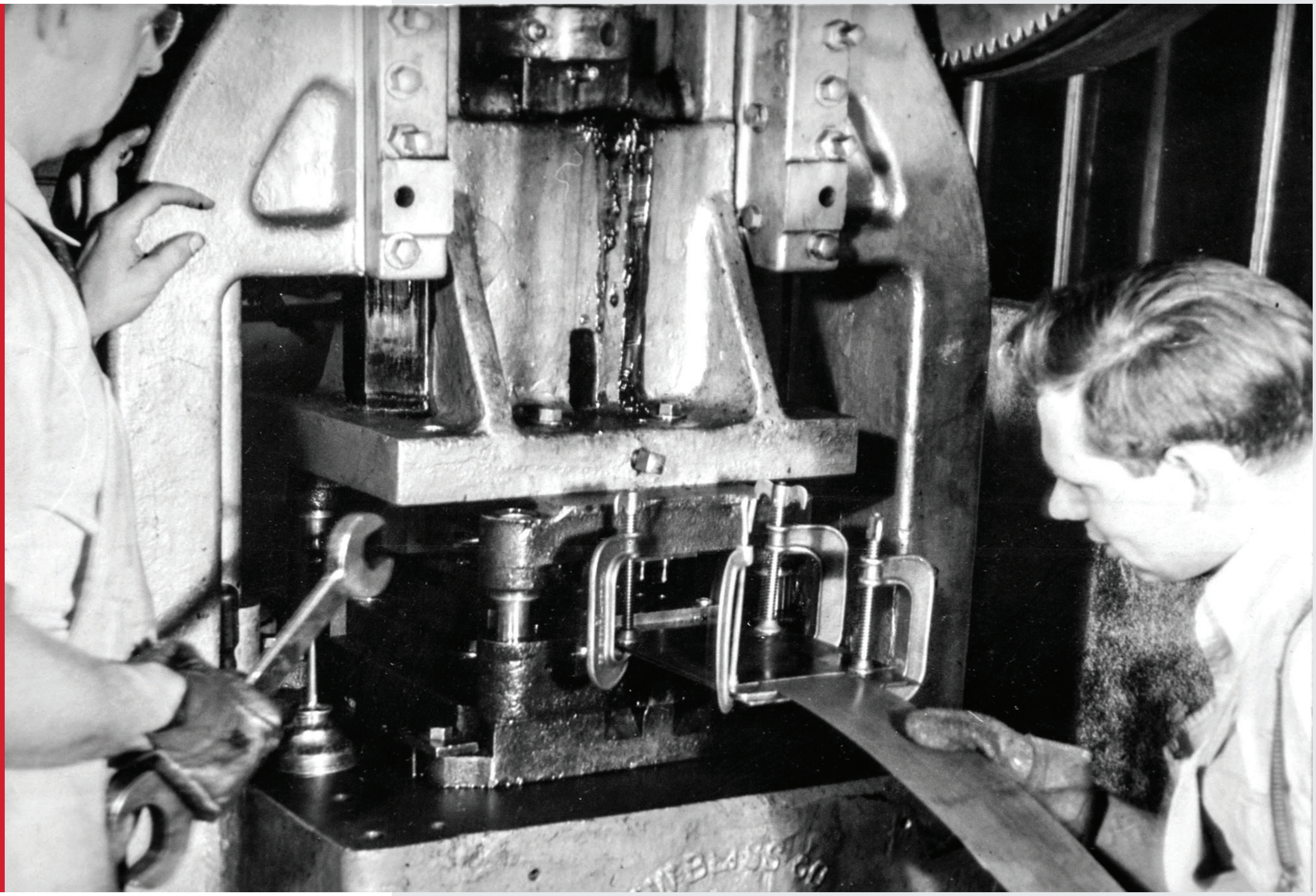
HAMMOND MANUFACTURING®

2023
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

2023 Annual Report

REPORT TO SHAREHOLDERS

Dear fellow shareholders, employees, and stakeholders:

We are pleased to communicate the results for 2023.

