

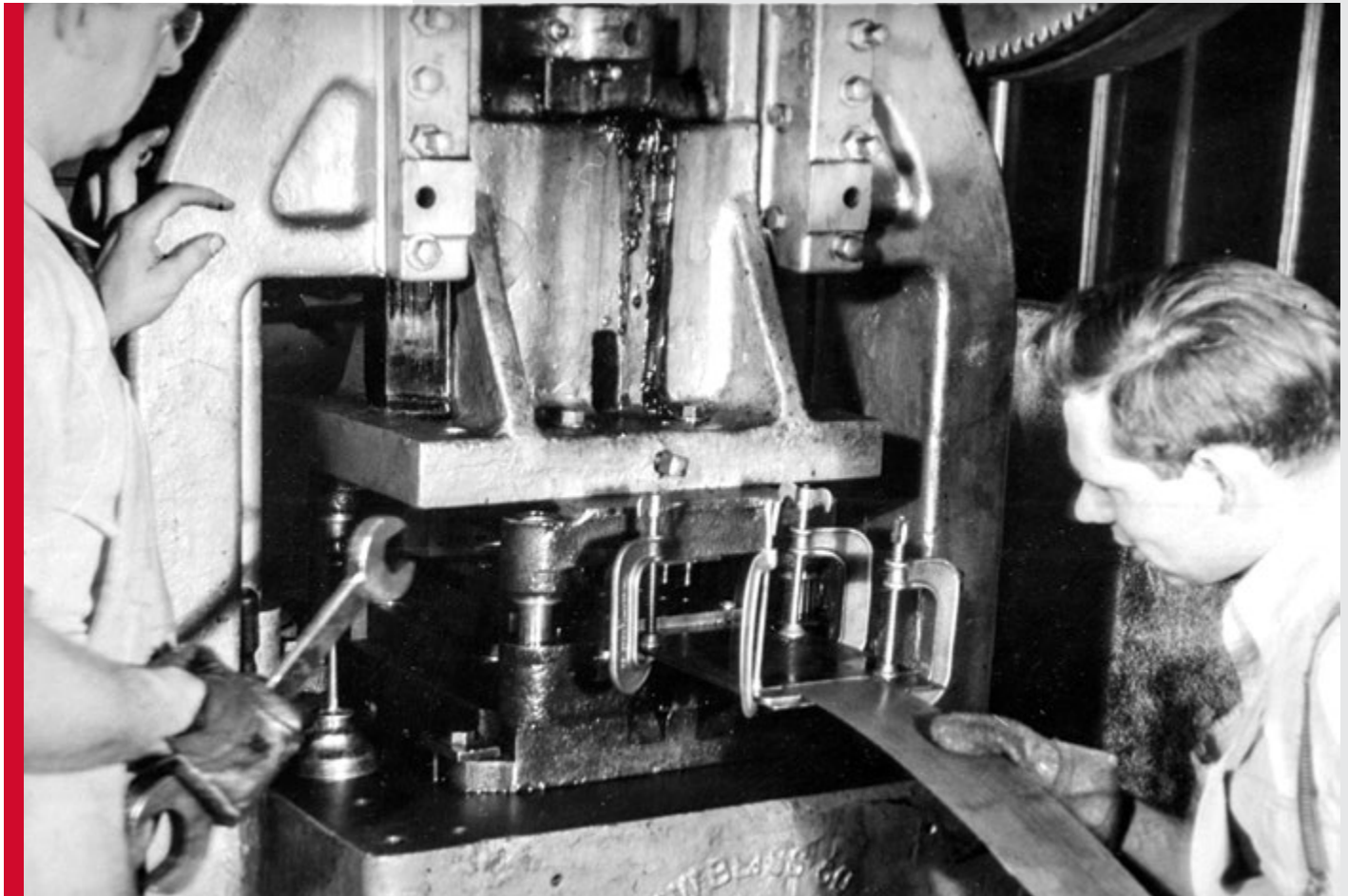
HAMMOND
MANUFACTURING®

2021

ANNUAL REPORT

Over 100 Years
& Four Generations
Server Racks and Cabinets
Electrical Enclosures
Power Distribution
Small Enclosures
Electronic Transformers

Over 100 years
& four generations
in business.
Established 1917.



Fred Hammond, VE3HC (right) was part of the second generation of a fast growing family run business. Fred was one of six brothers and two sisters.

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): we go above and beyond our competition and provide our customers with the exact solution required.

Our Values:

- We are dedicated to our customers. We provide quality products and service that create value to our customers.
- We are responsible to our shareholders. We provide an adequate return on their investment over the long term.
- We are committed to our employees. We provide competitive pay, open and frank communication and a safe work environments.
- We recognize the importance of our suppliers assisting us in our ability to serve our customers.

Hammond Manufacturing Company Limited

2021 Annual Report

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REPORT TO SHAREHOLDERS

Dear fellow shareholders, employees, and stakeholders:

In general all markets were very strong in 2021.

For us sales were up 28.3% despite a 5.0% drag from the impact of foreign exchange.

Our strong inventory position was used to support this surge in demand.

The high level of market activity has driven up our material and freight costs. We have put through several price increases in 2021 to help counteract this impact.

We have ramped up our capacities to meet the increase in demand. Our Canadian production work force has increased by 35% in 2021.

We continue to push to get more output from our existing facilities.

In 2020 we were aided by favourable foreign exchange rates and government assistance that helped drive our earnings per share up. In 2021 with reduced government assistance and a comparatively unfavourable foreign exchange impact we were still able to maintain the same earnings per share thanks to the significant increase in sales.

COVID has become a way of life for us as we continue to follow all prescribed guidance to control the situation.

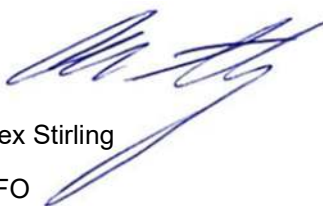
Our outlook for the quarters ahead are for continued growth in North American and our European markets although we do not expect the growth to continue at the rate we have experienced in 2021.

We continue to build long term security and success for all our associates and want to express our appreciation for everyone's involvement in the year's success.

Sincerely,



Robert F. Hammond
Chairman & CEO



Alex Stirling
CFO

ANNUAL MEETING

The meeting of the Shareholders will be held on
May 2, 2022 at

Hammond Manufacturing Company Limited
394 Edinburgh Rd North, Guelph, Ontario
Commencing at 10:00 a.m.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis (MD&A) comments on the consolidated financial position and financial performance of Hammond Manufacturing Company Limited (“HMCL” or “the Company”) for the year ended December 31, 2021. This discussion should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2021 and related notes. Additional information about the Company can be found on its website, www.hammmfg.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 7, 2022.

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, the Netherlands 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

In 2020 the world began to experience a global pandemic from COVID-19 or COVID. All markets fluctuated as it has run its course. In 2020 we saw sales decline as the pandemic took hold at the end of the first quarter. Business levels had returned to pre-COVID levels in the last quarter of 2020. Our markets continued to see significant growth throughout 2021. We continue to have high absenteeism due to COVID related issues. We have added people as fast as we could but this has been a struggle as the labour market has been very tight. Despite this challenge we have increased our hourly staff level by almost 35% from the beginning of 2021. This does create a challenge of onboarding and training new employees. The team has worked hard to do this with as little disruption as possible. We are also starting to battle physical constraints at some of our operations. The teams in these facilities are working hard to streamline any areas we can in order to squeeze out all the available capacity.

Production has had a difficult time meeting the demand from the warehouse and we have seen our finished goods inventory reduce by \$2,842,000 while raw materials and work in process has increased \$6,296,000 at December 31,2021 compared to December 31,2020.

In July of 2021 the Company announced its plans to expand operations with the addition of a 96,000 square foot facility. This is a brand-new build and currently is expected to be operational in the first quarter of 2023. This facility will house a paint line and metal fabrication. The projected budget for the facility and equipment is approximately \$24 million.

Commencing in 2020, the Company applied for the Canadian Emergency Wage Subsidy (CEWS). In 2020 we benefited from \$2,308,000 in federal assistance under this program. In 2021 the Company received an additional \$607,000 of assistance in the first quarter of the year.

In 2021 the Company completed a work project to install a sprinkler system at our Guelph area warehouse. The project cost was \$1.1 million and will save us close to \$500k in insurance costs per year going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

HAMMOND MANUFACTURING COMPANY LIMITED

Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

	2021				Year-to-date Total
	Q1	Q2	Q3	Q4	
Net product sales	\$42,140	\$46,502	\$46,146	\$55,340	\$190,128
Income from operating activities	2,921	3,008	2,597	3,247	11,773
Net income for the period	1,977	2,197	1,290	2,238	7,702
Earnings per share - Basic & diluted	\$0.17	\$0.20	\$0.11	\$0.20	\$0.68

	2020				Year-to-date Total
	Q1	Q2	Q3	Q4	
Net product sales	\$39,641	\$34,137	\$35,581	\$38,864	\$148,223
Income from operating activities	2,284	2,604	1,314	5,480	11,682
Net income for the period	570	1,810	921	4,423	7,724
Earnings per share - Basic & diluted	\$0.05	\$0.16	\$0.08	\$0.39	\$0.68

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

FOURTH QUARTER RESULTS

NET PRODUCT SALES

Net product sales for the three months ended December 31, 2021 were \$55,340,000, up 19.9% compared to net product sales of \$46,146,000 in the third quarter of 2021. North America, which comprises over 92% of sales, saw sales in the USA up 23.3% and Canadian sales up 16.2% over the prior quarter. Our North American markets are currently very strong. Our European sales were down 12.1% over the previous quarter. We do find that the European year-end holidays does limit sales in December. There was minimal impact from foreign exchange compared to the previous quarter.

Net product sales for the current quarter were up 42.4% compared to net product sales of \$38,864,000 for the three months ended December 31, 2020. This quarter was helped by having 64 sale days' vs 63 sale days in the fourth quarter of 2020. Foreign exchange had a significant impact on the comparative quarters. If we used the same rates as used in the fourth quarter of 2020, reported sales for this quarter would be up approximately an additional \$2,279,000 and show a quarter over quarter increase of 48.3% instead of 42.4% noted above. The change in the USD to the CAD dollar was the primary factor of this impact. In the fourth quarter of 2020 the exchange rate was 1.341 CAD = 1.00 USD compared to the fourth quarter of 2021 exchange rate of 1.253 CAD = 1.00 USD. We have put several price increases in throughout 2021 to combat cost increases and it is estimated this had an impact of approximately 5% to 8% of the overall increase.

