Hammond Power Solutions Inc.

Q3 Report

For the nine months ending September 29, 2018

What's Inside...

Our Vision

To be a leading global supplier of transformers and magnetics within our chosen markets.

Our Mission

We are a growing and profitable global supplier of transformers and related magnetic products dedicated to satisfying the collective needs of our shareholders, customers, suppliers, employees and community.

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

Fellow shareholder:

As expected in the third quarter, our consolidated margins continued to be affected by competitive price pressure. We gained traction in North America as we realized a rebound in our North American gross margin rate and sales.

Overall our backlog continues to rise to unprecedented levels supported by strong bookings.

U.S. and Canadian sales are driving our overall results with growth in all channels. This growth comes from a broad diversity of markets including commercial construction, solar, oil and gas, public infrastructure, mining and industrial maintenance, repair, and operations. It is safe to say that these are the most positive business conditions that we have seen in ten years.

Our international operations continue to challenge us but improvements are slowly gaining traction. A country-wide trucking strike in India limited our July shipments but we have seen a strong rebound since. The third quarter is always the slowest period for our Italian operation given extensive holiday shut downs across Europe.

We are forecasting a strong momentum for the rest of the year and carrying into 2019. On top of our current growth rate, we are beginning to see certain industrial and Original Equipment Manufacturer ("OEM") markets surge back to levels of activity not seen in many years.

Despite this current momentum, we remain mindful of the growing risks to the global economy caused by trade wars and the impacts of rising tariffs.

We continue to maintain an internal focus on cost containment and price increases going forward.

William G. Hammond
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER
Grandson of founder Oliver Hammond

Management's Discussion and Analysis

The Company's strategic vision and operational initiatives have supported Hammond Power Solutions' industry leadership, operational strength and financial stability.

The Company will deliver solid financial performance, provide a sustainable return to our shareholders, maintain the Balance Sheet strength of the Company and deliver long-term value to all stakeholders.

Hammond Power Solutions Inc. ("HPS" or the "Company") is a North American leader in the design and manufacture of custom electrical engineered magnetics, standard electrical dry-type, cast resin and liquid filled transformers. Advanced engineering capabilities, high quality products, global reach and fast responsive service to customers' needs have established the Company as a technical and innovative leader in the electrical transformer industry. The Company has manufacturing plants in Canada, the United States (U.S.), Mexico, Italy and India.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the nine months ended September 29, 2018, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2018. This information is based on Management's knowledge as at November 5, 2018. 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 2017 Annual Report and accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2017 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 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. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes, 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 and EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending September 29, 2018 and September 30, 2017 is contained in the MD&A. EBITDA should not be construed as a substitute for net income 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 may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended September 29, 2018 were $83,153, a significant increase of $8,468 or 11.3% from Quarter 3, 2017 sales of $74,685. Year-to-date 2018 sales increased $7,698 or 3.4% to $233,619 compared to $225,921 in 2017.

The Company continues to realize double digit, North American market growth. Sales in the United States ("U.S.") increased by $9,901 or 23.7%, finishing at $51,592 for Quarter 3, 2018 compared to $41,691 in Quarter 3, 2017. Year-to-date U.S. sales were $144,447 in 2018 and $129,442 in 2017, an increase of $15,005 or 11.6%. The increase in the Quarter 3, 2018 sales is a result of growth in the North American Electrical Distributor ("NAED") motor control, catalog and private branding markets.

Third quarter sales were favourably impacted by a 4.8% stronger U.S. dollar ("USD") $1.00 USD = $1.31 Canadian dollar ("CAD") compared against $1.00 USD = $1.25 CAD in Quarter 3, 2017. Conversely, 2018 year-to-date sales were negatively affected by a 2.3% weaker U.S. dollar $1.00 USD = $1.29 CAD compared against $1.00 USD = $1.32 CAD in 2017. U.S. sales, when stated in U.S. dollars were $39,468 in Quarter 3, 2018, compared to Quarter 3, 2017 of $33,271, growing by $6,197 or 18.6%. Year-to-date U.S. sales stated in U.S. dollars were $112,664 in 2018 compared to $99,008 in 2017, an escalation of $13,656 or 13.8%.

Canadian sales were $23,806 for the quarter, as compared to Quarter 3, 2017 sales of $25,308, a decrease of $1,502 or 5.9%. Year-to-date Canadian sales were $67,118 in 2018 compared to $61,973 in 2017, an increase of $5,145 or 8.3%.

International sales for Quarter 3, 2018 finished at $7,755 versus $7,686 in Quarter 3, 2017, a slight increase of $69 or 0.9%. Year-to-date international sales were $22,054 in 2018 compared to $34,506 in 2017, a decrease of $12,452 or 36.1%.

Italian sales were $1,600 in Quarter 3, 2018 as compared to $4,142 in Quarter 3, 2017, a decrease of $2,542 or 61.4%, and $6,250 year-to-date versus $14,309 year-to-date 2017 a decrease of $8,059 or 56.3% as vacuum pressure impregnated ("VPI") product sales have significantly reduced primarily due to the sale of the VPI business in November 2017.

India sales were $6,155 versus $3,544, an improvement of $2,611 or 73.7% due to delivery of several OEM shipments that had previously been deferred. Year-to-date sales were $15,804 for 2018 versus $20,197 in 2017 a change of $4,393 or 21.8%.

Quarter 3, 2018 sales stated by geographic segment were derived from U.S. sales of 62.0% (Quarter 3, 2017 – 55.9%) of total sales, Canadian sales of 28.6% (Quarter 3, 2017 – 33.9%), and International sales of 9.4% (Quarter 3, 2017 – 10.2%).

The Company continues to realize growth in the North American market in both its NAED and OEM channels. The expansion of this segment is a result of the addition of new customers, expanded product offerings, organic customer diversity, global market reach and geographically diverse manufacturing capabilities. The Company's strategy of market diversification is not single-industry or market dependent, resulting in a natural business hedge as some markets grow while others decline.

The Company is steadfast in building its value proposition to our customers through product breadth, competitive customer engineered designs, uncompromised quality and new product development. HPS' commitment to its growth strategy is evidenced by its business development activities, capital investment and vertical integration strategies. HPS' past restructuring initiatives will ensure HPS remains competitive and able to respond effectively to customer needs.

