HAMMOND MANUFACTURING®

Quality Products. Service Excellence.

2017 Annual Report

QUALITY PRODUCTS.
SERVICE EXCELLENCE.

We have a broad product offering:
To serve our customers in multiple markets and industries.

We promise ten day back order recovery on standard product:
We work hard to provide you with your required product in a prompt time line.

Value Added Services (Modifications, Assembly and Drop Shipment):
To go above and beyond our competition and provide our customers with the exact solution required.

OUR VALUES:

We are dedicated to our customers:
To provide quality products and service that create value to our customers.

We are responsible to our shareholders:
To provide an adequate return on their investment over the long term.

We are committed to our employees:
To provide competitive pay, open and frank communication and a safe work environment.

We recognize the importance of our suppliers:
To assist us in our ability to serve our customers.

Visit us online at www.hammondmfg.com

Hammond Manufacturing Company Limited

2017 Annual Report

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REPORT TO SHAREHOLDERS

Dear fellow shareholders, employees, and stakeholders:

In the following pages, you will find a detailed description of our financial results for 2017.

These results depended on a large number of factors. These are both within our control and sometimes, like currency, are beyond our influence. They are measured as a profit and loss statement or a balance sheet. All are neatly translated into Canadian dollars for our auditors, bankers, and shareholders.

What we don't see in these financial schedules is the continuous evolution of Hammond Manufacturing as a human and social entity.

Over recent years, we have continued to grow our team of associates. As we continue to find ways to improve, we welcome the inputs and involvement of many associates. New hires plus our long service associates have the opportunity to build a career with Hammond---not just a job. Last year, we celebrated the 100th year since my grandfather, Oliver Hammond, set up a lathe in the back shed. The business grew on the foundation of involved people.

Not shown in the numbers is the continued growth in our markets and customer relationships. Our products are sold worldwide and the Hammond brand is globally recognized. We strive as a group to think like a customer and offer value and quality.

And we couldn't do this without our suppliers. Continued growth at Hammond creates jobs for materials, services, and financiers.

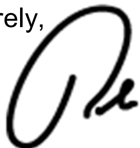
Through our efforts to safeguard the environment with recycling, landscaping, and even bird feeders, we make our footprint as small as possible.

And both through the efforts of individuals and corporate support, we care about the people in our communities.

In summary, the following pages will show that 2017 was a good year financially and a good foundation for the future. As well, we feel good about our contribution to our associates, our suppliers, our customers, and our community.

We look forward to the future.

Sincerely,



Robert F. Hammond

Chairman & CEO

ANNUAL MEETING
The meeting of the Shareholders will be held on
April 30, 2018 at

Cutten Fields
190 College Avenue East, Guelph, Ontario
Commencing at 10:00 a.m.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis (MD&A) comments on the consolidated financial condition and results of operations of Hammond Manufacturing Company Limited ("HMCL" or "the Company") for the year ended December 31, 2017. This discussion should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017 and related notes. Additional information about the Company can be found on its website, www.hammfg.com, or through the SEDAR website at www.sedar.com which includes the Company's Annual Information Form. The information contained herein is dated as of March 5, 2018.

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

All amounts in this report are in Canadian dollars unless otherwise stated.

Advisory–Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY PROFILE

Hammond Manufacturing Company Limited manufactures electronic and electrical enclosures, outlet strips and electronic transformers that are used by manufacturers of a wide range of electronic and electrical products. Products are sold directly to Original Equipment Manufacturers (OEM) and through a global network of distributors and agents.

Facilities are situated in Canada, the United States of America (US), the United Kingdom (UK), Taiwan and Australia, with agents and distributors located worldwide. The Company also maintains a 40% ownership share of RITEC Enclosures Inc. (RITEC) located in Taiwan. RITEC produces a line of small cases for sale through the Hammond Manufacturing Company's sales channels and also manages sourcing of die cast and plastic enclosures.

OPERATIONS

2017 was a strong year, with our facility expansion in 2016 now behind us our operations settled in to a focused effort. Our markets grew and we were ready to take on the increased load. The second phase of our Guelph expansion is the reconfiguration of our Edinburgh Road facility. In 2017 the first step was to relocate our stainless steel production line and expand its capacity. This project has now been substantially completed and we are continuing with our re-layout projects which will include investment in upgraded equipment to increase our throughput and efficiency levels.

QUARTERLY INFORMATION

HAMMOND MANUFACTURING COMPANY LIMITED

Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

	2017				Year-to-date
	Q1	Q2	Q3	Q4	Total
Net product sales	$31,727	$33,486	$31,421	$30,772	$127,406
Income from operating activities	1,449	2,282	1,032	1,210	5,973
Net income for the period	1,002	1,579	1,161	818	4,560
Earnings per share - Basic & diluted	$0.09	$0.14	$0.10	$0.07	$0.40

	2016				Year-to-date
	Q1	Q2	Q3	Q4	Total
Net product sales	$31,774	$28,011	$27,944	$27,995	$115,724
Income from operating activities	2,022	(586)	188	672	2,296
Net income for the period	1,725	(610)	(296)	(135)	684
Earnings per share - Basic & diluted	$0.15	($0.05)	($0.03)	($0.01)	$0.06

Note: Interim consolidated financial information has not been reviewed by an auditor.

MANAGEMENT DISCUSSION AND ANALYSIS

FOURTH QUARTER RESULTS

NET PRODUCT SALES

Net product sales, for the three months ended December 31, 2017 were $30,772,000, down 2.1% compared to net product sales of $31,421,000 in the third quarter of 2017. As expected, December sales were down due to holidays. Net product sales for the current quarter were up 9.9% compared to net product sales of $27,995,000 for the three months ended December 31, 2016. Foreign exchange pulled down sales by approximately 3.1% or $863,000 as the Canadian dollar (CAD) was stronger against the US dollar (USD) and British pound sterling (GBP). Our markets are all showing strength and we are taking additional market share by providing superior service levels.

GROSS PROFIT

Gross profit for the fourth quarter of 2017 was 29.9% of net sales compared to 28.7% in the third quarter of 2017. The Canadian dollar had strengthened against the US dollar during the third quarter which in turn lowered the profit levels of our US sales. The trend reversed in the fourth quarter and we gained back some of the drop. Gross profits of 29.9% are up from the fourth quarter of 2016 level of 28.2%. In 2016 we had just completed our Guelph facility expansion and were experiencing additional costs associated with the startup.

SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE, RESEARCH AND DEVELOPMENT (“R&D”) EXPENSES AND LOSS (GAIN) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Fourth quarter selling and distribution, general and administrative, R&D expenses and loss (gain) on the disposal of property plant and equipment of $7,989,000 was 26.0% of net sales for the three months ended December 31, 2017. This compared with spending of $7,984,000 in the previous quarter that was 25.4% of net sales. Foreign exchange impact reduced costs by approximately $19,000. The fourth quarter of 2016 saw spending levels of $7,229,000 which was 25.8% of net sales. Spend was up despite the impact of foreign exchange reducing cost by $128,000.

Selling and distribution spending of $6,693,000 was flat over the prior quarter and up 12.8% over the fourth quarter of 2016. Compared to the fourth quarter of 2016 the sales increase was the primary driver of the quarter over quarter increase in expenses.

General and administrative expenses of $1,344,000 were up this quarter from the previous quarter’s spending of $1,202,000. The primary driver of the quarter over quarter increase was a $30,000 increase in our provision for doubtful accounts and legal expenses of $66,000 associated with the claim against the Company identified in note 18 of the consolidated financial statements. This quarter’s spending was also up from $1,179,000 spending in fourth quarter of 2016. The increase is the same as the change from last quarter plus the additional expense of increased personnel and director expenses of $32,000.

Research and development spend of $59,000 was level with 2016 at $63,000.

A net gain of $107,000 on disposal of property, plant and equipment was recognized this quarter. This was primarily from the sale of one of our lasers that had been fully depreciated.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME FROM OPERATING ACTIVITIES

Income from operating activities of $1,210,000 (3.9% of net sales) is up from the prior quarter of $1,032,000 (3.3% of net sales) and up from the 2016 fourth quarter amount of $672,000 (2.4% of net sales). 2017 results are not weighed down by the new facility startup in 2016.

INTEREST

Fourth quarter interest expense of $243,000 was flat to the third quarter expense of $245,000 and comparable to the interest expense of $245,000 in the fourth quarter of 2016. Overall external debt has come down with a slight increase in the interest rate on our line of credit.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

During the fourth quarter of 2017, the Company recognized a gain on transactional foreign exchange of $2,000 compared to a loss of $528,000 in the three months ended December 31, 2016. In 2016 the intercompany balance impact was $234,000 of the $528,000 loss. There is an offset to the intercompany impact found in the foreign exchange translation of foreign operations. There was not a lot of movement in the exchange rates in the fourth quarter of 2017 compared to the third quarter of 2017.

INCOME TAX EXPENSE

Net income tax expense in the fourth quarter was $257,000 which included the final true up for the year's activities.

NET INCOME (LOSS) FOR THE PERIOD

Net income of $818,000 (2.7% return on net product sales) was recognized for the fourth quarter ended December 31, 2017 this was down from a net return of $1,161,000 (3.7% return on net product sales) in the previous quarter and up from the net loss of $135,000 (0.5% return on net product sales) recognized in the fourth quarter of 2016.

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

The translation adjustment for the fourth quarter of 2017 was a gain of $89,000 compared to a translation gain of $322,000 in the fourth quarter of 2016. The Canadian dollar weakening against our foreign entity currencies providing a positive impact from foreign translation.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the fourth quarter ended December 31, 2017 was $907,000 (2.9% of net product sales) down from the 3 months ended December 31, 2016 of $187,000 (0.7% of net product sales).

FULL YEAR RESULTS

NET PRODUCT SALES

Net product sales of $127,406,000 in 2017 were up 10.1% compared to net sales of $115,724,000 reported in 2016. Foreign exchange had a negative impact on the year over year reporting by approximately $2,490,000 (2.2%) so sales were actually up 12.3% in constant dollars. Our markets are all showing strength and we are taking additional market share by providing superior service levels.

GROSS PROFIT

In 2017, gross profit was $38,006,000 or 29.8% of net product sales compared to $32,810,000 or 28.4% achieved in 2016. In 2016 we felt the impact of bringing our new facility on line. The new facility added infrastructure costs and production inefficiencies associated with the move and also created a drag on 2016 gross profit levels. The Group has seen production efficiencies improve in 2017 and the increased sales volumes are having a positive impact covering the increased fixed costs.

SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE, RESEARCH AND DEVELOPMENT ("R&D") EXPENSES AND LOSS (GAIN) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Selling and distribution, general and administrative, R&D expenses including the net impact of the disposal of property, plant and equipment of $32,033,000 (25.1% of net product sales) was up 5.0% compared to the 2016 spend of $30,514,000 (26.4% of net product sales). Foreign exchange had the impact of lowering the reported expense levels by approximately $437,000 compared to the cost base in 2016 so spend was actually up 6.2% compared to 2016.

Selling and distribution expenses of $26,999,000 increased 7.0% ($1,773,000) compared to 2016. Foreign exchange had the impact of lowering comparative costs by $381,000. On a constant dollar basis our costs were up 8.7%. The increase in costs is a reflection of the increase in sales output.

Our general and administrative expenses were down $98,000 or 2.0% compared to 2016 spending levels of $4,935,000. Foreign exchange had the impact of lowering comparative costs by $56,000. On a constant dollar basis our costs were down 0.9%.

In 2017 the research and development spending level was down 5.0% to $284,000 over 2016 spending levels. We continue to invest in our future.

A net gain of $87,000 on disposal of property, plant and equipment was recognized as some old equipment was sold and replaced.

INCOME FROM OPERATING ACTIVITIES

Overall, 2017 earnings from operating activities of $5,973,000 (4.7% of net product sales) is up compared to 2016 earnings of $2,296,000 (2.0% of net product sales).

INTEREST

Interest expense of $1,000,000 increased $136,000 or 15.7% from the 2016 expense level of $864,000. Our external debt grew throughout 2016 as we invested in our new facility. External debt at the end of 2016 was at $25,186,000 and has decreased to $22,552,000 at the end of 2017. In 2016 we were utilizing our line to finance the expansion. As the project was completed we moved to fix some of the debt associated with the expansion. The line has a low interest rate but is subject to the variability of the market. By locking in we have accepted a higher rate but it is fixed in nature and reduces the company's exposure to rate increases.

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

A $1,286,000 foreign exchange transactional gain was reported in 2017, compared to a transactional loss of $212,000 in 2016. The Canadian dollar strengthened against the US dollar throughout 2017. It opened at $1.00 USD to $1.343 CAD and closed the year at $1.00 USD to $1.255 CAD. A large portion

of the gain is from the intercompany receivable. This year it created transaction gains of just over $400,000 with the offset going to translational losses of other foreign operations.

INCOME TAX EXPENSE

2017 tax expenses of $1,827,000 were 28.6% of income before income tax. This compares to a 2016 tax expense of $540,000 which was 44.1% of income before income tax. The 2017 tax on income is reflective of normal operational levels. In 2016 earnings by our US entity at a tax rate of 34% were not offset by the loss of the Canadian entity at a tax rate of 25%.

NET INCOME FOR THE YEAR

Net income for the year ended December 31, 2017 was $4,560,000 (3.6% of net product sales) up 667.0% from the prior year net income of $684,000 (0.6% of net product sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

During 2017 a loss of $1,041,000 on translational foreign exchange was realized compared to a loss of $722,000 in 2016. The strengthening Canadian dollar caused a decrease in the valuation of our foreign entities.

TOTAL COMPREHENSIVE INCOME (LOSS)

Comprehensive income for 2017 was $3,519,000 (2.8% of net product sales) up from a comprehensive loss of $38,000 (0.0% of net product sales) in 2016.

SELECTED ANNUAL INFORMATION

Three year financial summary:

For the years ended December 31,
(In thousands except per share amounts)

Consolidated Statements of Comprehensive Income	**2017**	2016	2015
Net product sales	**$ 127,406**	$ 115,724	$ 117,164
Income from operating activities	**5,973**	2,296	6,625
Net income for the year	**4,560**	684	3,550
Per share - basic & fully diluted net earnings for the year	**$0.40**	$0.06	$0.31

Consolidated Statement of Financial Position	**2017**	2016	2015
Total assets	**$ 85,889**	$ 82,157	$ 79,394
Total funded debt	**22,552**	25,186	17,443
Working capital	**21,270**	19,016	14,415
Net cash generated from (used in) operating activities	**7,244**	(3,370)	6,680
Dividends declared and paid	**226**	226	-
Dividends declared prior year and paid current year	**-**	-	226
Shareholders' equity	**$ 46,557**	$ 43,264	$ 43,528

CAPITAL RESOURCES AND LIQUIDITY

Net cash generated in operating activities for 2017 was $7,244,000 (net cash used in 2016 - $3,370,000). Cash flows from financing activities amounted to a use of $2,229,000 (2016 – source of $7,566,000). Cash used in investing activities was $3,440,000 (2016 - $4,071,000).

Trade and other receivables of $16,261,000 at December 31, 2017 have increased 4.7% compared to the 2016 year-end. Higher sales contributed to this increase. Day's sales outstanding (DSO) improved over the previous year end. DSO as at December 31, 2017 calculated on net sales was 51.4 days which was down from 52.5 days calculated as at December 31, 2016. The quality of accounts receivable remains high.

The year-end investment in inventory of $34,700,000 was an increase of 5.6% from the 2016 inventory value of $32,873,000. Inventory turnover increased slightly to 2.7 from 2.62 (cost of sales divided by the twelve month average inventory level).

Trade and other payables increased by $1,805,000, or 14.7% over 2016 to $14,081,000. The majority of this increase can be attributed to our increased output levels. Approximately $836,000 of the ending payables is associated with a new piece of equipment received in December. Our total debt (long-term debt and bank indebtedness) decreased by $2,634,000 over the prior year to $22,552,000. Our debt-to-equity ratio at year-end was approximately 0.48:1 (2016 - 0.58:1).

The Company paid a dividend of $226,000 in August of 2017 (2016 - $226,000).

Property, plant, equipment and intangible asset additions in 2017 were $4,370,000 up from $4,071,000 in 2016. The Company spent $346,000 (2016 - $1,021,000) on building and leasehold improvements. $1,003,000 (2016 - $124,000) was invested toward upgrading and replacing machinery and equipment, $2,571,000 (2016 - $2,360,000) was invested toward machinery and equipment for capacity growth, $357,000 (2016 - $311,000) was invested in tooling, $1,000 (2016 - $214,000) was invested in office equipment and $92,000 (2016 – $41,000) was spent on software and development costs.

In 2015, the Group successfully applied for and was approved by the Federal Economic Development Agency for Southern Ontario for an interest free loan up to $3,462,000 on eligible spending. As at December 31, 2017, the Group had received $2,493,000 of this funding (2016 - $1,535,000).

In 2015, the Group successfully applied for and was approved by the Southwestern Ontario Development Fund for a grant up to $1,500,000 on eligible spending. As at December 31, 2017, the Group has received $724,000 of this funding (2016 - $500,000).

The grant and government funding noted above are contingent on adding new jobs and retaining existing jobs at our Guelph, Ontario locations. As at the time of this report the Group was in compliance with this requirement and did not foresee any future compliance issues although employee levels are a function of the market conditions which can be unpredictable.

The contractual obligations of the Company are detailed in the following table.

Contractual obligations *(In thousands)*	***Total***	***2018***	***2019***	***2020***	***2021***	***2022***	***Thereafter***
Long-term debt and Capital lease obligations	$ 16,836	$ 11,040	$ 856	$ 1,163	$ 1,225	$ 1,278	$ 1,274
Operating leases	8,416	2,046	1,929	1,633	617	417	1,774
Total contractual obligations	$ 25,252	$ 13,086	$ 2,785	$ 2,796	$ 1,842	$ 1,695	$ 3,048

$9,754,000 of the $12,247,000 long-term debt are demand loans and therefore are shown as due in 2018. The following table depicts the repayment obligation without the debt being called.

Contractual obligations *(In thousands)*	***Total***	***2018***	***2019***	***2020***	***2021***	***2022***	***Thereafter***
Long-term debt and Capital lease obligations	$ 16,836	$ 1,235	$ 1,107	$ 1,425	$ 1,498	$ 1,563	$ 10,008
Operating leases	8,416	2,046	1,929	1,633	617	417	1,774
Total contractual obligations	$ 25,252	$ 3,281	$ 3,036	$ 3,058	$ 2,115	$ 1,980	$ 11,782

In addition to the contractual obligations above, the Company has current obligations of $4,609,000 (2016 - $413,000) against open purchase orders for outstanding capital expenditures. $650,000 of this is reflected in accounts payable. The Company also has open purchase commitments with RITEC as at December 31, 2017 of $959,000 (2016 - $588,000). These expenditures should be completed in the first half of 2018.

SHARE CAPITAL

As of March 5, 2018, 8,556,000 Class A subordinate voting shares and 2,778,300 Class B common shares were issued and outstanding. The Company also has a management share option plan, with no options currently outstanding.

EBITDA

EBITDA for the fourth quarter of 2017 was $2,042,000 significantly improved over the $1,431,000 in the fourth quarter of 2016. Year to date 2017 EBITDA was $10,398,000 up $4,946,000 over the $5,452,000 achieved in 2016. EBITDA adjusted for foreign exchange shows similar improvement. EBITDA and adjusted EBITDA is calculate as outlined in the following table:

Reconciliation of Net Earnings to Earnings Before Interest, Taxes Depreciation and Amortization (EBITDA)*.

(In thousands of Canadian dollars)	**Years Ended:**		**Three Months Ended:**	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Net income (loss) for the period	4,560	684	818	(135)
Add				
Income tax expense	1,827	540	257	99
Depreciation and amortization	3,011	3,364	724	1,222
Finance costs	1,000	864	243	245
Subtotal	5,838	4,768	1,224	1,566
EBITDA*	10,398	5,452	2,042	1,431
Add:				
FX transactional loss (gain)	(1,286)	212	(2)	528
Adjusted EBITDA *	9,112	5,664	2,040	1,959

* EBITDA and Adjusted EBITDA are non-IFRS earnings measures, therefore they do not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA removes the impact of foreign exchange transactional so management can assess the impact of this on the operating results. Management uses these

measurements to evaluate the operating results of the Company. These measures are also important to management since they are used by the Company's lenders to evaluate the ongoing cash generating capability of the Company and therefore the amounts those lenders are willing to lend to the Company. Investors find EBITDA and Adjusted EBITDA to be useful information because they provide measures of the Company's operating performance.

ENVIRONMENTAL ISSUES

The Glen Ewing Property is a 50% co-tenancy with Hammond Power Solutions Inc. (HPSI) of a vacant property located at 2 Glen Road, Georgetown. The soil has been contaminated by diesel oil, which is believed to be related to site operations of prior owners. The Company and HPSI, as co-tenants, have been working co-operatively with our environmental consultant, the Ministry of Environment and the adjacent property owner to contain and remove any free flowing contaminants. The Company's share of expense for legal and consulting work for 2017 related to this property was $76,000 (2016 - $93,000). The Company was successful in claiming back $126,000 of prior and current year expenses from an adjacent property owner who is also involved in the environmental remediation. $70,000 was for years prior to 2016, $31,000 was for the year 2016 and $25,000 was for 2017. The net reported recovery for 2017 was $50,000 (2016 – expense of $93,000).

