mining, electric vehicle charging and renewables. Many of these markets have all benefitted from higher-than-normal levels of investment.

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 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 some custom projects, whereas OEM sales are mainly customized and project-oriented sales. 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.

HPS' manufacturing capabilities are primarily located in North America, with production facilities in Canada, the U.S. and Mexico. 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 Mexican markets. HPS also has manufacturing facilities in India, which primarily serves the Indian domestic and Southeast Asian markets with oil-filled transformers. HPS experienced growth in all of these markets in 2023.

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 through current and new customers and products. 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.

Technology and know-how obtained through acquisitions have allowed the Company to accelerate sales in new markets. The acquisition of Mesta Electronics Inc. has expanded HPS' offering into standard and custom active filter and induction heating products. Mesta shares an excellent reputation for product quality, design and reliability. Mesta not only expands HPS' U.S. presence but also broadens our power solutions product offering and manufacturing capabilities. Mesta achieved significant revenue and profitability levels in 2023.

As HPS advanced through 2023, certain markets, such as commercial and industrial construction, began the year with strong bookings and shipments. These bookings began to stabilize late in the year. Other markets, such as data centres, while a relatively small part of our overall sales, continued to grow at a high rate throughout the year. Overall, bookings and backlog that grew strongly in the beginning of the year began to stabilize late in the year.

HPS remains confident in its ability to continue to generate growth – through our strategic vision merged with our operational strategies. Through HPS' strategic planning process, the Company is identifying and developing new market opportunities, which will come from organic and new customer 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.

During 2023, after 22 years of serving as Chief Executive Officer ("CEO"), William (Bill) Hammond retired and assumed the role of Executive Chair on July 31, 2023. Bill was succeeded by Adrian Thomas, who was appointed CEO on July 31, 2023. Adrian is a highly experienced professional with over 20 years of experience in the electrical and automation industry. On December 31, Bill resigned his position as Executive Chair and effective January 1, 2024, solely holds the position of Chair of the Board. Adrian's depth of experience in the electrical industry will lead HPS to continue to grow.

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	2023	2022 (Adjusted**)	$ Change	% Change
U.S. & Mexico*	489,579	383,137	106,442	27.8%
Canada	175,619	151,058	24,561	16.3%
India	44,866	24,269	20,597	84.9%
Total	**710,064**	**558,464**	**151,600**	**27.1%**

* When stated in U.S. dollars, U.S. and Mexico sales have increased from $294,137 in 2022 to $362,651 in 2023, an increase of $68,514 or 23.3%.

** The 2022 sales values by geography have been adjusted from previously reported amounts due to a misclassification by geography. The previously disclosed comparative values in Canada was $33,437 less than the adjusted value, the previously disclosed values in U.S. and Mexico was $33,427 more than the adjusted value, and India was $10 more than the adjusted value.

U.S. and Mexico sales were positively impacted by the strengthening of the U.S. dollar relative to the Canadian dollar versus 2022. The average U.S. to Canadian exchange rate for 2022 was $1.350 versus $1.301 in 2022, a U.S. dollar strengthening of 3.8%. The 2023 U.S. sales at prior year exchange rates would have been $17,473 or 3.7% lower at $472,106.

The U.S. market experienced significant increases in the OEM channel, with higher sales supporting data centres, warehousing, industrial manufacturing, mining, electric vehicle charging, renewable energy and oil and gas production. Sales in the U.S. distributor channel also improved due to strong market activity and market penetration as additional distributors continue to be added to the network. There were also improvements in the specialty, motor control, power control and private branding markets.

Sales from the Mesta Electronics LLC ("Mesta") business are included in U.S. sales. Sales for Mesta for 2023, stated in Canadian dollars, were $18,497 versus $14,507 in 2022, an increase of $3,990 or 27.5%, contributing to the overall increase in sales. The Mexico market continued to grow in 2023 contributing sales of $8,507, stated in U.S. dollars, an increase of $3,382 or 66.0% from 2022 sales of $5,125.

The Canadian market experienced increases in commercial construction, EV charging, and data centre projects.

The improvement of India sales year-over-year is a result of general economic conditions as well as recognition of a significant order for $7,596 produced and shipped from India that could not be recognized at the end of 2022 given sales terms of freight on board ("FOB") destination. These sales were recognized in Quarter 1, 2023. A significant part of the growth in India is through exports to other Southeast Asian countries.

Stated by geographic segment, sales in the U.S. and Mexico were 68.9% (2022 – 62.7%), in Canada were 24.8% (2022 – 33.0 %) and India accounted for 6.3% (2022 – 4.3 %) of total sales.

Significant increases in North American sales came through established distributor and OEM channels. While the number of distributors added during the year was modest, we did experience strong growth within existing distributors. Custom projects through the distribution channel rose during the year, driven by the heightened demand experienced by our customers and in line with the industry tailwinds similar to those being experienced by HPS.

2023 was another year of significant growth in terms of pricing increases and organic growth. Of the 27% growth in sales, we estimate that 17% is due to organic growth when Mesta and India are included, 7% was due to price increases held over from 2022, and 3% was due to a strengthened U.S. dollar in 2023.

Backlog

The Company's December 31, 2023 backlog increased by 19.9% as compared to December 31, 2022 and has decreased 3.2% from Quarter 3, 2023. 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 no longer being pushed out and remain steady. 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 2023 increased to 32.5% versus 29.6% in 2022, an increase of 2.9% of sales. The improvement in gross margin is the result of better operating leverage due to high factory throughput, stabilizing cost inputs, a higher proportion of Mesta and power quality sales, and margin improvements in India. Higher gross margins were achieved in all channels and regions and are supported by high demand for the Company's products. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. Margins in the fourth quarter were higher than the previous three quarters due to inventory adjustments resulting from the annual physical count in conjunction with adjustments to inventory reserves.

During 2023, HPS estimated an organic volume increase of 17%, including India and Mesta. This increase, along with organic increases in 2022, 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.

Gross margins were affected by the sales mix, which was favourable throughout the course of 2023. Higher distribution sales, which typically have higher gross margins, but also higher selling costs contributed to higher margins. Stronger Mesta sales also resulted in margin improvement and in addition, HPS saw significant margin improvements in the Indian business due to favourable pricing.

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. While some of these inputs fluctuated and even eased during 2023, labour and overhead costs continued to increase, which may necessitate future price increases. 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 $76,283 for 2023 versus $62,263 in 2022, an increase of $14,020 or 22.5%. On a percentage-of-sales basis, total selling and distribution expenses decreased to 10.7% of sales for 2023 from 11.1% in 2022. The higher sales value for the year resulted in additional commission expense of $4,028, higher freight expense of $5,268 and additional warehouse costs of $421, which are variable selling expenses that naturally fluctuate with sales changes. Approximately $1,376, or 0.2% of the selling and distribution expenses increase relates to strategic investments in people resources as well as increased incentive plan payments related to higher sales and profits.

General and administrative expense

General and administrative expenses in 2023 were $68,007 compared to $43,481 for 2022, an increase of $24,526 or 56.4%. On a percentage-of-sales basis these costs have increased from 7.8% in 2022 to 9.6% in 2023. Key drivers for the current year increase are as follows:

- Approximately $3,679 of the increase in the current year is associated with strategic investments in people resources;
- Higher share price and additional awards granted in Quarter 1, 2023 caused the share based compensation expense to increase $15,950 from prior year;
- Incentive related to the Mesta acquisition increased general and administrative expenses $634; and
- An additional $1,114 more was spent on travel expenses as a result of increased business.

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 $86,721 in 2023, as compared to earnings of $59,441 in 2022 – an increase of $27,280 or 45.9%. 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:

	2023	2022
Net earnings for the year	$ 63,399	$ 44,828
Add:		
Income tax expense	20,595	12,341
Finance and other costs	2,727	2,272
Earnings from operations	$ 86,721	$ 59,441

Net Finance and other costs

Net finance and other costs increased $455 from $2,272 in 2022 to $2,727 in 2023. The increase from the prior year is a result of a foreign exchange loss in the current year and a gain in the prior year, as well as lower interest expense.

Interest expense for the year-ended December 31, 2023 finished at $1,320 as compared to $1,596 in 2022, a decrease of $276. Interest expense includes all bank fees.

The foreign exchange loss in 2023 of $1,280 related primarily to the transactional exchange loss on the Company's U.S. dollar ("USD") trade accounts receivable, compared to a foreign exchange gain of $96 in 2022. 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, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $12,658 USD – both of which were implemented as a hedge against translation gains and losses on inter-company loans as well as $45,000 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 $16,656 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, 2023 can be found in note 27 in the Notes to Consolidated Financial Statements included in our 2023 Annual Report.

[1] Refer to Non-GAAP financial measures on page 20 of this annual report

Earnings before income tax

2023 earnings before income taxes were $83,994 as compared to earnings of $57,169 in 2022 – growing by $26,825 or 46.9%. 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 2023 was $20,595 as compared to $12,341 in 2022 – an increase of $8,254 or 66.9%. The consolidated effective tax rate on earnings from operations for 2023 was 24.5% versus 21.6% last year – an increase of 2.9%. The increase is primarily due to future tax assets recognized in 2022.