These factors, combined with multi-national manufacturing capabilities and a strong distribution channel will continue to be the cornerstone to market and revenue growth, and be a competitive advantage to the Company.

Order bookings and backlog

The Company increased bookings 7.3% over Quarter 3, 2017 due to stronger bookings in both the direct and distributor channels in North America and in the Indian markets.

Booking rates in the distributor channel increased 11.2% over Quarter 3, 2017. On a direct channel basis, bookings were higher than Quarter 3, 2017 by 3.7%. Stronger bookings in both the U.S. and Canadian markets were experienced as the Company continues to grow market share in our traditional markets through both the distribution and direct OEM channels, particularly the power conditioning, mining, oil drilling and construction project markets.

On a year-to-date basis overall Company bookings have increased 6.1% over the same period as last fiscal year. The distributor channel bookings increased 13.6% and the direct channel bookings are slightly lower by 0.2%, due to ongoing lower bookings in the Italian operation with the sale of its VPI business in 2017.

Backlog increased 21.9% over Quarter 3, 2017 and grew 4.9% from Quarter 2, 2018. The company has experienced increased order activity from North American distributor and OEM customers in mining, oil drilling and the project/ construction markets.

Quotation activity remains strong – a good indicator of future sales. It is expected the combination of the Company's strategic sales initiatives, expanded distributor footprint and new product development will deliver increased booking rates.

HPS is aware of and sensitive to the volatility and unpredictability of current global economies and the impact that this will have on booking trends. While several markets are seeing positive quotation and order trends, the Company is cognizant that it may see some volatility and unpredictability in longer term booking rates.

Gross margin

The gross margin rate for Quarter 3, 2018 was 22.1% compared to a Quarter 3, 2017 gross margin rate of 23.9%, a decline of 1.8% of sales. Year-to-date the gross margin rate was 22.6% in 2018 versus 24.4% in 2017, a decrease of 1.8%. Part of the weakened margin rate can be attributed to increased material commodity and component costs and the inability to recover these cost increases due to market selling price pressures. The margin rate is also impacted by the timing of foreign exchange volatility, sales mix, project timing and volatile commodity costs. The gap between the current year and prior year margin rate decreased in Quarter 3 as price increases are realized. Pricing pressures are pervasive as a result of ongoing industry overcapacity. The Company continues to experience competitor shortsighted pricing strategies but is confident that our value-added engineered solutions, that provide the customer with quality products and exceptional customer service, will support additional margin growth.

The quarter quotation activity, backlog growth and significant increase in sales, continue to provide indications of financial performance improvement. Fluctuating markets, pricing pressures and product mix can have significant impact on financial results. While the sales volume for the current quarter was extremely high, the Company continues to remain cautiously optimistic of future performance. HPS will realize growth in some markets and a decline in others underscoring the volatility of markets and sales demand. The uncertain economic environment has negatively eroded margin rates from a price realization and manufacturing capacity utilization perspective. As sales grow, the favourable impact that higher manufacturing throughput will have on the absorption of factory overheads will favourably impact margin rates.

Currently, the Company's diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. The Company's capacity strategy is fundamental for future increases in sales demand created through market share growth and revenue from newly developed products.

HPS is committed to its continuous improvement program and continues to implement productivity enhancements, cost reductions and lead-time improvements across the entire organization. Management is confident that these actions will elevate margin rates and enhance overall profitability.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Selling and distribution expenses

Total selling and distribution expenses were $9,537 in Quarter 3, 2018 or 11.5% of sales versus $8,238 in Quarter 3, 2017 or 11.0% of sales, an increase of $1,299 and an increase 0.5% of sales. Year-to-date selling and distribution expenses were $26,783 or 11.5% of sales in 2018 compared to $25,070 or 11.1% in 2017, an increase of $1,713 and 0.4% of sales. The quarter and year-to-date increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributable to the increased 2018 sales volume and foreign exchange conversion of our U.S. dollar denominated expenses.

General and administrative expense

General and administrative expenses for Quarter 3, 2018 totaled $6,510 or 7.8% of sales, compared to Quarter 3, 2017 expenses of $6,269 or 8.4% of sales, a decrease of 0.6% of sales although an increase of $241. Year-to-date general and administrative expenses were $19,685 or 8.4% of sales in 2018, compared to $18,635 or 8.2% of sales in 2017, an increase of $1,050 or 0.2% of sales. The increase in the year-to-date general and administrative expenses is primarily due to International strategic human capital investment focusing on revenue generation and enhanced operational profitability.

Earnings from operations

Quarter 3, 2018 earnings from operations were, $2,296 a decrease of $1,042 or 31.2% from $3,338 for the same quarter last year. The change in the quarter is due to lower margin rates. The year-to-date earnings from operations were $5,830 in 2018 compared to $10,696 in 2017, a decrease of $4,866 or 45.5%. The year-to-date change is a result of restructuring charges and non-recurring operating expenses associated with our Italian operation, decreased sales which were negatively impacted by the sales loss attributed to the sale of the Italian VPI portion of the business, a reduced gross margin rate and higher selling and administrative expenses.

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

	Quarter 3, 2018	Quarter 3, 2017	**YTD 2018**	YTD 2017
Net earnings	$ 1,391	$ 1,563	$ 1,916	$ 5,489
Add:				
Income tax expense	1,003	1,321	2,407	3,528
Interest expense	339	330	1,023	932
Foreign exchange gain	(125)	(97)	(32)	(52)
Share of (income) loss of investment in Joint Venture	(345)	188	413	700
Other	33	33	103	99
Earnings from operations	$ 2,296	$ 3,338	$ 5,830	$ 10,696

Interest expense

Interest expense for Quarter 3, 2018 was $339, a slight increase of $9 or 2.7% compared to the Quarter 3, 2017 expense of $330. Year-to-date interest cost was $1,023, an increase of $91 or 9.8% when compared to the 2017 year-to-date expense of $932. Interest expense year-to-date in 2018 was generated as a result of lower net earnings and higher operating debt levels due to working capital requirements, particularly created by a rise in accounts receivable and inventory. Interest expense includes all bank fees.