The parties started remediation of the site in October 2009. The Company has relied on its consultant's best estimate for the remaining environmental remediation costs. The Company's remaining portion of environmental remediation costs for this site is $170,000 (2016 - $170,000) with $70,000 (2016 - $70,000) presented as a current liability in the consolidated financial statements.

A statement of claim was issued on June 19, 2013, against the Company with respect to a property once held by the Company. The claim alleges that contaminants originating from the property once owned by the Company have migrated to a nearby, but not adjoining property owned by the claimants. The amount of the claim is not fully known but includes $2,000,000 which is the estimated cost of construction of a barrier and related expenses. At this point in time, there is no certainty that the contaminants emanated from the property once owned by the Company. Furthermore, given the nature of the claim, there remains significant uncertainty as to any costs to be incurred as a result of the claim and accordingly management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these consolidated financial statements. In 2017 the claim moved into the discovery proceedings level and we have seen corresponding legal fees in the year's expenses.

Other than the above noted sites, management is not aware of any unusual or significant environmental issues.

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the consolidated financial statements, it is necessary for management to make some estimates and judgments that affect reported amounts in the consolidated financial statements and related disclosure of contingencies. Management determines these estimates using historical experience, assumptions and rationale that are believed to be reasonable in the circumstances. The Company evaluates these on an ongoing basis in order to form the judgment for the carrying value of certain assets and liabilities.

Specifically, the Company has assessed the property valuations related to the sites noted under "Environmental Issues" in this MD&A and in the notes to the consolidated financial statements (note 8).

Based on this analysis, it is management's judgment that the reported carrying values of these properties are reasonable.

The value of goodwill related to the Company's UK operations was reviewed by management and tested for impairment in accordance with the guidelines set out in International Accounting Standard 36. Based on this analysis, it is management's judgment that the reported carrying value for goodwill is not impaired.

The environmental provision has been established based on an analysis of cost estimates related to expected activities required for active remediation for Glen Ewing Property. It is management's judgment that the reported carrying value for this provision, based on discounted cash flows over three years, is a reasonable estimate of the Company's share of these costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

Employee future health benefits have been estimated based on eligible employees and management's best estimates of the utilization of these benefits on a specific employee basis. It is management's judgment that the reported carrying value for this provision, based on discounted cash flows, is a reasonable estimate of the Company's costs given information available at this time, but acknowledges that this estimate is subject to future uncertainties.

Inventory valuation includes provisions for slow moving inventory using management's judgments based on inactivity of the specific parts. Management also reviews inventory values compared to anticipated sales values and provides a provision for lower of cost or market.

Although these estimates, which form the basis for carrying values of reported assets, liabilities, revenues and expenses, are based on reasonable assumptions, it should be noted that actual results may differ from these estimates.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

(i) financial statements prepared for external purposes are in accordance with the Company's Generally Accepted Accounting Principles,

(ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,

(iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and

(iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

Internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to

the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Evaluation of Disclosure Controls and Procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of the Company's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed as at the December 31, 2017 year end.

Evaluation of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of the Company's CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the annual financial statements or interim financial statements. The CEO and CFO did not identify any material weaknesses in their evaluation of internal control, and concluded that the Company's internal control over financial reporting was effective, as at December 31, 2017.

There has been no change to internal controls in the most recent quarter ended on December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

As with most businesses, the Company is subject to a number of marketplaces, industry and economic related business risks, which could have some material, impact on our operating results.

These risks include:

- Security Breaches or Disruptions of Information Technology Systems Risk;
- Key personnel;

- The cyclical effects, unpredictability and volatility of market driven commodity costs, raw materials such as copper and steel pricing and supply and demand;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the US dollar;
- Rising interest rates;
- Economic slowdown in the US and Canada;
- Brexit;
- Trade restrictions;
- Labour costs and labour relations;
- Competition; and
- Global political unrest.

The Company continuously works to minimize the negative impact of these risks and strengthen its position through diversification of its core business, market channel expansion, geographic diversity of its operations and business hedging strategies. There are, however, several risks that deserve particular attention.

Security Breaches or Disruptions of Information Technology Systems Risk

The Corporation utilizes a variety of information technology systems to manage and operate its businesses. These information systems may be owned and maintained by the Corporation, outsource providers or third parties such as customers, vendors and contractors. These information systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines and networking equipment. Despite the implementation of extensive security measures (including access controls, data encryption, vulnerability assessments, continuous monitoring, and maintenance of back-up and protective systems), the Corporation's information technology systems are potentially vulnerable to interruptions or delays, unauthorized access, computer viruses, cyber-attack and other events, ranging from individual attempts to advanced persistent threats. It is possible a security breach could result in theft of trade secrets or other intellectual property or disclosure of confidential customer, supplier or employee information. Should the Corporation be unable to prevent security breaches, disruptions could have an adverse effect on the Corporation's operations and financial results, as well as expose the Corporation to litigation, increased cyber security protection costs, and reputational damage.

Key Personnel

The Company is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If the Company were to experience a substantial turnover in its leadership or other key employees, business results from operations and financial condition could be materially adversely affected.

Commodity Prices

An area that has had a definite effect 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 market. Due to this unpredictability and volatility, particularly with copper pricing, the Company does not currently

utilize future contracts. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. A significant portion of our sales is denominated in US dollars. A change in the value of the Canadian dollar against the US dollar will impact revenues and earnings. We have created a bit of a natural hedge as this is partially offset by a corresponding change in the cost of materials purchased from the US and commodities tied to US dollar pricing. In general, a lower value for the Canadian dollar compared to the US dollar will have a beneficial impact on the Company's results; or, inversely, a higher value for the Canadian dollar compared to the US dollar will have a negative impact on the Company's profitability. In a sensitivity review, if we did not react in any way to a one cent change in the value of the Canadian to US dollar value it would have an approximate impact of $500,000 for each cent movement. The Company also has a US operating subsidiary and US dollar assets. The exchange rate between the Canadian and US dollar can vary significantly from year to year. There is a corresponding positive or negative impact to the Company's Consolidated Statements of Comprehensive Income solely related to the foreign exchange translation of its Consolidated Statements of Financial Position. We have partially reduced the impact of foreign exchange fluctuations through increasing our US dollar driven manufacturing output. Finally, the Company periodically institutes price increases / reductions to help offset the negative / positive impact of changes in foreign exchange and product cost increases / decreases. The Company is also exposed to the impact from the British pound sterling and Euro as well as to the Australian dollar but not to the level of exposure of the US dollar.

Interest Rates

Bank indebtedness makes up close to 25.3% of the Company debt financing. The rates for this financing are low but variable. The Company is cognizant that a rise in interest rates will negatively impact the financial results of the Company. The Company continuously reviews this strategy of hedging this risk by fixing interest rates on part of its total debt.

North American Economy

Over the past several years the US dollar compared to the Canadian dollar has ranged from the low 1.20's to the high 1.30's Canadian dollar to US dollar ratio. A strengthening US market place has contributed to the strengthening US dollar. Since our costs are highly Canadian dollar based, this is providing an opportunity to price aggressively in the US market place and increase our market activity. Current outlook sees the US dollar remaining strong. We will continue to react to the market conditions to grow our business. Our efforts over the next 12 months will be on projects that will reduce our costs and improve our manufacturing flexibility. We believe that being nimble as an organization will become even more important in order to respond quickly to both unexpected opportunities as well as challenges. We also believe that our growing access to a variety of markets both global and domestic through our OEM and distributor channels will help the Company expand market share. We are closely watching the North American Free Trade (NAFTA) negotiations and will react accordingly as the situation unfolds.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK FACTORS FOR 2018

Our current market expectation is to see stable growth in all our market places. The strong US dollar is providing us the opportunity to competitively price our products and stimulate market share growth. We will continue to monitor the NAFTA trade discussions and react accordingly. The Company continues with the objective of sales growth and increased market share but will weigh this against achieving acceptable margins.

Capital spending will continue to be focused on high impact projects as accommodated by cash flows.

Our primary focus continues to be on productivity and margin improvement.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements are the responsibility of the management of Hammond Manufacturing Company Limited. These statements have been prepared in accordance with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and other financial information contained in the report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgment and have been properly reflected in the accompanying consolidated financial statements.

Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of three non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board of Directors.

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

R.F. Hammond	A. Stirling
Chairman & CEO	Secretary & CFO

Guelph, Ontario

March 5, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hammond Manufacturing Company Limited

We have audited the accompanying consolidated financial statements of Hammond Manufacturing Company Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hammond Manufacturing Company Limited as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 5, 2018
Waterloo, Canada

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

As at December 31,	Note	2017	2016
Assets			
Current assets:			
Cash		$ 1,051	$ 614
Trade and other receivables	4	16,261	15,536
Income taxes receivable		-	460
Inventories	5	34,700	32,873
Prepaid expenses		1,181	1,131
Total current assets		53,193	50,614
Non-current assets:			
Property, plant and equipment	6	30,629	29,538
Intangible assets and goodwill	7	269	323
Investment property	8	1,044	1,044
Equity investment	9	754	638
Total non-current assets		32,696	31,543
Total assets		**$ 85,889**	**$ 82,157**
Liabilities			
Current liabilities:			
Bank indebtedness	10	$ 5,716	$ 7,343
Trade and other payables	11	14,081	12,276
Income taxes payable		918	-
Current portion of provisions	12	115	125
Current portion of employee future benefits	13	53	67
Current portion of long-term debt	10	11,040	11,787
Total current liabilities		31,923	31,598
Non-current liabilities:			
Employee future benefits	13	237	241
Long-term debt	10	5,796	6,056
Provisions	12	100	100
Deferred tax liabilities	14	1,276	898
Total non-current liabilities		7,409	7,295
Total liabilities		**39,332**	**38,893**
Equity:			
Share capital	15	10,249	10,249
Contributed surplus		290	290
Accumulated other comprehensive income		1,875	2,916
Retained earnings		34,143	29,809
Total equity		46,557	43,264
Commitments	16 &17		
Contingency	18		
Total liabilities and equity		**$ 85,889**	**$ 82,157**

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Comprehensive Income (Loss)

(in thousands of Canadian dollars, except earnings per share)