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 2023 Annual Report.

Net earnings

Net earnings for 2023 finished at $63,399 compared to net earnings of $44,828 in 2022, an increase of $18,571 or 41.4%. 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, 2023 was $95,995 versus $69,746 in 2022 – an increase of $26,249 or 37.6%. Adjusted for foreign exchange loss/gain, share based compensation expenses adjusted EBITDA for 2023 was $117,229 versus $73,435 in 2022 – an increase of $43,794 or 59.6%.

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

		2023		2022
Net earnings	$	63,399	$	44,828
Add:				
Interest expense		1,320		1,596
Income tax expense		20,595		12,341
Depreciation and amortization		10,681		10,981
EBITDA	$	95,995	$	69,746
Add (subtract):				
Long-term incentive plan ("LTIP") Expense		6,367		1,602
Deferred Share Units ("DSU") Expense		13,587		2,183
Foreign exchange (gain) loss		1,280		(96)
Adjusted EBITDA	$	117,229	$	73,435

Summary of quarterly financial information (unaudited)

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

Fiscal 2022 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 127,782	$ 137,476	$ 148,953	$ 144,253	$ 558,464
Net earnings	$ 8,569	$ 6,505	$ 11,531	$ 18,223	$ 44,828
Net earnings per share – basic	$ 0.72	$ 0.55	$ 0.97	$ 1.55	$ 3.79
Net earnings per share – diluted	$ 0.72	$ 0.55	$ 097	$ 1.53	$ 3.77
Average U.S. to Canadian exchange rate	$ 1.267	$ 1.276	$ 1.305	$ 1.358	$ 1.301

HPS sales have increased quarter-over-quarter for the past two years with the exception of Quarter 4, 2022. Quarterly sales continue to grow, with Quarter 4, 2023 sales significantly higher than any quarter in 2022. The drop in Quarter 4, 2022 was related to a large India order that was shipped but unable to be recognized until Quarter 1, 2023 given the sales terms of FOB destination. 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 and Mexico. 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.

Quarter 4, 2023 financial results

	Quarter ended December 31, 2023	Quarter ended December 31, 2022
Sales	$ 186,958	$ 144,253
Gross margin rate	35.5%	34.4%
Earnings from operations	$ 24,661	$ 20,369
Exchange loss (gain)	$ 1,593	$ (847)
Net earnings	$ 19,903	$ 18,223
Earnings per share – basic	$ 1.68	$ 1.55
Earnings per share – diluted	$ 1.68	$ 1.53
Cash provided by operations	$ 21,053	$ 5,352

Sales for the quarter ended December 31, 2023 were $186,958, an increase of $42,705 or 29.6% 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 increased from the same quarter last year by 1.1% from 34.4% in 2022 to 35.5% in 2023. The gross margin in the quarter was higher than what would be expected primarily due to inventory adjustments and a favourable sales mix.

Total selling and distribution expenses amounted to $19,988 in Quarter 4, 2023 versus $16,071 in Quarter 4, 2022 – an increase of $3,917. Selling and distribution expenses as a percentage of sales have decreased to 10.7% in Quarter 4, 2023 compared to 11.1% in Quarter 4, 2022, 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 increased to 11.6% in 2023 compared to 9.2% in 2022. General and administrative expenses for Quarter 4, 2023 totaled $21,746, an increase of $8,539 when compared to Quarter 4, 2022 costs of $13,207. Additional salary and incentive costs account for the increase in the quarter.

Quarter 4, 2023 net finance and other costs were $1,982 compared to $367 for the same quarter in 2022, an increase of $1,615. The Quarter 4, 2023 interest cost decreased from $536 in Quarter 4, 2022 to $360 in Quarter 4, 2023. Foreign exchange loss in Quarter 4, 2023 was $1,593 compared to a foreign exchange gain of $847 in Quarter 4, 2022.

Earnings from operations for the quarter were $24,661 in 2023 and $20,369 in 2022, an increase of $4,292. Additional gross margin dollars were offset by higher general, administrative, selling and distribution expenses.

Quarter 4, 2023 income tax expense was $2,776 on earnings before income taxes of $22,679 (an effective tax rate of 12.2%) as compared to an income tax expense of $1,779 on income before income taxes of $20,002 (an effective tax rate of 8.9%) in Quarter 4, 2022. The lower Quarter 4, 2022 effective tax rate is result of a significant deferred tax assets at year-end.

Net income for Quarter 4, 2023 was $19,903 compared to net income of $18,223 in Quarter 4, 2022 – an improvement of $1,680.

Cash provided by operations for Quarter 4, 2023 was $21,053 versus $5,352 in Quarter 4, 2022 – an increase of $15,701. The main driver for this change was an increase in cash used for working capital.

Overall net operating cash balance was $34,120[1] as at December 31, 2023, an improvement of $12,148 as compared to a net operating cash balance[1] of $21,972 as at December 31, 2022, primarily reflecting improved profitability.

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 2023 was $44,108 versus $37,013 in 2022, an increase in cash generated of $7,095 or 19.2%. This increase in cash generated from operating activities was due to higher profitability, offset by an increase in non-cash working capital versus 2022. Non-cash working capital used cash of $51,708 in 2023 versus $19,539 in 2022, resulting in an increase of $32,169 from 2022. The change in non-cash working capital in 2023 was primarily a result of increases in accounts receivable and inventory, decreases in deferred revenue offset by increases in accounts payable.

Accounts receivable finished the year at $128,030 as compared to $86,701 as at December 31, 2022, an increase of $41,329 – a result of higher sales in Quarter 4, 2023 compared to Quarter 4, 2022. 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 $114,590 as at December 31, 2023, versus $106,353 as at December 31, 2022, an increase of $8,237. The higher inventory levels in 2023 were attributed to increased sales volume, and the higher cost of raw materials.

Accounts payable and accrued liabilities, excluding derivative and share-based compensation liabilities, increased by $17,246 finishing at $103,516 as at December 31, 2023 compared to $86,270 at the end of 2022. The change in accounts payable is due to higher sales volumes, higher raw materials costs, higher accruals and the timing of purchases from and payments to suppliers.

Net income taxes payable[2] were $324 as at December 31, 2023, versus net income taxes payable of $347 as at December 31, 2022 – a change of $23 due to changes in the effective tax rate[3].

Cash generated by financing activities was $755 in 2023, compared to cash used of $22,303 in 2022, a change of $23,058. The change in the balance can be attributed to repayment from the operating line in 2022 compared to advances on the bank operating lines in 2023.

Cash used in investing activities in 2023 increased $6,686 from $12,674 in 2022 to $19,360 in 2023. There was an increase in capital spending for property, plant and equipment of $11,523 over the prior year, totaling $20,169 in 2023 – compared to $8,646 for 2022. The higher spending is primarily the result of spending on capacity increases.

Bank operating lines of credit finished the year at $18,471 as at December 31, 2023, compared to $6,154 as at December 31, 2022 resulting in an increase of $12,317 in the year. The Company had cash and cash equivalent balances of $52,591 as at December 31, 2023 as compared to $28,126 as at December 31, 2022.

[1] Overall net operating cash balance is the bank operating lines of credit of $18,471 net of cash and cash equivalents of $52,591
[2] Net income taxes payable consists of income taxes payable of $4,602 less income taxes receivable of $4,278
[3] Effective tax rate is calculated as the income tax expense divided by the earnings before income taxes

Overall net operating cash balance[1] was $34,120 as at December 31, 2023, an improvement of $12,148 as compared to a net operating debt balance of $21,974 as at December 31, 2022, primarily reflecting improved profitability and cash generated from operations.

All bank covenants were met as at December 31, 2023, 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 $12,252. 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 setting up an approximately 110,000 square foot small products facility, while also adding equipment to existing facilities there. HPS is also actively expanding its manufacturing capacity at the Mesta location in Pennsylvania, USA, as well as its facility in Guelph, Ontario, Canada.

Additional details of our change in non-cash working capital can be found in note 24 in the Notes to Consolidated Financial Statements contained in our 2023 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	$ 125,222	–	–	–	–	$ 125,222
Capital expenditure purchase commitments	12,252	–	–	–	–	12,252
Operating lines of credit	18,471	–	–	–	–	18,471
Derivative liability	1,138	–	–	–	–	1,138
Lease liabilities	5,500	4,742	3,413	2,228	4,332	20,215
Contingent consideration	2,138	–	–	–	–	2,138
Total	$ 164,721	$ 4,742	$ 3,413	$ 2,228	$ 4,332	$ 179,436

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

Hammond Power Solutions S.p.A – Italy

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 plan purchase price, inclusive of any reduction agreed in the lease agreement, was equal to Euro 1,885,000. The date under which it will be settled has been extended into 2024.

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 twelve and a half cents ($0.125) per Class A Subordinate Voting Share of HPS and of twelve and a half cents ($0.125) per Class B Common Share of HPS, for the first and second quarters of 2023. 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 fifteen cents ($0.15) per Class B Common Share of HPS, for the third and fourth quarters of 2023.

