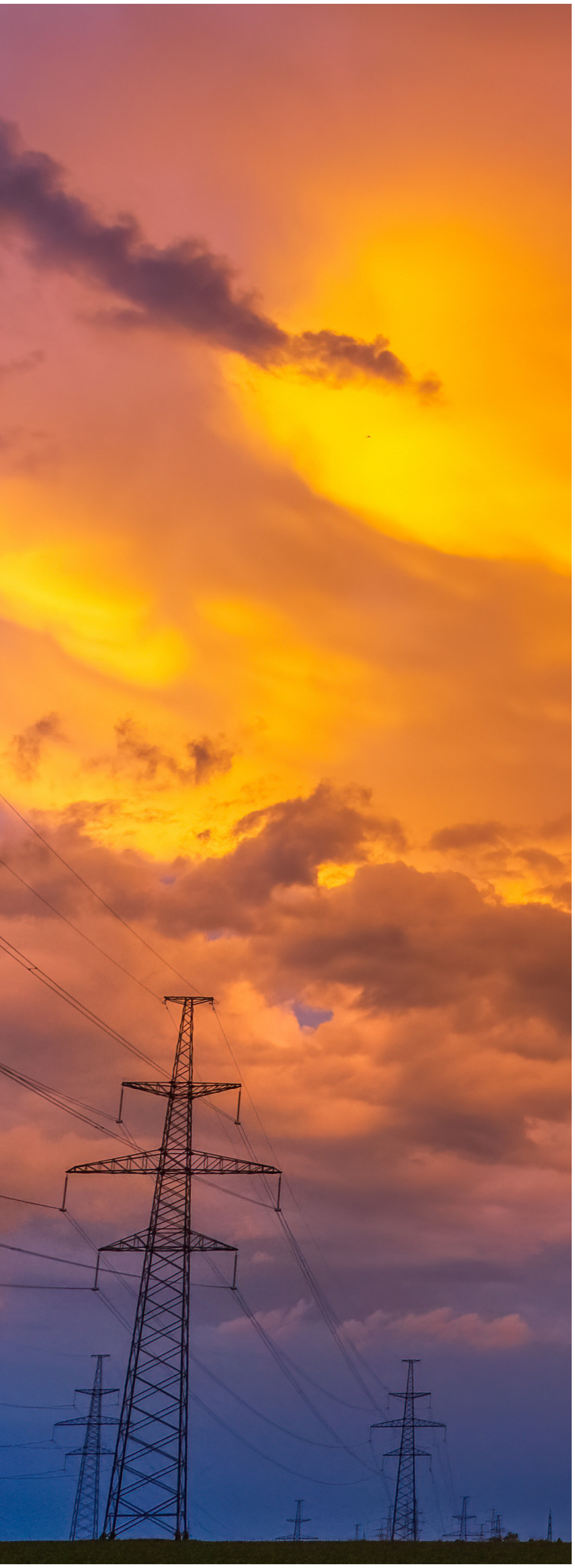
Hammond Power Solutions Inc.

Q1 Report 2023

For the three months ended April 1, 2023



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to our Shareholders

I am pleased to announce our very positive financial results for the first quarter of the year.

Sales and profits are both higher as our business continues to experience growth in our key markets. A combination of favourable product mix and high factory utilization are also driving gross margins to industry leading levels within the transformer market.

Following a robust 2022, our business growth has been sustained as expected in 2023 with a combination of strong markets as well as market diversification. Quotation activity is up significantly over both Q4 and the same quarter a year ago. Our booking rates remain at or near our highest historical levels ever as diverse markets like renewable power generation, EV recharging, energy storage, data center construction, silica chip manufacturing, industrial expansions, power quality, and institutional projects like hospitals and industrial buildings drive our year-over-year growth. The expansion of our U.S. and Mexican distributor networks continues with the addition of new distributors and more branches, which we expect will contribute to growing our distributor platform and provide further growth opportunities in the months and years ahead.

As we announced late last year, we are in the process of planning and executing a significant expansion of our production capacities involving expenditures of more than $40 million dollars to accommodate expected sales growth of $250 million in the next five years. These investments are being made in both existing