For The Years Ended December 31,	Note	2017	2016
Net product sales		$ 127,406	$ 115,724
Cost of sales		89,400	82,914
Gross profit		38,006	32,810
Selling and distribution		26,999	25,226
General and administrative		4,837	4,935
Research and development		284	299
Loss (gain) on disposal of property, plant and equipment		(87)	54
Income from operating activities		5,973	2,296
Interest expense	10	(1,000)	(864)
Foreign exchange gain (loss)		1,286	(212)
Net finance income (expense)		286	(1,076)
Share of profit of equity accounted investees	9	78	97
Share of recovery (expenses) from investment property	8	50	(93)
Income before income tax		6,387	1,224
Income tax expense	19	1,827	540
Net income for the year		**4,560**	**684**
Other comprehensive loss:			
Foreign currency translation differences for foreign operations		(1,041)	(722)
Other comprehensive loss for the year, net of income tax		(1,041)	(722)
Total comprehensive income (loss) for the year		**$ 3,519**	**$ (38)**
Earnings per share			
Basic earnings per share	20	$ 0.40	$ 0.06
Diluted earnings per share	20	$ 0.40	$ 0.06

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Changes in Equity
For the years December 31, 2017 and December 31, 2016
(in thousands of Canadian dollars)

	Attributable to equity holders of the Company				
	Share Capital	**Contributed Surplus**	**AOCI****	**Retained earnings**	**Total equity**
Balance at January 1, 2016	$ 10,249	$ 290	$ 3,638	$ 29,351	$ 43,528
Net income for the year		-	-	684	684
Other comprehensive loss:					
Foreign currency translation differences	-	-	(722)	-	(722)
Total comprehensive income (loss) for the year	-	-	(722)	684	(38)
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(226)	(226)
Balance at December 31, 2016	$ 10,249	$ 290	$ 2,916	$ 29,809	$ 43,264
Balance at January 1, 2017	$ 10,249	$ 290	$ 2,916	$ 29,809	$ 43,264
Net income for the year		-	-	4,560	4,560
Other comprehensive loss:					
Foreign currency translation differences	-	-	(1,041)	-	(1,041)
Total comprehensive income (loss) for the year	-	-	(1,041)	4,560	3,519
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(226)	(226)
Balance at December 31, 2017	$ 10,249	$ 290	$ 1,875	$ 34,143	$ 46,557

** Accumulated other comprehensive income (loss)

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

For the Years Ended December 31,	**2017**	**2016**
Cash flows from operating activities		
Net income for the year	$ 4,560	$ 684
Adjustments for:		
Depreciation of property, plant and equipment	2,955	3,286
Amortization of intangible assets	56	78
Interest expense	1,000	864
Income tax expense	1,827	540
Loss (gain) on disposal of property, plant and equipment	(87)	54
Provisions and employee future benefits	-	(12)
Equity investments	(116)	(89)
	10,195	5,405
Change in non-cash working capital:		
Inventories	(1,899)	(2,887)
Trade and other receivables	(1,068)	305
Prepaid expenses	(54)	19
Trade and other payables	1,057	(4,725)
Cash generated from (used) in operating activities	8,231	(1,883)
Interest paid	(915)	(864)
Income tax paid	(72)	(623)
Net cash generated from (used in) operating activities	**7,244**	**(3,370)**
Cash flows from financing activities		
Bank indebtedness	(1,635)	(4,894)
Payment of long-term debt	(1,326)	(850)
Advances of long-term debt	958	13,536
Payment of dividends	(226)	(226)
Net cash generated (used) from financing activities	(2,229)	7,566
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	94	-
Acquisition of of property, plant and equipment	(3,534)	(4,030)
Intangible asset additions	-	(41)
Net cash used in investing activities	(3,440)	(4,071)
Net increase in cash	**1,575**	**125**
Cash at beginning of year	614	263
Foreign exchange gain (loss) on cash and cash equivalents in a foreign currency	(1,138)	226
Cash at end of year	$ 1,051	$ 614

The notes on pages 25 to 61 are an integral part of these consolidated financial statements.

1) Reporting entity:

Hammond Manufacturing Company Limited ("HMCL" or the "Company") is a public company traded on the Toronto Stock Exchange under the symbol "HMM.A" and is incorporated under the Ontario Business Corporations Act. The address of the Company's registered office is 394 Edinburgh Road North, Guelph, Ontario. The consolidated financial statements of the Company as at and for the year ended December 31, 2017 include the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled entities. The Group primarily is involved in the design, manufacture and sale of electrical and electronic components. Facilities are located in Canada, the US, the UK, Taiwan and Australia, with agents and distributors located worldwide. The Company also maintains a 40% ownership share of RITEC Enclosures Inc. (RITEC) located in Taiwan. RITEC produces plastic and die cast enclosures for sale through the Company's sales network and its own existing market channels.

2) Basis of preparation:

a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Board of Directors approved these consolidated financial statements on March 5, 2018.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars. The functional currency of the Group's entities is the currency of their primary economic environment. In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar, being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the months during which the transactions occurred. Foreign currency translation differences are recognized in other comprehensive income which is included in accumulated other comprehensive income. The functional currency of the Company's subsidiary operations located in the US, UK, Taiwan and Australia are the US dollar, the British pound sterling, Taiwan dollar and the Australian dollar respectively. The functional currency of the Company's Canadian operations is the Canadian dollar.

d) Use of estimates:

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these

estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management periodically reviews its estimates and underlying assumptions relating to the following items:

i) Amortization

Management makes estimates of the appropriate useful lives to be assigned to intangible assets based on the individual circumstances of an acquisition. Management reviews the appropriateness of the lives assigned and makes adjustments prospectively, where necessary.

ii) Impairment tests

Management makes estimates of sustainable earnings, future expected cash flows and discount rates in the determination of the value-in-use or fair value less costs of disposal of cash-generating units (“CGUs”).

iii) Provision against accounts receivable

Management makes estimates on the recoverability of accounts receivable balances based on specific facts and circumstances as well as past experience of write-offs. Changes in the economic conditions in which the Company’s customers operate and their underlying financial stability may impact these estimates.

iv) Employee future benefits

Management estimates the discount rates, retirement age and future costs of benefits associated with providing future employee benefits and exercises judgment to determine how many employees will utilize these benefits.

v) Tax assets

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

vi) Depreciation

Management estimates future residual values and the rate at which the useful lives of property and equipment are consumed to determine appropriate depreciation charges. Estimates of residual value and useful lives are based on data and information from various sources, including vendors, industry practice and Company-specific history. Management reviews the appropriateness of the lives assigned and makes adjustments prospectively, where necessary.

vii) Stock options

Management makes estimates with respect to risk-free rates of return, expected volatility, expected dividends, expected life of options, expected forfeitures and future market conditions to calculate the fair value of stock options.

viii) Property value

Management estimates the value of the investment property to assess if impairment has occurred. The estimate is made by reviewing local land prices and current sales of similar properties as well as property tax value assessment.

ix) Environmental remediation:

Management estimates the value to complete the remediation project on the Glen Ewing Property each year by reviewing the project status and activities still to be completed. Any changes to the project scope are updated in the cost estimation model and any change in the required reserve is booked in the current year.

x) Sales returns:

Management estimates the value of product that will be returned based on a historical analysis. Any change to the estimate is recorded as a reduction of revenue in the current period.

e) Use of judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies and the interpretation of accounting standards. Management periodically reviews its judgments and underlying assumptions relating to the following items:

i) Provision for claims

Judgment is exercised in deciding whether a liability for a claim meets the criteria of a present obligation and in assessing the probability of the outflow of economic resources.

ii) Lease classification

The Company enters into leases for premises and operating equipment that may be classified as operating or finance leases. Management exercises judgment to determine whether substantially all the risks and rewards incidental to ownership have been transferred to the Company.

iii) Impairment tests

Management exercises judgment to determine whether there are factors that would indicate that an asset or a CGU is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Company's operations.

iv) Intangible assets

Management exercises judgment to determine whether identifiable intangible assets were acquired in a business combination, separate from goodwill and whether they will provide future economic benefits to the Company.

3) Summary of significant accounting policies:

Except for the changes explained in “new standards and interpretations adopted” below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. These accounting policies have been consistently applied by all Group entities.

a) Basis of consolidation:

The consolidated financial statements include the accounts of Hammond Manufacturing Company Limited, its wholly owned subsidiaries, Hammond Manufacturing Company Inc., Hammond Electronics Limited, Hammond Electronics Pty Limited., Les Fabrications Hammond (Quebec) Inc., Hammond Electronics Asia Limited and its proportionate share of the Glen Ewing Property, an unincorporated co-tenancy (50%). All significant intercompany balances and transactions have been eliminated on consolidation. The consolidated financial statements include the investment in RITEC, which is accounted for using the equity method.

b) Revenue recognition:

The Company recognizes revenue on product sales and services at the time the products are shipped or services rendered to customers, when the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. A provision for sales returns is recognized when the underlying products or services are sold. The provision is based on historical returns data and a weighting of all possible outcomes against their associated probabilities.

c) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and net realizable value, and include expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When circumstances that previously gave rise to an inventory write down no longer exist, the previous impairment is reversed.

d) Investment property:

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

e) Property, plant and equipment:

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

borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Depreciation is provided on components that have homogenous useful lives by using the straight-line method or unit of production method so as to depreciate the initial cost down to the residual value over the estimated useful lives.

The depreciation rates based on the estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	2.5% - 5%
Office equipment	10% - 25%
Machinery and equipment	10% - 25%
Tooling general use	10% - 25%
Tooling specific part	Based on anticipated life output

Machinery and equipment under capital lease is initially recorded at the present value of minimum lease payments at the inception of the lease and amortized over the shorter of the lease term and their useful lives.

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

f) Intangible assets other than goodwill:

Intangible assets have been externally acquired. Intangible assets are stated at cost less accumulated amortization. Intangible assets with a finite life are amortized using the straight-line method at rates calculated to amortize the cost of these assets over their estimated useful lives.

The amortization rates based on the estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Computer software	20%
Development costs	20%

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

g) Investments measured using equity method:

The Company uses the equity method as a basis of accounting for investments in companies over which it exercises significant influence or joint control. Under the equity method, the Company records these investments initially at cost and the carrying values are adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investees,

computed by the consolidation method. The adjustments are included in the determination of net income by the Company, and the investment accounts of the Company are also increased or decreased to reflect the Company's share of capital transactions (including amounts recognized in other comprehensive income). Profit distributions received from investees reduce the carrying values of the investments. Unrealized intercompany gains or losses are eliminated.

The Company's determination of significant influence is based on consideration of voting interest in the investees along with other indicators such as representation on the board of directors, participation in policy-making processes, material intercompany transactions, interchange of managerial personnel or provision of technical information. The Company uses the equity method to account for its 40% interest in RITEC.

h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Goodwill:

Acquisitions on or after January 1, 2010, are accounted for using the acquisition method required by IFRS 3. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired less liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's CGUs that are expected to benefit from the synergies of the business combination. As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amounts recognized under previous Canadian GAAP.