2023 began with the expectation we were headed into a recession and an outlook that the Canadian dollar was going to strengthen. We did see low growth in our North American markets and our UK and European markets did contract. Overall, our sales of $238 million were up 5.5% over 2022.

The US dollar was stronger than expected in 2023 and 2.6% of the sales growth came from foreign exchange.

Our gross profit levels improved over 2022 helped by several factors including foreign exchange. The growth we experienced in 2021 and 2022 during COVID came at a fast pace. During this time we saw the positive impact of more output with the same fixed infrastructure. The addition of employees to meet the demand did come at the higher cost of an inexperienced work force. In 2023 with sales growth slowing, we were able to catch up our inventories and focus on operational efficiencies. We also saw the price increases put through in 2022 holdup against our competition.

With the unprecedented growth we experienced in 2021 and 2022 it was clear our existing production facilities were becoming our constraining factor. In June of 2023 we opened a new 97,000 square foot facility in Ontario.

We continue to build long term security and success for all our associates and once again 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
April 30, 2024 at

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

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis (MD&A) comments on the consolidated financial position and financial performance of Hammond Manufacturing Company Limited ("HMCL" or "the Company") for the year ended December 31, 2023. This discussion should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2023 and related notes. Additional information about the Company can be found on its website, www.hammfg.com, or through the SEDAR website at www.sedar.com which includes the Company's Annual Information Form. The information contained herein is dated as of March 5, 2024.

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.

Cautionary advisory–Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HMCL strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "likely", "expect", "intend", "estimate", "anticipate", "believe", "plan", "objective" and "continue" and words and expressions of similar import. Although HMCL believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to currency rates); changes in laws and regulations; legal and regulatory proceedings; and the ability to execute strategic plans. HMCL does not undertake any obligation to update publicly or to revise any of the forward looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law.

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 the sourcing of die cast and plastic enclosures.

OPERATIONS

Founded in Guelph, Ontario, Canada in 1917. In the early years, the Company manufactured radios, power amplifiers and battery eliminators. The Company has grown over the years and has established a global name for quality products of Electrical Enclosures, Racks and Cabinets, Small Electronic Cases, Outlet strips and Electronic Transformers. Our customers include electrical, electronic and datacom OEM's/MRO's, utilities and institutions which are served through a network of agents and distributors.

Hammond has a team of over 900 employees supported by a commitment to ongoing capital investment and our continuous improvement programs combine to affirm the Hammond reputation for quality. Ongoing efforts to differentiate ourselves through high levels of service and customer satisfaction are a key corporate focus. These are the cornerstones to our future success.

Demand for Hammond products has been increasing at a rapid rate and in 2023, Hammond realized its highest annual revenues in the company history.

Primary manufacturing is in Ontario Canada with supporting manufacturing capabilities in the USA and United Kingdom. In June of 2023 Hammond opened a 97,000 square foot facility in Palmerston, Ontario to expand its production capabilities.

The company holds high levels of inventory to ensure our customers are serviced well. This policy served the company and our customers well as markets surged in 2021 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

HAMMOND MANUFACTURING COMPANY LIMITED

Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

	2023				Year-to-date
	Q1	Q2	Q3	Q4	Total
Net product sales	$62,492	$61,417	$57,101	$57,275	$238,285
Income from operating activities	6,238	8,006	6,575	7,269	28,088
Net income for the period	4,155	5,540	3,995	5,071	18,761
Earnings per share - Basic & diluted	$0.37	$0.49	$0.35	$0.45	$1.66

	2022				Year-to-date
	Q1	Q2	Q3	Q4	Total
Net product sales	$54,976	$57,251	$56,848	$56,847	$225,922
Income from operating activities	3,530	3,980	4,951	6,981	19,442
Net income for the period	2,205	2,295	2,504	4,999	12,003
Earnings per share - Basic & diluted	$0.19	$0.21	$0.22	$0.44	$1.06