GROSS PROFIT

Gross profit of \$15,477,000 for the fourth quarter of 2021 was 28.0% of net sales compared to 29.8% in the third quarter of 2021. Material costs continue to be on the rise in this quarter and can account for approximately 1.4% of the drop in gross profit. We are currently looking at our next price increase to help cover these cost increases.

MANAGEMENT DISCUSSION AND ANALYSIS

When we compare gross profit levels between the comparative fourth quarter of 2020 and 2021 we can see a significant drop from 37.7% to 28.0%. In the fourth quarter of 2020 we recognized a cost saving of \$1,850,000 derived from CEWS. Without the upside from CEWS the gross profit in the fourth quarter of 2020 would have been 32.9%. As noted earlier if we factor the impact of foreign exchange this quarter's gross profit in 2020 terms would be around 30.8%, so we are seeing a drop in margins of approximately 2.1% due to cost increases. We did put some price increases through in December of 2021 that will help improve gross profit.

SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Fourth quarter selling and distribution, general and administrative expenses and gain / loss on the disposal of property plant and equipment of \$12,230,000 was 22.1% of net sales for the three months ended December 31, 2021. This compared with spending of \$11,139,000 in the previous quarter that was 24.1% of net sales. The fourth quarter of 2020 saw spending levels of \$9,161,000 which was 23.6% of net sales. Foreign exchange decreased the 2021 expense levels approximately \$339,000 over the comparative fourth quarter of 2020. The fourth quarter of 2020 also had savings from CEWS of \$458,000.

Selling and distribution spending in the fourth quarter of 2021 was \$10,657,000 (19.3% of net product sales). The prior quarter spend was \$9,694,000 (or 21.0% of net product sales). Net product sales grew 19.9% while expenses only grew 9.9%. The increased sales volume against fixed costs is the primary cause of this reduction.

Selling and distribution spending in the fourth quarter of 2020 was \$8,008,000 (20.6% of net product sales). The impact of CEWS in 2020 lowered expenses by \$368,000 (or 1.0% of net product sales). The higher sales volume in 2021 combined with fixed costs in this area helped bring down the % as a function of sales. Selling expense such as travel and marketing have started to increase especially in the USA as restrictions on travel due to COVID and general sentiment on the fears off COVID are dropping. Overall these expenses are still down compared to pre-COVID times. Freight expense continues to run higher than normal this year. Sales are up 42.4% while expenses are up 27.2% with the CEWS impact removed. Freight and distribution expenses are up 47.2% and we are watching and monitoring the situation closely.

General and administrative expenses of \$1,573,000 (2.8% of net product sales) in the fourth quarter is up 9.0% over the previous quarter's spending of \$1,443,000 (3.1% of net product sales). Approximately \$151,000 of the quarter over quarter change can be attributed to our bad debt expense.

In the fourth quarter of 2020 general and administrative expenses were \$1,184,000 or \$1,274,000 (3.3% of net product sales) before the impact of CEWS. This quarters spend is up 23.5% compared to the fourth quarter before the impact of CEWS. 11.8% of the impact came from an increase in our reserve for bad debts that is a function of our outstanding accounts receivable. Our accounts receivable is up considerably as a function of the increased sales. The allowance is approximately 1% of the outstanding accounts receivable balance and this is comparable to other periods. Days sales outstanding at year end was 47.5 days compared to 44.3 days at the end of 2020.

INCOME FROM OPERATING ACTIVITIES

This quarter income from operating activities was \$3,247,000 (5.9% of net product sales). This is up from the prior quarter of \$2,597,000 (5.6% of net product sales) and down from the 2020 fourth quarter

MANAGEMENT DISCUSSION AND ANALYSIS

amount of \$5,480,000 (14.1% of net product sales) without CEWS it would have been \$3,173,000 (8.2% of net product sales).

INTEREST

Fourth quarter interest expense on bank indebtedness and loans was \$219,000 compared to an expense of \$249,000 for the fourth quarter 2020. The comparative loan base has dropped throughout the year and is down just over \$2.0 million from the end on 2020 to 2021.

Interest expense is comprised as follows:

	Three Months Ended:	
	December 31, 2021	December 31, 2020
Long Term debt, excluding lease liabilities	\$ 193	\$ 214
Bank indebtedness	26	35
Interest expense	\$ 219	\$ 249
Interest expense leases	\$ 165	\$ 191
Total Interest and Lease interest expense	\$ 384	\$ 440

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

During the fourth quarter of 2021, the Company recognized a loss on transactional foreign exchange of \$14,000 compared to a gain of \$897,000 in the three months ended December 31, 2020. The spot rate at the opening of the fourth quarter of 2020 was 1.00 USD to 1.3396 CAD. The closing spot rate for 2020 was 1.00 USD to 1.2732 CAD. In 2021 the fourth quarter spot rate opened at 1.00 USD to 1.268 and closed at 1.00 USD to 1.268 CAD. The intercompany balance payable to our US entity accounts for approximately \$615,000 of the \$897,000 gain in the fourth quarter of 2020. There is an offset to the intercompany impact found in the foreign exchange translation of foreign operations as the offsetting US receivable is due from the Canadian entity and would be part of the translational adjustment of the US entities balance sheet on consolidation.

INCOME TAX EXPENSE

Fourth quarter taxes of \$579,000 is 20.6% of income before taxes. This included the years final true up to bring the overall years tax rate to 24.2% of income before taxes. In 2020 the final true up for the year's activities provided for tax expense of \$1,439,000 (24.5% of income before tax). The 2020 full year tax rate was 25.0% of income before taxes.

NET INCOME FOR THE PERIOD

Net income of \$2,238,000 (4.0% return on net product sales) was recognized for the fourth quarter ended December 31, 2021. This is up from a net return of \$1,290,000 (2.8% return on net product sales) in the previous quarter and down from the net return of \$4,423,000 (11.4% return on net product sales) recognized in the fourth quarter of 2020. If we adjust for (remove) CEWS net income for the fourth quarter of 2020 would have been \$2,115,000 (5.4% return on net product sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

The translation adjustment for the fourth quarter of 2021 was a loss of \$20,000 compared to a translation loss of \$1,040,000 in the fourth quarter of 2020. In the fourth quarter of 2020 the Canadian dollar strengthening against our foreign entity currencies provided a negative impact from foreign currency translation.

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the fourth quarter ended December 31, 2021 was \$2,218,000 (4.0% of net product sales) down from the 3 months ended December 31, 2020 of \$3,383,000 (8.7% of net product sales) and up from the previous quarter's total comprehensive income of \$1,973,000 (4.2% of net product sales).

FULL YEAR RESULTS

NET PRODUCT SALES

2020 started out strong but fell off in the second and third quarters for which, we are attributing primarily to the fallout from COVID. The fourth quarter of 2020 returned to sales levels more indicative of the levels seen before COVID hit. In 2021 sales has continued to grow throughout the year Net product sales of \$190,128,000 in 2021 were up 28.3% compared to net sales of \$148,223,000 reported in 2020. Foreign exchange had a negative impact on the year over year reporting by approximately \$7,451,000. If we utilize 2020 exchange rates on 2021 sales, sales would be up an additional 5.0% to 33.3%. Our Canadian market is up 32.2% over 2020 while the US market is up 33.1% when measured in USD. Due to the impact of foreign exchange the US sales are up 24.3% when measured in CAD. The rest of the world activity is up approximately 25.5%. There was little foreign exchange impact in these areas.

GROSS PROFIT

In 2021, gross profit was \$56,001,000 or 29.5% of net product sales compared to \$49,170,000 or 33.2% achieved in 2020. If we remove the impact of CEWS in 2020 of (\$1,850,000) the gross profit would be 31.9%. If we remove the impact of CEWS in 2021 of (\$485,000) the gross profit would be 29.2%. If we further adjust the 2021 gross profit for the impact of foreign exchange compared to 2020 rates we would have achieved a 31.9% gross profit level. You can see that without the impact of CEWS or foreign exchange we have achieved a similar gross profit level. This year we have experienced significant cost increases. Incoming freight expenses, especially any container freight, doubled in costs throughout the year, although we are seeing it work its way back down. Steel prices also have increased significantly throughout the year. The current outlook is that these costs should come down going forward. We have put through several price increases throughout the year to help offset the cost increases we have been experiencing. Our markets have been understanding of our price increases as everyone seems to be experiencing this situation. We continue to monitor our markets and vendors and will react accordingly to the situation.

Spending related to COVID safety measures this year is approximately \$353,000 (2020- \$277,000). 2020 only had COVID safety measure in place for the last three quarters of the year. This only reflects the direct expenses and not the time and effort put in by staff members to manage the situation.

SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE, AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Selling and distribution, general and administrative including the net impact of the disposal of property, plant and equipment of \$44,228,000 (23.3% of net product sales) was up 18.0% compared to the 2020 of \$37,488,000 (25.3% of net product sales). Year over year sales increase of 28.3% and associated variable costs that go with this is the driver of the cost increases. Receipt of in CEWS provided a cost reduction of \$458,000 in 2020 and only \$122,000 in 2021. (or 0.3% of net product sales). Foreign exchange had the impact of decreasing the reported expense levels in 2021 compared to 2020 by approximately \$1,126,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses of \$38,460,000 increased \$6,199,000 or 19.2% compared to 2020. Decreases in CEWS assistance accounts for \$265,000 of this increase. Foreign exchange had the impact of decreasing comparative costs by \$1,053,000. With the restrictions of COVID we saw our marketing and advertising expenses decline in 2020 and has only recently started to pick backup. Shipping and warehousing expenses were up \$4,097,000 or 36.1%. As discussed previously, freight costs have increased significantly.