Goodwill is tested for impairment at least annually and upon the occurrence of an indication of impairment.

j) Provisions:

Provisions may include liabilities of uncertain timing or amounts that arise from environmental, litigation, commercial or other risks. Provisions are recognized when a legal or constructive obligation exists stemming from a past event and when the future cash outflows can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Environmental provisions consider the present value of the anticipated clean-up costs.

k) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

l) Financial instruments:

The Company aggregates its financial instruments into classes based on their nature and characteristics. The Group has classified its financial instruments as follows:

- Cash and trade and other receivables are classified as loans and receivables
- Bank indebtedness, trade and other payables and long-term debt are classified as other liabilities.

m) Financial assets and financial liabilities:

All financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, unless the transaction costs relate to financial instruments classified as fair value through profit and loss, in which case they are expensed immediately. Subsequent measurement is determined based on initial classification.

The Group uses trade date accounting for regular-way purchases and sales of financial assets.

i) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash and trade and other receivables. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less appropriate allowances for doubtful receivables. Allowance for doubtful accounts represent the Group's estimate of losses that could arise from the failure or inability of customers to make payments when due. Loans and receivables are further classified as current and non-current depending whether these will be realized within twelve months after the balance sheet date or beyond.

ii) Other liabilities:

This category includes bank indebtedness, trade and other payables and long-term debt. Subsequent to initial measurement, other liabilities are carried at amortized cost using the effective interest rate method.

n) Impairment:

i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii) Non-financial assets:

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate. Usually, the cash flows correspond to estimates made by Group management in financial and strategic business plans covering a period of five years. They are then projected beyond five years using a steady or declining growth rate given that the Group businesses are of a long-term

nature. The discount rate used approximates the Company's weighted average cost of capital. The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates exclude inflation. An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual impairment test at December 31, 2017 and December 31, 2016, and concluded there was no impairment.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

o) Employee Benefits:

i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

ii) Other long-term employee benefits:

The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

iii) Termination benefits:

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits

as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

iv) Short-term employee benefits:

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

v) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes. Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

p) Segment reporting:

The continuing operations of the Company are in one operating segment, electrical and electronic components.

q) Finance costs:

Finance costs consist of interest on borrowings and finance leases.

r) Government Grants:

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants in respect of capital expenditures are credited to the carrying amount of the related asset and are released to income over the expected useful lives of the relevant assets. Government grants which are not associated with an asset are credited to income so as to net them against the expense to which they relate.

s) New standards and interpretations adopted:

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Group.

Statement of Cash flows (Amendments to IAS 7)

Amendments to IAS 7 - *Statement of Cash Flows*, require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities; including both changes arising from cash flows and non-cash flows. The required disclosures have been included in note 10 herein.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

In January 2016, the IASB issued Amendments to IAS 12, *Income Taxes* to clarify the deferred tax treatment for debt instruments and the determination of 'future taxable profit' for the recognition of deferred tax assets.

The amendments clarify that the existence of a deductible temporary difference on debt instruments measured at fair value are dependent solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The methodology to determine the future taxable profits has been clarified to state that the future taxable profit, for the purpose of the recognition of deferred tax asset, is not the bottom line of the tax return, but is rather the bottom line of the tax return adjusted for the reversing taxable temporary differences and deductible temporary differences to avoid double counting. Consequently, taxable profit used for assessing the utilization of deductible temporary differences is different from taxable profit on which income taxes are payable.

The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments shall be applied retrospectively. The Group has adopted the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The amendments did not have a material impact on the consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

In December 2016, as part of its process to make non-urgent but necessary amendments to IFRS, the IASB issued narrow-scope amendments IFRS 12 *Disclosure of Interest in Other Entities*.

The amendments to IFRS 12 clarify that:

- the disclosure requirements for interests in other entities also apply to interests that are classified (or included in a disposal group that is classified) as held for sale, held for distribution or discontinued operations.

The Group adopted this amendment in its consolidated financial statements for the annual period beginning on January 1, 2017. The amendment did not have a material impact on the consolidated financial statements.

t) New standards and interpretations not yet adopted:

The IASB has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective and while considered relevant to the Group have not yet been adopted by the Group.

Classification and Measurement of Share-Based Payment Transactions (Amendment to IFRS 2):

In June 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, 2018. 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 beginning on January 1, 2018. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

IFRS 15 Revenue from contracts with customers

In May 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*. 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. 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 this standard has yet to be determined.

IFRS 9 Financial instruments

In July 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 Group intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of this standard has yet to be determined.

IFRS 16 Leases

In January 2016 the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *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 extent of the impact of adoption of this standard has yet to be determined.

IAS 40 Transfer of Investment Property

In December 2016, the IASB issued Amendments to IAS 40, *Transfers of Investment Property.*

The amendments clarify that:

- an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; and
- the list of circumstances of when a change in use has occurred is non-exhaustive.

The amendments apply for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The amendments provide transitional provisions which allow an entity to apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall also reassess the classification of property held at that date and, if applicable, reclassify property to reflect conditions that exist at that date. An entity is permitted to apply the amendments retrospectively, but only if it does not involve the use of hindsight.

The Group intends to adopt the amendments to IAS 40 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

Amendments were made to the following standards:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 *Income Taxes* – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- IAS 23 *Borrowing Costs* – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed.

The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

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

Foreign Currency Transactions – Advance Consideration

In December 2016, the IASB issued IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration* in response to diversity in practice in determining the appropriate exchange rate to use when translating assets, expenses or income, when foreign currency consideration is paid or received in advance of the item to which it relates.

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Interpretation may be applied either:

- retrospectively; or
- prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after:
  - the beginning of the reporting period in which the entity first applies the Interpretation; or
  - the beginning of a prior reporting period presented as comparative information in the financial statements.

The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Group intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the Interpretation to have a material impact on the consolidated financial statements.

IFRIC 23 *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 in which there is uncertainty over income tax treatments.

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 predictions of the resolution;
- an entity to determine if it is probable that the tax authorities will accept the 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 Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group intends to adopt the Interpretation in its consolidated 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.

4) Trade and other receivables:

	December 31, 2017	December 31, 2016
Trade receivables	$ 15,485	$ 15,024
Employee receivables	20	12
Other receivables	911	650
	16,416	15,686
Allowance for doubtful accounts	(155)	(150)
Trade and other receivables	$ 16,261	$ 15,536

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 24.

5) Inventories:

	December 31, 2017	December 31, 2016
Raw materials and work-in-process	$ 10,472	$ 9,981
Finished goods	24,228	22,892
Inventories	$ 34,700	$ 32,873
Inventories carried at fair value less cost to sell	$ 1,443	$ 1,288

In 2017, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to approximately $89,357,000 (2016 - $82,831,000). In 2017, the write-down of inventories to net realizable value amounted to approximately $43,000 (2016 - $83,000). The write-down is included in cost of sales.

6) Property, plant and equipment:

Cost

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2015	$ 19,128	$ 42,113	$ 9,715	$ 4,948	$ 75,904
Additions	$ 1,021	$ 2,484	$ 311	$ 214	$ 4,030
Disposals	-	(1,197)	-	-	(1,197)
Effect of movements in exchange rates	(19)	(122)	(269)	(51)	(461)
Balance at December 31, 2016	$ 20,130	$ 43,278	$ 9,757	$ 5,111	$ 78,276
Additions	$ 491	$ 2,957	$ 511	$ 139	$ 4,098
Disposals	(3)	(1,068)	(507)	(106)	(1,684)
Effect of movements in exchange rates	1	(98)	(73)	(5)	(175)
Balance at December 31, 2017	$ 20,619	$ 45,069	$ 9,688	$ 5,139	$ 80,515

At December 31, 2017, the amount of expenditures recognized in the carrying amount that were in the course of construction is $nil (2016 - $nil) in land and buildings, $733,292 (2016 - $111,507) in machinery and equipment, $143,039 (2016 - $56,000) in tooling and $10,941 (2016 - $nil) in office equipment.

Accumulated depreciation

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2015	$ 5,316	$ 29,686	$ 7,187	$ 4,764	$ 46,953
Depreciation for the year	$ 453	$ 2,354	$ 353	$ 126	$ 3,286
Disposals	-	(1,143)	-	-	(1,143)
Effect of movements in exchange rates	(15)	(78)	(219)	(46)	(358)
Balance at December 31, 2016	$ 5,754	$ 30,819	$ 7,321	$ 4,844	$ 48,738
Depreciation for the year	$ 525	$ 1,965	$ 353	$ 112	$ 2,955
Disposals	(2)	(1,068)	(488)	(106)	(1,664)
Effect of movements in exchange rates	1	(80)	(62)	(2)	(143)
Balance at December 31, 2017	$ 6,278	$ 31,636	$ 7,124	$ 4,848	$ 49,886

Carrying amounts

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
At December 31, 2015	$ 13,812	$ 12,427	$ 2,528	$ 184	$ 28,951
At December 31, 2016	$ 14,376	$ 12,459	$ 2,436	$ 267	$ 29,538
At December 31, 2017	$ 14,341	$ 13,433	$ 2,564	$ 291	$ 30,629

Depreciation of $2,955,000 (2016 - $3,286,000) was recorded in the consolidated statement of comprehensive income (loss) as follows: cost of sales $2,694,000 (2016 – $2,987,000), selling and distribution $183,000 (2016 – $180,000) and general and administrative $78,000 (2016 – $119,000).

7) Intangible assets and goodwill:

Cost

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2015	$ 136	$ 2,113	$ 210	$ 2,459
Additions	$ -	$ 10	$ 31	$ 41
Effect of movement in exchange rates	(26)	(2)	-	(28)
Balance at December 31, 2016	$ 110	$ 2,121	$ 241	$ 2,472
Additions	$ -	$ -	$ -	$ -
Effect of movement in exchange rates	2	(5)	-	(3)
Balance at December 31, 2017	$ 112	$ 2,116	$ 241	$ 2,469

Amortization

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2015	$ -	$ 1,938	$ 135	$ 2,073
Amortization for the year	$ -	$ 51	$ 27	$ 78
Effect of movement in exchange rates	-	(2)	-	(2)
Balance at December 31, 2016	$ -	$ 1,987	$ 162	$ 2,149
Amortization for the year	$ -	$ 28	$ 28	$ 56
Effect of movement in exchange rates	-	(5)	-	(5)
Balance at December 31, 2017	$ -	$ 2,010	$ 190	$ 2,200

Carrying amounts

	Goodwill	Computer software	Development costs	Total
At December 31, 2015	$ 136	$ 175	$ 75	$ 386
At December 31, 2016	$ 110	$ 134	$ 79	$ 323
At December 31, 2017	$ 112	$ 106	$ 51	$ 269

All the intangible assets have been externally acquired. All amortization expense have been recoded against cost of sales in the consolidated statement of comprehensive income (loss)

Impairment testing for CGUs:

The Company has defined its CGUs as each individual legal entity, due to the fact that each location is largely independent of the other entities and each is ultimately responsible for sales generated in their markets. The Company monitors the performance of each legal entity through the use of profitability analysis based on the most recent business plan in place as at December 31, 2017.

