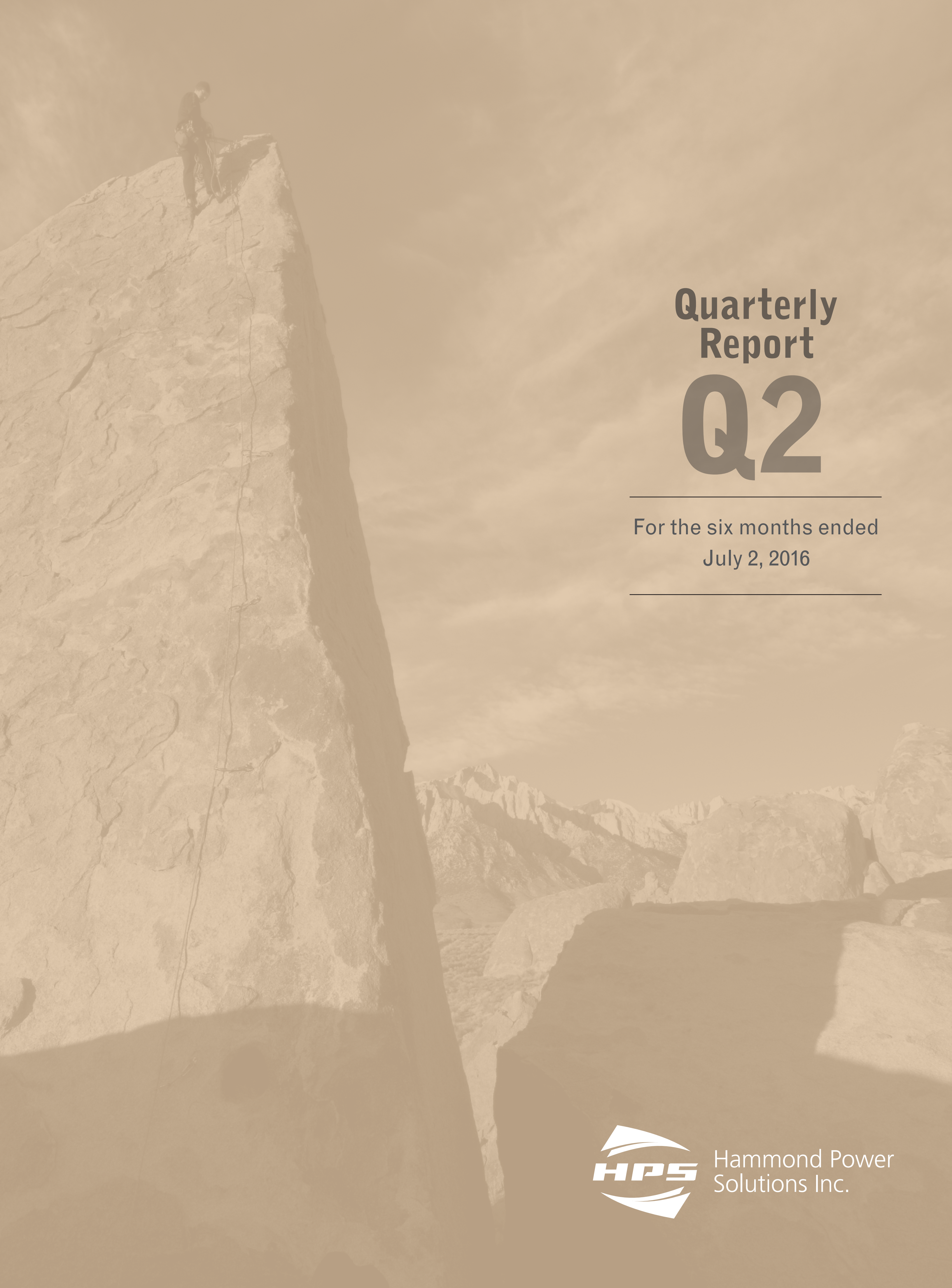

Quarterly Report Q2

For the six months ended
July 2, 2016

Hammond Power Solutions Inc.

CONTENTS

GLOBAL FACILITIES

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Granby, Quebec J2G 9A1

3850 place de Java
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Erragadda, Hyderabad – 500 018

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Hammond Power Solutions S.p.A.

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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
Coreefficient, 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

Fellow Shareholder,

Hammond Power Solutions Inc., ("HPS") has delivered respectable financial results given another difficult economic quarter. Other than the deep recession of 2008, these are the toughest economic times that we have faced in over ten years. The North American economy continued to be much slower than predicted. The European economy is slowing again and some formerly large markets for electrical products such as mining, the drives business, as well as the oil and gas industry are suffering through their deepest declines in decades. India continues to be the bright spot across the globe in terms of economic growth.

Despite these challenging times, we increased our sales over the same quarter a year ago and held on to our gross margins rates. Sales in Canada and Europe were higher than 2015, while the U.S. was slower. Our Original Equipment Manufacturer ("OEM") business in the U.S. continues to be dampened by the severe drop in commodity prices and production, as well as weak exports due to a slow global economy. On the other hand, our distributor business is beginning to pick up after the significant run up in transformer inventories in Quarter 4 of 2015, due to new energy efficiency laws which came into effect in the U.S. January 1, 2016. This overhang of thousands of transformers across the country has slowly dissipated over the last five months and we are now seeing more regular patterns of business emerge again.

Given all of this, our financial performance during the quarter was close to expectations. We have experienced higher than planned start-up costs at Corefficient, our new core manufacturing joint venture in Mexico. This state-of-the-art facility began production late last year to help us meet the aforementioned new Department of Energy regulations, and we are still in the process of commissioning and ramping up production.

Going forward, we expect the current slow market conditions to continue over the summer months with our business momentum escalating in the last quarter of 2016. A number of large construction projects have been pushed out from the upcoming quarter which will also impact our shipments in the short term. In the meantime, we are working hard to grow our sales wherever opportunities arise, while conservatively managing our business in these uncertain and volatile times.

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Despite challenging times, we increased our sales over the same quarter a year ago aqnd hald on to our gross margin rates.

We are working to grow our sales wherever opportunities arise, while conservatively managing our business.