Our general and administrative expenses of \$5,783,000 were up \$567,000 or 10.9% compared to 2020 spending levels of \$5,216,000. Decreases in CEWS assistance accounts for \$71,000 of this increase. Foreign exchange had the impact of decreasing comparative costs by \$73,000. IT related expenses were up \$104,000 as we support the increase in production and sales activity. Severances were up \$80,000, legal and professional fees were up \$131,000. Bad debt expenses were up \$145,000 as we increased our reserve as a function of the increase in our accounts receivable levels.

This year we saw a net gain of \$15,000 on the disposal of property, plant and equipment. This compares to a net loss on disposals of \$11,000 recognized in 2020.

INCOME FROM OPERATING ACTIVITIES

Overall, 2021 income from operating activities was \$11,773,000 (6.2% of net product sales) which is down compared to 2020 earnings of \$11,682,000 (7.9% of net product sales). If we remove the impact of CEWS from each year, the 2021 results would be 5.9% of net product sales and 2020 would be 6.3% of net product sales. This result includes the net negative impact of foreign exchange of \$6,325,000 compared to the foreign exchange rates in 2020.

INTEREST

Interest expense on bank indebtedness and loans was \$820,000 compared to an expense of \$996,000 for 2020. The comparative loan base has dropped throughout the year and is down just over \$2.0 million from the end on 2020 to 2021.

The following is a breakdown of the interest expenses.

Interest expense is comprised as follows:

	December 31, 2021		December 31, 2020	
Long Term debt, excluding lease liabilities	\$	749	\$	857
Bank indebtedness		71		139
Interest expense	\$	820	\$	996
Interest expense leases	\$	661	\$	627
Total Interest and Lease interest expense	\$	1,481	\$	1,623

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

A \$14,000 foreign exchange transactional loss was reported in 2021, compared to a transactional gain of \$395,000 in 2020. The Canadian dollar strengthened against the US dollar throughout 2020. It opened at \$1.00 USD to \$1.2988 CAD and quickly rose to \$1.00 USD to \$1.40 level and slowly worked its way back down and closed the year at \$1.00 USD to \$1.2732 CAD. In 2021 the trend continued and the Canadian dollar continued to strengthen against the US dollar. It hit \$1.00 USD to \$1.229 CAD at the end of the second quarter then slowly came back to close the year at \$1.00 US dollar to \$1.268 CAD.

MANAGEMENT DISCUSSION AND ANALYSIS

A large portion of the gain seen in 2020 is from our intercompany receivable. Our Canadian entity has a payable to our US entity in US dollars. The opening payable was \$10.6 million USD and the closing balance was \$5.15 million. This year since the opening and closing rates were so close we did not see a significant impact. In 2020 it created transaction gain of approximately \$209,000 with the offset going to translational gains of other foreign operations.

INCOME TAX EXPENSE

2021 tax expenses of \$2,459,000 were 24.2% of income before income tax. This compares to a 2020 tax expense of \$2,575,000 which was 25.0% of income before income tax.

NET INCOME FOR THE YEAR

Net income for the year ended December 31, 2021 was \$7,702,000 (4.1% of net product sales) compared to the prior year net income of \$7,724,000 (5.2% of net product sales). This year's net income adjusted to remove the impact of CEWS (after tax impact is \$460,000) is \$7,264,000 (3.8% of net product sales). This compares to 2020 net income adjusted to remove the impact of CEWS (after tax impact is \$1,731,000) is \$5,993,000 (4.0% of net product sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

During 2021 a loss of \$99,000 on translational foreign exchange was recorded compared to a loss of \$459,000 in 2020. The strengthening Canadian dollar caused a decrease in the measurement of our financial assets and liabilities in our foreign entities. As noted earlier a large part of the 2020 loss (approximately \$209,000) of this is offset by the foreign exchange transactional impact of intercompany loans.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for 2021 was \$7,603,000 (4.0% of net product sales) this compared to comprehensive income of \$7,265,000 (4.9% of net product sales) in 2020.

SELECTED ANNUAL INFORMATION

Three year financial summary:

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

Consolidated Statements of Comprehensive Income	2021	2020	2019
Net product sales	\$ 190,128	\$ 148,223	\$ 148,592
Income from operating activities	11,773	11,682	7,469
Net income for the year	7,702	7,724	4,749
Per share - basic & fully diluted net earnings for the year	\$0.68	\$0.68	\$0.42

Consolidated Statement of Financial Position	2021	2020	2019
Total assets	\$ 136,976	\$ 120,255	\$ 111,402
Total funded debt and lease liabilities	35,533	35,715	36,565
Working capital	32,786	28,018	20,532
Net cash generated from operating activities	14,923	15,689	11,707
Dividends declared and paid	453	453	454
Shareholders' equity	\$ 68,692	\$ 61,542	\$ 54,730

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL RESOURCES AND LIQUIDITY

Net cash generated in operating activities for 2021 was \$14,923,000 (net cash generated in 2020 - \$15,689,000). Cash flows from financing activities used \$1,959,000 (2020 - \$7,548,000). Cash used in investing activities was \$11,544,000 (2020 - \$5,527,000).

Trade and other receivables of \$27,143,000 as at December 31, 2021 have increased 32.1% compared to the 2020 year end. 2020 balance includes a receivable for CEWS of \$2,308,000. Trade and other receivables excluding CEWS in 2020 was \$18,233,000 which means we are actually up 48.9% compared to 2020. Day's sales outstanding (DSO) (excluding CEWS) calculated as at December 31, 2021 was 47.5 compared to 44.3 days as calculated on December 31, 2020. In previous years we have always sat in the low 50's DSO so we are pleased with the trend we have been seeing. The quality of accounts receivable remains high.

The year-end investment in inventory of \$45,516,000 was an increase of 8.2% from the 2020 inventory value of \$42,062,000. Inventory turnover increased to 3.3 from 2.4 (cost of sales divided by the twelve month average inventory level). The increase in sales activities has increased our inventory turnover. Our value statement of having our standard product on our shelves combined with the increasing number of stock keeping units makes for a low turn ratio.

Trade and other liabilities increased by \$9,812,000, or 57.3% over 2020 to \$26,929,000. This increase is primarily a function of the increased activity levels. Total long-term debt, lease liabilities and bank indebtedness decreased by \$182,000 over the prior year to \$35,533,000. Our debt-to-equity ratio at year-end (excluding lease liabilities) was approximately 0.32:1 (2020 - 0.32:1). Debt-to-equity calculated inclusive of the lease liabilities was 0.52:1 (2020 - 0.58:1). In December, with rate increases in the forecast we took the opportunity to lock in \$5,660,000 of debt for seven years at 3.83%. It does put us in a positive cash position but the outlay for our new facility will draw against this early in 2022.

Total dividends paid in 2021 were \$453,000 (2020 - \$453,000).

Property, plant, equipment and intangible asset additions excluding right of use assets in 2021 were \$11,565,000 up from \$5,571,000 in 2020. The Company spent \$4,252,000 (2020 - \$273,000) on land, building and leasehold improvements. \$452,000 (2020 - \$953,000) was invested toward replacing machinery and equipment, \$5,751,000 (2020 - \$3,459,000) was invested toward machinery and equipment for capacity growth, \$871,000 (2020 - \$759,000) was invested in tooling, \$119,000 (2020 - \$20,000) was invested in office equipment. \$93,000 (2020 - \$19,000) was spent on software and development costs. 2021 spending on product development of \$27,000 was level with \$27,000 in 2020.

The overall cash position increased by \$1,284,000 in 2021 compared to a cash position increase of \$2,066,000 in 2020. As noted earlier the anticipated cash requirements for building our new facility will draw down the excess cash in early 2022.

There were not any significant or renewed leases made in 2021.

The Company is in compliance with all the bank covenants, and the credit facilities are well designed to meet expected on going requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

As at December 31, 2021 the contractual obligations showing demand loans as current was as follows.

Contractual obligations (In thousands)	Total	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Long-term debt	\$20,676	\$14,551	\$ 1,393	\$ 1,379	\$ 809	\$ 841	\$ 1,703
Lease Liabilities	13,862	2,957	2,390	2,030	2,112	1,436	2,937
Total contractual obligations	\$34,538	\$17,508	\$ 3,783	\$ 3,409	\$ 2,921	\$ 2,277	\$ 4,640

As at December 31, 2021 the contractual obligations based on repayment not being called early.

Contractual obligations (In thousands)	Total	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Long-term debt	\$20,676	\$ 2,621	\$ 8,370	\$ 2,570	\$ 3,405	\$ 2,007	\$ 1,703
Lease Liabilities	13,862	2,957	2,391	2,030	2,112	1,436	2,936
Total contractual obligations	\$34,538	\$ 5,578	\$10,761	\$ 4,600	\$ 5,517	\$ 3,443	\$ 4,639

In addition to the contractual obligations above, the Company has current obligations of \$12,523,000 (2020 - \$3,585,000) against open purchase orders for outstanding capital expenditures. \$7,051,000 of this is toward the construction of our new facility in Palmerston Ontario and \$3,286,000 is toward equipment that will go in this new facility. The new facility is scheduled for completion in the first quarter of 2023.

The Company also has open purchase commitments with RITEC as at December 31, 2021 of \$3,140,000 (2020 - \$1,241,000). These expenditures should be completed in the first half of 2022.

SHARE CAPITAL

As of March 7, 2022, 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 2021 was \$18,432,000. This showed improvement over EBITDA of \$18,298,000 achieved in 2020.

EBITDA adjusted for transactional impact of foreign exchange slightly increased the EBITDA in 2021 compared to an adjusted EBITDA of 17,903,000 in 2020. EBITDA and adjusted EBITDA is calculated as outlined in the following table:

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

MANAGEMENT DISCUSSION AND ANALYSIS

(In thousands of Canadian dollars)

	Years Ended:		Three Months Ended:	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Net income for the period	7,702	7,724	2,238	4,423
Add				
Income tax expense	2,459	2,575	579	1,439
Depreciation and amortization	3,971	3,540	1,146	925
Right-of-use depreciation	2,819	2,836	716	740
Finance costs on debt	820	996	219	335
Right-of-use finance costs	661	627	165	105
Subtotal	10,730	10,574	2,825	3,544
EBITDA*	18,432	18,298	5,063	7,967
Add:				
FX transactional loss (gain)	14	(395)	14	(897)
Adjusted EBITDA *	18,446	17,903	5,077	7,070

* 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 2021 related to this property was \$139,000 (2020 - \$141,000).