Foreign exchange gain

The foreign exchange gain in Quarter 3, 2018 was $125 compared to a foreign exchange gain of $97 in Quarter 3, 2017. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The year-to-date foreign exchange gain for 2018 was $32, compared to $52 for the same period last year. The earnings impact of the foreign exchange gains is related to the increased volatility in the exchange rates during the past year.

As at September 29, 2018, the Company had outstanding foreign exchange contracts in place for 15,850 Euros ("EUR") and $9,000 USD – both implemented as an economic hedge against translation gains and losses on inter-company loans as well as $40,000 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS operations.

Income taxes

Quarter 3, 2018 income tax expense was $1,003 as compared to $1,321 in Quarter 3, 2017, a decrease of $318 or 24.1%. Year-to-date income tax expense was $2,407 in 2018 and $3,528 in 2017, a decrease of $1,121 or 31.8%.

The consolidated effective tax rate for Quarter 3, 2018 was 41.9% versus 45.8% for Quarter 3, 2017, a decrease of 3.9%. The year-to-date effective tax rate for the first nine months of 2018 was 55.7% compared to 39.1% for the same period in 2017, an increase of 16.6%. The changes in the effective tax rates are greatly impacted by changes in the earnings mix of the Company and the share of the net earnings or loss of investment in joint venture. The Company income is generated from different tax jurisdictions and is subject to different tax rates and regulations. Although there is a net loss in our Italian operation, the Italian entity is unable to reduce the loss by the amount of taxes recoverable and is subject to a minimum tax expense. The impact on consolidated taxes is approximately $204 for the quarter and $693 year-to-date. Adjusting for this, the overall tax would drop to approximately 33.4% for the quarter and 34.9% year-to-date.

Deferred tax assets and liabilities consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities, and are not deductible against current year earnings. Deferred tax assets and liabilities relate to temporary differences resulting from intangible assets and the difference between the net book value and un-depreciated capital cost of property, plant and equipment.

Net earnings

Net earnings for Quarter 3, 2018 finished at $1,391 compared to net earnings of $1,563 in Quarter 3, 2017, a decrease of $172 or 11.0%. Year-to-date net earnings were $1,916 in 2018 compared to $5,489 in 2017, a decrease of $3,573 or 65.1%. The change in the quarter is a result of a reduced gross margin rate and higher selling and administrative expenses, partially offset by increased profitability on investment in the joint venture and a decrease in the effective tax rate.

The decline in year-to-date earnings is a result of non-recurring operational expenses associated with the Italian operation, lower gross margin rate, higher selling and administrative expenses and a higher effective tax rate.

Earnings per share

The basic earnings per share for the quarter was $0.12 for Quarter 3, 2018, a decrease of $0.02 from prior year basic earnings per share of $0.14. Year-to-date the basic earnings per share was $0.17 in 2018 and $0.48 in 2017.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

EBITDA

EBITDA for Quarter 3, 2018 was $3,879 versus $4,903 in Quarter 3, 2017, a decrease of $1,024 or 20.9%. Year-to-date EBITDA was $9,694 in 2018 and $15,078 in 2017, a decrease of $5,384 or 35.7%.

EBITDA is calculated as outlined in the following table:

	Quarter 3, 2018	Quarter 3, 2017	**YTD 2018**	YTD2017
Net earnings	$ 1,391	$ 1,563	$ 1,916	$ 5,489
Add:				
Interest expense	339	330	1,023	932
Income tax expense	1,003	1,321	2,407	3,528
Depreciation and amortization	1,146	1,689	4,348	5,129
EBITDA	$ 3,879	$ 4,903	$ 9,694	$ 15,078

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2018 Quarters	Quarter 1, 2018	Quarter 2, 2018	**Quarter 3, 2018**	YTD Total
Sales	$ 73,073	$ 77,393	**$ 83,153**	$ 233,619
Net earnings (loss)	$ 895	$ (370)	**$ 1,391**	$ 1,916
Net income (loss) per share – basic	$ 0.08	$ (0.03)	**$ 0.12**	$ 0.17
Net income (loss) per share – diluted	$ 0.08	$ (0.03)	**$ 0.12**	$ 0.17
Average U.S. to Canadian exchange rate	$ 1.2618	$ 1.2895	**$ 1.3072**	$ 1.2862

Fiscal 2017 Quarters	Q1, 2017	Q2, 2017	Q3, 2017	Q4, 2017	Total
Sales	$ 72,362	$ 78,874	$ 74,685	$ 75,829	$ 301,750
Net earnings	$ 1,084	$ 2,842	$ 1,563	$ 625	$ 6,114
Net income per share – basic	$ 0.09	$ 0.25	$ 0.14	$ 0.05	$ 0.53
Net income per share – diluted	$ 0.09	$ 0.25	$ 0.14	$ 0.04	$ 0.52
Average U.S. to Canadian exchange rate	$ 1.3225	$ 1.3468	$ 1.2531	$ 1.2704	$ 1.2982

Quarter 3, 2018 sales were significantly higher than previous quarters and prior years' sales levels. During the year HPS has struggled with significant downward pricing pressures, fluctuations in sales volumes in several markets and profitability being extremely sensitive to sales mix. During Quarter 3, 2018 some of these challenges were less prevalent than they were during the first half of the year. Certain customer projects came to fruition this quarter and mix of product sold was favourable. Margin rate continues to be a challenge while the Company continues to execute on price increases.

The Company continues to identify opportunities for savings to control expenses and improve profitability. Year-to-date restructuring expenses for 2018 are $560 as compared to $816 year-to-date 2017.

Corefficient S. De R.L. de C.V ("Corefficient"), our joint venture that manufactures transformer cores, had income of $345 in Quarter 3, 2018 versus a loss of $188 in Quarter 3, 2017, an increase of $533 and a year–to-date loss of $413 for 2018 compared to year-to-date losses in 2017 of $700, an increase of $287. The improvement in the joint venture performance in Quarter 3, 2018 was caused by elevated sales, higher manufacturing throughput, lower material costs and increased selling prices.

Competitive pricing pressures, challenging market conditions, product mix, and a weakened Canadian dollar all have an impact on the year-to-year quarterly fluctuations for both sales and income.