Q2 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the six months ended July 2, 2016, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the second quarter of fiscal 2016. This information is based on Management's knowledge as at August 8, 2016. 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 2015 Annual Report and accordingly, the purpose of this document is to provide a second quarter update to the information contained in the fiscal 2015 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 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 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 July 2, 2016 and June 27, 2015 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 July 2, 2016 were $69,138, an increase of $3,754 or 5.7% from Quarter 2, 2015 sales of $65,384. Year-to-date 2016 sales increased $9,339 or 7.3% and were $137,860 compared to $128,521 in 2015.

Sales in the United States ("U.S.") increased by $1,858 or 5.0%, finishing at $39,167 for Quarter 2, 2016 compared to $37,309 in Quarter 2, 2015. Year-to-date U.S. sales were $77,857 in 2016 and $76,432 in 2015, an increase of $1,425 or 1.9%. Alternative energy, power control, switchgear and motor control markets were stronger in the U.S. in Quarter 2, 2016 compared to the same quarter in 2015. These increases were partially offset by softness in the North American Electrical Distributor ("NAED") and mining markets during Quarter 2, 2016. United States second quarter sales were favourably affected by an 8.1% stronger U.S. dollar ("USD"), $1.00 USD = $1.33 Canadian dollar ("CAD") compared against $1.00 USD = $1.23 CAD in Quarter 2, 2015. U.S. sales, when stated in U.S. dollars were $30,432 in Quarter 2, 2016, compared to Quarter 2, 2015 of $30,303, a slight increase of $129 or 0.4%. Year-to-date U.S. sales stated in U.S. dollars were $58,552 in 2016 compared to $61,993, a decrease of $3,441 or 5.6%. The decrease in the year-to-date U.S. sales was expected given the abnormally stronger Quarter 4, 2015 sales demand that was impacted by the new Department of Energy ("DOE") regulations effective January 1, 2016.

Canadian sales were $22,496 for the quarter, an increase of $3,330 or 17.4% from Quarter 2, 2015 sales of $19,166. Year-to-date Canadian sales were $40,421 in 2016 compared to $35,844 in 2015, an increase of $4,577 or 12.8%. Canadian sales experienced strong surges in a number of markets this quarter compared to the same quarter last year, specifically in the NAED, mining, utilities, alternative energy and switch gear markets.

International sales for Quarter 2, 2016 finished at $7,475 versus $8,909 in Quarter 2, 2015, a decrease of $1,434 or 16.1%. The decrease in international sales was impacted by the prolonged sluggishness in the European market which continues to be a challenge. Quarter 2, 2016 Indian sales were negatively impacted by stronger than anticipated sales in Quarter 1, 2016 and delayed sales that will be recognized in Quarter 3, 2016. Year-to-date international sales were $19,582 in 2016 compared to $16,245 in 2015, an increase of $3,337 or 20.5%. This increase is a result of increased market share gains in the year in both Italy and India.

Quarter 2, 2016 sales stated by geographic segment were derived from U.S. sales of 56.7% (Quarter 2, 2015 – 57.1%) of total sales, Canadian sales of 32.5% (Quarter 2, 2015 – 29.3%), European sales of 6.8% (Quarter 2, 2015 – 7.4%), and Indian sales of 4.0% (Quarter 2, 2015 – 6.2%).

The Company will continue to increase and grow its market share and sales globally as a result of its expanded product offering, the addition of new customers, geographically diverse manufacturing capabilities and market reach. International expansion continues to be an area of focus for HPS. Past acquisitions have broadened the Company's product offering and manufacturing capabilities in cast resin transformer technology as well as expanded the HPS footprint in India and Europe.

HPS' commitment to its growth strategy is evidenced by its acquisition activities, commitment to capital investment and vertical integration strategies such as the Corefficient joint venture.

The Company is unwavering in the production of transformers with uncompromised quality and compliance standards, competitive custom engineered designs, new product development and product breadth. This combined with a strong, effective distribution channel and multi-national manufacturing capabilities, will continue to be a competitive advantage to the Company and important to revenue growth.

The Company's market diversification strategies provide a business hedge, as the Company is not single market or industry dependent.

This combined with a strong, effective distribution channel and multi-national manufacturing capabilities, will continue to be a competitive advantage to the Company and important to revenue growth.

Order bookings and backlog

The Company increased bookings 12.7% over Quarter 2, 2015 due to stronger bookings in both the distributor and direct channels in North America.

Booking rates in the distributor channel increased 16.5% over Quarter 2, 2015. On a direct channel basis, bookings were higher than Quarter 2, 2015 by 9.2%, primarily a result of additional bookings in the Canadian and Indian entities.

On a year-to-date basis overall Company bookings have increased

8.2% over the same period as last fiscal year. The distributor channel bookings increased by 13.0% and the direct channel bookings increased by 4.1%.

Backlog increased 15.1% over Quarter 4, 2015. This change was primarily due to order mix and an increased level of energy efficient transformer orders for the U.S. distributor market.

Quotation activity remains active despite the uninspiring general world economy and wavering North American Original Equipment Manufacturer ("OEM") market conditions. This will have a favorable impact going forward, as the Company is seeing a longer term booking horizon. It is expected that through the Company's strategic sales initiatives, expanded distributor network and new products the result will be growth in our booking rates.

The Company is 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 very cognizant that it may see some volatility and unpredictability in longer term booking rates.

Gross margin

Gross margin rates for Quarter 2, 2016 were 24.2% comparable to Quarter 2, 2015 margin rate of 24.1%, an improvement of 0.1% of sales. Year-to-date, the gross margin rate was 24.3% in 2016 versus 23.2% in 2015, an improvement of 1.1%. The improvement in year-to-date margin rates can be attributed to a combination of pricing gains, cost reductions, product and customer mix, and geographic blend, as well as a moderate lift in manufacturing throughput due to the increased sales levels. A stronger U.S. exchange rate to the Canadian dollar also resulted in a net favourable impact on gross margin rates.

The Company has invested in its capacity expansion initiatives in support of future sales growth, geographic diversification and new product development. The Company is persistent in its growth strategies irrespective of the shorter-term dilutive effect these investments have on gross margin rates, particularly during down turn economies. As manufacturing throughput increases, an accretive effect is experienced on margin rates through increased sales.

While the Company has maintained a consistent margin in the current quarter and growth year-over-year, the markets continue to experience selling price pressure due to the available excess industry capacity. Gross margin rates are being negatively impacted by selling price stresses due to weaker market conditions, as the Company is seeing unsustainable pricing from many of its competitors in the market place.