HPS Corporate Sustainability

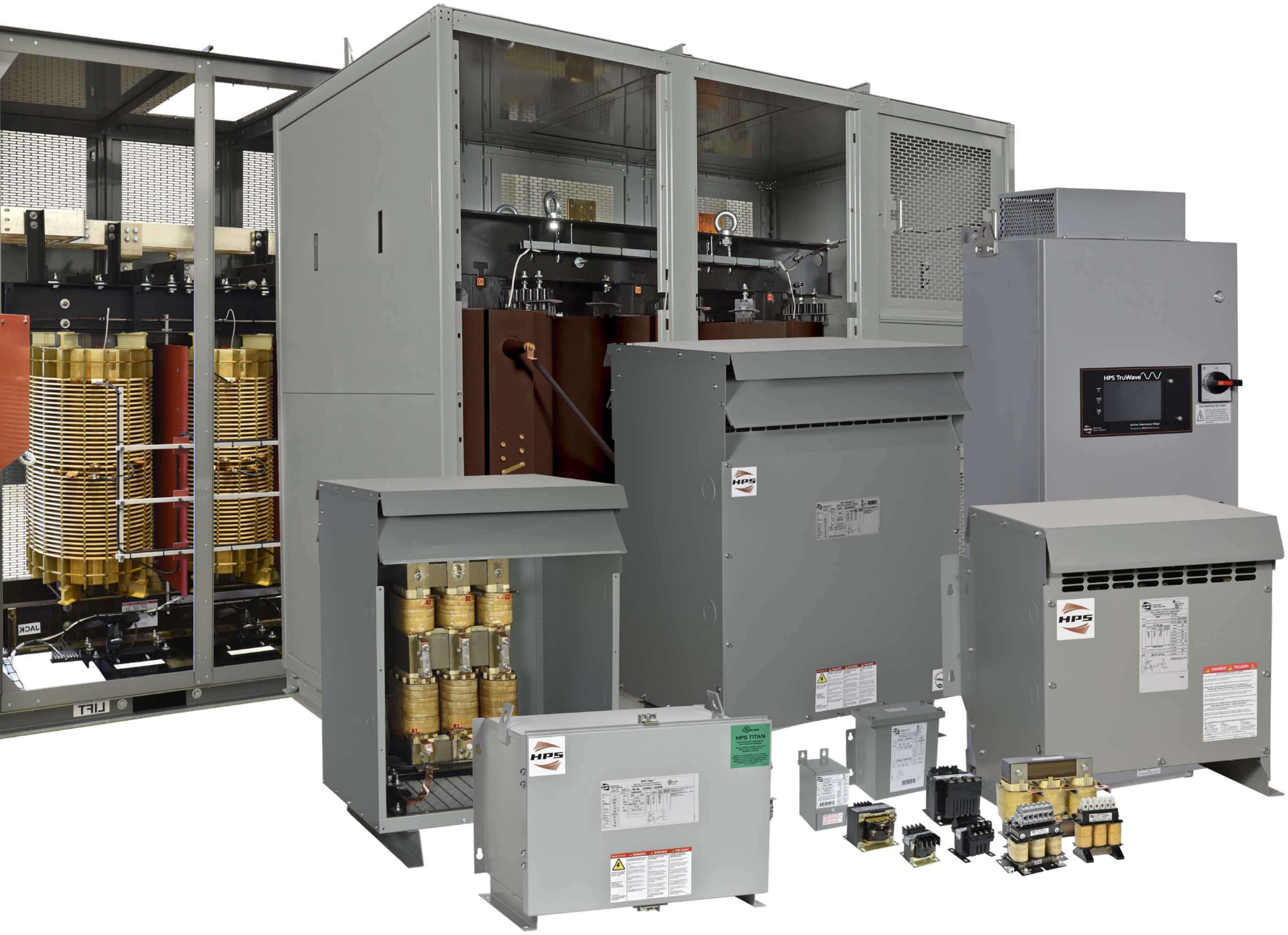
Our passion for sustainability ensures that the world is energized today for future generations to come. We commit to designing energy-efficient products; to shrinking the ecological footprint of our operations; and to developing a workplace which fosters inclusion and innovation.

Our 5 Pillars of Sustainability

1. Economics
2. People
3. Community
4. Environment
5. Continuous Improvement

Our purpose

We are passionate people energizing a better world.



plants as well as construction of a new manufacturing facility to build small products in Mexico. In addition to giving us the capacity to be more aggressive in growing our business and market share, it will also allow us to reduce our lead times and improve service to our OEMs and distributors.

In closing, I would like to again thank and recognize the efforts of all of our employees in contributing to our success. We at Hammond Power Solutions are excited and cautious about our business in 2023. We continue to manage our way through high levels of growth, longer than expected industry lead times, sizeable capacity expansion projects, all within an uncertain economic environment. I remain confident that our global customers will continue to seek best in class products and service and will choose us as their partner.

William G. Hammond
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER

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.

Our values

We value the **safety** and **well-being** of all

We expect **honesty, integrity** and **ethical behaviour**

We embrace **diversity** by nurturing an **inclusive** environment and treating everyone with **dignity** and **respect**

We promote **innovation** and a relentless pursuit of **continuous improvement** through **teamwork**

We believe in **a collaborative approach** to **social** and **environmental sustainability**

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 – passionate people energizing a better world.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated financial position and performance for the three months ended April 1, 2023 and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2023. This information is based on Management's knowledge as at May 2, 2023. The Company assumes that the reader of this MD&A has access to and has read the audited Annual Consolidated Financial Statements and MD&A of the Company, contained in our 2022 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2022 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com, or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward-looking information

This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HPS' strategies, intentions, plans, beliefs, expectations and estimates, and 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 HPS 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 currency rates); changes in laws and regulations; legal and regulatory proceedings; and the ability to execute strategic plans. HPS 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.

Additional GAAP and Non-GAAP measures

This document uses the term "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. 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 quarters ending April 1, 2023 and April 2, 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.

"Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "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 Quarter 1, 2023 consolidated financial statements, which comprise the consolidated statements of financial position as at April 1, 2023 and April 2, 2022, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the three months ended April 1, 2023 and April 2, 2022, and Notes thereto, have been prepared under IFRS.

Sales

Sales for the quarter-ended April 1, 2023 were at a record level of $171,134, an increase of $43,352 or 33.9% from Quarter 1, 2022 sales of $127,782.