FOURTH QUARTER RESULTS

NET PRODUCT SALES

Net product sales for the three months ended December 31, 2023 were $57,275,000, up 0.3% compared to net product sales of $57,101,000 in the third quarter of 2023. All our markets were down in local currencies over the prior quarter but the gain from USD foreign exchange offset this drop. In local currencies the Canadian market was down 4.8% while the US market was down slightly. Our UK & European market was down 6.1%. This is a normal cycle for this market as in the last two weeks of the year shipping and businesses shut down for the holidays. We are attributing lower sales in this quarter compared to the prior quarter to the impact of the yearend holidays and customers deferring taking inventory for a better balance sheet presentation for those with a December 31 yearend.

Net product sales for the current quarter were up 0.8% compared to net product sales of $56,847,000 for the three months ended December 31, 2022. Comparatively in local currencies, Canada was down 0.5% and the UK & European markets were down 3.3% compared to the fourth quarter of 2022. The US market was up compared to the fourth quarter of 2022 in USD by 1.0%. Foreign exchange from the USD provided a lift of $1,275,000 and the impact of the British pound pulled sales up by $106,000.

GROSS PROFIT

Gross profit of $22,298,000 for the fourth quarter of 2023 was 38.9% of net sales compared to 36.2% in the third quarter of 2023. If we adjust for the impact of foreign exchange this quarters gross margin is closer to 38.7% compared to the 36.2% in the prior quarter. Earlier price increases are now impacting our gross margins. These price increases were in anticipation of our annual labor cost increases that went through in November and January so we will lose some of this upside in the first quarter of 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

When we compare gross profit levels between the comparative fourth quarter of 2022 and 2023 we can see a significant increase from 35.4% to 38.9%. The impact of foreign exchange compared to levels in the fourth quarter of 2022 helped increase margin levels by approximately 2.4%.

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 $15,029,000 was 26.2% of net product sales for the three months ended December 31, 2023. This compared with spending of $14,099,000 in the previous quarter that was 24.7% of net sales. The fourth quarter of 2022 saw spending levels of $13,127,000 which was 23.1% of net sales.

Selling and distribution spending in the fourth quarter of 2023 was $13,089,000 (22.9% of net product sales) up from $12,448,000 (21.8% of net product sales) in the third quarter of 2023. Freight expenses were up significantly this quarter. One of our US carriers went bankrupt in the third quarter, and we expanded the coverage of this area to another carrier. General freight costs increased on top of this in the quarter.

Selling and distribution spending was up $1,323,000 over the fourth quarter spending of $11,766,000 in 2022 (20.7% of net product sales). Foreign exchange accounts for $252,000 of this increase. As noted above freight costs have risen over the year and we were also forced to move to another carrier. Freight cost account for $813,000 of additional spending.

General and administrative expenses of $1,930,000 (3.4% of net product sales) in the fourth quarter is up 16.9% (or $279,000) over the previous quarter's spending of $1,651,000 (2.9% of net product sales). Employee costs account for $126,000 of the increase and bad debt reserve additions accounted for another $58,000. Insurance expenses were up $31,000. Yearend social events increased spending by $36,000.

This quarter's spending was up $572,000 compared to the fourth quarter of 2022 general and administrative expenses of $1,358,000 (2.4% of net product sales). A legal settlement we received in the fourth quarter of 2022 had reduced our spending in that quarter by $112,500. Other spending increases included employee costs up $137,000, placement fees and outside consulting fees are up $93,000, insurance is up $50,000 which is a function of more asset coverage and IT expenses were up $75,000.

INCOME FROM OPERATING ACTIVITIES

This quarter income from operating activities was $7,269,000 (12.7% of net product sales). This is up from the prior quarter of $6,575,000 (11.5% of net product sales) and up from the 2022 fourth quarter amount of $6,981,000 (12.3% of net product sales).