There are some indications of moderate economic improvement in several markets and decline in others, thus supporting the unpredictability of markets and sales demand. The slow global recovery and uncertain economic environment have negatively impacted margin rates from a price and manufacturing capacity utilization perspective. To mitigate this effect, the Company has implemented a number of cost reduction activities, continues to actively advance its geographic presence, and invest in new product development. The Company's current diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. Currently the incremental fixed costs associated with excess capacity are dilutive to net margin rates in the short-term, but as sales grow, the favourable impact that higher manufacturing throughput will have on the absorption of our factory overheads, will favourably impact margin rates. The Company's capacity strategy is fundamental for future increases in sales demand created through growth of market share and sales from newly developed products. HPS is dedicated to identifying and implementing productivity enhancements, cost reductions and lead-time improvements in the entire organization.

The Company is confident that these actions will improve margin rates and overall profitability.

Selling and distribution expense

Total selling and distribution expenses were $7,901 in Quarter 2, 2016 or 11.3% of sales versus $7,076 in Quarter 2, 2015 or 10.8% of sales, an increase of $825 or 0.5% of sales. Year-to-date selling and distribution expenses were $15,538 or 11.3% of sales in 2016 compared to $13,822 or 10.8% in 2015, an increase of $1,716 or 0.5% of sales. The foreign exchange translation of our U.S. denominated expenses was $137 of additional expense in Quarter 2, 2016 and $464 year-to-date. An increase in commission expense of $237 for the quarter and $487 year-to-date and additional freight expense of $231 for the quarter and $161 year-to-date, both a result of the higher sales in 2016.

General and administrative expense

General and administrative expenses for Quarter 2, 2016 totaled $6,283 or 9.1% of sales, compared to Quarter 2, 2015 expenses of $6,045 or 9.3% of sales, an increase of $238 and a decrease of 0.2% of sales. Year-to-date general and administrative expenses were $12,694 or 9.2% of sales in 2016, compared to $11,867 or 9.2% of sales in 2015, an increase of $827. Quarter 2, 2016 expenses were impacted by the foreign exchange translation of our U.S. denominated expenses of $71, employee investment of $80 and increased travel costs of $80. Year-to-date expenses were impacted by the foreign exchange translation of our U.S. denominated expenses of $241, employee investment of $297 and increased travel costs of $177.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Earnings from operations

Quarter 2, 2016 earnings from operations were $2,560, a slight decrease of $63 or 2.4% from $2,623 for the same quarter last year. The year-to-date earnings from operations were $5,237 in 2016 compared to $4,069 in 2015, an increase of $1,168 or 28.7%. The change in the quarter and year-to-date values is a result of lower net earnings and higher income tax expense.

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

	Quarter 2, 2016	Quarter 2, 2015	**YTD 2016**	YTD 2015
Net earnings	**$ 517**	$ 1,096	**$ 1,401**	$ 1,877
Add:				
Income tax expense	**1,164**	687	**1,874**	1,493
Interest expense	**326**	264	**527**	380
Foreign exhange loss	**19**	476	**340**	186
Share of loss of investment in joint venture	**501**	67	**1,029**	67
Other	**33**	33	**66**	66
Earnings from operations	**$ 2,560**	$ 2,623	**$ 5,237**	$ 4,069

Interest expense

Interest expense for Quarter 2, 2016 was $326, an increase of $62 or 23.5% compared to the Quarter 2, 2015 expense of $264. Year-to-date interest cost was $527, an increase of $147 or 38.7% when compared to the 2015 year-to-date expense of $380. Interest expense in 2016 was being generated as a result of higher operating debt levels due to joint venture investment and working capital requirements. Interest expense includes all bank fees.

Foreign exchange gain/loss

The foreign exchange loss in Quarter 2, 2016 was $19. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange loss of $476 in Quarter 2, 2015. The year-to-date foreign exchange loss for 2016 was $340, compared to a loss of $186 for the same quarter last year. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past year where the U.S. dollar declined 8.1% from June 2015.

As at July 2, 2016, the Company had outstanding foreign exchange contracts in place for 12,200 Euros ("EUR") and $7,200 USD – both implemented as an economic hedge against translation gains and losses on inter-company loans as well as $28,000 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS operations.

Joint venture

The joint venture, Corefficient S. de R.L. de C.V. ("Corefficient"), designs, manufactures and sells energy efficient electrical cores, a major component used in dry type and liquid filled transformers. These electrical cores comply with new U.S. energy efficiency standards that came into effect January 1, 2016. The Quarter 2, 2016 share of loss of investment in joint venture was $501 and the year-to-date share of loss of investment in joint venture was $1,029. These losses were primarily a result of start-up costs and lower manufacturing capacity utilization.

Income taxes

Quarter 2, 2016 income tax expense was $1,164 as compared to $687 in Quarter 2, 2015, an increase of $477 or 69.4%. Year-to-date income tax expense was $1,874 in 2016 and $1,493 in 2015, an increase of $381 or 25.5%.

The consolidated effective tax rate for Quarter 2, 2016 was 69.2% versus 38.5% for Quarter 2, 2015, an increase of 30.7%. The year-to-date effective tax rate for the first six months of 2016 was 57.2% compared to 44.3% for the same period in 2015, an increase of 12.9%. The changes in the effective tax rates are greatly impacted by changes in the earnings mix of the Company and the share of the loss of investment in joint venture. The Company income is generated from different tax jurisdictions and is subject to different tax rates and regulations.

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.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Net earnings

Net earnings for Quarter 2, 2016 finished at $517 compared to net earnings of $1,096 in Quarter 2, 2015, a decrease of $579 or 52.8%. This decline in the quarter earnings is a result of higher loss on investment in the joint venture, additional interest and income tax expenses, partially offset by higher sales and increased gross margin. Year-to-date net earnings were $1,401 in 2016 compared to $1,877 in 2015, a decrease of $476 or 25.3%. Excluding the share of loss of investment in joint venture, adjusted net earnings for the quarter would have been $1,018, and Quarter 2, 2015 earnings would have been $1,163, a decrease of $145 or 12.5% while year-to-date adjusted net earnings would have been $2,430 in 2016 and $1,944 in 2015, an increase of $486 or 25.0%.

Basic earnings per share were $ 0.05 for Quarter 2, 2016. Adjusting for the share of loss of investment in the joint venture the basic earnings per share would have been $0.09 as compared to $0.09 earnings per share in Quarter 2, 2015.