Sales in the United States ("U.S.") and Mexico increased by $35,693 or 42.9%, finishing at $118,804 for Quarter 1, 2023 compared to $83,111 in Quarter 1, 2022. U.S. and Mexican sales, stated in U.S. dollars, were $88,138 in Quarter 1, 2023 compared to Quarter 1, 2022 of $65,624, an increase of $22,514 or 34.3%. First quarter sales were favourably affected by a 6.4% stronger U.S. dollar ("USD"), $1.00 USD = $1.348 Canadian dollar ("CAD") compared against $1.00 USD = $1.267 CAD in Quarter 1, 2022.

The U.S. market experienced sales increases in the distributor channel as the Company continued to grow sales with existing and new distributors. The Original Equipment Manufacturer ("OEM") channel grew significantly in the quarter, with higher sales supporting data centres, warehousing, industrial manufacturing, mining, electric vehicle charging, renewable energy and oil and gas production.

Sales from the Mesta Electronics Inc. (“Mesta”) business are included in U.S. sales. Sales for Mesta for Q1 2023, stated in Canadian dollars were $4,000 (Quarter 1, 2022 - $2,224). Mesta’s sales increased 79.9%, contributing to the overall increase in sales. Sales in Mexico in the quarter continued to grow over Q1 2022 but remain modest at under $2 million for the quarter.

Canadian sales decreased to $36,414 for the quarter, a decrease of $1,740 or 4.6% from Quarter 1, 2022 sales of $38,154. While the Canadian market has not experienced the same levels of demand as the U.S., the decrease in sales is primarily related to the timing of certain shipments as some facilities reached their capacity limits.

During Quarter 1, 2023 HPS estimates an organic sales volume increase of 15.0% (9.0% excluding the deferred India shipment) referred to below, versus Quarter 1, 2022. The Company has not implemented any price increases since the second quarter of 2022 but will still see some benefit of past increases in the quarter. Price increases accounted for 13.0% of the increase in sales Quarter 1, 2022 versus Quarter 1, 2021.

Indian sales for Quarter 1, 2023 finished at $15,916 versus $6,517 in Quarter 1, 2022, an increase of $9,399 or 144.2%. Shipments were bolstered this quarter due to the recognition of $7,597 of revenue for an order produced and shipped in Quarter 4, 2022 that could not be recognized given sales terms of freight on board (“FOB”) destination.

Quarter 1, 2023 sales stated by geographic segment were derived from U.S. sales of 69.4% (Quarter 1, 2022 – 65.0%) of total sales, Canadian sales of 21.3% (Quarter 1, 2022 – 29.9%) and Indian sales of 9.3% (Quarter 1, 2022 – 5.1%).

HPS continues to be dedicated to its growth strategy. The Company’s focus on product development, capital expenditures to increase capacity, vertical integration strategies, geographic diversification, innovative research and development projects and our expanded distributor network are all key components of this strategy. Expanded product offerings, the addition of new customers, geographically diverse manufacturing facilities and market influence will allow the Company to continue to grow market share globally and enable HPS as a leader in its chosen markets.

Backlog

The Company’s Quarter 1, 2023 backlog increased by 74.1% as compared to Quarter 1, 2022. The combination of price increases and strong demand in the back half of 2022 and early 2023 contributed to the high backlog increase from prior year. The Company’s backlog has increased 6.0% from the Quarter 4, 2022 value as our quarterly shipments reached record levels. Increased bookings occurred across a number of market and geographical segments. As backlog continues to be high, product lead times are extended and the timing of shipments in the backlog becomes more uncertain – in some cases extending to later in the year and beyond.

Quotation activity, improving bookings and backlog, as well as an encouraging sales outlook support optimism for the future. Looking ahead, HPS remains cautiously optimistic for future growth, given the many macro-economic trends favouring the electrical industry, including onshoring, public and private investment in renewable energy, infrastructure, and electrical vehicle charging, investment in mining, oil, and gas production and semiconductor production, all of which the Company participates in. Tempering this optimism is the possibility of a general economic decline as a result of rapidly rising interest rates, which could affect one or more of the sectors noted above. To manage the impact of sector volatility, the Company widened its distributor footprint in North America, expanded its Indian and Mexican market presence, broadened its Power Quality product portfolio, invested in new product development and developed its manufacturing capabilities. A diversified geographic approach supports anticipated growth from implemented market strategies and subsequent economic improvement.

Gross margin

The Company saw a considerable increase in its gross margin rate for Quarter 1, 2023 which was 31.8% compared to Quarter 1, 2022 margin rate of 28.5%, an improvement of 3.3% of sales. The gross margin rate is impacted by productivity gains as a result of operating leverage, price increases implemented in 2022, and material procurement initiatives. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. Higher gross margins were achieved in all channels and regions.

The increase in sales volumes in 2023, along with similar organic increases in 2022, resulted in some facilities operating close to or at capacity. This volume increase resulted in higher fixed overhead leverage and as a result, higher gross margins.

The Company's ability to source materials and maintain a continuous supply to meet demand, exacerbated by global logistical disruptions, has a significant impact on sales and margins. The manufacture of transformers requires copper, aluminum and electrical steel. All of these commodities, particularly electrical steel, have seen significant price increases driven mainly by supply constraints. The second half of 2022 and into Quarter 1, 2023 saw the cost of many of these inputs stabilize.

Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. While the Company has reaped the benefits of higher absorption of factory overheads due to the increased sales volume, we continue to implement a number of cost reduction and expense management initiatives to protect our margin rates. HPS continues to commit resources to its continuous improvement program, which will result in implementing productivity enhancements, cost reductions and lead-time improvements across the entire organization.

Selling and distribution expenses

Total selling and distribution expenses were $17,489 in Quarter 1, 2023 or 10.2% of sales versus $14,471 in Quarter 1, 2022 or 11.3% of sales, an increase of $3,018 or 20.9%. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the large increase in sales.

General and administrative expense

General and administrative expenses were $14,335 or 8.4% of sales for Quarter 1, 2023 compared to Quarter 1, 2022 expenses of $9,247 or 7.2% of sales, an increase of $5,088 or 55.0%. Key drivers for the current quarter increase are as follows:

- Approximately $800 of the increase in the current year is associated with strategic investments in people resources and incentive plans;
- Mesta contributed an additional $60 to general and administrative expenses;
- Additional general and administrative expenses of $239 relate to the new infrastructure in Mexico; and
- The higher share price and additional awards granted in Quarter 1, 2023 has caused the DSU expense to increase by $3,859 from the prior year.

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Earnings from operations[1]

Quarter 1, 2023 earnings from operations were $22,623 compared to $12,658 for the same quarter last year, an increase of $9,965. The increase in earnings from operations in the quarter is primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses, as well as higher income tax expense.

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

	Quarter 1, 2023	Quarter 1, 2022
Net earnings	$ 15,726	$ 8,569
Add (subtract):		
Income tax expense	6,166	3,673
Interest expense	200	263
Foreign exchange loss	498	124
Share of income of investment in joint venture	–	(4)
Other	33	33
Earnings from operations	$ 22,623	$ 12,658

Net finance and other costs

Interest expense for Quarter 1, 2023 was $200, a decrease of $63 compared to the Quarter 1, 2022 expense of $263. Interest expense includes all bank fees.

The foreign exchange loss in Quarter 1, 2023 was $498 compared to $124 in Quarter 1, 2022 – a change of $374. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts receivable and payable. The change of the foreign exchange expenses for the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar.

As at April 1, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $27,256 USD. Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for $36,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 1, 2023 income tax expense was $6,166 compared to $3,673 in Quarter 1, 2022 an increase of $2,493 or 67.9%.

The consolidated effective tax rate[2] for Quarter 1, 2023 was 28.2% versus 30.0% for Quarter 1, 2022, a decrease of 1.8%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company as income is generated from different geographical tax jurisdictions and is subject to diverse tax rates and regulations.

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.

[1] Refer to Non-GAAP financial measures on pages 8 of this quarterly report

[2] Effective tax rate is calculated as the income tax expense divided by the earnings before income taxes

Net earnings

Net earnings for Quarter 1, 2023 finished at $15,726 compared to net earnings of $8,569 in Quarter 1, 2022, an increase of $7,157. The increase in the quarterly earnings from operations is primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses, as well as higher income tax expense.

Earnings per share

Basic earnings per share were $1.32 for Quarter 1, 2023 versus $0.72 in Quarter 1, 2022.

EBITDA

EBITDA for Quarter 1, 2023 was $24,145 versus $14,458 in Quarter 1, 2022, an increase of $9,687 or 67.0%. Adjusted for foreign exchange loss, adjusted EBITDA for Quarter 1, 2023 was $24,643 versus $14,582 in Quarter 1, 2022, an increase of $10,061 or 69.0%.

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

		Quarter 1, 2023		Quarter 1, 2022
Net earnings	$	15,726	$	8,569
Add:				
Interest expense		200		263
Income tax expense		6,166		3,673
Depreciation and amortization		2,053		1,953
EBITDA	$	24,145	$	14,458
Add:				
Foreign exchange loss		498		124
Adjusted EBITDA	$	24,643	$	14,582

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of quarterly financial information (unaudited)

Fiscal 2023 Quarter		Q1, 2023
Sales	$	171,134
Net earnings	$	15,726
Net earnings per share – basic	$	1.32
Net earnings per share – diluted	$	1.32
Average U.S. to Canadian exchange rate	$	1.348

Fiscal 2022 Quarters		Q1, 2022		Q2, 2022		Q3, 2022		Q4, 2022		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	$	0.97	$	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, except for Quarter 4, 2022, with quarterly sales continuing to accelerate with Quarter 1, 2023 sales higher than any quarter in 2022. The Quarter 4, 2022 drop was related to the large Indian order that was shipped but unable to be recognized until Quarter 1, 2023 given the sales terms of freight on board destination. The increase in sales over the past nine quarters is a function of increased pricing, higher volume and additional sales related to Mesta. There has been an upward trend over the past nine quarters due to an overall improvement in general economic activity. Sales have also been positively impacted by the stronger U.S. dollar exchange.

Gross margin rates for the quarter have increased from the same quarter last year. This margin rate improvement is attributed to sales mix and market specific pricing. Higher sales have translated into additional profits as the additional volumes absorb more factory expenses in prior years.

Capital resources and liquidity

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

Cash used in operating activities for Quarter 1, 2023 was $10,466 versus cash generated by operations of $537 in Quarter 1, 2022, an increase in cash usage of $11,003. This change is a result of an increase in cash utilized for working capital, offset by an increase in net earnings and income tax expense.