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 remediation plans intent is to contain and collect any mobile pollutants. It does not include obtaining a record of site condition. Our provision covers the next four years activities. The Company's remaining portion of environmental remediation costs for this site is \$225,000 (2020 - \$225,000) with \$80,000 (2020 - \$80,000) 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 \$3,500,000 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

MANAGEMENT DISCUSSION AND ANALYSIS

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. The trial for this claim has been set down for September 2022. We have seen corresponding legal fees in 2020 and 2021.

A third party statement of claim was issued on March 6, 2019, against the Company with respect to an adjacent property to one of our Waterloo facilities. The claim alleges that contaminants originating from our property have migrated to the adjoining property owned by the claimants. The amount of the claim is estimated at \$160,000 to \$670,000. Our records do not show any spills of chemicals at this location and 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 condensed consolidated financial statements.

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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) Inventory

Inventories are valued at the lower of cost or net realizable value. When necessary, the write-down of inventory to its net realizable value is recorded as a result of industry conditions. We have made certain assumptions when determining expected future demand by utilizing information such as inventory quantities and aging, historical sales of inventory and general market understanding. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of write-down expenses in future periods.

ii) 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.

iii) 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").

iv) Provision against accounts receivable

Management makes estimates on the expected credit losses ("ECLs") of accounts receivable balances based on customer specific facts and circumstances as well as past

MANAGEMENT DISCUSSION AND ANALYSIS

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.

v) 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.

vi) 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.

vii) 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.

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 recorded 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.

xi) Leases:

For the purpose of initial and subsequent measurement of leases the Company utilizes a discounted interest rate in the lease that is readily available or the Groups incremental borrowing rate. The group also utilizes its best estimate of any costs to dismantle and remove the asset at the end of the lease.

MANAGEMENT DISCUSSION AND ANALYSIS

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:

xii) 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.

xiii) Leases

The Company exercises judgement as to whether it is likely to extend the term of the lease when the option is provided.

xiv) 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.

xv) 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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2021 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, 2021.

There has been no change to internal controls in the most recent quarter ended on December 31, 2021 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;

MANAGEMENT DISCUSSION AND ANALYSIS

- 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;
- Pandemics

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 on income from operations of \$872,000 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 4.0% of the Company's debt financing (excluding Right of use obligations). 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

We will continue to react to the market conditions to grow our business. Our efforts over the next 12 months will continue to 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.

Global Political Unrest

Today's politics can have significant repercussions on doing business. Issues are constantly changing and management has to assess the potential outcomes of the different issues and be prepared to react or mitigate anything that would have a negative impact on our business.

PANDEMICS

In early 2020, the World Health Organization declared the COVID outbreak a global pandemic. In response, public and private sectors implemented measures aimed at reducing the transmission of COVID including travel restrictions, the promotion of social distancing, and the adoption of work-from-

MANAGEMENT DISCUSSION AND ANALYSIS

home and online continuity plans. Globally, various governments have aided those affected including individuals and businesses through taxation deferrals, subsidies, and other relief programs which continued through 2021.

The Company took quick action with a COVID Global Task Force and Action Response Plan and was able to mitigate the impact of the pandemic on operations. Further, the Company's products are considered essential and have not observed a significant decline market activity.

The Company continues to monitor and assess the impact of COVID to the Company's financial results and operations. Potential adverse impacts of the pandemic include, but are not limited to: the risk of material reduction in demand for our products, a delay in collection of accounts receivables which may lead to increased allowance provisions; the risk of suppliers and/or customers having financial difficulties up to and including entering restructuring proceedings, insolvency proceedings and/or ceasing operations, difficulties in delivering products to customers due to supply chain disruptions; and higher capital costs for servicing or paying debt as it comes due.

We continue to monitor the situation and adjust where needed to mitigate the negative impact created by the pandemic.

ACCOUNTING POLICY CHANGES

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

Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments adopted on January 1, 2021. The impact of adoption of these amendments did not have an impact on the business.

Future Accounting Changes

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group and it is still to be determined if any will have a material impact on the Group's financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. In November 2021, the IASB published the exposure draft *Non-current Liabilities with Covenants* (proposed amendments to IAS 1). The exposure draft aims to improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with conditions, in addition to addressing concerns about the classification of such a liability as current or non-current.

The IASB proposed to defer the effective date of the 2020 amendments to no earlier than January 1, 2024.

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Definition of Accounting Estimates (Amendments to IAS8)

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Disclosure initiative – Accounting Policies (Amendments to IAS 1)

On February 12, 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include a requirement for companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*)

On May 7, 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*.

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier adoption is permitted.

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Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous.

The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

Annual Improvements to IFRS Standards 2018–2020

On May 14, 2020, the IASB issued *Annual Improvements to IFRS Standards 2018–2020*.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

IFRS 9 Financial Instruments

Clarifies which fees are included for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities.

IFRS 16 Leases

Removes the illustration of payments from the lessor relating to leasehold improvements.

The impact of adoption of these improvements is not expected to have an impact on the business.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group’s financial statements.

OUTLOOK FACTORS FOR 2022

The feedback we have from our markets is that we will see growth in the mid-single digit area in 2022. Our output capacity will be our constraint.

The current outlook for the US dollar is that it will strengthen and this does increase the returns from our US markets. We continue to competitively price our products and stimulate market share growth.

COVID impact remains an unknown and we monitor and react as best we can as the situation continues to play out.

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



Chairman & CEO

A. Stirling



Secretary & CFO

Guelph, Ontario

March 7, 2022



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Hammond Manufacturing Company Limited

Opinion

We have audited the consolidated financial statements of Hammond Manufacturing Company Limited (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.



Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the write-down of inventory for excess or obsolescence

Description of the matter

We draw attention to notes 2(d)(i), 3(c) and 5 to the financial statements. The Company has inventory with a carrying value of \$45,516 thousand. Inventory is valued at the lower of cost or net realizable value. When necessary, the Company will write-down inventory to its net realizable value. The determination of net realizable value requires the Entity to make certain assumptions including forecasted demand.

Why the matter is a key audit matter

We identified the evaluation of the write-down of inventory for excess and obsolescence as a key audit matter. There is a high degree of estimation uncertainty as well as complexity in predicting forecasted demand. Significant auditor judgement was required to evaluate the results of our audit procedures due to the estimation uncertainty associated with the determination of net realizable value.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Entity's ability to accurately forecast demand by comparing the Entity's prior year expectations of forecasted demand to actual sales data, inventory usage, and publicly available industry outlook reports.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Matthew Betik.

Waterloo, Canada

March 7, 2022

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

As at December 31,	Note	2021	2020
Assets			
Current assets:			
Cash		\$ 4,069	\$ 2,785
Trade and other receivables	4	27,143	20,541
Income taxes receivable		76	-
Inventories	5	45,516	42,062
Prepaid expenses		1,723	1,857
Total current assets		78,527	67,245
Non-current assets:			
Property, plant and equipment	6	41,141	33,637
Intangible assets and goodwill	7	428	349
Right-of-use assets	8	15,000	17,116
Investment property	9	1,044	1,044
Equity investment	10	836	864
Total non-current assets		58,449	53,010
Total assets		\$ 136,976	\$ 120,255
Liabilities			
Current liabilities:			
Bank indebtedness	11	\$ 995	\$ 2,689
Trade and other payables	14	26,929	17,117
Income taxes payable		-	1,303
Current portion of provisions	15	220	164
Current portion of employee future benefits	16	89	63
Current portion of long-term debt	12	14,551	15,086
Current portion of lease liabilities	8	2,957	2,805
Total current liabilities		45,741	39,227
Non-current liabilities:			
Employee future benefits	16	304	152
Long-term debt	12	6,125	1,856
Lease liabilities	8	10,905	13,279
Provisions	15	145	145
Deferred tax liabilities	17	5,064	4,054
Total non-current liabilities		22,543	19,486
Total liabilities		68,284	58,713
Equity:			
Share capital	18	10,249	10,249
Contributed surplus		290	290
Accumulated other comprehensive income		1,883	1,982
Retained earnings		56,270	49,021
Total equity		68,692	61,542
Commitments	19		
Contingency	20		
Total liabilities and equity		\$ 136,976	\$ 120,255

The notes on pages 35 to 72 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Comprehensive Income

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

For The Years Ended December 31,	Note	2021	2020
Net product sales		\$ 190,128	\$ 148,223
Cost of sales		134,127	99,053
Gross profit		56,001	49,170
Selling and distribution		38,460	32,261
General and administrative		5,783	5,216
Loss (gain) on disposal of property, plant and equipment		(15)	11
Income from operating activities		11,773	11,682
Interest expense	13	(820)	(996)
Interest expense leases	13	(661)	(627)
Foreign exchange gain (loss)		(14)	395
Net finance expense		(1,495)	(1,228)
Share of profit (loss) of equity accounted investees	10	22	(14)
Share of expenses from investment property	9	(139)	(141)
Income before income tax		10,161	10,299
Income tax expense	21	2,459	2,575
Net income for the period		\$ 7,702	\$ 7,724
Other comprehensive loss:			
Foreign currency translation differences for foreign operations		(99)	(459)
Other comprehensive loss for the period, net of income tax		(99)	(459)
Total comprehensive income for the period		\$ 7,603	\$ 7,265
Earnings per share			
Basic earnings per share	22	\$ 0.68	\$ 0.68
Diluted earnings per share	22	\$ 0.68	\$ 0.68

The notes on pages 35 to 72 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Changes in Equity
For the years December 31, 2021 and December 31, 2020
(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, 2020	\$ 10,249	\$ 290	\$ 2,441	\$ 41,750	\$ 54,730
Net income for the year		-	-	7,724	7,724
Other comprehensive loss:					
Foreign currency translation differences	-	-	(459)	-	(459)
Total comprehensive income (loss) for the year	-	-	(459)	7,724	7,265
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(453)	(453)
Balance at December 31, 2020	\$ 10,249	\$ 290	\$ 1,982	\$ 49,021	\$ 61,542
Balance at January 1, 2021	\$ 10,249	\$ 290	\$ 1,982	\$ 49,021	\$ 61,542
Net income for the year		-	-	7,702	7,702
Other comprehensive loss:					
Foreign currency translation differences	-	-	(99)	-	(99)
Total comprehensive income (loss) for the year	-	-	(99)	7,702	7,603
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(453)	(453)
Balance at December 31, 2021	\$ 10,249	\$ 290	\$ 1,883	\$ 56,270	\$ 68,692