The Company continues to anticipate further improvements going forward as it increases traction with its operational and strategic initiatives.

EBITDA

EBITDA for Quarter 2, 2016 was $3,601 versus $3,403 in Quarter 2, 2015, an increase of $198 or 5.3%. Adjusted for foreign exchange losses, adjusted EBITDA for Quarter 2, 2016 was $3,620 versus $3,879 in Quarter 2, 2015, a decrease of $259 or 6.7%.

Year-to-date EBITDA was $7,388 in 2016 and $6,992 in 2015, an increase of $396 or 5.7%. Adjusted year-to-date EBITDA was $7,728 in the current year, an increase of $550 and 7.7% from $7,178 in 2015.

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

	Q2, 2016	Q2, 2015	**YTD 2016**	YTD 2015
Net earnings	**$ 517**	$ 1,096	**$ 1,401**	$ 1,877
Add:				
Interest expense	**326**	264	**527**	380
Income tax expense	**1,164**	687	**1,874**	1,493
Depreciation and amortization	**1,594**	1,356	**3,586**	3,242
EBITDA	**3,601**	3,403	**7,388**	6,992
Add:				
Foreign exchange loss	**19**	476	**340**	186
Adjusted EBITDA	**$ 3,620**	$ 3,879	**$ 7,728**	$ 7,178

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of quarterly financial information (unaudited)

Fiscal 2016 Quarters	Quarter 1, 2016	Quarter 2, 2016	YTD Total
Sales	$ 68,722	$ 69,138	$ 137,860
Net earnings	$ 884	$ 517	$ 1,401
Net earnings per share – basic	$ 0.07	$ 0.05	$ 0.12
Net earnings per share – diluted	$ 0.07	$ 0.05	$ 0.12
Average U.S. to Canadian exchange rate	$ 1.3759	$ 1.2870	$ 1.3315

Fiscal 2015 Quarters	Q1, 2015	Q2, 2015	Q3, 2015	Q4, 2015	Total
Sales	$ 63,137	$ 65,384	$ 65,378	$ 80,740	$ 274,639
Net earnings	$ 781	$ 1,096	$ 1,092	$ 3,351	$ 6,320
Net earnings per share – basic	$ 0.07	$ 0.09	$ 0.10	$ 0.27	$ 0.53
Net earnings per share – diluted	$ 0.07	$ 0.09	$ 0.10	$ 0.27	$ 0.53
Average U.S. to Canadian exchange rate	$ 1.235	$ 1.231	$ 1.302	$ 1.329	$ 1.274

Sales for the first two quarters of 2016 have increased from 2015 due to the favourable fluctuations in exchange rates as well as small improvements in general economic conditions. The Quarter 4, 2015 sales were significantly impacted by customer demand for product affected by the U.S. DOE regulation changes that became effective January 1, 2016. Quarter 1, 2016 sales were expected to decrease due to Quarter 4, 2015 customer inventory build but were favorably impacted by the U.S. exchange rate strengthening and unexpected demand for DOE compliant product. There continues to be significant fluctuations of sales volumes in various markets.

The Company has implemented cost reduction strategies and continues to identify additional opportunities for savings which are having an impact on controlling expenses and improving profitability. The fluctuations in exchange rates resulted in a significant decrease in foreign exchange loss in the second quarter of 2016 to $19 compared to a loss of $476 in the second quarter of 2015.

The recently established joint venture, Corefficient, has had a significant impact on the quarter profitability in 2016. The net earnings in Quarter 2, 2016 includes a share of loss of investment in the joint venture of $501 and year-to-date $1,029. Excluding the share of loss of investment in joint venture, net earnings for the quarter would have been $1,018, and Quarter 2, 2015 earnings would have been $1,163 a decrease of $145 or 12.5%. Year-to-date net earnings would have been $2,430 in 2016 and $1,944 in 2015, an increase of $486 or 25.0%.

Changes in Canadian foreign exchange rates, product mix, changing economic conditions and competitive pricing pressures have all had an impact on the year-over-year quarterly fluctuations for both sales and income.

Capital resources and liquidity

Net cash used in operating activities for Quarter 2, 2016 was $4,941 versus cash provided by operating activities of $460 in Quarter 2, 2015, a decrease of $5,401. Year-to-date net cash used in operating activities was $8,321 compared to $881 cash generated by operating activities in 2015, a decrease of $9,202. This decrease is a result of an increase in income tax payments and an increase in cash utilized for working capital.

During the quarter, non-cash working capital used cash of $6,740 compared to $2,545 for the same quarter last year. The year-to-date change in non-cash working capital was a usage of cash of $10,471 in 2016 compared to $5,424 in 2015. The working capital changes are primarily related to a decrease in accounts receivable, a decrease in accounts payable and foreign exchange impacts on working capital changes.

Cash used in investing activities increased by $3,068 from $5,642 in the first six months of 2015 to $8,710 in the same period of 2016. A key driver of this change was the purchase of an additional 15% equity ownership of PETE Hammond Power Solutions Private Limited ("PETE") in India for $3,326. Capital expenditures were

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

$467 in Quarter 2, 2016 compared to $196 for Quarter 2, 2015, an increase of $271. Year-to-date capital expenditures were $1,012 in the current year compared to $432 in 2015, an increase of $580. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

An additional investment to the joint venture in the amount of $174 in this quarter funded Corefficient' working capital needs.

Total cash provided by financing activities for Quarter 2, 2016 was $1,733 as compared to $4,133 in Quarter 2, 2015. The key driver of this change is higher borrowings in Quarter 2, 2015 from the bank operating lines of credit to fund changes in working capital. Year-to-date financing activities have generated cash of $1,670 compared to $6,621 in the first six months of 2015. Bank operating lines of credit have increased from prior year levels finishing Quarter 2, 2016 at $32,811 compared to $25,743 at the end of Quarter 2, 2015, an increase of $7,068. The bank operating lines of credit have increased $3,645 since the year-end balance of $29,166, and increased $2,761 since the Quarter 1, 2016 balance of $30,050.

The Company's overall operating debt balance net of cash was $27,404 in Quarter 2, 2016 compared to $17,949 in Quarter 2, 2015, an increase in debt position of $9,455 primarily reflecting funding of the joint venture, the purchase of an additional 15% equity ownership in PETE-Hammond and working capital requirements. All bank covenants continue to be met as at July 2, 2016.

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.