In Quarter 1, 2023, non-cash working capital used cash of $30,556 compared to $12,280 for the same quarter last year, an increase of $18,276. The working capital changes are primarily related to a significant increase in accounts receivable.

Total cash generated by financing activities was $4,061 in the first three months of 2023, compared to cash used of $366 in the same period in 2022. The key driver of this change is the higher advances of bank operating lines in the current year.

Cash used in investing activities increased year-over-year with cash used of $2,014 in Quarter 1, 2023 from $1,527 in Quarter 1, 2022, an increase of $487. Capital expenditures were $2,010 in Quarter 1, 2023 compared to $1,573 for Quarter 1, 2022, an increase of $437. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Bank operating lines of credit have decreased from prior year levels finishing Quarter 1, 2023 at $12,615 compared to $20,558 at the end of Quarter 1, 2022, a decrease of $7,943. The bank operating lines of credit have increased $6,461 since the year-end balance of $6,154. The increase in the bank operating lines of credit during Quarter 1, 2023 is due to increased working capital usage.

The Company's overall net operating cash balance was $7,127,[1] a decrease of $14,845 from the net operating cash balance of $21,972[2] at December 31, 2022. The Quarter 1, 2022 net operating debt balance was $905[3], a change of $8,032 as of Quarter 1, 2023.

All bank covenants continue to be met as at April 1, 2023.

The Company will utilize its cash generated from operations combined with the existing available credit facilities to finance ongoing business operational cash requirements for working capital, capital expenditures and investing activities going forward.

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.

	2023	2024	2025	2026	2027 & Thereafter	Total
Accounts payable and accrued liabilities	$ 93,463	–	–	–	–	$ 93,463
Capital expenditure purchase commitments	5,028	–	–	–	–	5,028
Bank operating lines	12,615	–	–	–	–	12,615
Lease liabilities	4,036	3,923	2,265	1,151	–	11,375
Contingent liabilities	1,167	1,333	–	–	–	2,500
Total	$ 116,309	$ 5,256	$ 2,265	$ 1,151	$ –	$ 124,981

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 a quarterly cash dividend of twelve and a half cents ($0.125) per Class B Common Share of HPS 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.

[1] Overall net operating cash balance is the cash and cash equivalents of $19,742 net of the bank operating lines of credit of $12,615
[2] Overall net operating cash balance is the cash and cash equivalents of $28,126 net of bank operating lines of credit of $6,154
[3] Overall net operating debt balance is the bank operating lines of credit of $20,558 net of cash and cash equivalents of $19,653

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 International Financial Reporting 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.

During Quarter 1, 2023 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected or was 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 considered at a material level.

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 a number of 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. The Company attempts to mitigate these risks through strategic supply line agreements.

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.

Other business risks

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

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. Recent public investment in electrical infrastructure, particularly in the U.S. is a key driver for demand in the electrical industry. A reversal of these policies could lead to reduced demand for our products.

Our industry is highly competitive.

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

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

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

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

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 a number of 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, divestures, 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. Over 70% 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.

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 expenditure commitments disclosed in Notes to the Consolidated Financial Statements contained in our 2022 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2023, other than transactions disclosed in Note 9 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2023 Report.

Proposed transactions

The Company had no proposed transactions as at April 1, 2023. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at April 1, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 EUR and $27,256 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $36,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

The preparation of the Company's condensed consolidated interim 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 value 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 2022 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Business Combinations 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 involves the use of market-based discount rates. The development of cash flow forecasts involves the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of discount rates and royalty rates.

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

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

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 April 1, 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

Strategic direction and outlook

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

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

- Developing our Customers and Markets by:
  - Driving organic growth through continuing to develop our National Association of Equipment Distributors ("NAED") channel;
  - Offering competitive products, including an expanding product quality offering;
  - Providing unparalleled service to our customers; and
  - Growing through strategic acquisitions.
- Achieving Operational and Financial Excellence by:
  - Driving continuous improvement;
  - Improving efficiency by investing in equipment, people and technology; and
  - Optimizing the efficiency of our global manufacturing footprint.
- Developing our People and Culture by:
  - Building our leadership team for the future;
  - Developing our people to excel and thrive; and
  - Making HPS a preferred employer.
- Building a Sustainability Program by
  - Designing energy efficient products;
  - Shrinking our ecological footprint; and
  - Energizing the world in a responsible way for the generations to come.

The demand for our transformers, particularly in North America, continues to accelerate and sales volumes are climbing at an accelerating rate. Commodity costs and supply shortages appear to have stabilized and are not as a significant challenge as they were a year ago. We have seen improvements in business activity and demand and the Company expects to see continued growth in revenues. It has been, and is, HPS' objective to maintain gross margins in the face of rising prices. We will continue to do so in the future.

HPS has continued 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 most recent 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.

At the end of 2022 an extensive upgrade to our enterprise resource planning ("ERP") system to a cloud-based format went live. The upgrade allows for better software manufacturer support as well as speed and flexibly a cloud-based system can provide. This upgrade was completed for all HPS facilities.

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.

With a continued focus on growth and advancement, HPS intends to increase its planned capital program by approximately $40 million over 2023 and 2024. 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 planning to set up an approximately 80,000 square foot small products facility, while also adding equipment to existing facilities there. HPS also expects to expand its manufacturing capacity at the Mesta location in Pennsylvania, USA, as well as its facility in Guelph, Ontario.