The Quarter 1 dividend was paid on March 30, 2023 to shareholders of record at the close of business on March 23, 2023 – the ex-dividend date was March 22, 2023. The Quarter 2 dividend was paid on June 27, 2023 to shareholders of record at the close of business on the 20th day of June 2023 – the ex-dividend date was June 19, 2023. The dividend for Quarter 3 was paid on September 22, 2023 to shareholders of record at the close of business on September 15, 2023 – the ex-dividend date was September 14, 2023. The Quarter 4 dividend was paid on December 15, 2023 to shareholders of record at the close of business on December 8, 2023 – the ex-dividend date was December 7, 2023.

In 2023, the Company has 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. In 2022, the Company had paid a total cash dividend of thirty-eight and a half cents ($0.385) per Class A Subordinate Voting Share and thirty-eight and a half cents ($0.385) 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, 2023, 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, 2023 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 2023, which was completed in the fourth quarter.

As of December 31, 2023 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, 2023.

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

During 2023 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 6, 2024, the Company declared a dividend of fifteen cents ($0.15) per Class A subordinate voting shares of HPS and a quarterly cash dividend of fifteen cents ($0.15) per Class B common shares of HPS payable on March 28, 2024 to shareholders of record at the close of business on March 21, 2024. The ex-dividend date is March 20 2024.

On March 27, 2024, 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 June 25, 2024 to shareholders of record at the close of business on June 18, 2024. The ex-dividend date is June 18, 2024.

Italy

On March 14, 2024 the Group and the purchaser signed a settlement agreement for the sale and purchase of the plant. As outlined in Note 8, 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 will settle 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 will be executed no later than March 28, 2024. A deposit of 150,000 EUR was received on March 14, 2024.

SmartD

On March 22, 2024, HPS entered into a financing agreement with SmartD Technologies Inc. ("SmartD"). In the agreement, the Corporation will invest up to $3.9 million over three years in convertible debentures of SmartD. SmartD Technologies produces advanced motor control products, most notably it's Clean Power Variable Frequency DriveTM. SmartD's products combine motor drives with harmonic mitigating technology that help businesses save energy, lower costs, and minimize their carbon footprint.

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.

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.

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 continual 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.

Fighting Against Forced Labour and Child Labour in Supply Chains Act

The Fighting Against Forced Labour and Child Labour in Supply Chains Act (previously known as Bill S-211) came into force in Canada on January 1, 2024. This legislation imposes mandatory reporting obligations on Canadian and international businesses regarding forced and child labor in their supply chains. Entities falling under the Act's definitions must submit annual reports by May 31, 2024. Failure to comply with the Act can result in significant business risks, including legal penalties, reputational damage, supply chain disruptions, and market access challenges. Management of the Corporation has no knowledge of non-compliance in its supply chain and in an effort to ensure compliance, has engaged a consulting firm to assist with supply chain due diligence and to meet its reporting obligations to the Ministry of Labour.

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.

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 times 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 competetiveness, 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 2023 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2023, as disclosed in note 23 in the Notes to the Consolidated Financial Statements contained in our 2023 Annual Report.

Proposed transactions

The Company had no proposed transactions as at December 31, 2023. 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 and the following derivative instruments.

As at December 31, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $12,658 USD – both of which were implemented as a hedge against translation gains and losses on inter-company loans as well as $45,000 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 $16,656 USD.

Further details regarding the Company's financial instruments and the associated risks are disclosed in note 26 in the Notes to the Consolidated Financial Statements contained in our 2023 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 2023 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.

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.

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, 2023, 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, 2023. The adoption of the amendments did not have a material impact on the consolidated financial statements.

- Definition of accounting estimates (Amendments to IAS 8);
- Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements); and
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes).

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 are not expected to have a material impact on the consolidated financial statements.

The following amendments are effective for the annual period beginning on January 1, 2024:

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

Strategic direction and outlook

HPS experienced a successful 2023. The Company has a rich and extensive history of growth, innovation and resilience and 2023 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 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 demand for our transformers particularly in North America continues to grow and sales volumes accelerated in 2023. Towards the end of 2023, growth rates in certain sectors, like commercial construction and industrial applications began to level out. Commodity costs stabilized during the year protecting gross margin rates. It has been, and is, HPS' objective to maintain gross margins while delivering value to our customers. We will continue to do so in the future.

We continue to add new distributors and have implemented additional infrastructure in place to support our growth initiative into Mexico. We believe that Mexico has strong potential for us as a sales market due to its proximity to our manufacturing locations and our ability to leverage existing people, product, and supply chain.

Our acquisition of Mesta in 2021 has expanded HPS' offering into standard and custom active filter and induction heating products. Mesta shares an excellent reputation for product quality, design and reliability. Mesta not only expands HPS' U.S. presence but also broadens our power solutions product offering and manufacturing capabilities in power quality solutions. Mesta continues to contribute to both the increase in revenue as well as the increase in profits. During Quarter 2, 2023 the Mesta manufacturing location building, which was previously leased, was purchased. Expansion of this building is planned for the end of 2023 and into 2024.

HPS has modern manufacturing facilities throughout the world, and this continues to be enhanced through our committed capital investment. 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. Our focus in this area is evident by the high spending on capital expenditures during 2023.

With a focus on growth and advancement, HPS intends to increase its capital program by approximately $2 million over 2023 through 2025. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage distribution power, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives. In Mexico, HPS is in the process of setting up an approximately 110,000 square foot small products facility, while also adding equipment to existing facilities there. HPS is also expanding its manufacturing capacity at the Mesta location in Pennsylvania, USA, as well as its facility in Guelph, Ontario, Canada.

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.

The Company continues to have a strong reputation of 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.

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 success factors critical to our success.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information	2019	2020	2021	2022	**2023**
Sales	358,792	322,097	380,202	558,464	**710,064**
Earnings from operations	20,543	22,041	23,151	59,441	**86,721**
EBITDA	28,175	29,482	30,114	69,746	**95,995**
Net earnings (loss)	11,607	14,062	15,176	44,828	**63,399**
Total assets	214,953	189,394	235,099	302,673	**408,343**
Non-current liabilities	11,271	8,329	7,104	8,101	**12,500**
Total liabilities	105,186	75,478	109,097	125,779	**177,965**
Total shareholders' equity attributable to equity holders of the Company	109,767	113,916	126,002	176,894	**230,378**
Operating debt, net of cash	(9,326)	(1,278)	1,638	21,972	**34,120**
Cash provided by operations	17,810	19,683	20,447	37,013	**44,108**
Basic earnings per share	0.99	1.20	1.29	3.79	**5.33**
Diluted earnings per share	0.99	1.20	1.28	3.77	**5.33**
Dividends declared and paid	3,287	3,993	4,009	4,556	**6,548**
Average exchange rate (USD$=CAD$)	1.327	1.343	1.253	1.301	**1.350**
Book value per share	9.36	9.70	10.69	15.00	**19.54**

	2022				**2023**			
Quarterly Information	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Sales	127,782	137,476	148,953	144,253	171,134	172,451	179,521	186,958
Earnings from operations	12,658	10,046	16,118	20,369	22,623	18,957	20,480	24,661
EBITDA	14,458	12,225	18,970	24,093	24,145	21,444	23,657	26,749
Net earnings	8,569	6,505	11,531	18,223	15,726	13,333	14,437	19,903
Total assets	253,340	283,852	315,864	302,673	327,116	339,358	373,761	408,343
Non-current liabilities	6,170	5,793	6,640	8,101	9,413	9,800	8,373	12,500
Total liabilities	119,565	140,791	152,187	125,779	135,572	138,863	155,952	177,965
Total shareholders' equity attributable to equity holders of the Company	133,775	143,061	163,677	176,894	191,594	200,495	217,809	230,378
Operating cash (debt, net of cash)	(905)	9,542	21,843	5,352	7,127	11,717	22,130	34,120
Cash (used) provided by operations	537	14,623	16,501	1,837	(10,466)	12,295	22,159	21,053
Basic earnings per share	0.72	0.55	0.97	1.55	1.32	1.12	1.21	1.68
Diluted earnings per share	0.72	0.55	0.97	1.53	1.32	1.12	1.21	1.68
Dividends declared and paid	1,006	1,183	1,184	1,183	1,488	1,488	1,787	1,785
Average exchange rate (USD$=CAD$)	1.267	1.276	1.305	1.358	1.351	1.345	1.340	1.365
Book value per share	11.39	12.13	13.88	15.00	16.31	17.01	18.47	19.54

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.

Adrian Thomas
Chief Executive Officer

Richard C. Vollering
Corporate Secretary
& Chief Financial Officer

March 27, 2024

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 statements of financial position as at end of December 31, 2023 and end of December 31, 2022
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements 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, 2023 and December 31, 2022, and 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, 2023. 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 13 of the financial statements. The goodwill balance is $11,736 thousand, of which, $7,975 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.

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 2023".

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 2023 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance 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.