Capital resources and liquidity

Net cash generated by operating activities for Quarter 3, 2018 was $2,468 versus $5,918 in Quarter 3, 2017, a decline of $3,450. Year-to-date net cash generated by operating activities was $1,533 compared to $611 in 2017, an increase of $922. This change is a result of a decrease in income tax payments and a decrease in the cash used for working capital.

During the quarter, non-cash working capital generated cash of $428 compared to $886 for the same quarter last year. The year-to-date change in non-cash working capital was a usage of cash of $5,542 in 2018 compared to $12,315 in 2017. The working capital changes are primarily related to an increase in inventory and accounts receivable partially offset by foreign exchange impacts on working capital changes.

Cash used in investing activities increased by $387 from $2,397 in the first nine months of 2017 to $2,784 in the same period of 2018. One key driver of this change was the current year purchase of the remaining 15% minority interest in the Indian operation in the amount of $1,511. This was offset by a decrease of $664 in capital expenditures – $1,608 in the first nine months of 2017 compared to $944 for the same period in 2018. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development. The remainder of the change is a result of the no cash-funding requirement for the Corefficient joint venture in 2018, compared to $626 in 2017.

Total cash used in financing activities for Quarter 3, 2018 was $3,058 as compared to cash generated of $2,903 in Quarter 3, 2017. The source of this change was repayment of bank operating lines of $2,083 in Quarter 3, 2018 compared to advances of $3,873 from bank operating lines for Quarter 3, 2017. Year-to-date financing activities generated cash of $726 compared to cash used of $9,732 in the first nine months of 2017. The key driver to the year-to-date change in financing activity balances is due to changes in the bank operating lines.

Bank operating lines of credit have increased from prior year levels finishing Quarter 3, 2018 at $31,202 compared to $29,751 at the end of Quarter 3, 2017, an increase of $1,451. The bank operating lines of credit have increased $3,447 since the year-end balance of $27,755.

The Company's overall operating debt balance net of cash was $20,502 in Quarter 3, 2018 compared to $16,407 in Quarter 3, 2017, an increase in debt position of $4,095 primarily reflective of reduced earnings.

All bank covenants continue to be met as at September 29, 2018.

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

	2018	2019	2020	2021	2022	Total
Operating leases	$ 2,094	$ 1,622	$ 571	$ 167	$ 128	$ 4,582
Accounts payable and accrued liabilities	47,914	–	–	–	–	$ 47,914
Capital expenditure purchase commitments	92	–	–	–	–	$ 92
Bank operating lines	–	–	–	31,202	–	$ 31,202
Total	$ 50,100	$ 1,622	$ 571	$ 31,369	$ 128	$ 83,790

Contingent liabilities

In June 2017, the Corporation received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by the Corporation. At this time the Company feels that there is no merit to the claim.

Management is not aware of any contingent liabilities.

Regular quarterly dividend declaration

The Board of Directors of HPS declared a quarterly cash dividend of six cents ($0.06) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of six cents ($0.06) per Class B Common Share of HPS payable on September 27, 2018 to shareholders of record at the close of business on September 20, 2018. The ex-dividend date was September 26, 2018. The Company has paid a cash dividend of eighteen cents ($0.18) per Class A Subordinate Voting Share and eighteen cents ($0.18) per Class B Common Share year-to-date.

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 3, 2018 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 market place, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant 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. If any of the following risks were to occur they could materially adversely affect the HPS' financial condition, liquidity or results of operations.

These risks include:

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 plans may be subjective, the market may react negatively to these plans and HPS may not be able to successfully execute these plans, and even if successfully executed, its actions may not be effective or may not lead to the anticipated benefits within the expected time frame.

These 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.
We do business in a host of countries around the world. Approximately 75% of our sales were to customers outside of Canada. In addition, a number 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 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 partially 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 expense, 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 the amount of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. The determination of the consolidated tax provision and liabilities requires significant judgment. 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 or make it difficult or impossible to deliver our products.

The U.S. political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.
The results of the last U.S. election have created a number of 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. The Company's 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 the Company. The Company's 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. 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 great resources to the development, promotion and sales of their products and services. If the Company 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 competiveness, expand capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will hold even greater importance in order to respond quickly to both unexpected opportunities and challenges. HPS' management believes that the key to expanding our market share during this economic slowdown 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 un-collectability.
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, which is partially mitigated by progress payments. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure.

Market supply and demand impact on commodity prices.
An area that has a definite impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of both copper commodity and steel pricing in the global markets. This risk is mitigated through strategic supply line agreements and alliances in place with major steel suppliers to ensure adequate supply and competitive market pricing.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in Notes to the Consolidated Financial Statements contained in our 2017 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2018, other than transactions disclosed in Note 12 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 3, 2018 Report.

Proposed transactions

The Company continues to evaluate strategic business development initiatives and has no firm transactions as at September 29, 2018 other than disclosed in subsequent events.

Financial instruments

As at September 29, 2018, the Company had outstanding foreign exchange contracts in place for 15,850 EUR and $9,000 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $40,000 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 assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year - or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Outstanding share data

Details of the Company's outstanding share data:

8,971,624	Class A Shares
2,778,300	Class B Common Shares
11,749,924	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 International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective and while considered relevant to the Company, the Company has not yet adopted these Standards.

Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities from all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted including the definition of a lease. The Group intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The Company has identified a complete inventory of contracts impacted by this standard; has selected, installed and tested third party software to control and manage the lease assets. The extent of the impact of adoption of this standard is in the process of being finalized in Quarter 4, 2018.

Uncertainty over Income Tax Treatments

On June 7, 2017 the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances, which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better prediction of the resolution;
- An entity to determine if it is probable that the tax authorities will accept uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the resolution of the uncertainty.

The Group intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

Transfer of Assets between an Investor and its Associate or Joint Venture

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically under the existing consolidation standard the parent recognises the full gain on the loss of control, whereas under the existing guidance on associates and JV's the parent recognises the gain only to the extent of unrelated investors interests in the associate or JV.

The main consequence of the amendments is that a full gain/loss is recognised when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business even if these assets are housed in a subsidiary.