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.

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.

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)

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to and including the First Quarter of 2023. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

Annual Information	2018	2019	2020	2021	**2022**
Sales	314,082	358,792	322,097	380,202	**558,464**
Earnings from operations	13,779	20,543	22,041	23,151	**59,441**
EBITDA	17,915	28,175	29,482	30,114	**69,746**
Net (loss) earnings	(12,917)	11,607	14,062	15,176	**44,828**
Total assets	205,527	214,953	189,394	235,099	**302,673**
Non-current liabilities	2,528	11,271	8,329	7,104	**8,101**
Total liabilities	96,793	105,186	75,478	109,097	**125,779**
Total shareholders' equity attributable to equity holders of the Company	108,734	109,767	113,916	126,002	**176,894**
Operating debt, net of cash	(17,056)	(9,326)	(1,278)	1,638	**21,972**
Cash provided by operations	6,474	17,810	19,683	20,447	**37,013**
Basic (loss) earnings per share	(1.10)	0.99	1.20	1.29	**3.79**
Diluted (loss) earnings per share	(1.10)	0.99	1.20	1.28	**3.77**
Dividends declared and paid	2,818	3,287	3,993	4,009	**4,556**
Average exchange rate (USD$=CAD$)	1.294	1.327	1.343	1.253	**1.301**
Book value per share	9.26	9.36	9.70	10.69	**15.00**

		2021			**2022**			**2023**
Quarterly Information	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Sales	88,277	95,526	116,278	127,782	137,476	148,953	144,253	171,134
Earnings from operations	7,620	5,909	6,220	12,658	10,046	16,118	20,369	22,623
EBITDA	8,694	7,378	8,693	14,458	12,225	18,970	24,093	24,145
Net earnings	4,689	3,948	4,241	8,569	6,505	11,531	18,223	15,726
Total assets	208,865	221,549	235,099	253,340	283,852	315,864	302,673	327,166
Non-current liabilities	7,018	6,486	7,104	6,170	5,793	6,640	8,101	9,413
Total liabilities	91,691	98,951	109,097	119,565	140,791	152,187	125,779	135,572
Total shareholders' equity attributable to equity holders of the Company	117,174	122,598	126,002	133,775	143,061	163,677	176,894	191,594
Operating debt, net of cash	(14,392)	(15,399)	1,638	(905)	9,542	21,843	5,352	7,127
Cash (used) provided by operations	(29)	7,430	19,900	537	14,623	16,501	1,837	(10,466)
Basic earnings per share	0.40	0.34	0.36	0.72	0.55	0.97	1.55	1.32
Diluted earnings per share	0.40	0.34	0.35	0.72	0.55	0.97	1.53	1.32
Dividends declared and paid	1,002	1,002	1,002	1,006	1,183	1,184	1,183	1,488
Average exchange rate (USD$=CAD$)	1.231	1.257	1.258	1.267	1.276	1.305	1.358	1.348
Book value per share	9.94	10.40	10.69	11.39	12.13	13.88	15.00	16.31

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of dollars)	As at April 1, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 19,742	$ 28,126
Accounts receivable	122,816	86,701
Inventories	102,178	106,353
Income taxes receivable	1,055	1,995
Prepaid expenses and other assets	7,065	6,948
Total current assets	252,856	230,123
Non-current assets		
Property, plant and equipment (note 4)	44,215	41,742
Investment in properties	3,121	3,121
Deferred tax assets	7,573	8,013
Intangible assets	7,381	7,650
Goodwill	12,020	12,024
Total non-current assets	74,310	72,550
Total assets	$ 327,166	$ 302,673
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 12,615	$ 6,154
Accounts payable and accrued liabilities	93,463	92,301
Deferred revenue	10,062	10,607
Income taxes payable	3,179	2,342
Provisions	1,897	1,840
Current portion of lease liabilities (note 5)	4,943	4,434
Total current liabilities	126,159	$ 117,678
Non-current liabilities		
Provisions	977	979
Deferred tax liabilities	–	117
Long-term portion of lease liabilities (note 5)	8,436	7,005
Total non-current liabilities	9,413	8,101
Total liabilities	$ 135,572	$ 125,779
Shareholders' Equity		
Share capital	15,761	15,240
Contributed surplus	2,289	2,376
Accumulated other comprehensive income (note 7)	12,459	12,431
Retained earnings	161,085	146,847
Total shareholders' equity	191,594	176,894
Total liabilities and shareholders' equity	$ 327,166	$ 302,673

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Operations

(unaudited) (in thousands of dollars except for per share amounts)

	Three Months Ending	
	April 1, 2023	April 2, 2022
Sales (note 8)	$ 171,134	$ 127,782
Cost of sales	116,687	91,406
Gross margin	54,447	36,376
Selling and distribution	17,489	14,471
General and administrative	14,335	9,247
	31,824	23,718
Earnings from operations	22,623	12,658
Finance and other costs		
Interest expense	200	263
Foreign exchange loss	498	124
Share of income of investment in joint venture	–	(4)
Other	33	33
Net finance and other costs	731	416
Earnings before income taxes	21,892	12,242
Income tax expense	6,166	3,673
Net earnings	$ 15,726	$ 8,569
Earnings per share		
Basic earnings per share	$ 1.32	$ 0.72
Diluted earnings per share	$ 1.32	$ 0.72