Chartered Professional Accountants,
Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Alexandra Duret.

March 27, 2024
Kitchener, ON, Canada

Consolidated Statements of Financial Position

(in thousands of dollars)

	As at	
	December 31, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ 52,591	$ 28,126
Accounts receivable (note 5)	128,030	86,701
Inventories (note 6)	114,590	106,353
Income taxes receivable	4,278	1,995
Prepaid expenses and other assets (notes 7 and 8)	9,949	6,948
Total current assets	309,438	230,123
Non-current assets		
Property, plant and equipment (note 9)	65,841	41,742
Investment in properties (note 10)	2,940	3,121
Deferred tax assets (note 17)	11,798	8,013
Intangible assets (note 12)	6,590	7,650
Goodwill (note 13)	11,736	12,024
Total non-current assets	98,905	72,550
Total assets	$ 408,343	$ 302,673
Liabilities		
Current liabilities		
Bank operating lines of credit (note 14)	$ 18,471	$ 6,154
Accounts payable and accrued liabilities (notes 18 and 27)	126,360	92,301
Deferred revenue (note 22)	5,721	10,607
Income taxes payable	4,602	2,342
Provisions (note 21)	3,923	1,840
Current portion of lease and other liabilities (notes 15 and 27)	6,388	4,434
Total current liabilities	$ 165,465	$ 117,678
Non-current liabilities		
Provisions (note 21)	307	979
Deferred tax liabilities (note 17)	22	117
Long-term portion of lease and other liabilities (notes 15 and 27)	12,171	7,005
Total non-current liabilities	12,500	8,101
Total liabilities	$ 177,965	$ 125,779
Shareholders' Equity		
Share capital (note 18)	15,761	15,240
Contributed surplus	2,289	2,376
Accumulated other comprehensive income	8,630	12,431
Retained earnings	203,698	146,847
Total shareholders' equity	$ 230,378	$ 176,894
Commitments (note 16)		
Subsequent events (note 30)		
Total liabilities and shareholders' equity	$ 408,343	$ 302,673

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, 2023 and 2022 (in thousands of dollars except for per share amounts)

		2023		2022
Sales (note 22)	$	710,064	$	558,464
Cost of sales (notes 6)		479,053		393,279
Gross margin		231,011		165,185
Selling and distribution (note 27)		76,283		62,263
General and administrative		68,007		43,481
	$	144,290	$	105,744
Earnings from operations		86,721		59,441
Finance and other costs				
Interest expense		1,320		1,596
Foreign exchange loss (gain)		1,280		(96)
Share of income of investment in joint venture, net of tax (note 11)		–		(4)
Other (note 27)		127		776
Net finance and other costs		2,727		2,272
Earnings before income taxes		83,994		57,169
Income tax expense (recovery) (note 17):				
Current		23,961		15,234
Deferred		(3,366)		(2,893)
		20,595		12,341
Net earnings	$	63,399	$	44,828
Earnings per share (note 19)				
Basic earnings per share	$	5.33	$	3.79
Diluted earnings per share	$	5.33	$	3.77

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2023 and 2022 (in thousands of dollars)

		2023		2022
Net earnings	$	63,399	$	44,828
Other comprehensive income				
Items that will be recognized within profit and loss:				
Foreign currency translation differences for foreign operations		(3,801)		10,322
Other comprehensive (loss) income, net of income tax		(3,801)		10,322
Total comprehensive income	$	59,598	$	55,150

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2023 and 2022 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2022	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002
Total comprehensive income for the period					
Net income	–	–	–	44,828	44,828
Other comprehensive income					
Foreign currency translation differences	–	–	10,322	–	10,322
Total other comprehensive income	–	–	10,322	–	10,322
Total comprehensive income for the period	–	–	10,322	44,828	55,150
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 18)	–	–	–	(4,556)	(4,556)
Stock options exercised (note 18)	354	(56)	–	–	298
Total transactions with owners	354	(56)	–	(4,556)	(4,258)
Balance at December 31, 2022	$ 15,240	$ 2,376	$ 12,431	$ 146,847	$ 176,894
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 18)	–	–	–	(6,548)	(6,548)
Stock options exercised (note 18)	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

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

Consolidated Statements of Cash Flows

Years ended December 31, 2023 and 2022 (in thousands of dollars)

	2023	2022
Cash flows from operating activities		
Net earnings	$ 63,399	$ 44,828
Adjustments for:		
Share of income of investment in joint venture	–	(4)
Depreciation of property, plant and equipment, right-of-use assets and investment properties	9,381	7,196
Amortization of intangible assets	1,300	3,785
Provisions	2,713	419
Interest expense	1,320	1,596
Income tax expense	20,595	12,341
Unrealized loss on derivatives	1,138	276
Share-based compensation expense	19,954	2,183
	119,800	72,620
Change in non-cash working capital (note 25)	(51,708)	(19,539)
Cash generated from operating activities	68,092	53,081
Income tax paid	(23,984)	(16,068)
Cash provided from operating activities	44,108	37,013
Cash flows from investing activities		
Repayment of note and lease receivable	1,193	173
Acquisition (note 11)	–	(3,515)
Acquisition of property, plant and equipment	(20,169)	(8,646)
Acquisition of intangible assets	(384)	(686)
Cash used in investing activities	(19,360)	(12,674)
Cash flows from financing activities		
Proceeds from issue of share capital (note 18)	434	298
Cash dividends paid (note 18)	(6,548)	(4,556)
Net advances (repayments) of bank operating lines of credit	12,317	(13,113)
Interest paid	(867)	(1,277)
Payment of lease liabilities (note 15)	(3,906)	(3,004)
Payment of contingent consideration	(675)	(651)
Cash provided by (used in) financing activities	755	(22,303)
Foreign exchange on cash and cash equivalents held in a foreign currency	(1,038)	1,792
Cash acquired in business combination (notes 11)	–	3,393
Increase in cash and cash equivalents	24,465	7,221
Cash and cash equivalents at beginning of period	28,126	20,905
Cash and cash equivalents at end of period	$ 52,591	$ 28,126

See accompanying Notes to Consolidated Financial Statements.

1. Reporting entity

Hammond Power Solutions Inc. ("HPS" or "the Company") is a corporation 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 primarily is involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Group has manufacturing plants in Canada, the United States ("U.S."), Mexico and India.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), and were approved by the Board of Directors on March 27, 2024.

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 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	($)
Hammond Power Solutions, Inc. Mesta Electronics LLC 11020 Parker Drive LLC Hammond Power Solutions Latin America S. de R.L. de C.V.	U.S. dollar	($ 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(k); 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(k). 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 judgement 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 13.

Determination of fair value of 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 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.

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 significant 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.

On January 1, 2023 the Company adopted amendments within IAS 1 Presentation of Financial Statements related to the Disclosure of Accounting Policies. The changes required an entity to disclose material rather than significant accounting policies and provided guidance identifying material accounting policies relevant to users of the financial statements. Accordingly, management reviewed its accounting policies and updated the accounting policy information within this note to align with these amendments.

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.

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.

Prior to obtaining control during the prior year, the Company held a 55% equity interest in the Corefficient joint venture ("Corefficient"). The Company applied the equity method of accounting for its investment in Corefficient on the basis that it did not have the power to direct the key activities of the joint venture Corefficient. Under the equity method of accounting, interests in joint ventures are initially recognized in the Consolidated Statements of Financial Position at initial cost and adjusted thereafter to recognize the Group's share of profits or losses and movements in other comprehensive income in the income statement and in other comprehensive income respectively. Effective February 28, 2022, the Company and the joint venturer agreed to divide the operations. As a result of this transaction, the Company now owns 100% of the equity and voting interests of the entity and continued the business within Hammond Power Solutions Latin America S. de R.L. de C.V. and continues to operate the entity as a wholly owned subsidiary of the Group.

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 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.
- 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 recognised 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 re-measured 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 recognised 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, 2023.

h) Investment 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.

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 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, 2023. The adoption of the amendments did not have a material impact on the consolidated financial statements.

- Definition of accounting estimates (Amendments to IAS 8);

- Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements); and
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes).

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 are not expected to have a material impact on the consolidated financial statements.

The following amendments are effective for the annual period beginning on January 1, 2024:

- 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).

4. Cash and cash equivalents

	December 31, 2023	December 31, 2022
Cash	$ 17,131	$ 13,894
Cash equivalents	35,460	14,232
	$ 52,591	$ 28,126

5. Accounts receivable

	December 31, 2023	December 31, 2022
Trade accounts receivable	$ 110,938	$ 75,147
Value added tax receivable	10,169	6,602
Other receivables	6,923	4,952
	$ 128,030	$ 86,701

Trade accounts receivable is presented net of expected credit losses of $2,616,000 (December 31, 2022 – $2,806,000).