** Accumulated other comprehensive income (loss)

The notes on pages 35 to 72 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,	2021	2020
Cash flows from operating activities		
Net income for the period	\$ 7,702	\$ 7,724
Adjustments for:		
Depreciation of property, plant and equipment	3,932	3,502
Amortization of intangible assets	39	38
Depreciation of right-of-use assets	2,819	2,836
Interest expense	820	996
Interest expense on leases	661	627
Income tax expense	2,459	2,575
Loss (gain) on disposal of property, plant and equipment	(15)	11
Provisions and employee future benefits	234	50
Equity investments	28	(18)
Change in inventory allowance for lower of cost or market	159	300
	18,838	18,641
Change in non-cash working capital:		
Inventories	(3,613)	(904)
Trade and other receivables	(6,602)	(1,523)
Prepaid expenses	134	(58)
Trade and other payables	9,812	775
Cash generated from operating activities	18,569	16,931
Interest paid	(820)	(799)
Income tax paid	(2,826)	(443)
Net cash generated from operating activities	14,923	15,689
Cash flows from financing activities		
Bank indebtedness	(1,692)	(1,704)
Payment of long-term debt	(1,919)	(1,861)
Payment of lease liabilities	(3,555)	(3,530)
Advances of long-term debt	5,660	-
Payment of dividends	(453)	(453)
Net cash used in financing activities	(1,959)	(7,548)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	21	44
Acquisition of property, plant and equipment	(11,445)	(5,500)
Intangible asset additions	(120)	(71)
Net cash used in investing activities	(11,544)	(5,527)
Net increase in cash	1,420	2,614
Cash at beginning of period	2,785	719
Foreign exchange loss on cash and cash equivalents in a foreign currency	(136)	(548)
Cash at end of period	\$ 4,069	\$ 2,785

The notes on pages 35 to 72 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

1) Introduction:

a) 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, 2021 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, the Netherlands, 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.

b) COVID Pandemic:

In early 2020, the World Health Organization declared the COVID outbreak a global pandemic. In response, public and private sectors implemented measures aimed at reducing the transmission of COVID including travel restrictions, the promotion of social distancing, and the adoption of work-from-home and online continuity plans. Globally, various governments have aided those affected including individuals and businesses through taxation deferrals, subsidies, and other relief programs which continued through 2021.

The Company took quick action with a COVID Global Task Force and Action Response Plan and was able to mitigate the impact of the pandemic on operations. Further, the Company’s products are considered essential and have not observed a significant decline market activity.

The Company continues to monitor and assess the impact of COVID to the Company’s financial results and operations. Potential adverse impacts of the pandemic include, but are not limited to: the risk of material reduction in demand for our products, a delay in collection of accounts receivables which may lead to increased allowance provisions; the risk of suppliers and/or customers having financial difficulties up to and including entering restructuring proceedings, insolvency proceedings and/or ceasing operations, difficulties in delivering products to customers due to supply chain disruptions; and higher capital costs for servicing or paying debt as it comes due.

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 7, 2022.

b) Basis of measurement:

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

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

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, Netherlands, Taiwan and Australia are the US dollar, the British pound sterling, Euro, 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) Inventory

Inventories are valued at the lower of cost or net realizable value. When necessary, the write-down of inventory to its net realizable value is recorded as a result of industry conditions. We have made certain assumptions including expected forecasted demand by utilizing information such as inventory quantities and aging, historical sales of inventory and general market understanding. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of write-down expenses in future periods.

ii) 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.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

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(tabular amounts (except share amounts) in thousands of Canadian dollars)

iii) 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”).

iv) Provision against accounts receivable

Management makes estimates on the expected credit losses (“ECLs”) of accounts receivable balances based on customer 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.

v) 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.

vi) 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.

vii) 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.

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 recorded 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.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

xi) Leases:

For the purpose of initial and subsequent measurement of leases the Company utilizes a discount rate in the lease that is readily available or the Group's incremental borrowing rate. The Group also utilizes its best estimate of any costs to dismantle and remove the asset at the end of the lease.

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) Leases

The Company exercises judgement as to whether it is likely to extend the term of the lease when the option is provided.

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, Hammond Electronics B.V. 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

HAMMOND MANUFACTURING COMPANY LIMITED

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(tabular amounts (except share amounts) in thousands of Canadian dollars)

consolidated financial statements include the investment in RITEC, which is accounted for using the equity method.

b) Revenue recognition:

The Company determines revenue recognition through the following steps: a) identification of the contract with a customer, b) identification of the performance obligations in the contract, c) determination of the transaction price, d) allocation of the transaction price to the performance obligations in the contract and e) recognition of revenue when the Company satisfies a performance obligation.

The Company principally generates revenue through the manufacturing and sale of industrial enclosures, electronic enclosures, racks and cabinets, transformers and other products. Revenue is recognized when control of a product is transferred to a customer. This is generally at the point in time when product is available for physical delivery, and the customer has legal title to, physical possession of (or through their carrier), and the risks and rewards of ownership of the product have transferred; therefore, the customer is able to direct the use of and obtain substantially all of the benefits of the product. There is only a single performance obligation, except for where delivery is provided by Hammond after the point of transfer.

Revenue is measured based on the consideration specified in a contract with a customer, net of variable consideration, including rebates, returns and discounts. Rebates are accrued using sales data and rebate percentages specific to each customer contract. Accruals for sales returns are calculated based on the best estimate of the amount of product that will ultimately be returned by customers. All customer receivables are expected to be paid within one year and therefore the Company does not adjust for the effects of a financing component.

Contract liabilities are recorded when cash payments are received or due in advance of the Company's performance.

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. Costs include expenditures that are 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

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

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(tabular amounts (except share amounts) in thousands of Canadian dollars)

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	Straight-Line Method
Buildings	20 to 40 years
Office equipment	4 to 10 years
Machinery and equipment	4 to 10 years
Tooling general use	4 to 10 years
Tooling specific part	Based on anticipated life unit output

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	Straight-Line Method
Computer software	5 years
Development costs	5 years

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

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

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 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. 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

HAMMOND MANUFACTURING COMPANY LIMITED

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(tabular amounts (except share amounts) in thousands of Canadian dollars)

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 assets and financial liabilities:

Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

Financial liabilities include bank indebtedness, trade and other payables and long-term debt.

m) Impairment:

i) Financial assets:

ECLs are recognized on all financial assets not carried at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

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

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

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(tabular amounts (except share amounts) in thousands of Canadian dollars)

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, 2021 and December 31, 2020, 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.

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n) 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

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instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

o) Segment reporting:

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

p) Finance costs:

Finance costs consist of interest on borrowings and finance leases.

q) 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.

r) Leases:

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

As a Lessee:

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that

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rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payment in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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.

Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments adopted on January 1, 2021. The impact of adoption of these amendments did not have an impact on the business.

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t) New standards and interpretations not yet adopted:

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group and it is still to be determined if any will have a material impact on the Group's financial statements.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. In November 2021, the IASB published the exposure draft *Non-current Liabilities with Covenants* (proposed amendments to IAS 1). The exposure draft aims to improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with conditions, in addition to addressing concerns about the classification of such a liability as current or non-current.

The IASB proposed to defer the effective date of the 2020 amendments to no earlier than January 1, 2024.

Definition of Accounting Estimates (Amendments to IAS8)

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

Disclosure initiative – Accounting Policies (Amendments to IAS 1)

On February 12, 2021, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and an update to IFRS Practice Statement 2 *Making Materiality Judgements* to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include a requirement for companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

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Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)*. The amendments clarify that proceeds from selling items before the related item of property, plant and equipment is available for use should be recognised in profit or loss, together with the cost of producing those items.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 *Income Taxes*)

On May 7, 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*.

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier adoption is permitted.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous.

The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

Annual Improvements to IFRS Standards 2018–2020

On May 14, 2020, the IASB issued *Annual Improvements to IFRS Standards 2018–2020*.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

IFRS 9 Financial Instruments

Clarifies which fees are included for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities.

IFRS 16 Leases

Removes the illustration of payments from the lessor relating to leasehold improvements.

The impact of adoption of these improvements is not expected to have an impact on the business.

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4) Trade and other receivables:

	December 31, 2021	December 31, 2020
Trade receivables	\$ 27,214	\$ 17,707
Employee receivables	13	18
Other receivables	232	2,987
	27,459	20,712
Estimated credit losses	(316)	(171)
Trade and other receivables	\$ 27,143	\$ 20,541

Other receivables in 2021 includes \$nil from the Canada Emergency Wage Subsidy ("CEWS") grant (2020 - \$2,308,000). See note 23.

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 26.

5) Inventories:

	December 31, 2021	December 31, 2020
Raw materials and work-in-process	\$ 18,928	\$ 12,632
Finished goods	26,588	29,430
Inventories	\$ 45,516	\$ 42,062
Inventories carried at net realizable value	\$ 2,090	\$ 1,803

In 2021, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to approximately \$133,968,000 (2020 - \$98,753,000). In 2021, the write-down of inventories to net realizable value net of recovery was \$159,000 (2020 - \$300,000).

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6) Property, plant and equipment:

Cost	Land and	Machinery	Tooling	Office	Total
	buildings	and equipment		equipment	
Balance at December 31, 2019	\$ 22,130	\$ 46,257	\$ 10,438	\$ 2,375	\$ 81,200
Additions	\$ 273	\$ 4,412	\$ 759	\$ 56	\$ 5,500
Disposals	(41)	(1,192)	(70)	(6)	(1,309)
Effect of movements in exchange rates	1	(13)	(18)	(2)	(32)
Balance at December 31, 2020	\$ 22,363	\$ 49,464	\$ 11,109	\$ 2,423	\$ 85,359
Additions	\$ 4,252	\$ 6,203	\$ 871	\$ 119	\$ 11,445
Disposals	(6)	(664)	-	(34)	(704)
Effect of movements in exchange rates	1	(8)	(12)	(4)	(23)
Balance at December 31, 2021	\$ 26,610	\$ 54,995	\$ 11,968	\$ 2,504	\$ 96,077

At December 31, 2021, the amount of expenditures recognized in the carrying amount that were in the course of construction was \$2,222,000 (2020 - \$47,785) in land and buildings, \$1,441,000 (2020 - \$601,396) in machinery and equipment, \$255,000 (2020 - \$162,599) in tooling and \$82,000 (2020 - \$60,016) in office equipment.