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of dollars)

	Three Months Ending	
	April 1, 2023	April 2, 2022
Net earnings	$ 15,726	$ 8,569
Other comprehensive income		
Foreign currency translation differences for foreign operations (note 7)	28	(88)
Total comprehensive income for the period	$ 15,754	$ 8,481

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the three months ended April 1, 2023

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2023	$ 15,240	$ 2,376	$ 12,431	$ 146,847	$ 176,894
Total comprehensive income for the year					
Net earnings	–	–	–	15,726	15,726
Other comprehensive income					
Foreign currency translation differences (note 7)	–	–	28	–	28
Total other comprehensive loss	–	–	28	–	28
Total comprehensive income for the year	–	–	28	15,726	15,754
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 6)	–	–	–	(1,488)	(1,488)
Stock options exercised (note 6)	521	(87)	–	–	434
Total transactions with shareholders	521	(87)	–	(1,488)	(1,054)
Balance at April 1, 2023	$ 15,761	$ 2,289	$ 12,459	$ 161,085	$ 191,594

*AOCI – Accumulated other comprehensive income
See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

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

	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 year					
Net earnings	–	–	–	8,569	8,569
Other comprehensive income					
Foreign currency translation differences (note 7)	–	–	(88)	–	(88)
Total other comprehensive loss	–	–	(88)	–	(88)
Total comprehensive income for the year	–	–	(88)	8,569	8,481
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 6)	–	–	–	(1,006)	(1,006)
Stock options exercised (note 6)	354	(56)	–	–	298
Total transactions with shareholders	354	(56)	–	(1,006)	(708)
Balance at April 2, 2022	$ 15,240	$ 2,376	$ 2,021	$ 114,138	$ 133,775

*AOCI – Accumulated other comprehensive income
See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Cash Flows

(unaudited) (in thousands of dollars)

	Three Months Ending April 1, 2023	Three Months Ending April 2, 2022
Cash flows from operating activities		
Net earnings	$ 15,726	$ 8,569
Adjustments for:		
Share of income of investment in joint venture	-	(4)
Amortization of property, plant and equipment	1,843	1,861
Amortization of intangible assets	210	92
Provisions	55	(3)
Interest expense	200	263
Income tax expense	6,166	3,673
Change in unrealized loss on derivatives included within other assets	279	(519)
	24,479	13,932
Change in non-cash working capital (note 10)	(30,556)	(12,280)
Cash used in operating activities	(6,077)	1,652
Income tax paid	(4,389)	(1,115)
Net cash (used in) generated by operating activities	(10,466)	537
Cash flows from investing activities		
Receipt of lease receivable payment	46	46
Acquisition of intangible assets	(50)	-
Acquisition of property, plant and equipment (note 4)	(2,010)	(1,573)
Cash used in investing activities	(2,014)	(1,527)
Cash flows from financing activities		
Net advances of bank operating lines of credit	6,461	1,291
Proceeds from issue of share capital (note 6)	434	298
Payment of lease liabilities (note 5)	(887)	(742)
Cash dividends paid (note 6)	(1,488)	(1,006)
Payment of contingent consideration	(336)	-
Interest paid	(123)	(207)
Cash generated by (used in) financing activities	4,061	(366)
Foreign exchange on cash held in a foreign currency	35	104
Decrease in cash	(8,384)	(1,252)
Cash and cash equivalents at beginning of period	28,126	20,905
Cash and cash equivalents at end of period	$ 19,742	$ 19,653

See accompanying notes to condensed consolidated interim financial statements

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended April 1, 2023 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States (U.S.), Mexico and India and sells its products around the globe.

2. Basis of preparation

(a) Statement of compliance

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

These condensed consolidated interim financial statements were approved by the Board of Directors on May 2, 2023.

(b) Use of estimates and judgements

The preparation of the condensed consolidated interim 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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2022.

For the years ended December 31, 2022 and 2021 (tabular amounts in thousands of dollars, except share and per share amounts)

3. Summary of significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2022 annual audited financial statements, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The significant accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2022, with the exception of items noted below:

Changes to accounting policies

- Insurance contracts (IFRS 17 and amendments to IFRS 17);
- 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).

The Company adopted the 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.

4. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property. Carrying amounts of owned and right-of-use assets are as follows:

	April 1, 2023	December 31, 2022
Property, plant and equipment owned	$ 35,562	$ 34,789
Right-of-use assets	8,653	6,953
	$ 44,215	$ 41,742

The Group had acquisitions of property, plant and equipment owned for the three months ended April 1, 2023, in the amount of $2,010,000 of machinery and equipment (2022 – $1,573,000).