The Group does not intend to adopt these amendments in its financial statements for the annual period beginning January 1, 2018, as the effective date for these amendments has been deferred indefinitely.

Strategic direction and outlook

HPS has a long history of strength, perseverance 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 continuously building our strategic advantage by focusing on:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- Broadened product offering;
- Bringing quality and value to all stakeholders of the Company;
- Identifying and pursuing additional sales opportunities with both existing as well as new customers;
- Cash flow generation;
- Product development; and
- Capital expansion.

The Company purchased the final minority interest of our Indian operation and now owns 100% of this subsidiary. This purchase allows management to make appropriate strategic decisions from a global perspective.

A significant change for the Company was the implementation of an Enterprise Resource Planning ("ERP") system that has enhanced availability and quality of information accessible as well as streamlining processes. This system has been implemented in the majority of our North American facilities and phase one for the implementation in our Indian operation went live mid-Quarter 3, 2018. This newest addition to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

HPS continues to focus on customer service and expanding existing relationships while exploring new opportunities. The upcoming Natural Resources Canada (NRCan) efficiency standard change has created opportunities for the Company to deliver to our customers and ensure their needs and regulations are being met. These regulation changes have resulted in new product development and manufacturing techniques.

The Company has state-of-the art facilities throughout the world that continue to be enhanced through capital investment. This is further evidence of HPS' strategic investment in facilities and technology, which also supports the Company's cost competitiveness and manufacturing capabilities.

The Company achieved improved financial results during Quarter 3, 2018 in contrast to the disappointing results during the first half of 2018. The current quarter reflected the impact of price increase achievement, high sales volume, the benefit of manufacturing throughput and a more favourable product mix. The improvement of Corefficient profitability, was achieved through a combination of higher sales volume, improvement in material costs as well as increased selling prices.

While this current quarter gained momentum, the unpredictable and erratic global economic climate will continue to have a pervasive, persistent and inconsistent impact on HPS' profitability. The Company continues to experience the adverse impact of fluctuations of foreign currency exchange rates, increasing raw material commodity costs, fluctuating manufacturing throughput and market pricing pressures. Management continues to manage these challenges through the Company's operational plans and strategic initiatives and projects.

HPS continues to have a strong reputation of being an industry leader and is both operationally and financially strong. Historically the Company has navigated through long-term economic uncertainty and management continues to remain confident in the vision of the future. HPS is well positioned to meet the evolving needs of both our traditional markets while becoming a leading player in a growing number of other market sectors. The Company continues 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 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 the success of the Company.

The Company's strategic vision and operational initiatives have supported Hammond Power Solutions' industry leadership, operational strength and financial stability.

The Company will deliver solid financial performance, provide a sustainable return to our shareholders, maintain the Balance Sheet strength of the Company and deliver long-term value to all stakeholders.

Selected Annual and Quarterly Information

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 Third Quarter of 2018. 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.

(tabular amounts in thousands of dollars)

Annual Information	2013	2014	2015	2016	**2017**
Sales	242,941	247,756	274,639	274,793	301,750
Earnings from operations	11,036	6,460	12,644	10,873	14,470
EBITDA	16,924	12,327	18,748	14,356	19,633
Net earnings	6,104	2,520	6,320	1,793	6,114
Total assets	186,878	184,291	222,969	205,177	192,449
Non-current liabilities	10,220	9,527	5,454	4,131	3,442
Total liabilities	77,827	69,854	90,668	84,524	77,438
Total shareholders' equity attributable to equity holders of the Company	107,014	112,271	129,665	120,441	114,848
Total debt	(21,104)	(14,833)	(13,202)	(11,318)	(16,983)
Cash provided by operations	765	18,450	16,065	15,216	1,032
Basic earnings per share	0.52	0.22	0.53	0.16	0.53
Diluted earnings per share	0.52	0.22	0.53	0.16	0.53
Dividends declared and paid	2,328	2,800	2,807	2,808	2,809
Average exchange rate (USD$=CAD$)	1.029	1.1025	1.274	1.325	1.298
Book value per share	9.17	9.61	11.08	10.29	9.80

	2016		2017				**2018**	
Quarterly Information	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**
Sales	74,073	72,362	78,874	74,685	75,829	73,073	**77,983**	**83,153**
Earnings from operations	4,633	2,405	4,953	3,338	3,774	1,973	**1,561**	**2,296**
EBITDA	5,110	3,902	6,273	4,903	4,555	3,631	**2,184**	**3,879**
Net earnings (loss)	293	1,084	2,842	1,563	625	895	**(370)**	**1,391**
Total assets	205,177	204,371	197,887	194,147	192,449	197,187	**202,635**	**200,954**
Non-current liabilities	4,131	4,549	4,291	4,198	3,442	3,429	**3,383**	**3,291**
Total liabilities	84,524	81,639	76,252	80,478	77,438	77,829	**83,210**	**83,253**
Total shareholders' equity attributable to equity holders of the Company	120,441	122,732	121,288	116,491	114,848	119,358	**119,425**	**117,701**
Total debt	(11,318)	(21,475)	(20,416)	(16,407)	(16,983)	(21,483)	**(21,578)**	**(20,502)**
Cash provided by (used in) operations	17,255	(7,622)	2,315	5,918	421	(1,907)	**972**	**2,468**
Basic earnings per share	0.03	0.09	0.25	0.14	0.05	0.08	**(0.03)**	0.12
Diluted earnings per share	0.03	0.09	0.25	0.14	0.04	0.08	**(0.03)**	0.12
Dividends declared and paid	702	702	702	702	703	704	**704**	**704**
Average exchange rate (USD$=CAD$)	1.332	1.323	1.347	1.253	1.270	1.262	**1.290**	**1.307**
Book value per share	10.29	10.46	10.37	9.96	9.80	10.18	**10.16**	**10.02**