Impairment testing for CGUs containing goodwill:

The Company performed an impairment test on the goodwill of its UK entity using the value in use method, under which a five year present value cash flow projection was completed using the Hammond Electronics Limited weighted average pre-tax cost of capital of 6.0%. The cash flow model also incorporated growth rates in the range of 3% – 5% based on the market location and the facility's operating history. This was then compared to the carrying value of the facility's assets, including goodwill, to determine if there was impairment. Effective December 31, 2017 and December 31, 2016, the assets, including goodwill of $113,000 (2016 - $110,000), of the Company's wholly owned subsidiary, Hammond Electronics Limited, were tested and no impairment was found.

8) Investment property:

The Group has a 50% ownership of a property in Georgetown, Ontario (referred to as the Glen Ewing Property). It is a vacant plot of land and currently under environmental remediation. The property value represents the actual historical cost of the property. Management has reviewed the property and local market conditions as well as the environmental condition of the property in estimating the property's fair value. Management estimates its interest in the property's fair market value to be approximately $1,250,000. This estimate is unchanged from December 31, 2016. No independent valuation has been performed. The property is currently vacant and no income is being derived from it. The Company's direct operating recovery in 2017 related to the property was $50,000 (2016 - expense of $93,000).

9) Equity investment:

RITEC Enclosures Inc.	
	Total
December 31, 2015	$ 549
Equity in 2016 earnings	89
December 31, 2016	$ 638
Equity in 2017 earnings	116
December 31, 2017	$ 754

Since 2008, the Company has had 40% ownership of RITEC. All dividends paid since taking the 40% holding in 2008 have been reinvested in RITEC.

RITEC Enclosures Inc.

For the years ended December 31,	2017	2016
Share of profit	$ 43	$ 100
Foreign exchange gain (loss)	80	(3)
Income tax expense	(7)	(8)
Equity investment earnings	$ 116	$ 89
Share of profit	$ 43	$ 100
Profit in inventory movement	35	(3)
Share of profit of equity accounted investees	$ 78	$ 97

RITEC Enclosures Inc.

	December 31, 2017	December 31, 2016
Assets	$ 2,931	$ 2,645
Liabilities	1,617	1,361
Revenues	3,457	4,124
Profit (after tax)	290	223

10) Loans and borrowings:

Bank indebtedness:

Bank indebtedness is due on demand and secured by inventories, a general assignment of trade receivables and a charge on specific assets of the Company. The Company has established operating lines for the entities in Canada, the US and the UK. The following chart depicts the amount utilized in each of the entities' lines of credit.

		December 31, 2017		December 31, 2016	
		Local currency	CAD	Local currency	CAD
Canadian entities	CAD	$ 5,351	$ 5,351	$ 7,076	$ 7,076
UK entity	GBP	£ 215	365	£ 161	267
Bank indebtedness			$ 5,716		$ 7,343

Interest is payable at the rate of bank prime plus 50 basis points (2016 - bank prime plus 50 basis points).

Long-term debt:

	December 31, 2017	December 31, 2016
Demand term loan drawn in USD funds at a fixed interest rate of 6.05% through December 2018, secured by the assets of HMCL. Monthly principal installments of $15 USD.	$ 230	$ 491
Demand term loan amortized over 25 years drawn in USD funds at a fixed interest rate of 5.30% through March 2026, secured by the assets of HMCL. Monthly blended installments of $9 USD.	1,845	2,014
Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 5.20% through March 2026, secured by the assets of HMCL. Monthly blended installments of $9 CAD.	1,470	1,500
Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 4.1% through December 2023, secured by the assets of HMCL. Monthly blended installments of $37 CAD.	6,728	6,890
Interest free term loan of $385 CAD made in 2015, $1,150 CAD in 2016 and $958 CAD in 2017 through the Federal Economic Development Agency for Southern Ontario. Repayment will be over 60 equal monthly installments starting January 1, 2020. Value represents the present value of the stream of payments to repay utilizing a 5.2% discount factor.	1,975	1,155
Subtotal	12,248	12,050
Finance lease obligations:		
Secured by equipment, drawn in GBP sterling at interest rate 8.8%. Monthly installments of £1 GBP until April 2019.	31	51
Secured by equipment, drawn in GBP sterling at interest rate 4.85%. Monthly installments of £1.46 GBP until October 2020.	79	101
Secured by equipment, drawn in USD funds at interest rate of 4.97%. Monthly installments of $7 USD until April 2019 with a lump sum payment at that time of $114 USD.	267	380
Secured by equipment, drawn in USD funds at interest rate of 3.75%. Monthly installments of $57 USD until May 2023.	4,193	5,236
Secured by equipment, drawn in USD funds at interest rate of 3.5%. Monthly installments of $0.42 USD until December 2020.	18	25
Subtotal	4,588	5,793
Total long-term debt	$ 16,836	$ 17,843
Less current portion of long-term debt	11,040	11,787
Non-current long-term debt	$ 5,796	$ 6,056

The aggregate amount of principal payments required to meet the existing long-term debt obligations in each of the next five years is as follows:

2018	$	11,040
2019		856
2020		1,163
2021		1,225
2022		1,278
Thereafter		1,274
	$	16,836

The following reflects the aggregate amount of principal payments required to meet the existing long-term debt obligations in each of the next five years is if the loans are not placed on demand:

2018	$	1,235
2019		1,107
2020		1,425
2021		1,498
2022		1,563
Thereafter		10,008
	$	16,836

Interest expense is comprised as follows:

	December 31, 2017	December 31, 2016
Long-term debt, including capital leases	$ 670	$ 444
Bank indebtedness	330	420
Interest expense	$ 1,000	$ 864

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

	Long-term debt	Bank indebtedness
Balance at January 1, 2017	$ 17,843	$ 7,343
Changes from financing cash flows		
Proceeds from loans and borrowings	958	-
Repayment of borrowings	(1,326)	(1,635)
Total changes from financing cash flows	(368)	(1,635)
Liability related		
Interest expense	670	330
Interest paid	(585)	(330)
Impact of interest free term loan	(223)	-
Total liability-related other changes	(138)	-
Foreign exchange impact	(501)	8
Balance at December 31, 2017	$ 16,836	$ 5,716

11) Trade and other payables:

	December 31, 2017	December 31, 2016
Trade payables	$ 4,911	$ 5,116
Non-trade payables and accrued expenses	9,170	7,160
	$ 14,081	$ 12,276

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

12) Provisions:

	Environmental remediation	Sales returns	Total
Balance at December 31, 2015	$ 170	$ 55	$ 225
Provisions made during the year	93	55	148
Provisions used during the year	(93)	(55)	(148)
Balance at December 31, 2016	$ 170	$ 55	$ 225
Provisions made during the year	-	39	39
Provisions used during the year	-	(49)	(49)
Balance at December 31, 2017	$ 170	$ 45	$ 215
Non-current	100	-	100
Current	70	45	115
Balance at December 31, 2017	$ 170	$ 45	$ 215

The provision for environmental remediation is based on the estimated costs to setup and extract contamination from the Glen Ewing Property. The anticipated costs are based on an external consultant's remediation plan, discounted for expected timing of expenditures. There are approximately three years remaining in the clean-up plan. The Glen Ewing Property is owned equally as a co-tenant with Hammond Power Solutions Incorporated and any expenses or liabilities in respect of the property have been agreed to be shared equally. The contamination did not result from the normal operations of the Company. The parties have cooperatively developed a remediation action plan and began remediation in October 2009. The Ministry of Environment is aware of the remediation and the process being used. New extraction wells scheduled for 2015 were deferred for three years which in turn has pushed the remediation plan out three years. The Company is satisfied that their consultants have provided the best estimate available for the Company's remaining portion of the environmental remediation costs for this site of $170,000 (2016 - $170,000) with $70,000 (2016 - $70,000) presented as a current provision.

The provision for sales returns is based on estimates from historical returns of product. The provision reflects the estimated profit margin of the anticipated returns.

13) Employee future benefits:

The Company's net obligation in respect of its current and long-term employee benefits is calculated by estimating the amount of future benefit that employees have earned in return for their service in

the current and prior periods. The terms of the agreements do not require the Company to fund these obligations as they accumulate. The Company has accounted for these post-employment benefits as defined benefit plans. The benefit plans are broken into two categories:

a) Benefit for post-employment health benefits:

   If an employee meets the set criteria and retires between the age of 60 and 65, their health plan will continue until age 65. This program was closed in 2014 and the obligation reflects the anticipated cost for those employees who exercised this option prior to closing.

b) Disability health coverage:

   This benefit is for employees who are off work due to a covered disability. Health coverage will continue until they are off disability or reach the age of 65, whichever occurs first.

In determining both the post-employment health benefit and the disability health coverage liabilities a 3.5% (2016 – 3.5%) per annum health cost increase and a discount rate of 6.0% (2016 – 6.0%) were utilized to determine its present value.

Assumed healthcare cost trend rates affect the amounts recognized in profit and loss. A 1% change in assumed healthcare cost trend rates would increase (decrease) the aggregate service and interest costs by $20,000 (2016 - $21,000). Changes in assumptions resulted in nominal gains/losses which have been included in general and administrative expense.

	December 31, 2017	December 31, 2016
Post employment health benefits	$ 20	$ 27
Employee health benefits while on disability	270	281
Total employee future benefits	$ 290	$ 308

	Post employment health benefits	Employee health benefits while on disability	Total
Balance at December 31, 2015	$ 40	$ 280	$ 320
Provisions made during the year	2	69	71
Provisions used during the year	(15)	(68)	(83)
Balance at December 31, 2016	$ 27	$ 281	$ 308
Provisions made during the year	-	46	46
Provisions used during the year	(7)	(57)	(64)
Balance at December 31, 2017	$ 20	$ 270	$ 290
Non-current	12	225	237
Current	8	45	53
Balance at December 31, 2017	$ 20	$ 270	$ 290

14) Deferred tax assets and liabilities:

Unrecognized deferred tax liabilities:

At December 31, 2017, temporary differences of $16,598,000 (2016 - $16,016,000) related to investments in subsidiaries were not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Recognized deferred tax liabilities:

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2017	December 31, 2016
Deferred tax assets		
Intangible assets	$ 25	$ 27
Investment property	8	8
Inventories	426	505
Loans and borrowings	1,104	1,410
Provisions	96	105
Total deferred tax assets	1,659	2,055
Deferred tax liabilities		
Property, plant and equipment	(2,935)	(2,953)
Total deferred tax liabilities	(2,935)	(2,953)
Net tax liabilities	$ (1,276)	$ (898)

15) Share capital:

a) Authorized:

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

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

Unlimited number of Class YA non-voting, no par value, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YA shares unless the same dividend is simultaneously declared and paid on the Class YB shares.