Credit agreement

During the quarter, the Company entered into a new banking agreement which expires in July 2020, consisting of a $35,000 U.S. revolving credit facility, a $5,000 U.S. overdraft facility, a 4,000 EUR overdraft facility, 110,000 INR overdraft facility and a $10,000 U.S. delayed draw credit facility. The Company also has access to 70 Euro and 160,000 Indian rupees letters of credit. This new agreement provides an additional $10,000 U.S. of credit to HPS. Based on exchange rates in effect at July 2, 2016, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $75,500.

This is an unsecured 5-year committed facility that provides financing certainty for the future. The new financing better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies, and provides financing for our operational requirements and capital for our strategic initiatives.

Minority interest

On March 5, 2016, HPS signed an agreement to acquire the shares of K. Linga Reddy, a minority shareholder of PETE in India, acquiring an additional 15% equity ownership of its transformer business for 172,625,181 Indian Rupees (approximately $3,326 CAD). The Company completed the transaction on April 21, 2016. This increases HPS' equity ownership of PETE to 85%.

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.

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.

	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	$ 1,950	$ 1,096	$ 1,055	$ 743	$ 15	–	$ 4,859
Accounts payable and accrued liabilities	39,596	–	–	–	–	–	39,596
Capital expenditure purchase commitments	715	–	–	–	–	–	715
Bank operating lines	32,811	–	–	–	–	–	32,811
Long-term debt	3,813	–	–	–	–	–	3,813
Total	**$ 78,885**	**$ 1,096**	**$ 1,055**	**$ 743**	**$ 15**	**–**	**$81,794**

Contingent liabilities

In December 2013, the Company 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 other 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 June 24, 2016 to shareholders of record at the close of business on June 17, 2016. The ex-dividend date was June 15, 2016. The Company has paid a cash dividend of twelve cents ($0.12) per Class A Subordinate Voting Share and twelve cents ($0.12) 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 2014 internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2014 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 generally accepted accounting principles. 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 2, 2016 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

As with most businesses, HPS is subject to a number of market place, industry and economic-related business risks, which could have some visible impact on our operating results. These risks include:

- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or recession;
- The volatility, unpredictability and cyclical effects of market costs and supply pressures for commodities including, but not limited to, copper, insulation and electrical grain oriented steel;
- A significant global unexpected change in demand for resources;
- Fluctuations of interest rates;
- Unpredictable weather trends and conditions;
- Government protectionism or regulation changes;
- Competition;
- Credit risk; and
- Global political unrest.

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.

There are, however, several risks that deserve particular attention:

Currency fluctuations

As HPS has expanded their global footprint, currency fluctuations and volatility have had a more significant impact on the financial results and continues to be an area of awareness for the Company. The Company's functional currency is the Canadian dollar and its operating results are reported in Canadian dollars. A significant portion of the Company sales and material purchases are denominated in U.S. dollars. While there is a natural hedge, as sales denominated in U.S. dollars 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. 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.

The Company also has a U.S. operating subsidiary and U.S. dollar assets. The exchange rate between the Canadian and U.S. dollar can vary significantly from year-to-year and recently has shown significant volatility with substantial changes month-to-month. There is a corresponding positive or negative impact to the Company's Accumulated Other Comprehensive Income in the Consolidated Statement of Financial Position solely related to the foreign exchange translation of its U.S. Balance Sheet.

The Italy and India acquisitions have created assets to be denominated in Euros and Indian Rupees. There is a corresponding positive or negative impact to the Company's Statement of Comprehensive Income solely related to the foreign exchange translation of its entities Balance Sheets.

HPS has partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output. Entering into forward foreign exchange contracts has lessened the Company's intercompany loan transactional exchange rate risk.

Periodically HPS will institute price increases to help offset the negative impact of changes in foreign exchange and product cost increases.

Global economic conditions

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.

Commodity prices

An area that has an impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper commodity and steel pricing in the global markets. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Interest rates

There has been an increase in the operating line balance over the last few years related to strategic acquisitions, investment in the joint venture, capital expenditures and working capital needs. The Company's debt financing has been structured to take advantage of the current lower interest rates, minimize interest costs and ensure adequate financing availability. The Company continues to be aware that a rise in interest rates will negatively impact the financial results. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

As part of hedging this risk, the Company may enter into fixed long-term rates on part of its total debt. It is the Company's determination that the interest rate premium to secure longer term interest rates does not provide an economic advantage. The Company believes that a more significant impact of a rise in interest rates would apply to our customers' investment decisions and financing capabilities.

Natural disasters and unpredictable weather

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.

Credit

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.

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 2015 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2016, other than transactions disclosed in Note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 2, 2016 Report.

Proposed transactions

The Company continues to evaluate potential business expansion initiatives and has no firm transactions as at July 2, 2016 other than disclosed in subsequent event.

Financial instruments

As at July 2, 2016, the Company had outstanding foreign exchange contracts in place for 12,200 EUR and $7,200 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $28,000 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.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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:

8,921,624	Class A Shares
2,778,300	Class B Common Shares
11,699,924	Total Class A and B Shares

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.

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 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. 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 contact-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. The new standard applies to contracts with customers and is effective for fiscal years beginning on or after January 1, 2018. It does not apply to insurance contracts, financial instruments or lease contracts. The extent of the impact of adoption of the standard has not yet been determined.

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 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.

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 Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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 Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of these standards has yet to be determined.

Strategic direction and outlook

HPS has undergone a significant transformation over the past few years.

- Expansion through strategic acquisitions in India and Italy;
- New global customers;
- Expanded relationships with existing customers;
- Compliance with new U.S. Department of Energy regulations and new design and product development and launch;
- Implementing new technology cast resin transformers in the North American market;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Development, set-up and operation of a joint venture, Corefficient, in a new state of the art facility in Mexico and
- Implementation of new ERP system to enhance availability of information and streamline processes.

HPS is pleased with these accomplishments and the strategic direction of the Company.

While we have had a successful six months of 2016, the unpredictable and fluctuating global economic climate has had a pervasive and persistent effect on HPS. The Company has felt the negative impact of an unpredictable and erratic economy, as well as the variability of foreign currency exchange rates, raw material commodity costs, manufacturing throughput, and market pricing pressures. These deterrents are being managed through the Company's operational plans and strategic projects.