Three months ended April 1, 2023 and April 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

Right of use of assets

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

	Buildings	Vehicles	Office Equipment	Total
Balance at January 1, 2023	$ 6,529	$ 403	$ 21	$ 6,953
Additions	1,902	227	–	2,129
Depreciation	(662)	(65)	(3)	(730)
Effect of movements in exchange rates	289	12	–	301
Balance at April 1, 2023	$ 8,058	$ 577	$ 18	$ 8,653

5. Lease and other long-term liabilities

	April 1, 2023	December 31, 2022
Lease liabilities	$ 10,879	$ 8,593
Contingent consideration	2,500	2,687
	$ 13,379	$ 11,280
Current	4,943	3,570
Non-current	8,436	7,710

Maturity analysis – contractual undiscounted cash flows	**April 1, 2023**	December 31, 2022
Less than one year	$ 4,036	$ 3,198
One to five years	7,339	5,905
Total undiscounted lease liabilities	$ 11,375	$ 9,103
Less: effect of discounting and foreign exchange	$ (496)	$ (510)
Lease liabilities included in the statement of financial position	$ 10,879	$ 8,593
Current	$ 3,777	$ 2,925
Non-current	$ 7,102	$ 5,668

	Three Months Ended	
Amounts recognized in statement of operations	April 1, 2023	April 2, 2022
Interest on lease liabilities	$ 77	$ 56

	Three Months Ended	
Amounts recognized in statement of cash flows	April 1, 2023	April 2, 2022
Payment of lease liabilities	$ 887	$ 742

Three months ended April 1, 2023 and April 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

6. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending	
	April 1, 2023	April 2, 2022
12.5 cents per Class A subordinate voting shares (2022: 8.5 cents)	$ 1,141	$ 770
12.5 cents per Class B common shares (2022: 8.5 cents)	347	236
	$ 1,488	$ 1,006

(b) Stock option plan

During the three months ended April 1, 2023, there were 70,000 options exercised at an exercise price of $6.20 resulting in cash proceeds of $434,000 and a transfer of $87,000 from contributed surplus. During the three months ended April 2, 2022 there were 45,000 options exercised at an exercise price of $6.62 resulting in cash proceeds of $298,000 and a transfer of $56,000 from contributed surplus.

(c) Deferred Share Units

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

The movement in DSUs for the three months ended April 1, 2023 was as follows:

	Number of DSUs	**Closing Share Price**
Balance at January 1, 2023	213,975	$ 20.12
DSUs issued	5,334	26.32
Balance at April 1, 2023	219,309	$ 38.08

An expense of $4,198,000 (Quarter 1, 2022 - $340,000) for the quarter was recorded in general and administrative expenses. The liability of $8,351,000 (December 31, 2022 - $2,310,000) related to these DSUs is included in accounts payable and accrued liabilities.

7. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive income for the three months ended April 1, 2023 was $28,000 (Quarter 1, 2022 – $88,000), which relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at April 1, 2023 of accumulated other comprehensive income of $12,459,000 (April 2, 2022 – $2,021,000).

Three months ended April 1, 2023 and April 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

8. Sales

	Three Months Ending	
	April 1, 2023	April 2, 2022
Canada	$ 36,414	$ 38,154
United States and Mexico	118,804	83,111
India	15,916	6,517
	$ 171,134	$ 127,782

As at April 1, 2023 the Company had contract liabilities of $10,062,000 (December 31, 2022 – $5,468,000).

9. Related party transactions

Related parties

William G. Hammond, Chief Executive Officer and Chairman of the Company, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 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 953,800 (December 31, 2022 – 947,450) Class A subordinate voting shares of the Company, representing approximately 10.5% (2022 – 10.5%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $466,500 (Quarter 1 2022 – $317,000).

10. Change in non-cash operating working capital

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

	Three Months Ending	
	April 1, 2023	April 2, 2022
Accounts receivable	$ (36,115)	$ (6,206)
Inventories	4,175	(2,598)
Prepaid expenses	(136)	(354)
Accounts payable and accrued liabilities	883	(4,504)
Deferred revenue	(545)	441
Foreign exchange	1,182	941
	$ (30,556)	$ (12,280)

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, Inc.
11020 Parker Drive,
North Huntington, Pennsylvania 15642

Annual General Meeting of Shareholders to be held:

Thursday, May 11, 2023
1:30 p.m. (EST)

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

Corporate Information

Corporate Officers and Directors

William G. Hammond *
Chairman of the Board and
Chief Executive Officer

Richard C. Vollering
Corporate Secretary and
Chief Financial Officer

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Anne Marie Turnbull *+
Director

David M. Wood *+
Director

* Corporate Governance Committee
+ Audit and Compensation Committee

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

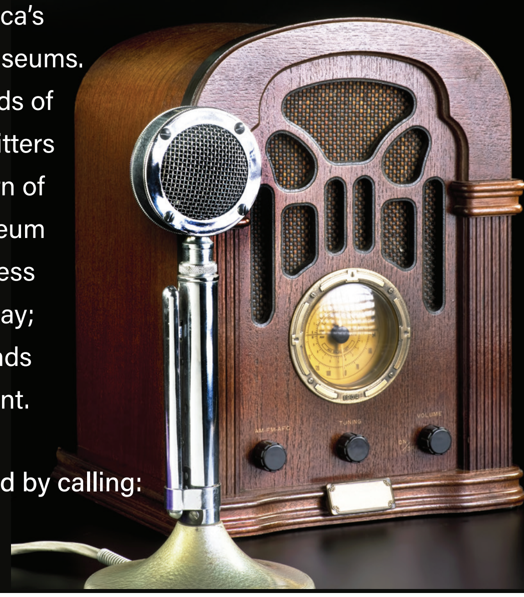
Investor Relations

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 BEST WAY TO PREDICT THE FUTURE IS TO CREATE IT

Hammond Power Solutions Inc.

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