Condensed Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As at			
		September 29, 2018		December 31, 2017
Assets				
Current assets				
Cash	$	10,700	$	10,772
Accounts receivable		64,090		59,170
Inventories		47,097		38,340
Income taxes receivable		1,786		1,701
Prepaid expenses and other assets		2,774		3,419
Total current assets	$	126,447	$	113,402
Non-current assets				
Long-term lease and note receivable		4,414		4,605
Property, plant and equipment (note 4)		29,854		32,276
Investment in properties		1,044		1,044
Investment in joint venture (note 5)		12,090		12,158
Deferred tax assets		858		776
Goodwill		16,076		17,022
Intangible assets (note 6)		10,171		11,166
Total non-current assets		74,507		79,047
Total assets	$	200,954	$	192,449
Liabilities				
Current liabilities				
Bank operating lines of credit		31,202	$	27,755
Accounts payable and accrued liabilities		47,914		45,647
Income tax liabilities		328		137
Provisions		518		457
Total current liabilities	$	79,962		73,996
Non-current liabilities				
Provisions		100		100
Deferred tax liabilities		3,191		3,342
Total non-current liabilities		3,291		3,442
Total liabilities	$	83,253	$	77,438
Shareholders' Equity				
Share capital (note 7)		14,231		13,986
Contributed surplus		2,562		2,600
Accumulated other comprehensive income (note 8)		6,115		1,916
Retained earnings		94,793		96,346
Total shareholders' equity attributable to equity holders of the Company	$	117,701	$	114,848
Non-controlling interests		–		163
Total shareholder's equity		117,701		115,011
Total liabilities and shareholders' equity	$	200,954	$	192,449

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Earnings

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

	Quarter Ending		Nine Months Ending	
	September 29, 2018	September 30, 2017	**September 29, 2018**	September 30, 2017
Sales (note 10)	$ 83,153	$ 74,685	$ 233,619	$ 225,921
Cost of sales	64,810	56,840	180,761	170,704
Gross margin	18,343	17,845	52,858	55,217
Selling and distribution	9,537	8,238	26,783	25,070
General and administrative	6,510	6,269	19,685	18,635
Restructuring charges (note 11)	–	–	560	816
Earnings from operations	2,296	3,338	5,830	10,696
Finance and other costs				
Interest expense	339	330	1,023	932
Foreign exchange gain	(125)	(97)	(32)	(52)
Share of (income) loss of investment in joint venture (note 5)	(345)	188	413	700
Other	33	33	103	99
Net finance and other (income) costs	(98)	454	1,507	1,679
Earnings before income taxes	2,394	2,884	4,323	9,017
Income tax expense	1,003	1,321	2,407	3,528
Net earnings	$ 1,391	$ 1,563	$ 1,916	$ 5,489
Net loss attributable to non-controlling interests	$ –	$ (47)	$ –	$ (49)
Net earnings attributable to the equity holders of the Company	1,391	1,610	1,916	5,538
Net earnings	$ 1,391	$ 1,563	$ 1,916	$ 5,489
Earnings per share				
Basic earnings per share (dollars)	$ 0.12	$ 0.14	$ 0.17	$ 0.48
Diluted earnings per share (dollars)	$ 0.12	$ 0.14	$ 0.17	$ 0.48

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Quarter Ending		Nine Months Ending	
	September 29, 2018	September 30, 2017	**September 29, 2018**	September 30, 2017
Net earnings	$ 1,391	$ 1,563	$ 1,916	$ 5,489
Other comprehensive (loss) income				
Foreign currency translation differences for foreign operations	(2,411)	(5889)	4,190	(7,443)
Other comprehensive (loss) income for the period, net of income tax (note 8)	(2,411)	(5,889)	4,190	(7,443)
Total comprehensive (loss) income for the period	$ (1,020)	$ (4,326)	$ 6,106	$ (1,954)
Attributable to:				
Equity holders of the Company	$ (1,020)	$ (4,157)	$ 6,106	$ (1,920)
Non-controlling interest	–	(169)	–	(34)
Total comprehensive (loss) income for the period	$ (1,020)	$ (4,326)	$ 6,106	$ (1,954)

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 29, 2018

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2018	$ 13,986	$ 2,600	$ 1,916	$ 96,346	$ 163	$ 115,011
Total comprehensive income for the year						
Net earnings	–	–	–	1,916	–	1,916
Other comprehensive income						
Foreign currency translation differences related to joint venture (note 5)	–	–	345	–	–	345
Foreign currency translation differences (note 8)	–	–	3,845	–	–	3,845
Total other comprehensive income	–	–	4,190	–	–	4,190
Total comprehensive income for the year	–	–	4,190	1,916	–	6,106
Transactions with owners, recorded directly in equity						
Stock options exercised (note 7)	245	(38)	–	–	–	207
Dividends to equity holders (note 7)	–	–	–	(2,112)	–	(2,112)
Non-controlling interest (note 9)	–	–	9	(1,357)	(163)	(1,511)
Total transactions with shareholders	245	(38)	9	(3,469)	(163)	(3,416)
Balance at September 29, 2018	$ 14,231	$ 2,562	$ 6,115	$ 94,793	$ –	$ 117,701

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 30, 2017

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2017	$ 13,843	$ 2,605	$ 10,992	$ 93,001	$ 212	$ 120,653
Total comprehensive (loss) income for the year						
Net earnings	–	–	–	5,538	(49)	5,489
Other comprehensive (loss) income						
Foreign currency translation differences related to joint venture (note 5)	–	–	(894)	–	–	(894)
Foreign currency translation differences (note 8)	–	–	(6,564)	–	15	(6,549)
Total other comprehensive (loss) income	–	–	(7,458)	–	15	(7,443)
Total comprehensive (loss) income for the year	–	–	(7,458)	5,538	(34)	(1,954)
Transactions with owners, recorded directly in equity						
Share-based payment transactions	–	14	–	–	–	14
Stock options exercised	72	(10)	–	–	–	62
Dividends to equity holders (note 9)	–	–	–	(2,106)	–	(2,106)
Total transactions with shareholders	72	4	–	(2,106)	–	(2,030)
Balance at September 29, 2017	$ 13,915	$ 2,609	$ 3,534	$ 96,433	$ 178	$ 116,669