While these negative influences have impacted the Company's shorter term operational and financial performance over the past few quarters we are confident that the business fundamentals that have been developed will grow and sustain HPS in the future. The Company's response to these conditions continues to be conservative but progressive, prudent but not complacent. These key initiatives are having a positive impact on HPS' performance. The Company continues to be focused on improving in terms of escalation of market share, sales growth from new product development, geographic diversification, productivity gains, cost reduction, and capacity flexibility.

HPS continues to be an industry leader and remain both operationally and financially strong. History has demonstrated the Company's proven ability to navigate through the enduring economic uncertainty and we remain confident in our vision of the future. HPS is positioned to meet the evolving needs of both our traditional markets while becoming a leading player in a growing number of other market sectors. Our drive, resilience, 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.

We anticipate sales growth to continue to fluctuate in several of our markets. A portion of our sales will come from major customer projects for which the exact timing is hard to predict; therefore we may continue to experience quarterly sales fluctuations.

The Company is committed to ensuring our strategic advantage going forward through:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- Broad 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.

Management is determined to deliver long-term value to our shareholders and remains focused on the success of all stakeholders of the company.

HISTORY HAS DEMONSTRATED THE COMPANY'S PROVEN ABILITY TO NAVIGATE THROUGH THE ENDURING ECONOMIC UNCERTAINTY AND WE REMAIN CONFIDENT IN OUR VISION OF THE FUTURE.

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 Second Quarter of 2016. 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

	2011	2012	2013	2014	**2015**
Sales	221,323	257,376	242,941	247,756	**274,639**
Earnings from operations	13,039	18,180	11,036	6,460	**12,644**
EBITDA	15,538	24,352	16,924	12,327	**18,748**
Net earnings	5,993	12,611	6,104	2,520	**6,320**
Total assets	137,520	160,049	186,878	184,291	**222,969**
Non-current liabilities	5,436	5,424	10,220	9,527	**5,454**
Total liabilities	46,072	58,404	77,827	69,854	**90,668**
Total shareholders' equity attributable to equity holders of the Company	91,448	99,387	107,014	112,271	**129,665**
Total cash (debt)	1,681	(990)	(21,104)	(14,833)	**(13,202)**
Cash provided by operations	6,592	21,371	765	18,450	**16,065**
Basic earnings per share	0.52	1.08	0.52	0.22	**0.53**
Diluted earnings per share	0.51	1.08	0.52	0.22	**0.53**
Dividends declared and paid	1,738	2,098	2,328	2,800	**2,807**
Average exchange rate (USD$=CAD$)	0.989	1.0005	1.029	1.1025	**1.274**
Book value per share	7.89	8.54	9.17	9.61	**11.08**

Quarterly Information

	2014		2015				**2016**	
	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**
Sales	61,558	64,529	63,137	65,384	65,378	80,740	**68,722**	**69,138**
Earnings from operations	915	2,472	1,446	2,623	2,475	6,100	**2,677**	**2,560**
EBITDA	2,234	3,521	3,589	3,403	4,163	7,593	**3,787**	**3,601**
Net earnings	260	804	781	1,096	1,092	3,351	**884**	**517**
Total assets	191,435	184,291	191,972	193,039	206,687	222,969	**208,810**	**203,379**
Non-current liabilities	9,698	9,527	5,867	5,857	5,990	5,454	**5,740**	**5,663**
Total liabilities	78,861	69,854	70,482	73,347	80,859	90,668	**82,534**	**76,846**
Total shareholders' equity attributable to equity holders of the Company	110,346	112,271	119,094	117,283	123,375	129,665	**123,910**	**120,677**
Total debt	(14,976)	(14,833)	(18,357)	(21,828)	(18,886)	(13,202)	**(21,515)**	**(31,217)**
Cash provided (used) by operations	11,415	4,788	421	460	6,077	8,887	**(3,380)**	**(4,941)**
Basic earnings per share	0.02	0.08	0.07	0.09	0.10	0.27	**0.07**	**0.05**
Diluted earnings per share	0.02	0.08	0.07	0.09	0.10	0.27	**0.07**	**0.05**
Dividends declared and paid	700	700	702	701	702	702	**702**	**702**
Average exchange rate (USD$=CAD$)	1.087	1.130	1.235	1.231	1.302	1.329	**1.3759**	**1.287**
Book value per share	9.44	9.61	10.18	10.03	10.54	11.08	**10.59**	**10.31**

Consolidated Statements of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)

	As at July 2, 2016	As at December 31, 2015
Assets		
Current assets		
Cash	$ 5,407	$ 19,991
Accounts receivable	57,470	61,951
Inventories	43,980	43,549
Income taxes recoverable	1,959	662
Prepaid expenses and other assets	1,618	2,186
Total current assets	$ 110,434	$ 128,339
Non-current assets		
Property, plant and equipment (note 4)	$ 42,444	$ 45,225
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	16,375	13,162
Deferred tax assets	2,038	1,735
Goodwill	18,488	19,606
Intangible assets (note 6)	12,556	13,858
Total non-current assets	92,945	94,630
Total assets	$ 203,379	$ 222,969
Liabilities		
Current liabilities		
Bank operating lines of credit (note 7)	$ 32,811	$ 29,166
Accounts payable and accrued liabilities	39,596	48,165
Income tax liabilities	–	3,089
Provisions	501	506
Derivative liabilities	125	261
Current portion of long-term debt (note 8)	3,813	4,027
Total current liabilities	$ 76,846	$ 85,214
Non-current liabilities		
Employee future benefits	$ 416	$ 389
Provisions	100	100
Long-term debt (note 8)	–	–
Deferred tax liabilities	5,147	4,965
Total non-current liabilities	5,663	5,454
Total liabilities	$ 82,509	$ 90,668
Shareholders' Equity		
Share capital (note 9)	13,843	13,843
Contributed surplus	2,568	2,434
Accumulated other comprehensive income (note 10)	10,262	18,492
Retained earnings	94,004	94,896
Total shareholders' equity attributable to equity holders of the Company	$ 120,677	$ 129,665
Non-controlling interests	193	2,636
Total shareholders' equity	120,870	132,301
Total liabilities and shareholders' equity	$ 203,379	$ 222,969