Unlimited number of Class YB non-voting, no par value, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YB shares unless the same dividend is simultaneously declared and paid on the Class YA shares.

b) Issued:

	December 31, 2017		December 31, 2016	
8,556,000 Class A shares (2016 - 8,556,000)	$	10,242	$	10,242
2,778,300 Class B shares (2016 - 2,778,300)		7		7
	$	10,249	$	10,249

No shares were issued in 2017 or in 2016.

c) Dividends:

The following dividends were declared and paid by the Company:

Special cash dividends of $0.02 Class A subordinate voting share were declared in 2017 (2016 – $0.02) and special cash dividends of $0.02 Class B common share were declared in 2017 (2016 – $0.02).

Special cash dividends of $0.02 per Class A subordinate voting share (2016 - $0.02) and special cash dividends of $0.02 per Class B common share (2016 - $0.02) were paid in 2017.

Total dividends declared were $226,000 (2016 - $226,000). Total dividends paid were $226,000 (2016 - $226,000).

16) Operating leases:

The Company is committed to payments under operating leases for equipment and buildings. The future minimum non-cancellable operating lease rentals are payable as follows:

	December 31, 2017	December 31, 2016
Less than 1 year	$ 2,046	$ 1,971
Between 1 and 5 years	4,597	5,185
Thereafter	1,773	2,191
Total minimum payments	$ 8,416	$ 9,347

The Group leases a number of offices and warehouses and factory facilities under operating leases. The leases typically run for a period of three to five years, with an option to renew the lease after that date. The Group does have one warehouse lease that runs to 2027.

During the year ended December 31, 2017, an amount of $2,032,000 was recognized as an expense in profit or loss in respect of operating leases (2016 - $1,931,000).

The warehouse and factory leases have been renewed over several terms as combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals, and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Company determined that the leases are operating leases.

17) Commitments:

The Company has contractual obligations for outstanding capital expenditures of $4,609,000 (2016 - $413,000). These expenditures should be completed in the first half of 2018.

18) Contingency:

A statement of claim was issued on June 19, 2013, against HMCL with respect to a property once held by the Company. The claim alleges that contaminants originating from the property once owned by HMCL have migrated to a nearby, but not adjoining property owned by the claimants. The amount of the claim is not fully known but includes $2,000,000 which is the estimated cost of construction of a barrier and related expenses. At this point in time, there is no certainty that the contaminants emanated from the property once owned by HMCL. In 2017, the claim moved into the discovery proceedings level. There have been no significant developments to this claim otherwise. Given the nature of the claim, there remains significant uncertainty as to any costs to be incurred as a result of the claim and accordingly management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these consolidated financial statements.

19) Income tax expense:

	December 31, 2017	December 31, 2016
Current tax expense	$ 1,450	$ 361
Deferred tax expense:		
Origination and reversal of temporary differences	377	179
Total income tax expense	$ 1,827	$ 540

	2017	2017	2016	2016
Net income for the year		$ 4,560		$ 684
Total income tax expense		1,827		540
Income before income tax		$ 6,387		$ 1,224
Income tax using the Company's domestic tax rate	38.00%	2,427	38.00%	465
Reduced rate for active business and manufacturing and processing	(8.02%)	(512)	8.33%	102
Effect of tax rates in foreign jurisdictions	(2.27%)	(145)	(7.27%)	(89)
Reduction in tax rate	0.08%	5	0.00%	-
Non-deductible expenses	0.22%	14	3.10%	38
Other	0.59%	38	1.96%	24
	28.61%	$ 1,827	44.13%	$ 540

20) Earnings per share:

The computations for basic and diluted earnings per share are as follows:

	December 31, 2017	December 31, 2016
Net income for the year	$ 4,560	$ 684
Average number of common shares outstanding:		
Basic and Diluted	11,334,300	11,334,300
Earnings per share:		
Basic	$ 0.40	$ 0.06
Diluted	0.40	0.06

No share options to purchase common shares were outstanding as at December 31, 2017 or December 31, 2016.

21) Personnel expenses:

	2017	2016
Wages and salaries	$ 38,777	$ 37,166
Health benefit plans	4,882	4,701
Canada Pension Plan and Employment Insurance	1,808	1,841
Contributions to defined contribution plans	1,090	966
	$ 46,557	$ 44,674

	2017	2016
Cost of sales	$ 33,814	$ 32,665
Selling and distribution	9,379	9,021
General and administrative	3,183	2,787
Research and development	181	201
	$ 46,557	$ 44,674

22) Management share option plan:

As at December 31, 2017, the Company has a stock-based compensation plan, which is described below. No options were granted through December 31, 2017 or in 2016 and no stock options were outstanding as of January 1, 2016, and, accordingly, no stock-based compensation expense has been incurred in either year.

In 1986, the Company established the management share option plan providing for the granting to directors, officers and key employees of the Company options to purchase the Class A subordinate voting shares of the Company. A maximum number of 540,000 Class A subordinate voting shares are issuable under the plan. The exercise price for purchasing Class A subordinate voting shares may not be less than the market price of the Class A subordinate voting shares at the date the option is granted.

23) Determination of fair values:

The carrying values of the Group's financial assets and liabilities, consisting of cash, trade and other accounts receivables, bank indebtedness, trade and other accounts payables approximate their fair

values due to the relatively short periods to maturity of the instruments. The carrying value of term loans, and finance leases with fixed interest rates are comparable to their fair market value since the interest rates approximate market rates.

The market values of financial assets and liabilities together with the carrying amounts shown in the statements of financial position are as follows:

	December 31, 2017		December 31, 2016	
	Carrying amount	Market value	Carrying amount	Market value
Assets carried at amortized cost				
Cash	$ 1,051	$ 1,051	$ 614	$ 614
Trade and other receivables	16,261	16,261	15,536	15,536
Income taxes recievable	-	-	460	460
	$ 17,312	$ 17,312	$ 16,610	$ 16,610
Liabilities carried at amortized cost				
Bank indebtedness	$ 5,716	$ 5,716	$ 7,343	$ 7,343
Trade and other payables	14,081	14,081	12,276	12,276
Income taxes payable	1,024	1,024	-	-
Term loans	12,248	11,804	12,050	11,842
Finance lease obligations	4,588	4,434	5,793	5,712
	$ 37,657	$ 37,059	$ 37,462	$ 37,173

Interest rates used to discount estimated cash flows, when applicable, are based on bank indication rates for similar type arrangements.

Bank indication interest rates	December 31, 2017		December 31, 2016	
	From	To	From	To
Nonsecured variable interest rates	3.2%	4.2%	2.7%	3.7%
Fixed rates				
1 to 2 year secured	4.3%	5.3%	3.5%	4.5%
3 to 4 year secured	4.6%	5.6%	3.8%	4.8%
5 year secured	4.7%	5.7%	4.0%	5.0%
7 year secured	4.9%	5.9%	4.3%	5.3%
10 year secured	5.1%	6.1%	4.5%	5.5%

Rates fluctuate depending on currency and jurisdiction.

24) Financial instruments and risk management:

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- foreign currency risk
- interest rate risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework:

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. The Board is responsible for monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by the corporate finance group. The corporate finance group undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit risk exposure.

Trade and other receivables:

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a

restricted customer list and monitored by the accounts receivable department, and future sales are made on a prepayment basis.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for doubtful accounts that represents its estimate of losses that could arise from the failure or inability of customers to make payments when due. The main component of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective allowance is determined based on historical data of payment statistics for similar financial assets.

The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services. The Company sells to a variety of companies in a number of different industries and geographic areas. As a result, the requirement for an industry specific or geographic reserve is minimal.

The carrying amount of financial assets represents the maximum credit exposure which was as follows at the reporting date:

	December 31, 2017	December 31, 2016
Cash and receivables:		
Cash	$ 1,051	$ 614
Trade and other receivables	16,261	15,536
	$ 17,312	$ 16,150

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region was:

	December 31, 2017	December 31, 2016
Cash and receivables:		
Canada	$ 9,327	$ 9,294
US	6,818	5,773
UK	1,082	973
Australia	85	110
	$ 17,312	$ 16,150

The following table reflects the net details of trade receivables as at December 31, 2017 and December 31, 2016:

	December 31, 2017			December 31, 2016		
	Gross	Impairment	Carrying value	Gross	Impairment	Carrying value
Aging of trade receivables:						
1 – 30 days	$ 8,685	$ -	$ 8,685	$ 8,098	$ -	$ 8,098
31 – 60 days	5,151	-	5,151	5,394	-	5,394
61 – 90 days	1,363	-	1,363	1,225	-	1,225
Over 90 days	286	155	131	306	150	156
Trade receivables	$ 15,485	$ 155	$ 15,330	$ 15,023	$ 150	$ 14,873

The following table provides the roll forward of the allowance for doubtful accounts:

	December 31, 2017	December 31, 2016
Allowance for doubtful accounts, beginning of year	$ 150	$ 146
Accounts provided for in the period	5	6
Amounts written off during the period	-	(2)
Allowance for doubtful accounts	$ 155	$ 150
Allowance for doubtful accounts as % of net trade receivable	1.0%	1.0%

The following table provides the net details of trade and other receivables:

	December 31, 2017	December 31, 2016
Net trade receivable	$ 15,485	$ 14,873
Employee receivables	20	12
Other receivable	911	651
Trade and other receivables	$ 16,416	$ 15,536

Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group uses planning tools to identify future cash flow requirements.

The Group has established a $15,500,000 overdraft facility that is secured against inventory and accounts receivable. If drawn upon, interest would be payable at the rate of bank prime plus 50 basis points (2016 - bank prime plus 50 basis points). The Company had available unused credit facilities in the amount of $9,784,000 at December 31, 2017 (2016 - $8,154,000) to meet fluctuations in working capital requirements.

The Group has established an $11,000,000 lease line to finance new equipment purchases of which it has utilized $5,236,000 (2016 - $5,236,000).

In 2015, the Group successfully applied for and was approved by the Federal Economic Development Agency for Southern Ontario for an interest free loan up to $3,462,000 on eligible spending. As at December 31, 2017, the group had received $2,493,000 of this funding (2016 - $1,535,000). The present value of this funding $1,975,000 was set up as long term debt and $518,000 which reflects the interest savings has been offset to property, plant and equipment.