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Cash Flows

(unaudited) tabular amounts in thousands of dollars)	Nine Months Ending September 29, 2018	Nine Months Ending September 30, 2017
Cash flows from operating activities		
Net earnings	$ 1,916	$ 5,489
Adjustments for:		
Share of loss of investment in joint venture	413	700
Amortization of property, plant and equipment	3,225	3,965
Amortization of intangible assets	1,123	1,164
Loss on disposal of equipment	(5)	–
Provisions	61	(80)
Interest expense	1,023	932
Income tax expense	2,407	3,528
Change in unrealized (loss) gain on derivatives	(787)	499
Stock-based compensation expense	–	14
	9,376	16,211
Change in non-cash working capital (note 13)	(5,542)	(12,315)
Cash generated in operating activities	3,834	3,896
Income tax paid	(2,301)	(3,285)
Net cash generated by operating activities	1,533	611
Cash flows from investing activities		
Purchase of non-controlling interest (note 9)	(1,511)	–
Investment in joint venture (note 5)	–	(626)
Proceeds on disposal of equipment	117	–
Acquisition of property, plant and equipment	(944)	(1,608)
Acquisition of intangible assets	(446)	(163)
Cash used in investing activities	(2,784)	(2,397)
Cash flows from financing activities		
Advances (repayments) of borrowings	3,447	(6,756)
Receipt of lease receivable payments	207	–
Issue of common shares	207	62
Cash dividends paid (note 7)	(2,112)	(2,106)
Interest paid	(1,023)	(932)
Cash generated (used) in financing activities	726	(9,732)
Foreign exchange on cash held in a foreign currency	453	(327)
Decrease in cash	(72)	(11,845)
Cash and cash equivalents at beginning of period	10,772	25,189
Cash and cash equivalents at end of period	$ 10,700	$ 13,344

See accompanying notes to condensed consolidated interim financial statements

Notes to the Condensed Consolidated Financial Statements

Nine months ended September 29, 2018 and September 30, 2017 (amounts in thousands of dollars except share and per share amounts)

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 Charted 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 third quarter ended September 29, 2018 comprises the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily 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 Company has manufacturing plants in Canada, United States ("U.S."), Mexico, Italy, and India, the latter being Hammond Power Solutions Private Limited, a subsidiary in which the Company now holds a 100% equity ownership. The Company also holds a 55% economic interest in a joint venture located in Mexico called Corefficient de R.L. de C.V. ("Corefficient").

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 November 5, 2018.

(b) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2017.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2017 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, 2017.

Changes to accounting policies

Classification and Measurement of Share-Based Payment Transactions

On June 20, 2016 the IASB issued amendments to IFRS 2 Share-Based Payments clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2017. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period ending December 31, 2018. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard is effective for annual and interim periods beginning on or after January 1, 2018. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. On April 12, 2016, the IASB issued Clarification to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue – at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

Transition considerations

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of initially applying IFRS 15 recognized in opening retained earnings at the date of initial application (the “modified retrospective method”). The Group decided to adopt IFRS 15 using the modified retrospective method, without restatement of comparative figures.

IFRS 15 provides for certain optional practical expedients, including upon the initial adoption of the standard. The Group applied the following practical expedients upon adoption of IFRS 15 on January 1, 2018:

- Completed contract – the Group applied IFRS 15 retrospectively only to contracts that were not completed contracts as at January 1, 2018. There were no uncompleted contracts at January 1, 2018.
- Contract modifications – the Group did not apply IFRS 15 retrospectively to contract modifications that occurred before January 1, 2018.

The adoption of IFRS 15 did not have a material impact on the consolidated financial statements.

Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual and interim periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

Nine months ended September 29, 2018 and September 30, 2017 (amounts in thousands of dollars except share and per share amounts)

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Group has adopted IFRS 9 (2014) in its consolidated financial statements for the annual and interim periods beginning on January 1, 2018.

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements.

4. Property, plant and equipment

The Group had acquisitions of fixed assets for the nine months ended September 29, 2018 in the amount of $944,000 of machinery and equipment (2017 - $1,608,000).

5. Joint venture

The Company has a 55% economic interest and voting interest in Corefficient. By virtue of the contractual arrangement with National Material LLP ("National")(the other shareholder in Corefficient), decisions about significant, relevant, operating and strategic activities require the unanimous consent of both parties, and therefore the Company jointly controls Corefficient. Distributions of dividends and returns of capital from Corefficient are subject to unanimous Corefficient shareholder approval. Accordingly, the Company has treated its investment in Corefficient as a joint arrangement. Corefficient's principal place of business is in Monterrey, Mexico.

The carrying value of the Company's interest in Corefficient is as follows:

	September 29, 2018	September 30, 2017
Cost of investment in joint venture	$ **19,304**	$ 19,304
Cumulative share of loss in investment in joint venture	**(4,190)**	(3,778)
Foreign currency translation differences related to the joint venture	**(3,024)**	(3,368)
	$ **12,090**	$ 12,158

Selected financial information relating to Corefficient is as follows:

	September 29, 2018	September 30, 2017
Cash	$ **2,299**	$ 2,261
Trade and other receivables	**7,709**	5,546
Inventories	**1,182**	1,050
Other current assets	**107**	162
Total current assets	$ **11,297**	$ 9,019
Non-current assets	**15,522**	16,487
Total assets	$ **26,819**	$ 25,506
Current liabilities	$ **5,147**	$ 3,671
Non-current liabilities	**–**	–
Total liabilities	$ **5,147**	$ 3,671

Nine months ended September 29, 2018 and September 30, 2017 (amounts in thousands of dollars except share and per share amounts)

	Nine Months Ending			
	September 29, 2018		September 30, 2017	
Revenue	$	25,590	$	14,247
Loss for the period		751		1,884

The loss for the nine months ended September 29, 2018 includes depreciation and amortization expense of $1,568,000 (2017 - $1,581,000), interest income of $84,000 (2017 - $76,000) and an income tax expense of $7,000 (2017 – recovery of $752,000) related to Corefficient.

6. Intangible assets

The Group had acquisitions of intangible assets for the nine months ended September 29, 2018 in the amount of $446,000 (2017 – $163,000), for the addition of software. None of the intangible assets have been developed internally.

7. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Nine Months Ending			
	Septmber 29, 2018		September 30, 2017	
18 cents per Class A common share (2017: 18 cents)	$	1,611	$	1,605
18 cents per Class B common share (2017: 18 cents)		501		501
	$	2,112	$	2,106

(b) Stock option plan:

There were no stock options issued during the nine months ended September 29, 2018. Stock-based compensation recognized the amount credited to contributed surplus during the period is $nil (2017 – $14,000) and relates to options granted in prior years that vested during the period.