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

	December 31, 2023	December 31, 2022
Opening balance	$ 2,806	$ 2,359
Additional allowances	611	837
Writeoffs	(31)	(37)
Adjustments	(770)	(353)
	$ 2,616	$ 2,806

6. Inventories

	December 31, 2023	December 31, 2022
Raw materials	$ 59,786	$ 51,773
Work in progress	5,332	3,154
Finished goods	49,472	51,426
	$ 114,590	$ 106,353

Raw materials and changes in finished goods, and work in progress recognized as cost of sales during the year amounted to $478,499,000 (2022 – $391,317,000). In addition, during the year, write-downs in the amount of $12,000 were recognized (2022 – reversal of write-downs of $78,000). Inventories carried at net realisable value as at December 31, 2023 were $578,000 (December 31, 2022 – $485,000).

7. Prepaid and other assets

	December 31, 2023	December 31, 2022
Prepaid expenses	$ 8,414	$ 4,109
Current portion of long-term lease and note receivable (note 8)	1,535	2,839
	$ 9,949	$ 6,948

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 has the use of the plant, which includes both the land and the building, to October 2023. Consideration was in the form of a lease receivable, which the Company has determined meets the definition of a finance lease.

The lease receivable is 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%. Unless one of the Parties sends to the other a twelve month prior written notice of termination, at the end of each six year term, the agreement will be automatically renewed by an equal period.

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 EUR (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 EUR. 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 EUR (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 EUR (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 EUR 1,885,000. The date under which it will be settled has been extended into 2024.

Should the parties enter into a settlement agreement, the above-mentioned term of 30 business days to execute the necessary agreement to purchase the plant shall be deemed as interrupted as at November 22, 2023 and shall start elapsing (i) only if the plant and the solar panels installed on the roof thereof are not purchased by the purchaser, and (ii) from the first day after the date on which the sale and purchase has not been completed pursuant to the settlement agreement.

As a result of discussions with the purchaser in 2023, the Group and the purchaser are negotiating a settlement of various outstanding liabilities and necessary repairs to the building.

As at December 31 consideration receivable consists of:

	December 31, 2023	December 31, 2022
Lease receivable of 1,050 EUR (2022 – 1,957 EUR), with monthly lease payments of 13 EUR, bearing interest of 1.15% per annum.		
Gross cash entitlement:	$ 1,535	$ 2,867
Less: unearned finance income	–	(28)
Net lease receivable	1,535	2,839
Current portion included within prepaid expenses and other assets	$ 1,535	$ 2,839

The aggregate amount of principal payments are expected to be received in the next year.

Refer to note 30 for subsequent event disclosure regrading this transaction.

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, 2023	December 31, 2022
Property, plant and equipment owned	$ 50,357	$ 34,789
Right-of-use asset	15,484	6,953
	$ 65,841	$ 41,742

	Land	Buildings	Leaseholds & Improvements	Machinery & Equipment	Office Equipment	Construction in Progress & Deposits	**Total**
Cost							
Balance at January 1, 2022	$ 4,198	$ 18,518	$ 1,865	$ 55,207	$ 11,899	$ 4,353	$ 96,040
Acquisition (note 11)	–	–	–	4,713	131	–	4,844
Additions (transfers)	–	1,180	335	7,405	1,237	(1,511)	8,646
Disposal	–	–	–	(54)	(16)	–	(70)
Effect of movements in exchange rates	(16)	(47)	222	2,280	231	194	2,864
Balance at December 31, 2022	$ 4,182	$ 19,651	$ 2,422	$ 69,551	$ 13,482	$ 3,036	$ 112,324
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
Accumulated Depreciation							
Balance at January 1, 2022	$ –	$ 12,916	$ 1,246	$ 45,963	$ 10,763	$ –	$ 70,888
Depreciation for the year	–	826	128	2,908	703	–	4,565
Disposal	–	–	–	(52)	(15)	–	(67)
Effect of movements in exchange rates	–	(17)	190	1,795	181	–	2,149
Balance at December 31, 2022	$ –	$ 13,725	$ 1,564	$ 50,614	$ 11,632	$ –	$ 77,535
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
Carrying amounts							
At December 31, 2022	$ 4,182	$ 5,926	$ 858	$ 18,937	$ 1,850	$ 3,036	$ 34,789
At December 31, 2023	$ 4,349	$ 6,924	$ 879	$ 19,431	$ 2,735	$ 16,039	$ 50,357

Depreciation is recorded in the statement of earnings as follows: cost of sales $5,510,000 (2022 – $4,098,000), selling and distribution $nil (2022 – $nil) and general and administrative $381,000 (2022 – $467,000).

Right of use assets

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

	Buildings	Vehicles	Office Equipment	Total
Balance at January 1, 2022	$ 5,237	$ 535	$ 36	$ 5,808
Additions	3,527	145	–	3,672
Disposal	(466)	(47)	–	(513)
Depreciation	(2,159)	(273)	(15)	(2,447)
Effect of movements in exchange rates	390	43	–	433
Carrying amount at December 31, 2022	$ 6,529	$ 403	$ 21	$ 6,953
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

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 3 successive 5-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 2 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.

10. Investment in properties

	December 31, 2023	December 31, 2022
Glen Ewing Property	$ 1,044	$ 1,044
Marnate Property (net of accumulated depreciation of $1,624 (2021 - $1,415))	1,896	2,077
	$ 2,940	$ 3,121

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 2023 or 2022. The property is carried at cost. The estimated fair value of the property as at December 31, 2023 is $1,150,000 (2022 – $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 $78,000 (2022 – $148,000).

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 $147,000). The operating expenses for this property were 160,000 EUR (approximately $234,000) in 2023 and 225,000 EUR (approximately $326,000) in 2022. Depreciation on the facility was recorded in the statement of earnings as general and administrative expenses in the amount of $124,000 (2022 - $184,000). The estimated fair value of the property as at December 31, 2023 is 2,130,000 EUR (approximately $3,111,000). The fair value was determined based on independent available market evidence, based on comparable property sales, by an independent valuator.

11. Corefficient

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

Total consideration received by National in connection with this transaction was $10,809,000 comprised of inventory valued at $1,705,000, property, plant and equipment valued at $5,589,000 and a note payable in the amount of $3,515,000, repayable in six equal instalments, due monthly commencing March 2022.

As a result of this transaction, the Company now owns 100% of the equity and voting interests of the former Corefficient (referred to here as "Corefficient") and continued the business within Hammond Power Solutions Latin America S. de R.L. de C.V. and continues to operate the entity as a wholly owned subsidiary of the Group. As the Company has acquired control of the former joint venture, the transaction constituted a business combination. The Company measured the fair value of its previously held interest in Corefficient immediately prior to obtaining control and determined it to be equivalent to its carrying value.

The allocation of the fair value of the acquired business is as follows:

Cash	$	3,393
Accounts receivable and other assets		16,513
Inventories		1,459
Property, plant and equipment		5,317
Deferred future tax asset		2,431
Assets	$	29,113
Current liabilities	$	(15,900)
Fair value of acquired business	$	13,213

The accounts receivable balance of $13,928,000, included in Accounts receivable and other assets above, was presented net of expected credit losses of $293,000. The contractual cash flows not expected to be collected is $nil.

Included in the Group's consolidated results to February 28, 2022, the date of acquisition, the Group's share of income of investment in joint venture of $4,000.

The agreement includes a contingent consideration element relating to unrecognized tax loss carryforwards generated by Coreffecient, under which if the Company is able to utilize the losses following the business combination, the Company must pay National 45% of the tax savings realized, to a maximum of $837,000. As at the acquisition date, the fair value of the consideration was determined to be $nil.

The acquisition costs incurred related to this transaction during 2022 were $177,000 which were included in general and administrative expense.

Included in the Group's consolidated results for the twelve months ended December 31, 2022, was revenue of $5,191,000 and net earnings of $2,828,000 recognized by Corefficient from the date of acquisition to December 31, 2022. If the Company had acquired Corefficient effective January 1, 2022, the revenue would have been approximately $5,191,000 and there would have been net income of $2,834,000. The revenue of the consolidated group would have been approximately $558,464,000 and net income of the consolidated group would have been $44,834,000.

12. Intangible assets

Intangible assets	Technology and Patents	Customer lists, relationships and branding	Externally acquired software	**Total**
Cost				
Balance at January 1, 2022	$ 7,776	$ 12,006	$ 8,453	$ 28,235
Additions	–	–	686	686
Effect of movements in exchange rates	33	(311)	(45)	(323)
Balance at December 31, 2022	$ 7,809	$ 11,695	$ 9,094	$ 28,598
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
Accumulated Amortization				
Balance at January 1, 2022	$ 4,819	$ 7,988	$ 4,925	$ 17,732
Amortization for the year	304	872	2,610	3,786
Effect of movements in exchange rates	(33)	(493)	(44)	(570)
Balance at December 31, 2022	$ 5,090	$ 8,367	$ 7,491	$ 20,948
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				
At December 31, 2022	$ 2,719	$ 3,328	$ 1,603	$ 7,650
At December 31, 2023	$ 2,345	$ 2,923	$ 1,322	$ 6,590

Amortization of $560,000 (2022 – $2,704,000) has been recognized in cost of sales, $119,000 (2022 – $120,000) has been recognized in selling and distribution and $621,000 (2022 – $961,000) has been recognized in general and administrative.