In 2015, the Group successfully applied for and was approved by the Southwestern Ontario Development Fund for a grant up to $1,500,000 on eligible spending. As at December 31, 2017, the Group had received $724,000 (2016 - $500,000) of this funding and has a receivable for an additional $476,000 based on the eligible spending to date. The $1,200,000 has been offset to property, plant and equipment.

The interest free loan and grant noted above are contingent on adding new jobs and retaining existing jobs at its Guelph, Ontario locations. As at December 31, 2017, the Group was in compliance with this requirement.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements. It is not expected that the cash flows included in the maturity analysis will occur significantly earlier or at materially different amounts.

December 31, 2017

	Carrying amount	Contractual cash flows	2018	2019	2020 to 2021	Thereafter
Non-derivative financial liabilities						
Term loans	$ 12,248	$ (12,766)	$(10,273)	$ -	$ (997)	$ (1,496)
Finance lease obligations	4,588	(5,052)	(1,034)	(1,091)	(1,769)	(1,158)
Trade and other payables	14,081	(14,081)	(14,081)	-	-	-
Bank indebtedness	5,716	(5,716)	(5,716)	-	-	-
Total	$ 36,633	$ (37,615)	$(31,104)	$ (1,091)	$ (2,766)	$ (2,654)

December 31, 2016

	Carrying amount	Contractual cash flows	2017	2018	2019 to 2020	Thereafter
Non-derivative financial liabilities						
Term loans	$ 12,050	$ (12,430)	$(10,895)	$ -	$ (307)	$ (1,228)
Finance lease obligations	5,793	(6,571)	(1,101)	(1,101)	(2,122)	(2,247)
Trade and other payables	12,276	(12,276)	(12,276)	-	-	-
Bank indebtedness	7,343	(7,343)	(7,343)	-	-	-
Total	$ 37,462	$ (38,620)	$(31,615)	$ (1,101)	$ (2,429)	$ (3,475)

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Foreign currency risk:

The Group has a substantial number of transactions denominated in US dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and US dollars. The Group holds smaller positions in other foreign currencies. The Group does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Group's operating results.

The following chart depicts the foreign currency positions.

Currency		Accounts receivable		Accounts payable		Long-term debt	
		Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016
Australia	AUD	30	41	(14)	(14)	-	-
Europe	EURO	203	155	(22)	(22)	-	-
New Zealand	NZD	52	46	-	-	-	-
Taiwan	TWD	499	166	-	-	-	-
UK	GBP	473	455	(232)	(316)	(65)	(92)
US	USD	5,281	6,658	(2,451)	(1,944)	(5,223)	(6,066)

Long-term debt includes loans and capital leases denominated in foreign currencies which may affect the amount of principal and interest payments ultimately recorded.

Sensitivity Analysis:
An average one-cent decrease of the Canadian dollar against the US dollar in 2017 would have increased net product sales by $552,000 (2016 - $489,000) and increased income from operations by $594,000 (2016 - $536,000). Inversely, a one cent increase in the Canadian dollar against the US dollar in 2017 would have had the equal but opposite effect. This analysis assumes that all other variables remain constant. As noted, the Company does deal in other currencies but the level of impact of these currencies would not be significant.

Interest rate risk:

Interest rate risk arises from the possibility that the cash flows related to a financial instrument would fluctuate as a result of changes in market interest rates. The Group is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash, bank indebtedness, and its float rate term loans. Changes in variable interest rates could cause unanticipated fluctuations in the Group's operating results.

Sensitivity Analysis:
A one percent increase in the variable rates charged on ending 2017 bank indebtedness would increase annual interest expense by $57,000 (2016 - $73,000). This analysis assumes that all other variables remain constant. Inversely, a one percent decrease in the variable rates charged on ending 2017 bank indebtedness would have had the equal but opposite effect.

Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility

is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the corporate finance group. The results of the reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Capital management:

In order to manage capital, the Group regularly identifies and assesses risks that threaten the ability to meet the Company’s capital management objectives, and determines the appropriate strategy to mitigate these risks.

The Group’s objectives when managing capital are to:

- maintain financial flexibility in order to preserve its ability to meet financial obligations
- deploy capital to provide an appropriate investment return to its shareholders
- maintain capital structure that allows multiple financing options to the Group should a financing need arise.

The Group defines its capital as follows:

- shareholders’ equity
- long-term debt, including the current portion
- cash and cash equivalents and short-term borrowings

The Group is subject to externally imposed capital requirements through the covenants of its facility arrangements with the bank. The covenants measure Debt to Total Net Worth, Debt Service Ratio and Current Ratio. The Group is in compliance with its covenants at December 31, 2017 and has been in compliance with its covenants through 2016 and 2017. There were no changes to the Group’s approach to capital management during 2017. Neither the Company, nor any of its subsidiaries, is subject to externally imposed capital requirements.

25) Segment disclosures:

The continuing operations of the Company are in one operating segment, electrical and electronic components.

The Company and its subsidiaries operate in Canada, the US, the UK and Australia.

Geographic segments		Years ended: December 31, 2017	December 31, 2016
Net product sales:			
Canada:			
	Sales to customers	$ 47,811	$ 43,743
US:			
	Sales to customers	67,737	61,165
All other countries:			
	Sales to customers	11,858	10,816
Net product sales		$ 127,406	$ 115,724
Non-current assets:			
Canada:			
	Non-current assets	$ 31,619	$ 30,314
US:			
	Non-current assets	541	627
All other countries:			
	Non-current assets	536	602
Total	Non-current assets	$ 32,696	$ 31,543

26) Related party transactions:

a) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	Years ended: December 31, 2017	December 31, 2016
Salaries and short-term employee benefits	$ 678	$ 650

b) The Company purchased $2,601,000 of product from RITEC in 2017 (2016 - $2,708,000). The Company sold $27,533 of product to RITEC in 2017 (2016 - $11,300). These transactions were made in the normal course of business and have been recorded at the exchange amounts, being the amount agreed to by the two parties.

All outstanding trade balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured. Receivables as at December 31, 2017 were $21,200 (2016 - $23,000) while payables were $nil (2016 - $277,000). Trade receivables and payables to related parties are included within trade and other receivables and trade and other payables on the Consolidated Statement of Financial Position.

c) The Chairman of the Corporation, Robert Frederick Hammond, through direct and indirect ownership of Class A and Class B voting shares effectively controls the Company.

d) Consolidated entities:

HAMMOND MANUFACTURING COMPANY LIMITED

	Country of incorporation	% Ownership interest December 31, 2017	December 31, 2016
Les Fabrications Hammond (Quebec) Inc. / Hammond Manufacturing (Quebec) Inc.	Canada	100	100
Hammond Electronics Pty Limited	Australia	100	100
Hammond Electronics Limited	UK	100	100
Subsidiary of above:			
Hammond Electronics Asia Limited	Taiwan	100	100
Hammond Manufacturing Company Inc.	US	100	100
Subsidiaries of above:			
Hammond Holdings Inc.	US	100	100
Paulding Electrical Products, Inc	US	100	100

The year end for each of the entities listed in the table above is December 31.

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CORPORATE DIRECTORY

Directors

Robert F. Hammond
Chairman and CEO

Edward Sehl *
Principal - Sehl Consulting
Director of Guelph General Hospital

Paul Quigley *
President
Quigley Group Inc.

Sheila Hammond B.A., B.Ed., M.Sc.
Registered Psychotherapist
Registered Marriage & Family Therapist
Officer & Director, Eramosa Group Ltd.

Michael Fricker *
CFO at Bento Inc.

William Wiener *
CEO of Viscor Inc.
CEO of 35 Oak Holdings Ltd.

Sarah Hansen
Operations Manager of Emco Corporation in Calgary
Director of Eramosa Group Ltd.
Director of DKH Engineering Services Inc.
Director of Canadian Institute of Plumbing and Heating, Calgary Chapter

Officers/Senior Management

Robert F. Hammond
Chairman and CEO

Alexander Stirling
Secretary & CFO

Ray Shatzel
Vice-President, Electronic Sales

Ross N. Hammond
Assistant Secretary

*Members of the Audit Committee and Compensation Committee

Auditors
KPMG LLP
RSM, UK
ASF Audits, Australia

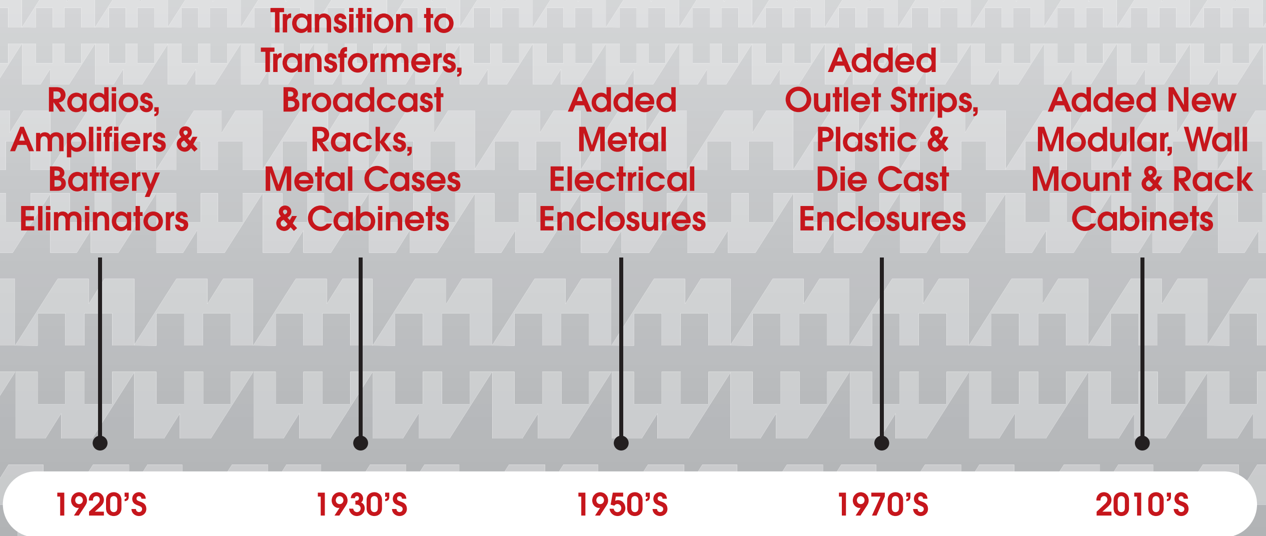
Legal Counsel
Borden Ladner Gervais

Stock Listing
Toronto Stock Exchange
Symbol: HMM.A

Bankers
HSBC

Transfer Agent and Registrar
Computershare Investor Services Inc.

Over 95 Years of providing Quality Products & Service Excellence.



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