During the nine months ended September 29, 2018, there were 30,000 options exercised, 10,000 at an exercise price of $6.20, 5,000 at an exercise price of $6.62 and 15,000 at an exercise price of $7.50.

(c) Deferred Stock Units:

During 2017, the Company enacted a deferred share unit plan (the “DSU Plan”) in order to issue deferred share units (“DSUs”) to non-employee directors and senior-executives (collectively, “participants”) of HPS. The DSU Plan was adopted to allow participants the opportunity to defer compensation and encourage a sense of ownership in HPS. Under the 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 of DSUs, defined under 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 Fair Market Value 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 past service. Under the DSU Plan, outstanding DSUs as at the record date are increased by the dividend rate whenever dividends are paid to shareholders.

The DSUs issued are not performance based.

Nine months ended September 29, 2018 and September 30, 2017 (amounts in thousands of dollars except share and per share amounts)

The movement in DSUs for the nine months ended:

	September 29, 2018			September 30, 2017		
	Number of DSUs	Weighted Average Share Price	Carrying Amount	Number of DSUs	Weighted Average Share Price	Carrying Amount
Opening Balance	32,578	$ 9.16	$ 285	–	$ –	$ –
DSUs Issued	28,542	$ 9.23	304	26,540	$ 8.60	228
Balance at September 29, 2018	61,120	$ 9.20	$ 589	26,540	$ 8.60	$ 228

8. Accumulated Other Comprehensive Income

Changes to the accumulated other comprehensive income ("AOCI") balance includes foreign currency translation differences relating to the net assets of foreign operations. Total other comprehensive income for the nine months ended September 29, 2018 was $4,190,000 (2017 – loss of $7,443,000), resulting in an ending balance of accumulated other comprehensive income of $6,115,000 (September 30, 2017 – $3,534, 000).

9. Non-controlling interest

On January 10, 2018, the terms and conditions under an agreement to acquire the remaining 15% economic interest of Hammond Power Solutions Private Limited from a minority shareholder, which included the mutually agreed upon resignation from the Board of the minority shareholder, at a discounted amount of 76,933,000 Indian Rupees ("INR") (approximately $1,511,000 Canadian dollars) were fulfilled, resulting in the Company's equity ownership in Hammond Power Solutions Private Limited becoming 100%. As a result, the Company recorded an elimination of non-controlling interests on the condensed consolidated statement of financial position in the amount of $163,000, a reduction in retained earnings of $1,357,000, and an increase in accumulated other comprehensive income in the amount of $9,000.

10. Sales

	Three Months Ending		Nine Months Ending	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Canada	$ 23,806	$ 25,308	$ 67,118	$ 61,973
United States and Mexico	51,592	41,691	144,447	129,442
Italy	1,600	4,142	6,250	14,309
India	6,155	3,544	15,804	20,197
	$ 83,153	$ 74,685	$ 233,619	$ 255,921

As at September 29, 2018, the Company has deferred revenue of $nil (2017 – $nil).

11. Restructuring charges

During 2017 and the first nine months of 2018, the Company incurred restructuring charges. These charges were comprised of severance and benefit costs relating to workforce reductions. The restructuring activities were undertaken to adjust the Company's cost structure, to streamline various support activities in consideration of the current and expected industry market conditions. These charges are reported in the restructuring charge line within the consolidated statement of earnings. The Company incurred restructuring charges of $560 for the nine months ended September 29, 2018.

Nine months ended September 29, 2018 and September 30, 2017 (amounts in thousands of dollars except share and per share amounts)

The following table highlights the activity and balance of the restructuring charge for the nine month period ending September 29, 2018:

	Employee Termination Benefits	
Opening balance January 1, 2018	$	329
Charges to expense		560
Cash payments		(889)
Accrued balance at September 29, 2018	$	–

12. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2017 – 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 1,058,998 (2017 – 1,056,290) Class A subordinate voting shares of the Company, representing approximately 11.8% (2017 – 11.8%) 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 $230,000 (Quarter 3 2017– $230,000).

Transactions with key management personnel

During the nine months ended September 29, 2018, the Company purchased $226,000 (2017 – $169,000) of inventory from ILSCO of Canada Limited (“ILSCO”), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $32,000 (2017 – $27,000), which is owed to this company.

13. Change in non-cash operating working capital

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

	Nine Months Ending			
	September 29, 2018		September 30, 2017	
Accounts receivable	$	(4,920)	$	(10,026)
Inventories		(8,757)		1,792
Prepaid expenses		1,134		476
Accounts payable and accrued liabilities		2,559		2,263
Foreign exchange		4,442		(6,820)
	$	(5,542)	$	(12,315)


2010

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

2nd Floor
Icon Plaza, H. No. 5-2/222/IP/B
Allwyn X-Roads
Miyapur, Hyderabad – 500049

Italy
Hammond Power Solutions S.p.A.

Via A. Gramsci, 98
21050 Marnate (VA), Italy

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
Corefficient, 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

Corporate Officers and Directors

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

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
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
Services Inc.
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Auditors

KPMG LLP
115 King Street South
Waterloo, Ontario N2J 5A3

Legal Representation

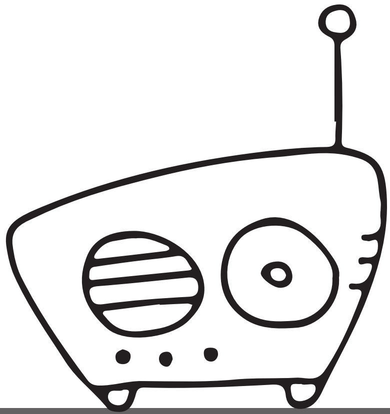
Borden Ladner Gervais LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, Ontario
Canada M5H 4E3

Banking Institution

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

Investor Relations

Contact: Dawn Henderson,
Manager Investor Relations
Phone: 519.822.2441
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

Hammond Power Solutions Inc.

THE PATH TO SUCCESS IS TO TAKE DETERMINED ACTION

HAMMONDPOWERSOLUTIONS.COM