None of the intangible assets has been internally developed.

Research and development expenses of $566,000 (2022 –$425,000) have been recognized in cost of sales in the consolidated statements of earnings. No research and development costs have been capitalized (2022 – $nil).

13. Goodwill and impairment testing for cash-generating units

Goodwill	December 31, 2023	December 31, 2022
Opening balance	$ 12,024	$ 12,216
Effect of movements of exchange rates	(288)	(192)
Ending balance	$ 11,736	$ 12,024

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 2023 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 three subsidiaries identified as CGUs that contain goodwill. The CGUs and their respective goodwill balances are as follows: Delta Transformers Inc. (“Delta”) $2,180,000 (2022 – $2,180,000), Hammond Power Solutions Private Limited (“India”) $7,975,000 (2022 – $8,226,000) and Mesta Electronics LLC (“Mesta”) $1,581,000 (2022 – $1,618,000).

For its 2023 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 18.10% (2022 – 18.8%). Through the five year cash flow projections, the Company’s model also incorporated year 1 sales growth rates of 40.6% (2022 – 44.3%). The annual sales growth rates for year 2 to year 5 are in the range of 15.0% – 25.3% (2022 – year 2 to year 5 – 9.1% – 19.0%) 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 8.0% (2022 – 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 17.1% (2022 –16.6%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rates of 2.2% (2022 – 16.9%). The annual sales growth rates for year 2 to year 5 are 3.0% (2022 – year 2 to year 5 – 2.4% - 3.9%) 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% (2022 – 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 26.7% (2022 – 27.4%). Through the five year cash flow projections, the Company's model also incorporated annualized year 1 sales growth rate of 24.9% (2022 – 83.0%). The annual sales growth rates for year 2 to year 5 are 3% (2022 –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% (2022 – 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.

While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the impairment test. Management believes that certain reasonable possible changes in the key assumptions on which the recoverable amounts are based could cause the carrying amount to exceed the recoverable amount in the India CGU. As of December 31, 2023, a discount rate increase of 18.1% than the assumptions utilized would cause the estimated recoverable amount to be equal to the carrying amount for this CGU (December 31, 2022 – a discount rate increase of 7.6% or a 8.7% lower terminal growth rate).

For the Delta and Mesta 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, 2023.

14. 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 3.845% (2022 – plus margin of 2.25%, Euribor on December 31, 2022 – 1.895%, 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") (2022 – 515,000,000 INR) consisting of the sub-facilities of a 40,000,000 INR (2022 – 40,000,000 INR) short-term working capital demand loan, a 475,000,000 INR (2022 – 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, 2023, there was $nil Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2022 – $nil). As at December 31, 2023 there was 351,156,000 INR, Canadian equivalent $5,583,000 (2022 – 265,106,000 INR, Canadian equivalent $4,347,000) drawings against the bank guarantees.

Based on exchange rates in effect at December 31, 2023, the combined Canadian dollar equivalent available across all facilities, prior to any utilization of the facilities was $80,353,000 (2022 – $82,122,000).

As at December 31, 2023, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit facility was $13,902,000, consisting of $5,902,000 Canadian dollars drawn and the Canadian equivalent of $8,000,000 U.S. dollars drawn (2022 – $1,531,000 – consisting of $1,531,000 Canadian dollars drawn and the Canadian equivalent of $nil U.S. dollars drawn). As well, $4,569,000 (2022 – $4,623,000) Canadian dollar equivalent of Euros was outstanding under the Euro facility, and $nil (2022 – $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.

15. Lease and other long-term liabilities

	December 31, 2023	December 31, 2022
Lease liabilities	$ 16,421	$ 8,593
Contingent consideration (note 27)	2,138	2,846
	$ 18,559	$ 11,439
Current	$ 6,388	$ 4,434
Non-Current	$ 12,171	$ 7,005

Right of use liability maturity analysis – contractual undiscounted cash flows	December 31, 2023	December 31, 2022
Less than one year	$ 5,500	$ 3,198
One to five years	11,838	5,905
More than five years	2,877	–
Total undiscounted lease liabilities	$ 20,215	$ 9,103
Less: effect of discounting and foreign exchange	$ (3,794)	$ (510)
Lease liabilities included in the statement of financial position	$ 16,421	$ 8,593
Current	$ 4,250	$ 2,925
Non-current	$ 12,171	$ 5,668

Amounts recognized in statement of operations	Year Ended December 31, 2023	Year Ended December 31, 2022
Interest on lease liabilities	$ 395	$ 232

Amounts recognized in statement of cash flows	Year Ended December 31, 2023	Year Ended December 31, 2022
Payment of lease liabilities	$ 3,906	$ 3,004

16. Commitments

	December 31, 2023	December 31, 2022
Capital expenditure commitments	$ 12,252	$ 3,484

17. Income taxes

Income tax expense		**2023**		2022
Current tax expense				
Current period	$	23,961	$	15,234
Deferred tax recovery				
Origination and reversal of temporary differences		(3,329)		(2,894)
Decrease in tax rate		(37)		1
		(3,366)		(2,893)
Total income tax expense	$	20,595	$	12,341

Reconciliation of effective tax rate	**2023**		**2023**	2022		2022
Net earnings		$	63,399		$	44,828
Income tax expense			20,595			12,341
Earnings before income taxes			83,994			57,169
Income tax expense using the Company's domestic tax rate	39.50%		33,178	39.50%		22,582
Effect of tax rates in foreign jurisdictions	(11.04%)		(9,268)	(12.82%)		(7,328)
Decrease (increase) in tax rate	(0.04%)		(37)	0.00%		1
Non-deductible expenses/non-taxable income	(1.25%)		(1,052)	(0.50%)		(284)
Reduced rate for active business and manufacturing and processing	(2.94%)		(2,468)	(1.89%)		(1,081)
Losses for which no deferred tax asset was recognized	0.30%		252	(4.05%)		(2,314)
Dividend withholding tax	0.00%		–	0.84%		478
Other	(0.01%)		(10)	0.50%		287
	24.52%	$	20,595	21.58%	$	12,341

Unrecognized temporary differences

At December 31, 2023, pre-tax temporary differences of $179,057,000 (2022 – $127,871,000) 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 $22,382,000 (2022– $15,984,000) based on current tax rates.

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

	December 31, 2023	December 31, 2022
Tax losses	$ 9,848	$ 9,561
Basis difference in subsidiary	31,643	30,688
Financial interests deductible in a future period	4,586	4,552
Provisions	883	1,201
Inventory	441	–
Property, plant and equipment	623	–
	$ 48,024	$ 46,002

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.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2023	2022	**2023**	2022
Property, plant and equipment	$ 335	$ 1,166	$ (6,488)	$ (3,539)
Intangible assets	346	415	(378)	(468)
Scientific research and experimental development	–	44	(41)	(17)
Inventories	712	653	–	–
Lease and note receivable	–	–	(3,062)	(3,832)
Loans and borrowings	4,636	1,833	–	–
Employee benefits	5,445	1,445	(159)	(161)
Unrealized losses (gains) on forward contracts and foreign denominated loans payable/receivable	164	184	(38)	(2)
Provisions and tax reserves	2,882	3,299	(4)	–
Tax loss carry-forwards	5,631	5,140	–	–
Basis difference in subsidiary	1,795	1,736	–	–
Tax assets (liabilities)	21,946	15,915	(10,170)	(8,019)
Set off of tax	(10,148)	(7,902)	10,148	7,902
Net tax assets (liabilities)	$ 11,798	$ 8,013	$ (22)	$ (117)

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)		

Movement in temporary differences during the year ended December 31, 2022:

	Balance December 31, 2021	Recognized in retained earnings	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2022
Property, plant and equipment	$ 2,741	$ (392)	$ 24	$ –	$ 2,373
Intangible assets	464	–	(411)	–	53
Scientific research and experimental development	(8)	–	(19)	–	(27)
Inventories	(225)	–	(428)	–	(653)
Long-term lease and note receiveable	3,402	–	430	–	3,832
Loans and borrowings	(1,950)	–	117	–	(1,833)
Employee benefits	(434)	–	(850)	–	(1,284)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(197)	–	15	–	(182)
Provisions and tax reserves	(2,259)	(255)	(785)	–	(3,299)
Tax loss carry-forwards	(2,164)	(1,799)	(1,177)	–	(5,140)
Basis difference in subsidiary	(1,339)	–	(397)	–	(1,736)
	$ (1,969)	$ (2,446)	$ (3,481)	$ –	$ (7,896)
Foreign exchange			$ 588		
Income tax expense			$ (2,893)		

18. 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, 2023	December 31, 2022
9,126,624 Class A subordinate voting shares (2022 – 9,056,624)	$ 15,754	$ 15,233
2,778,300 Class B common shares (2022 – 2,778,300)	7	7
11,904,924 Total A and B shares (2022 – 11,834,924)	$ 15,761	$ 15,240

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. During the year ended December 31, 2022, 45,000 Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $298,000 and a transfer of $56,000 from contributed surplus.