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending July 2, 2016	Quarter Ending June 27, 2015	Six Months Ending July 2, 2016	Six Months Ending June 27, 2015
Sales	$ 69,138	$ 65,384	$ 137,860	$ 128,521
Cost of sales	52,394	49,640	104,391	98,763
Gross margin	16,744	15,744	33,469	29,758
Selling and distribution	7,901	7,076	15,538	13,822
General and administrative	6,283	6,045	12,694	11,867
Earnings from operations	2,560	2,623	5,237	4,069
Finance and other costs				
Interest expense	326	264	527	380
Foreign exchange loss	19	476	340	186
Share of loss of investment in joint venture (note 5)	501	67	1,029	67
Other	33	33	66	66
Net finance and other costs	879	840	1,962	699
Earnings before income taxes	1,681	1,783	3,275	3,370
Income tax expense	1,164	687	1,874	1,493
Net earnings	$ 517	$ 1,096	$ 1,401	$ 1,877
Net earnings attributable to non-controlling interests	$ (58)	$ 93	$ (21)	107
Net earnings attributable to equity holders of the Company	575	1,003	1,422	1,770
Net earnings	$ 517	$ 1,096	$ 1,401	$ 1,877
Earnings per share				
Basic earnings per share (dollars)	$ 0.05	$ 0.09	$ 0.12	$ 0.16
Diluted earnings per share (dollars)	$ 0.05	$ 0.09	$ 0.12	$ 0.16

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)

	Quarter Ending		Six Months Ending	
	July 2, 2016	June 27, 2015	**July 2, 2016**	June 27, 2015
Net earnings	**$ 517**	$ 1,096	**$ 1,401**	$ 1,877
Other comprehensive (loss) income				
Foreign currency translation differences for foreign operations	**(1,913)**	(2,200)	**(8,236)**	4,686
Other comprehensive income (loss) for the period, net of income tax (note 10)	**(1,913)**	(2,200)	**(8,236)**	4,686
Total comprehensive (loss) income for the period	**$ (1,396)**	$ (1,104)	**$ (6,835)**	$ 6,563
Attributable to:				
Equity holders of the Company	**$ (1,514)**	$ (1,117)	**$ (6,683)**	6,320
Non-controlling interest	**$ 118**	13	**(152)**	243
Total comprehensive (loss) income for the period	**$ (1,396)**	$ (1,104)	**$ (6,835)**	$ 6,563

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended July 2, 2016

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2016	$ 13,843	$ 2,434	$ 18,492	$ 94,896	2,636	$ 132,301
Total comprehensive income for the year						
Net earnings	–	–	–	1,422	(21)	1,401
Other comprehensive (loss) income						
Foreign currency translation differences (note 10)	–	–	(8,105)	–	(131)	(8,236)
Total other comprehensive loss	–	–	(8,105)	–	(131)	(8,236)
Total comprehensive (loss) income for the year	–	–	(8,105)	1,422	(152)	(6,835)
Transactions with shareholders, recorded directly in equity						
Minority interest (note 9)	–	–	(125)	(910)	(2,291)	(3,326)
Share-based payment transactions	–	134	–	–	–	134
Dividends to equity holders (note 9)	–	–	–	(1,404)	–	(1,404)
Total transactions with shareholders	–	134	(125)	(2,314)	(2,291)	(4,596)
Balance at July 2, 2016	$ 13,843	$ 2,568	$ 10,262	$ 94,004	$ 193	$ 120,870

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended June 27, 2015

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2015	$ 13,800	$ 2,339	$ 4,613	$ 91,519	2,166	$ **114,437**
Total comprehensive income for the year						
Net earnings	–	–	–	1,770	107	**1,877**
Other comprehensive income						
Foreign currency translation differences (note 10)	–	–	4,550	–	136	**4,686**
Total other comprehensive income	–	–	4,550	–	136	**4,686**
Total comprehensive income for the year	–	–	4,550	1,770	243	**6,563**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	95	–	–	–	**95**
Dividends to equity holders (note 9)	–	–	–	(1,403)	–	**(1,403)**
Total transactions with shareholders	–	95	–	(1,403)	–	**(1,308)**
Balance at June 27, 2015	$ 13,800	$ 2,434	$ 9,163	$ 91,886	$ 2,409	$ **119,692**

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

Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)

	Six Months Ending July 2, 2016	Six Months Ending June 27, 2015
Cash flows from operating activities		
Net earnings	$ 1,401	$ 1,877
Adjustments for:		
Share of loss of investment in joint venture	1,029	–
Amortization of property, plant and equipment	2,563	2,295
Amortization of intangible assets	1,023	947
Provisions	(5)	104
Interest expense	527	380
Income tax expense	1,874	1,493
Change in unrealized gain on derivatives	(136)	(22)
Stock based compensation expense	134	95
	8,410	7,169
Change in non-cash working capital (note 12)	(10,471)	(5,424)
Cash used in operating activities	(2,061)	1,745
Income tax paid	(6,260)	(864)
Net cash (used in) provided by operating activities	(8,321)	881
Cash flows from investing activities		
Minority interest	(3,326)	–
Investment in joint venture (note 5)	(4,155)	(5,023)
Acquisition of property, plant and equipment	(1,012)	(432)
Acquisition of intangible assets	(217)	(187)
Cash used in investing activities	(8,710)	(5,642)
Cash flows from financing activities		
Advances of borrowings	3,645	8,565
Repayment of long-term debt	(44)	(161)
Cash dividends paid (note 8)	(1,404)	(1,403)
Interest paid	(527)	(380)
Cash provided by financing activities	1,670	6,621
Foreign exchange on cash held in a foreign currency	777	(522)
(Decrease) increase in cash	(14,584)	1,338
Cash and cash equivalents at beginning of period	19,991	6,456
Cash and cash equivalents at end of period	$ 5,407	$ 7,794

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 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 second quarter ended July 2, 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled 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 PETE Hammond Power Solutions Private Limited ("PETE"), a subsidiary in which the Company holds a 85% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. for the manufacturing of transformer cores. On March 25, 2015, the Company and National Material L.P. completed the formation of the joint venture and a new company Corefficient S. de R.L. de C.V. ("Corefficient") was established, in which HPS holds a 55% partnership interest.

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 August 8, 2016.

(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, 2015.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2015 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, 2015.

Changes to accounting policies

Interests in joint operations

On May 6, 2014, the International Accounting Standards Board ("IASB") issued amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. The amendments require business combinations accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company adopted the amendments to IFRS 11 in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Quarters ended July 2, 2016 and June 27, 2015 (tabular amounts in thousands of dollars except per share)

Transfer of assets

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 apply prospectively for annual periods beginning on or after January 1, 2016. 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 recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes 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 recognized 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 Company adopted these amendments in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Annual improvements to IFRS (2012 – 2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits;
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting;

The Company adopted these amendments in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Disclosure initiative

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company adopted these amendments in its financial statements for the year commencing January 1, 2016. The adoption of the amendment 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 six months ended July 2, 2016 in the amount of $1,012,000 of machinery and equipment (2015 - $432,000).