Accumulated depreciation

	Land and	Machinery	Tooling	Office	Total
	buildings	and equipment		equipment	
Balance at December 31, 2019	\$ 7,364	\$ 32,756	\$ 7,695	\$ 1,673	\$ 49,488
Depreciation for the period	\$ 718	\$ 2,263	\$ 317	\$ 204	\$ 3,502
Disposals	(41)	(1,114)	(70)	(6)	(1,231)
Effect of movements in exchange rates	1	(23)	(14)	(1)	(37)
Balance at December 31, 2020	\$ 8,042	\$ 33,882	\$ 7,928	\$ 1,870	\$ 51,722
Depreciation for the period	\$ 756	\$ 2,561	\$ 415	\$ 200	\$ 3,932
Disposals	(4)	(662)	-	(32)	(698)
Effect of movements in exchange rates	(1)	(5)	(12)	(2)	(20)
Balance at December 31, 2021	\$ 8,793	\$ 35,776	\$ 8,331	\$ 2,036	\$ 54,936

Carrying amounts

	Land and	Machinery	Tooling	Office	Total
	buildings	and equipment		equipment	
At December 31, 2019	\$ 14,766	\$ 13,501	\$ 2,743	\$ 702	\$ 31,712
At December 31, 2020	\$ 14,321	\$ 15,582	\$ 3,181	\$ 553	\$ 33,637
At December 31, 2021	\$ 17,817	\$ 19,219	\$ 3,637	\$ 468	\$ 41,141

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Depreciation of \$3,932,000 (2020 - \$3,502,000) was recorded in the consolidated statement of comprehensive income as follows: cost of sales \$3,497,000 (2020 - \$3,144,000), selling and distribution \$311,000 (2020 - \$193,000) and general and administrative \$124,000 (2020 - \$165,000).

7) Intangible assets and goodwill:

Cost

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2019	\$ 114	\$ 983	\$ 334	\$ 1,431
Additions	\$ -	\$ 44	\$ 27	\$ 71
Disposal	-	(16)	-	(16)
Effect of movement in exchange rates	2	(1)	-	1
Balance at December 31, 2020	\$ 116	\$ 1,010	\$ 361	\$ 1,487
Additions	\$ -	\$ 93	\$ 27	\$ 120
Effect of movement in exchange rates	(2)	(1)	-	(3)
Balance at December 31, 2021	\$ 114	\$ 1,102	\$ 388	\$ 1,604

Amortization

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2019	\$ -	\$ 865	\$ 252	\$ 1,117
Amortization for the period	\$ -	\$ 11	\$ 27	\$ 38
Disposal	-	(16)	-	(16)
Effect of movement in exchange rates	-	(1)	-	(1)
Balance at December 31, 2020	\$ -	\$ 859	\$ 279	\$ 1,138
Amortization for the period	\$ -	\$ 11	\$ 28	\$ 39
Effect of movement in exchange rates	-	(1)	-	(1)
Balance at December 31, 2021	\$ -	\$ 869	\$ 307	\$ 1,176

Carrying amounts

	Goodwill	Computer software	Development costs	Total
At December 31, 2019	\$ 114	\$ 118	\$ 82	\$ 314
At December 31, 2020	\$ 116	\$ 151	\$ 82	\$ 349
At December 31, 2021	\$ 114	\$ 233	\$ 81	\$ 428

All the intangible assets have been externally acquired. Amortization expense of \$39,000 (2020 - \$38,000) was recorded in the consolidated statement of comprehensive income as follows: cost of sales \$3,000 (2020 - \$4,000), selling and distribution \$29,000 (2020 - \$27,000) and general and administrative \$7,000 (2020 - \$7,000).

Impairment testing for CGUs:

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The Company has defined its CGUs as each individual legal entity since 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, 2021.

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 9.0%. The cash flow model also incorporated growth rates in the range of 2% – 4% 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, 2021 and December 31, 2020, the assets, including goodwill of \$114,000 (2020 - \$116,000), of the Company's wholly owned subsidiary, Hammond Electronics Limited, were tested and no impairment was found.

8) Leases:

Right-of-use assets

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2019	\$ 10,582	\$ 6,136	\$ 221	\$ 76	\$ 1,458	\$ 18,473
Additions for the period	\$ 4,751	\$ -	\$ -	\$ 19	\$ 765	\$ 5,535
Disposals	-	-	-	-	(332)	(332)
Effect of movements in exchange rates	(30)	6	-	-	(3)	(27)
Balance at December 31, 2020	\$ 15,303	\$ 6,142	\$ 221	\$ 95	\$ 1,888	\$ 23,649
Additions for the period	\$ -	\$ 219	\$ -	\$ 9	\$ 528	\$ 756
Disposals	-	-	-	(87)	(298)	(385)
Effect of movements in exchange rates	(65)	(10)	-	-	(3)	(78)
Balance at December 31, 2021	\$ 15,238	\$ 6,351	\$ 221	\$ 17	\$ 2,115	\$ 23,942

Accumulated depreciation

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2019	\$ 1,479	\$ 1,900	\$ 170	\$ 43	\$ 447	\$ 4,039
Depreciation for the period	\$ 1,734	\$ 541	\$ 46	\$ 42	\$ 473	\$ 2,836
Disposals	-	-	-	-	(332)	(332)
Effect of movements in exchange rates	(11)	2	-	-	(1)	(10)
Balance at December 31, 2020	\$ 3,202	\$ 2,443	\$ 216	\$ 85	\$ 587	\$ 6,533
Depreciation for the period	\$ 1,734	\$ 541	\$ 5	\$ 10	\$ 529	\$ 2,819
Disposals	\$ -	\$ -	\$ -	\$ (87)	\$ (298)	\$ (385)
Effect of movements in exchange rates	\$ (12)	\$ (2)	\$ -	\$ -	\$ (11)	\$ (25)
Balance at December 31, 2021	\$ 4,924	\$ 2,982	\$ 221	\$ 8	\$ 807	\$ 8,942

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Carrying amounts	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
At December 31, 2019	\$ 9,103	\$ 4,236	\$ 51	\$ 33	\$ 1,011	\$ 14,434
At December 31, 2020	\$ 12,101	\$ 3,699	\$ 5	\$ 10	\$ 1,301	\$ 17,116
At December 31, 2021	\$ 10,314	\$ 3,369	\$ -	\$ 9	\$ 1,308	\$ 15,000

Depreciation of \$2,819,000 (2020 - \$2,836,000) was recorded in the consolidated statement of comprehensive income as follows: cost of sales \$1,198,000 (2020 - \$1,209,000), selling and distribution \$1,603,000 (2020 - \$1,287,000) and general and administrative \$18,000 (2020 - \$340,000).

Total Lease obligations:

	December 31, 2021	December 31, 2020
Total Leases	\$ 13,862	\$ 16,084
Less current portion due in the next 12 months	2,957	2,805
Non-current leases	\$ 10,905	\$ 13,279

The Group leases warehouse and factory facilities. These leases typically run for a period of 5 years with an option to renew the lease after that date. Lease payments generally are renegotiated every five years to reflect current market rates of office and production buildings.

The Group leases automobiles with a typical lease period of 3 years. The Company provides for a guaranteed residual value when the vehicle is turned in.

The Group's fleet trucks are generally leased for a five-year term after which they are turned in. The lease rates for the trucks are a fixed rate plus a variable charge per kilometer driven. The variable charge is excluded from the initial measurement of the lease liability and asset. The variable charge is expensed in the month it is incurred.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2021 were as follows:

	Minimum lease payments due						After 5 Years	Total
	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Years		
December 31, 2021								
Lease Payments	\$ 3,515	\$ 2,833	\$ 2,382	\$ 2,377	\$ 1,620	\$ 3,317	\$ 16,044	
Finance Charge	(558)	(443)	(352)	(265)	(184)	(380)	(2,182)	
Net Present Value	\$ 2,957	\$ 2,390	\$ 2,030	\$ 2,112	\$ 1,436	\$ 2,937	\$ 13,862	
December 31, 2020								
Lease Payments	\$ 3,479	\$ 3,350	\$ 2,667	\$ 2,252	\$ 2,249	\$ 5,027	\$ 19,024	
Finance Charge	(674)	(558)	(449)	(364)	(282)	(613)	(2,940)	
Net Present Value	\$ 2,805	\$ 2,792	\$ 2,218	\$ 1,888	\$ 1,967	\$ 4,414	\$ 16,084	

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Lease payments not recognized as a liability:

The Group has elected not to recognize a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

Year to date	December 31, 2021	December 31, 2020
Short Term leases	\$ 321	\$ 241
Leases of low values	-	7
Variable lease payments	67	83
Total	\$ 388	\$ 331

9) 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, 2020. No independent valuation has been performed. The property is currently vacant, and no income is being derived from it. The Company's direct operating expense in 2021 related to the property was \$139,000 (2020- \$141,000).

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10) Equity investment:

RITEC Enclosures Inc.	
	Total
December 31, 2019	\$ 846
Equity in 2020 earnings	18
December 31, 2020	\$ 864
Equity in 2021 loss	(28)
December 31, 2021	\$ 836

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.

For the years ended December 31,	2021	2020
Share of loss	\$ (27)	\$ (25)
Foreign exchange gain (loss)	(1)	32
Income tax recovery	-	11
Equity investment earnings (loss)	\$ (28)	\$ 18
Share of profit	\$ (27)	\$ (25)
Profit in inventory movement	49	11
Share of profit (loss) of equity accounted investees	\$ 22	\$ (14)

RITEC Enclosures Inc.		
	December 31, 2021	December 31, 2020
Assets	\$ 3,104	\$ 3,149
Liabilities	1,661	1,638
Revenues	3,172	3,665
Profit (loss) (after tax)	\$ (67)	\$ (63)

11) 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 on each of the entities' lines of credit.