The following dividends were declared and paid by the Company:

	December 31, 2023	December 31, 2022
55 cents per Class A subordinate voting shares (2022 – 38.5 cents)	$ 5,020	$ 3,486
55 cents per Class B common shares (2022 – 38.5 cents)	1,528	1,070
	$ 6,548	$ 4,556

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, 2023, or the year ended December 31, 2022. There were no options outstanding and exercisable as at December 31, 2023.

	December 31, 2023		December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	70,000	$ 6.20	115,000	$ 6.36
Exercised	(70,000)	6.20	(45,000)	6.62
Cancelled	–	–	–	–
Expired	–	–	–	–
Outstanding, end of year	–	$ –	$ 70,000	$ 6.20

d) Deferred Share Units

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, 2022 and 2023 is as follows:

	Number of DSUs	**Closing Share Price**
Balance at January 1, 2022	201,392	$ 11.99
DSUs issued	44,152	12.49
DSUs redeemed	(31,569)	11.91
Balance at December 31, 2022	213,975	$ 20.12

	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

An expense of $13,587,000 (2022 – $2,183,000) was recorded in general and administrative expenses. The liability of $13,737,000 (2022 - $4,153,000) 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 PSUs and RSUs 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 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.

The movement in PSUs and RSUs for the years ended December 31, 2022 and 2023 is as follows:

	Number of PSUs	Number of RSUs	Total Number of Units		Closing Share Price
Balance at January 1, 2022	–	–	-	$	–
Units issued	35,716	23,811	59,527		12.57
Balance at December 31, 2022	35,716	23,811	59,527	$	20.12

	Number of PSUs	Number of RSUs	Total Number of Units		Closing Share Price
Balance at January 1, 2023	35,716	23,811	59,527	$	20.12
Units issued	31,523	21,014	52,537		30.98
Balance at December 31, 2023	67,239	44,825	112,064	$	81.70

An expense of $6,367,000 (2022 – $1,602,000) was recorded in general and administrative expenses. The liability of $7,969,000 (2022 - $1,602,000) related to these PSUs and RSUs is included in accounts payable and accrued liabilities.

The market value of the granted PSUs and RSUs is $11,385,000 as of December 31, 2023. The difference between the market value and the accrual value is due to units granted but not yet vested.

19. Earnings per share

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

	2023	2022
Basic earnings per share	$ 5.33	$ 3.79
Calculated as:		
Net earnings attributable to the equity holders of the Company	$ 63,399	$ 44,828
Weighted average number of shares outstanding	11,904,924	11,833,674
Fully diluted earnings per share	$ 5.33	$ 3.77
Calculated as:		
Net earnings attributable to the equity holders of the Company	$ 63,399	$ 44,828
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares	11,904,924	11,876,359
Reconciliation of weighted average number of shares outstanding:		
Weighted average number of shares outstanding used to calculate basic earnings per share	11,904,924	11,833,674
Adjustment for dilutive effect of stock option plan	–	42,685
Weighted average number of shares outstanding used to calculate diluted earnings per share	11,904,924	11,876,359

As at December 31, 2023, nil options (2022 – nil) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

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% (2022 – 2.0% - 6.75%)of annual earnings. The Group’s contributions of $1,964,000 (2022 – of $1,764,000) matches the employee contributions. The Group’s contributions related to its defined contribution pension plans are recorded as follows: $1,460,000 (2022 – $1,309,000) in cost of sales, $246,000 (2022 – $222,000) in selling and distribution, and $258,000 (2022 - $233,000) in general and administrative.

21. Provisions

	Warranties	Site restoration	Benefits and incentives	Total
Balance at January 1, 2022	$ 1,718	$ 216	$ 258	$ 2,192
Provisions made during the period	188	130	779	1,097
Provisions used during the period	(230)	(149)	(91)	(470)
Balance at December 31, 2022	$ 1,676	$ 197	$ 946	$ 2,819
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, 2022	$ 3,162	$ 225	$ 843	$ 4,230
Current portion	$ 3,162	$ 80	$ 681	$ 3,923
Non-current portion	$ –	$ 145	$ 162	$ 307

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2023 and December 31, 2022. 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.

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, scheduled to be 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:

		2023		2022 (Adjusted*)
Canada	$	175,619	$	151,058
United States and Mexico		489,579		383,137
India		44,866		24,269
	$	710,064	$	558,464

* The 2022 sales values by geography have been adjusted from previously reported amounts due to a misclassification by geography. The previously disclosed comparative values in Canada was $33,437,000 less than the adjusted value, the previously disclosed values in United States and Mexico was $33,427,000 more than the adjusted value and India was $10,000 more than the adjusted value.

b) Deferred revenue

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

		2023		2022
Opening balance	$	10,607	$	5,027
Revenue recognized		(6,766)		(5,027)
Increase in contract liabilities		1,880		10,607
Ending balance	$	5,721	$	10,607

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, Executive Chair and Chair of the Board, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (2022 – 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 923,802 (2022 – 924,802) Class A subordinate voting shares of the Company, representing approximately 10.1% (2022 – 10.2%) 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 $2,040,000 (2022 – $1,432,000).

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:

	2023	2022
Salaries and benefits	$ 7,554	$ 3,499
Share-based awards	9,028	2,183
	$ 16,582	$ 5,682

24. Personnel expenses

	2023	2022
Wages and salaries	$ 105,808	$ 69,624
Group portion of government pension and employment pension and employment benefits	23,472	17,731
Contributions to defined contribution plans	1,962	1,763
	$ 131,241	$ 89,118

25. Change in operating working capital

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

	2023	2022
Accounts receivable	$ (41,330)	$ 1,552
Inventories	(8,237)	(42,427)
Prepaid expenses and other assets	(4,305)	(870)
Accounts payable and accrued liabilities	11,475	13,038
Deferred revenue	(4,886)	5,580
Provisions	(1,302)	(470)
Settlement of derivatives	(276)	89
Foreign exchange	(2,847)	3,969
	$ (51,708)	$ (19,539)

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		**2023**		2022 (Adjusted*)
Sales				
Canada	$	175,619	$	151,058
United States and Mexico		489,579		383,137
India		44,866		24,269
	$	710,064	$	558,464
Property, plant and equipment and right-of-use assets – net				
Canada	$	20,153	$	15,458
United States		16,945		8,992
Mexico		23,813		12,718
India		4,930		4,574
	$	65,841	$	41,742
Investment in properties				
Canada	$	1,044	$	1,044
Italy		1,896		2,077
	$	2,940	$	3,121
Intangibles, net				
Canada	$	1,271	$	1,588
United States		3,913		4,400
India		1,406		1,662
	$	6,590	$	7,650
Goodwill				
Canada	$	2,180	$	2,180
United States		1,581		1,618
India		7,975		8,226
	$	11,736	$	12,024

*Refer to note 22(a), sales & deferred revenue for explanation of adjustment.

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 and contingent consideration issued in conjunction with a business combination. The forward foreign exchange contracts have a fair value of a liability of $1,138,000 as at December 31, 2023 (2022 – $276,000) 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 contingent consideration liability is valued at $2,138,000 as at December 31, 2023 (2022 - $2,846,000) and is included in Level 3 of the fair value hierarchy. There have been no transfers between levels in 2023 or 2022.

The contingent consideration is comprised of three components:

		Employee performance		Revenue achievement		Deferred tax losses		Total
Current	$	672	$	–	$	837	$	1,509
Non-current		–		1,337		–		1,337
Balance at December 31, 2022	$	672	$	1,337	$	837	$	2,846
Current	$	–	$	1,320	$	818	$	2,138
Balance at December 31, 2023	$	–	$	1,320	$	818	$	2,138

- Employee performance

  To determine the fair value of the contingent consideration, Management calculated the present vale of the expected future payments of four installments of approximately $325,000, discounted using a risk-adjusted discount rate of 3.5%. Two of the payments were made starting January 2022 in the amount of $651,000 and two payments were made during 2023 for a total of $672,000.
- 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, 2023 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 $837,000.

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. The lease receivable is valued at the present value of the future receipts which approximates the fair value.

In 2022, the employee performance and revenue achievement increases of $940,000 were recorded in general and administrative expenses and the deferred tax asset value of $837,000 was recorded in other expenses.

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, 2023, the Company had 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 Buy 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

At December 31, 2022, the Company has outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2023.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	EUR	CAD	12,050	1.4485
BUY	EUR	USD	5,300	1.0700
BUY	USD	CAD	72,000	1.3374 - 1.3543
BUY	USD	INR	7,405	81.6400 – 82.5900
BUY	USD	MXN	16,467	19.5400
Buy/Sell	**Buy Currency**	**Selling Currency**	**Amount of Buy Currency**	**Traded Rate**
SELL	EUR	CAD	24,100	1.3942 – 1.4502
SELL	EUR	USD	10,600	1.0434 – 1.0715
SELL	USD	CAD	36,000	1.3538
SELL	USD	INR	3,689	82.4000
SELL	USD	MXN	21,500	19.5010 – 19.6200

As at December 31, 2023 the Group has recognized a net unrealized expense of $1,138,000 representing the fair value of these forward foreign exchange contracts, comprised of a liability of $1,138,000 included within accounts payable and accrued liabilities. As at December 31, 2022 the Group recognized a net unrealized expense of $276,000, comprised of a liability of $276,000 included within accounts payable and accrued liabilities.