5. Joint venture

The Company has a 55% economic interest and voting interest in Corefficient. By virtue of the contractual arrangement with National Material L.P., 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:

	July 2, 2016
Cost of investment in joint venture	$ 18,252
Share of loss in investment in joint venture	(1,877)
	$ 16,375

Quarters ended July 2, 2016 and June 27, 2015 (tabular amounts in thousands of dollars except per share)

Selected financial information relating to Corefficient is as follows:

		July 2, 2016
Cash	$	228
Trade and other receivables		7,688
Inventories		1,516
Other current assets		458
Total current assets	$	9,890
Non-current assets		19,034
Total assets	$	28,924
Current liabilities	$	1,885
Non-current liabilities	$	–
Total liabilities	$	1,885

		Six Months Ending July 2, 2016
Revenue	$	9,540
Loss for the year	$	1,867

The loss for the six months ended July 2, 2016 includes depreciation and amortization expense of $1,120,000, interest expense of $3,000 and an income tax recovery of $788,000 related to Corefficient.

6. Intangible assets

The Group had acquisitions of intangible assets for the six months ended July 2, 2016 in the amount of $217,000 (2015 - $187,000), for the addition of software. None of the intangible assets have been developed internally.

7. Bank operating lines of credit

The Company entered into a new banking agreement during the quarter, which expires in July, 2020, consists of a $35,000,000 U.S. revolving credit facility, a $5,000,000 U.S. overdraft facility, a 4,000,000 Euro overdraft facility, a 110,000,000 Indian rupees overdraft facility and a $10,000,000 U.S. delayed draw credit facility. The Company also has access to 70,000 Euro and 160,000,000 Indian rupees letters of credit. Based on exchange rates in effect at July 2, 2016, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $75,544,000. The delayed draw facility does not charge any fees on the unutilized balance until the facility is used. The initial use of the facility needs to be approved by the bank. The facilities are unsecured.

Quarters ended July 2, 2016 and June 27, 2015 (tabular amounts in thousands of dollars except per share)

8. Long-term debt

	Six Months Ending July 2, 2016	June 27, 2015
Opening balance	$ 4,027	$ 4,111
Repayments		
Term loan CAD	(44)	(91)
Term Loans EUR	–	(63)
Term loan INR	–	(7)
Exchange	(170)	(71)
	3,813	3,879
Less current portion of long-term debt	3,813	3,879
Total	$ –	$ –

9. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Six Months Ending July 2, 2016	June 27, 2015
12 cents per Class A common share (2015: 12 cents)	$ 1,070	$ 1,069
12 cents per Class B common share (2015: 12 cents)	334	334
	$ 1,404	$ 1,403

(b) Stock option plan

During the six months ended July 2, 2016, the Company granted 160,000 options (2015 – 95,000) of which 115,000 vested immediately (2015 – 55,000). Stock-based compensation recognized the amount credited to contributed surplus during the period, is $134,000 (2015 - $95,000) and relates to options granted during Quarter 1, 2016, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $0.96 (2015 - $1.26).

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

	2016	2015
Fair value of share options and assumptions		
Fair value at grant date	$ 0.96	$ 1.26
Share price at grant date	$ 6.20	$ 6.62
Exercise price	$ 6.20	$ 6.62
Expected volatility (weighted average volatility)	39.4%	41.3%
Option life (expected weighted average life)	3.8 years	3.8 years
Expected dividends	3.6%	3.6%
Risk-free interest rate (based on government bonds)	1.4%	1.6%

(c) Purchase of Minority Interest

On March 5, 2016, HPS signed an agreement to acquire the shares of K. Linga Reddy, a minority shareholder of PETE in India, acquiring an additional 15% equity ownership of its transformer business for 172,625,181 Indian Rupees (approximately$3,326 CAD). The Company completed the transaction on April 21, 2016. This increases HPS's equity ownership of PETE to 85%. The impact of this transaction was a reduction in minority interest in the amount of $2,291, a decrease in accumulated other comprehensive income in the amount of $125 and a reduction in retained earnings in the amount of $910.

Quarters ended July 2, 2016 and June 27, 2015 (tabular amounts in thousands of dollars except per share)

10. 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. Total other comprehensive loss for the six months ended July 2, 2016 was $8,105,000 (2015 comprehensive income – $4,550,000), resulting in an ending balance of accumulated other comprehensive income of $10,262,000 (2015 – $9,163,000).

11. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2015 – 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 1,053,767 (2015 – 1,050,921) Class A subordinate voting shares of the Company, representing approximately 11.8% (2015 – 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 2 2015– $230,000).

In the ordinary course of business, the Company enters into transactions with affiliated entities. A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. All related party transactions in the normal course of operations are recorded at the exchange amount of consideration established by and agreed to by the related parties. The Group entered into the following trading transactions with other related parties:

	Note	2016	2015	Relationship
Purchase of goods and services	(i)	**$ 719**	$ 512	Companies in which key management personnel and/or their relatives have significant influence.

		2016	2016	Relationship
Amounts owed by related parties		**$ 458**	$ 196	Companies in which key management personnel and/or their relatives have significant influence.

Transactions with key management personnel

During the six months ended July 2, 2016, the Company purchased $131,000 (2015 – $122,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. 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 $29,000 (2015 – $13,000), which is owed to this company.

(i) During the six months ended July 2, 2016, the Company has paid $7,000 (2015 – $10,000) of payments in connection with rental agreements for office space and an apartment with K. Ravi Reddy, the minority shareholder of PETE – Hammond Power Solutions Private Limited in India

12. Change in non-cash operating working capital

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

	Six Months Ending	
	July 2, 2016	June 27, 2015
Accounts receivable	**$ 4,481**	$ (5,086)
Inventories	**(431)**	(3,956)
Prepaid expenses	**568**	(49)
Accounts payable and accrued liabilities	**(8,569)**	(747)
Foreign exchange	**(6,520)**	4,414
	$ (10,471)	$ (5,424)

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

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Legal Representation

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Banking Institution

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Investor Relations

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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.

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