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		December 31, 2021		December 31, 2020	
		Local currency	CAD	Local currency	CAD
Canadian entities	CAD	\$ 795	\$ 795	\$ 2,500	\$ 2,500
UK entity	GBP	£ 116	200	£ 109	189
Bank indebtedness			\$ 995		\$ 2,689

Interest was payable at the rate of bank prime until August of 2020 when it was increased to bank prime plus 50 basis points. In December of 2020 it was then lowered to a rate of bank prime plus 25 basis points and held throughout 2021.

12) Long term debt:

	December 31, 2021	December 31, 2020
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.	\$ 1,703	\$ 1,762
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.	1,335	1,378
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.	6,034	6,245
Demand term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 4.43% through December 2025, secured by the assets of HMCL. Monthly blended installments of \$70 CAD.	2,982	3,690
Demand term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 4.0% through December 2025, secured by the assets of HMCL. Monthly blended installments of \$26 CAD.	1,165	1,431
Term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 3.83% through November 2028, secured by the assets of HMCL. Monthly blended installments of \$77 CAD.	5,601	-
Interest free term loan of \$385 CAD made in 2015, \$1,150 CAD in 2016, \$958 CAD in 2017, \$624 CAD in 2018 and \$346 CAD in 2019 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.	1,856	2,436
Subtotal	\$ 20,676	\$ 16,942
Less current portion of long-term debt	14,551	15,086
Non-current long-term debt	\$ 6,125	\$ 1,856

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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:

2022	\$	2,621
2023		8,370
2024		2,570
2025		3,405
2026		2,007
Thereafter		1,703
	\$	20,676

13) Interest expense

	December 31, 2021	December 31, 2020
Long Term debt, excluding lease liabilities	\$ 749	\$ 857
Bank indebtedness	71	139
Interest expense	\$ 820	\$ 996
Interest expense leases	\$ 661	\$ 627
Total Interest and Lease interest expense	\$ 1,481	\$ 1,623

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

	Lease Liabilities	Long-term debt	Bank indebtedness	Total
Balance at December 31, 2020	\$ 16,084	\$ 16,942	\$ 2,689	\$ 35,715
Changes from financing cash flows				
Proceeds from loans and borrowings	-	5,660	-	5,660
Repayment of lease liabilities	(3,555)	-	-	(3,555)
Repayment of borrowings	-	(1,919)	(1,692)	(3,611)
Total changes from financing cash flows	(3,555)	3,741	(1,692)	(1,506)
Liability related				
Interest expense	661	749	71	1,481
Interest paid	-	(749)	(71)	(820)
Total liability-related other changes	661	-	-	661
Non-cash added liabilities	756	-	-	756
Foreign exchange impact	(84)	(7)	(2)	(93)
Balance at December 31, 2021	\$ 13,862	\$ 20,676	\$ 995	\$ 35,533

14) Trade and other payables:

	December 31, 2021	December 31, 2020
Trade payables	\$ 10,224	\$ 6,996
Non-trade payables and accrued expenses	16,705	10,121
	\$ 26,929	\$ 17,117

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

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15) Provisions:

	Environmental remediation	Sales returns	Total
Balance at December 31, 2019	\$ 170	\$ 75	\$ 245
Provisions made during the year	103	868	971
Provisions used during the year	(48)	(859)	(907)
Balance at December 31, 2020	\$ 225	\$ 84	\$ 309
Provisions made during the period	97	1,561	1,658
Provisions used during the period	(97)	(1,505)	(1,602)
Balance at December 31, 2021	\$ 225	\$ 140	\$ 365
Non-current	145	-	145
Current	80	140	220
Balance at December 31, 2021	\$ 225	\$ 140	\$ 365

The provision for environmental remediation is based on the estimated costs to setup and extract any free flowing contamination from the Glen Ewing Property. The anticipated costs are based on an external consultant's remediation plan, discounted for expected timing of expenditures. The current estimate assumes the containment plan will be completed by 2025. 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. 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 \$225,000 (2020 - \$225,000) with \$80,000 (2020 - \$80,000) 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.

16) 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.

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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% (2020 – 3.5%) per annum health cost increase and a discount rate of 4.0% (2020 – 5.0%) 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 \$21,500 (2020 - \$15,000). Changes in assumptions resulted in nominal gains/losses which have been included in general and administrative expense.

	December 31, 2021	December 31, 2020
Post employment health benefits	\$ 70	\$ 15
Employee health benefits while on disability	323	200
Total employee future benefits	\$ 393	\$ 215

	Post employment health benefits	Employee health benefits while on disability	Total
Balance at December 31, 2019	\$ 25	\$ 240	\$ 265
Provisions made during the year	-	40	40
Provisions used during the year	(10)	(80)	(90)
Balance at December 31, 2020	\$ 15	\$ 200	\$ 215
Provisions made during the period	59	179	238
Provisions used during the period	(4)	(56)	(60)
Balance at December 31, 2021	\$ 70	\$ 323	\$ 393
Non-current	66	238	304
Current	4	85	89
Balance at December 31, 2021	\$ 70	\$ 323	\$ 393

17) Deferred tax assets and liabilities:

Unrecognized deferred tax liabilities:

At December 31, 2021, temporary differences of \$23,547,000 (2020 - \$21,446,000) 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.

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Recognized deferred tax liabilities:

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2021	December 31, 2020
Deferred tax assets		
Investment property	\$ 8	\$ 8
Inventories	570	555
Loans and borrowings	233	412
Provisions	288	181
Other	60	-
Total deferred tax assets	1,159	1,156
Deferred tax liabilities		
Other	(28)	(30)
Property, plant and equipment	(6,195)	(5,180)
Total deferred tax liabilities	(6,223)	(5,210)
Net deferred tax liabilities	\$ (5,064)	\$ (4,054)

18) 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, 2021	December 31, 2020
8,556,000 Class A shares (2020 - 8,556,000)	\$ 10,242	\$ 10,242
2,778,300 Class B shares (2020 - 2,778,300)	7	7
	\$ 10,249	\$ 10,249

No shares were issued in 2021 or in 2020.

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c) Dividends:

The following dividends were declared and paid by the Company:

Cash dividends of \$0.04 per Class A subordinate voting share were declared and paid in 2021 (2020 – \$0.04) and cash dividends of \$0.04 per Class B common share were declared and paid in 2021 (2020 – \$0.04).

Total dividends declared and paid in 2021 were \$453,000 (2020 - \$453,000).

19) Commitments:

The Company has contractual obligations for outstanding capital expenditures of \$12,523,000 (2020 - \$3,622,000). These expenditures are primarily for a new facility and related equipment the Company is building in Palmerston, Ontario.

20) Contingency:

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 \$3,500,000 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. The claim is set to go to trial in September of 2022.

A third party statement of claim was issued on March 6, 2019, against the Company with respect to an adjacent property to one of our Waterloo facilities. The claim alleges that contaminants originating from our property have migrated to the adjoining property owned by the claimants. The amount of the claim is estimated at \$160,000 to \$670,000. Our records do not show any spills of chemicals at this location and 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 condensed consolidated financial statements.

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21) Income tax expense:

	December 31, 2021		December 31, 2020	
Current tax expense	\$	1,449	\$	1,575
Deferred tax expense:				
Origination and reversal of temporary differences		1,010		1,000
Total income tax expense	\$	2,459	\$	2,575

	2021		2020	
Net income for the year	\$	7,702	\$	7,724
Total income tax expense		2,459		2,575
Income before income tax	\$	10,161	\$	10,299
Income tax using the Company's domestic tax rate	26.50%	2,693	26.50%	2,729
Reduced rate for active business and manufacturing and processing		(109)		(130)
Effect of tax rates in foreign jurisdictions		(122)		(45)
Non-deductible expenses		21		69
Other		(24)		(48)
	24.20%	\$ 2,459	25.00%	\$ 2,575

22) Earnings per share:

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

	December 31, 2021		December 31, 2020	
Net income for the year	\$	7,702	\$	7,724
Average number of common shares outstanding:				
Basic and Diluted		11,334,300		11,334,300
Earnings per share:				
Basic	\$	0.68	\$	0.68
Diluted		0.68		0.68

No share options to purchase common shares were outstanding as at December 31, 2021 or December 31, 2020.

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23) Personnel expenses:

	2021	2020
Wages and salaries	\$ 52,548	\$ 42,208
Health benefit plans	5,354	4,645
Canada Pension Plan and Employment Insurance	3,171	2,572
Contributions to defined contribution plans	1,589	1,440
	\$ 62,662	\$ 50,865

	2021	2020
Cost of sales	\$ 47,397	\$ 36,940
Selling and distribution	12,156	10,834
General and administrative	3,109	3,091
	\$ 62,662	\$ 50,865

Government subsidy:

In response to the COVID pandemic a wage subsidy was made available to the Company for its operations in Canada (the CEWS program). If a company met a certain level of sales reduction criteria they would be eligible for a wage subsidy for the employees that they kept employed. The company met the required criteria to apply for a subsidy of \$607,000 (2020 - \$2,308,000). The Company has recognized this grant as a reduction in related wages and salaries expenses. In the above chart, Cost of Sales was reduced by \$485,000 (2020 - \$1,850,000), Selling and distribution was reduced by \$103,000 (2020 - \$368,000), General and administrative expenses was reduced by \$19,000 (2020 - \$90,000).

24) Management share option plan:

As at December 31, 2021, the Company has a stock-based compensation plan, which is described below. No options were granted through December 31, 2021 or in 2020 and no stock options were outstanding as of January 1, 2020, 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.

25) 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.