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, 2023:

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Cash	$ 29,113	$ 12,023	777	14,881	€ 895	€ 675	310,754	338,036
Accounts receivable	53,188	41,666	35,275	16,072	-	575	552,742	262,828
Long-term lease receivable	–	–	–	–	1,050	1,957	–	–
Bank operating lines of credit	–	–	–	–	(3,112)	(3,063)	–	–
Accounts payable	(18,139)	(18,003)	(26,513)	(16,464)	(331)	(160)	(473,545)	(346,452)
Lease obligation	(12,902)	(6,506)	–	–	–	–	–	(773)
Contingent consideration	(1,614)	(2,100)	–	–	–	–	–	–
Net exposure	$ 49,646	$ 27,080	9,539	14,489	€ (1,498)	€ (16)	389,951	253,639

A one cent ($0.01) decline in the Canadian dollar against the U.S dollar as at December 31, 2023 would have decreased net earnings by $868,000 and increased equity by $670,000. 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, 2023 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, 2023 would have decreased net earnings by $24,000 and increased equity by $22,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Euro as at December 31, 2023 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, 2023 would have increased net earnings and equity by $64,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2023 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, 2023 would have decreased net earnings by $12,000 and increased equity by $7,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2023 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, 2023, 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.

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 decreased $190,000 (2022 – increased $447,000), for which a recovery (2022 – expense) was recognized in general and administrative expenses. The aging of accounts receivable and the related allowance is as follows:

	December 31, 2023		December 31, 2022	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	$ 95,888	$ –	$ 63,877	$ –
Past due 0-30 days	25,809	–	20,035	–
Past due 31-120 days	5,819	–	3,505	716
Past due more than 120 days	3,114	2,616	2,090	2,090
	$ 130,630	$ 2,616	$ 89,507	$ 2,806

Credit risk:

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

	Carrying Amount	
	December 31, 2023	December 31, 2022
Cash and cash equivalents	$ 52,591	$ 28,126
Accounts receivable	128,030	86,701
Lease receivable	1,535	2,839
	$ 182,156	$ 117,666

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

	Carrying Amount	
	December 31, 2023	December 31, 2022
Canada	$ 31,463	$ 23,050
United States	70,052	55,390
Mexico	13,659	7,705
Italy	689	553
India	12,167	3
	$ 128,030	$ 86,701

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, 2023 would increase or decrease net earnings by approximately $340,000 (2022 – $62,000) 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, 2023, no forward commodity purchase contracts were outstanding (2022 – 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.

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

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	$ –	$ –

December 31, 2022	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 6,154	$ 6,154	$ –	$ –
Accounts payable and accrued liabilities	92,025	92,025	–	–
Contingent consideration	2,846	1,509	1,337	–
Derivative liabilities	276	276	–	–
	$ 101,301	$ 99,964	$ 1,337	$ –

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, 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

	LIABILITIES			EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Contingent Consideration	Share Capital	Retained Earnings	Total
Balance January 1, 2022	$ 19,267	$ 7,980	$ 1,509	$ 14,886	$ 106,575	$ 150,217
Advances of bank operating lines of credit, net	(13,113)	–	–	–	–	(13,113)
Payment of contingent consideration	–	–	(651)	–	–	(651)
Interest payments	(1,596)	233	86	–	–	(1,277)
Exercise of stock options	–	–	–	298	–	298
Cash dividends paid	–	–	–	–	(4,556)	(4,556)
Repayment of lease liability	–	(3,004)	–	–	–	(3,004)
Total changes from financing cash flows	$ (14,709)	$ (2,771)	$ (565)	$ 298	$ (4,556)	$ (22,303)
Other changes						
Liability-related						
Interest expense	1,596	–	–	–	–	1,596
Foreign exchange	–	108	154	–	–	262
Non-cash additions to lease liabilities	–	3,199	–	–	–	3,199
Non-cash disposal to lease liabilities (note 11)	–	590	–	–	–	590
Non-cash disposal to lease liabilities (note 11)	–	(513)	–	–	–	(513)
Non-cash additions to contingent consideration (note 27)	–	–	1,748	–	–	1,748
Total liability-related other changes	$ 1,596	$ 3,384	$ 1,902	$ –	$ –	$ 6,882
Equity-related						
Exercise of stock options	–	–	–	56	–	56
Net income	–	–	–	–	44,828	44,828
Total equity-related other changes	$ –	$ –	$ –	$ 56	$ 44,828	$ 44,884
Balance December 31, 2022	$ 6,154	$ 8,593	$ 2,846	$ 15,240	$ 146,847	$ 179,680

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, 2023.

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

	December 31, 2023	December 31, 2022
Cash and cash equivalents	$ 52,591	$ 28,126
Bank operating lines of credit	(18,471)	(6,154)
Lease liabilities	(16,936)	(8,593)
Contingent consideration	(2,138)	(2,846)
Share capital	15,761	15,240
Contributed surplus	2,289	2,376
Retained earnings	203,698	146,847
	$ 236,794	$ 174,996

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.

30. Subsequent events

Dividends

On March 6, 2024, the Company declared a dividend of fifteen ($0.15) per Class A subordinate voting shares of HPS and a quarterly cash dividend of fifteen cents ($0.15) per Class B common shares of HPS payable on March 28, 2024 to shareholders of record at the close of business on March 21, 2024. The ex-dividend date is March 20, 2024.

On March 27, 2024, 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 June 25, 2024 to shareholders of record at the close of business on June 18, 2024. The ex-dividend date is June 18, 2024.

Italy

On March 14, 2024 the Group and the purchaser signed a settlement agreement for the sale and purchase of the plant. As outlined in Note 8, 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 will settle 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 will be executed no later than March 28, 2024. A deposit of 150,000 EUR was received on March 14, 2024.

SmartD

On March 22, 2024, HPS entered into a financing agreement with SmartD Technologies Inc. ("SmartD"). In the agreement, the Corporation will invest up to $3.9 million over three years in convertible debentures of SmartD. SmartD Technologies produces advanced motor control products, most notably it's Clean Power Variable Frequency DriveTM. SmartD's products combine motor drives with harmonic mitigating technology that help businesses save energy, lower costs, and minimize their carbon footprint.

BLANK

HPS Offices, Manufacturing Facilities and Warehouse Locations

Canada

Hammond Power Solutions Inc.

Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.
795 Industriel Boul.
Granby, Quebec J2G 9A1

3850 place de Java
Suite 200
Brossard, Québec J4Y 0C4

India

Hammond Power Solutions Private Limited
Plot No.6A, Phase-1, IDA Pashamylaram,
Patancheru Mandal, Sangreddy District,
Telangana, India 502307

Italy

Hammond Power Solutions S.p.A.
Via Amedeo Avogadro 26
10121 Torino, Italy
at R & P Legal

Mexico

Hammond Power Solutions S.A. de C.V.
Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Ave. Avante #900
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Mexico

Hammond Power Solutions Latin America S. de R.L. de C.V.
Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

United States

Hammond Power Solutions, Inc.
1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

6550 Longley Lane, Suite 135
Reno, Nevada 89511

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

Annual General Meeting of Shareholders to be held:

Thursday, May 9, 2024
1:30 p.m. (EST)

Cutten Fields (Cutten Hall)
190 College Avenue East
Guelph, Ontario N1H 6L3

Corporate Information

Corporate Officers and Directors

Officers

John Bailey
Chief Operations Officer

Paul Gaynor
Chief Information Officer

David Kinsella
Chief Commercial Officer

Catherine McKeown
Chief People Officer

Adrian Thomas
Chief Executive Officer & Director

Richard C. Vollering
Chief Financial Officers & Corporate Secretary

Directors

Dahra Granovsky
Corporate Human Resources and Compensation Member

William G. Hammond
Chair of the Board

Christopher R. Huether
Governance Member

Frederick M. Jaques
Governance Chair

Grant C. Robinson
Lead Director
Audit Member

Anne Marie Turnbull
Corporate Human Resources and Compensation Chair

David Wood
Audit Chair

Stock Exchange Listing

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

Registrar and Transfer Agent

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

Auditors

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

Legal Representation

Dentons Canada LLP
77 King Street West, Suite 400
Toronto Dominion Centre
Toronto, Ontario M5K 0A1

Banking Institution

JP Morgan Chase
Bank N.A. 66 Wellington Street West,
Suite 4500
Toronto, Ontario M5K 1E7

Investor Relations

Contact: David Feick, Investor Relations
Phone: 519.822.2441 x453
Email: ir@hammondpowersolutions.com

The Hammond Museum of Radio

is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment.

Tours can be arranged by calling:
(519) 822-2441 x590

THE WORLD IS CHANGED BY YOUR EXAMPLE, NOT BY YOUR OPINION.