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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, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized cost				
Cash	\$ 4,069	\$ 4,069	\$ 2,785	\$ 2,785
Trade and other receivables	27,143	27,143	20,541	20,541
	\$ 31,212	\$ 31,212	\$ 23,326	\$ 23,326
Liabilities carried at amortized cost				
Bank indebtedness	\$ 995	\$ 995	\$ 2,689	\$ 2,689
Trade and other payables	26,929	26,929	17,117	17,117
Term loans	20,676	20,365	16,942	17,437
	\$ 48,600	\$ 48,289	\$ 36,748	\$ 37,243

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, 2021		December 31, 2020	
	From	To	From	To
Nonsecured variable interest rates	2.55%	3.55%	2.75%	3.75%
Fixed rates				
1 to 2 year secured	2.95%	3.95%	2.85%	3.85%
3 to 4 year secured	3.00%	4.00%	2.95%	3.95%
5 year secured	3.25%	4.25%	3.05%	4.05%
7 year secured	3.45%	4.45%	3.25%	4.25%
10 year secured	3.80%	4.80%	3.50%	4.50%

Rates fluctuate depending on currency and jurisdiction.

26) 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.

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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.

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The Group establishes an allowance for doubtful accounts that represents its estimate of expected credit losses that could arise from the failure or inability of customers to make payments when due. This allowance is determined based on historical data of payment statistics for similar financial assets and historical credit losses, adjusted for forward looking factors, specific to the debtor and the economic environment.

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, 2021	December 31, 2020
Cash and receivables:		
Cash	\$ 4,069	\$ 2,785
Trade and other receivables	27,143	20,541
	<u>\$ 31,212</u>	<u>\$ 23,326</u>

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

	December 31, 2021	December 31, 2020
Cash and receivables:		
Canada	\$ 15,306	\$ 15,203
US	14,068	6,611
UK	1,631	1,368
Australia	207	144
	<u>\$ 31,212</u>	<u>\$ 23,326</u>

The following table reflects the net details of trade receivables as at December 31, 2021 and December 31, 2020:

	December 31, 2021			December 31, 2020		
	Gross	Impairment	Carrying value	Gross	Impairment	Carrying value
Aging of trade receivables:						
1 – 30 days	\$ 14,157	\$ -	\$ 14,157	\$ 9,230	\$ -	\$ 9,230
31 – 60 days	10,259	-	10,259	6,746	-	6,746
61 – 90 days	2,128	-	2,128	1,490	-	1,490
Over 90 days	670	316	354	241	171	70
Trade receivables	<u>\$ 27,214</u>	<u>\$ 316</u>	<u>\$ 26,898</u>	<u>\$ 17,707</u>	<u>\$ 171</u>	<u>\$ 17,536</u>

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

	December 31, 2021	December 31, 2020
Allowance for doubtful accounts, beginning of year	\$ 171	\$ 225
Accounts provided for in the period	145	(13)
Amounts written off during the period	-	(41)
Allowance for doubtful accounts	\$ 316	\$ 171
Allowance for doubtful accounts as % of net trade receivable	1.2%	1.0%

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

	December 31, 2021	December 31, 2020
Net trade receivable	\$ 26,898	\$ 17,536
Employee receivables	13	18
Other receivable	232	2,987
Trade and other receivables	\$ 27,143	\$ 20,541

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 \$20,000,000 (2020 – \$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 25 basis points (2020 - bank prime plus 25 basis points). The Company had available unused credit facilities in the amount of \$19,519,000 at December 31, 2021 (2020 - \$12,832,000) to meet fluctuations in working capital requirements.

The Group has established a \$10,000,000 (2020 - \$nil) line of credit to finance new equipment purchases of which it has available \$4,340,000 (2020 - \$nil).

In 2020 the Group had revolving and non-revolving capital loan facilities of \$3,000,000 and \$7,000,000 respectively. These facilities were terminated in the year and replaced with the lease line described above.

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 \$3,461,500 on eligible spending. As at December 31, 2021, the Group had received \$3,461,500 of this funding (2020 - \$3,461,500). The present value of this funding of \$2,646,385 was set up as long term debt and \$815,115 which reflects the interest savings has been offset to property, plant and equipment. Repayment of this loan is over five years and started in January of 2020. As at December 31, 2021 the present value of the funding is \$1,855,591 (2020 – \$2,435,618).

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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, 2021, 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, 2021						
	Carrying amount	Contractual cash flows	2022	2023	2024 to 2025	Thereafter
Non-derivative financial liabilities						
Term loans	\$ 20,676	\$ (23,113)	\$(16,335)	\$ (1,619)	\$ (2,466)	\$ (2,693)
Lease obligations	13,862	(16,044)	(3,515)	(2,833)	(4,759)	(4,937)
Trade and other payables	26,929	(26,929)	(26,929)	-	-	-
Bank indebtedness	995	(995)	(995)	-	-	-
Total	\$ 62,462	\$ (67,081)	\$(47,774)	\$ (4,452)	\$ (7,225)	\$ (7,630)

December 31, 2020						
	Carrying amount	Contractual cash flows	2021	2022	2023 to 2024	Thereafter
Non-derivative financial liabilities						
Term loans	\$ 16,942	\$ (17,232)	\$(15,202)	\$ (696)	\$ (1,334)	\$ -
Lease obligations	16,084	(19,023)	(3,479)	(3,350)	(4,919)	(7,275)
Trade and other payables	17,117	(17,117)	(17,117)	-	-	-
Bank indebtedness	2,689	(2,689)	(2,689)	-	-	-
Total	\$ 52,832	\$ (56,061)	\$(38,487)	\$ (4,046)	\$ (6,253)	\$ (7,275)

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.

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The following chart depicts the foreign currency positions.

Currency		Accounts receivable		Accounts payable	
		Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Australia	AUD	45	76	(17)	(3)
Europe	EURO	195	180	(15)	-
New Zealand	NZD	67	30	-	-
Taiwan	TWD	575	23	(847)	-
UK	GBP	569	595	(856)	(550)
US	USD	9,609	5,806	(2,454)	(2,086)

Currency		Long-term debt		Lease Liabilities	
		Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
UK	GBP	-	-	(1,976)	(2,048)
US	USD	(1,343)	(1,378)	(1,829)	(2,656)

Long-term debt and lease liabilities denominated in foreign currencies 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 2021 would have increased net product sales by \$833,000 (2020 - \$628,000) and increased income from operations by \$872,000 (2020 - \$695,000). Inversely, a one cent increase in the Canadian dollar against the US dollar in 2021 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 2021 bank indebtedness would increase annual interest expense by \$10,000 (2020 - \$27,000). This analysis assumes that all other variables remain constant. Inversely, a one percent decrease in the variable rates charged on ending 2021 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.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

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, 2021 and has been in compliance with its covenants through 2020 and 2021. There were

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

no changes to the Group's approach to capital management during 2021. Neither the Company, nor any of its subsidiaries, is subject to externally imposed capital requirements.

27) 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	Year ended:	
	December 31, 2021	December 31, 2020
Net product sales:		
Canada:		
Sales to customers	\$ 73,249	\$ 55,383
US:		
Sales to customers	102,127	81,074
All other countries:		
Sales to customers	14,752	11,766
Net product sales	\$ 190,128	\$ 148,223
Non-current assets:		
Canada:		
Non-current assets	\$ 52,030	\$ 46,175
US:		
Non-current assets	2,432	2,776
All other countries:		
Non-current assets	3,987	4,059
Total Non-current assets	\$ 58,449	\$ 53,010

28) 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, 2021	December 31, 2020
Salaries and short-term employee benefits	\$ 816	\$ 801

- b) The Company purchased \$2,993,000 of product from RITEC in 2021 (2020 - \$2,334,000). The Company sold \$29,000 of product to RITEC in 2021 (2020 - \$4,000). 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, 2021 were \$26,000 (2020 - \$1,000) while payables were \$11,000 (2020 - \$40,300). 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.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(tabular amounts (except share amounts) in thousands of Canadian dollars)

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, 2021	December 31, 2020
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 Electronics B.V.	Netherlands	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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Through the Years



Hammond Rack and Cabinet Division celebrates 85 years.

2019



2017

Hammond Celebrates 100 Years in Business



Guelph Operations Expands with an additional state-of-the-art Manufacturing Facility.

2016

Dry-Type Transformer Business split off under new company, Hammond Power Solutions. Shares of Hammond power solutions distributed as a separate public company



2000

Hammond goes Public on Toronto Stock Exchange



1986

Hammond expands to the UK opening in Basingstoke



1980's

Hammond Manufacturing re-branded to current identify



1976



New Factory built on Speedvale/Edinburgh Road



1955

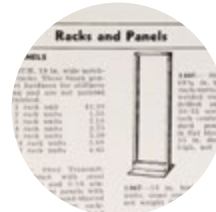


Added NEMA Enclosures



1950

Transition into manufacture of Transformers, Wire Wound Resistors and Broadcast Racks/Cabinets

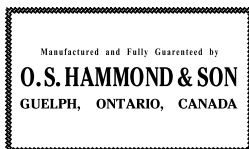


1930



Hammond O.S. & Son - built radios, amplifiers, and battery eliminators

1927



Backyard Workshop - Charging batteries, installing antennas, custom machining

1917





Corporate Directory

1-877-535-3282 (Canada) | 1-800-526-2266 (USA) | www.hammondmfg.com | @hammondmfg

Directors

Robert F. Hammond
Chairman and CEO

***Edward Sehl**
Principal - Sehl Consulting
Director Of Guelph General Hospital
CFO & Director for Odd Burger Corporation

***Paul Quigley**
President - Quigley Group Inc.

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

***Michael Fricker**
CFO of Qvella Corporation and Reunion Foods Inc.
Director of Odd Burger Corporation

***William Wiener**
Chairman of the Board of 35 Oak Holdings Ltd.

Sarah Hansen
Profit Centre Manager for Riptide Fulfillment Corporation in Calgary
Director of Eramosa Group Ltd.
Director of DKH Engineering Services Inc.

Officers / Senior Management

Robert F. Hammond
Chairman and CEO

Alexander Stirling
Secretary and CFO

Ross N. Hammond
Assistant Secretary

Auditors

KPMG LLP
Wise & Co., UK
Bentleys SA Audit Partnership

Legal Counsel

Borden Ladner Gervais

Transfer Agent and Registrar

Computershare Investor Services Inc.

Stock Listing

Toronto Stock Exchange
Symbol: HMM.A

Bankers

HSBC

*Members of the Audit Committee and Compensation Committee

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