INTEREST

Fourth quarter net interest expense on bank indebtedness and loans was $587,000 compared to an expense of $454,000 for the fourth quarter 2022.The comparative borrowing base has grown throughout the year and is up just over $8.5 million from the end on 2022 to the end of 2023.

Net Interest expense is comprised as follows:

	Three Months Ended:			
		December 31, 2023		December 31, 2022
Long term debt interest	$	614	$	268
Bank indebtedness interest		1		186
Interest expense	$	615	$	454
Interest income earned on cash		(29)		-
Net Interest Expense	$	586	$	454
Interest expense leases	$	139	$	133
Total Interest and lease interest expense	$	725	$	587

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

During the fourth quarter of 2023, the Company recognized a gain on transactional foreign exchange of $191,000 compared to a gain of $329,000 in the three months ended December 31, 2022. The intercompany balance payable to our US entity accounts is a big driver of this movement. 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 is part of the translational adjustment of the US entities balance sheet on consolidation.

INCOME TAX EXPENSE

Fourth quarter taxes of $1,646,000 is 24.5% of income before taxes which brings the overall years tax rate to 25.0% of income before taxes.

NET INCOME FOR THE PERIOD

Net income of $5,071,000 (8.9% return on net product sales) was recognized for the fourth quarter ended December 31, 2023. This is up from a net return of $3,995,000 (7.0% return on net product sales) in the previous quarter and up from the net return of $4,999,000 (8.8% return on net product sales) recognized in the fourth quarter of 2022.

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

The translation adjustment for the fourth quarter of 2023 was a loss of $602,000 compared to a translation loss of $116,000 in the fourth quarter of 2022.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the fourth quarter ended December 31, 2023 was $4,469,000 (7.8% of net product sales) down from the 3 months ended December 31, 2022 of $4,883,000 (8.6% of net product sales) and down from the previous quarter’s total comprehensive income of $4,532,000 (7.9% of net product sales).

MANAGEMENT DISCUSSION AND ANALYSIS

FULL YEAR RESULTS

NET PRODUCT SALES

Net product sales of $238,285,000 in 2023 were up 5.5% compared to net sales of $225,922,000 reported in 2022. Foreign exchange had a positive impact on year-over-year reporting by approximately $5,799,000, 2.6% of the sales increase. Our Canadian market is flat compared to 2022 while the US market is up 6.2% when measured in USD. Due to the impact of foreign exchange the US sales are up 10.1% when measured in CAD. The rest of the world's activity is down approximately 6.0%. This segment is mostly made up of our UK & European sales.

GROSS PROFIT

In 2023, gross profit was $86,206,000 or 36.2% of net product sales compared to $71,631,000 or 31.7% achieved in 2022. If we remove the foreign exchange impact in 2023, gross margin would be closer to 33.7%. Price increases that went in throughout 2022 have held and offset cost increases we have seen from our vendors throughout the year providing a positive impact on our gross margin levels.

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 $58,118,000 (24.4% of net product sales) was up 11.4% compared to the 2022 spend of $52,189,000 (23.1% of net product sales). 2.0% or $1,035,000 of the increase can be attributed to foreign exchange. This compares to a year-over-year sales increase of 5.5%.

Selling and distribution expenses of $51,018,000 increased $4,964,000 or 10.8% compared to 2022. Foreign exchange had the impact of increasing comparative costs by $945,000. Including the foreign exchange impact, freight expenses are up $2,082,000 or 10.5%. Freight costs were running higher in the first three quarters of 2023 and jumped significantly in the fourth quarter as we had to change one of our main US freight vendors in the last quarter of the year. Our existing vendor went into bankruptcy, and we had to redistribute this area to another more expensive carrier. Employee expenses are up $827,000 and commissions are up $940,000.

Our general and administrative expenses of $7,230,000 were up $1,110,000 or 18.1% compared to 2022 spending levels of $6,120,000. Foreign exchange had the impact of increasing comparative costs by $90,000. Employee costs are up $310,000. Legal and professional fees were up $87,000 as a suit against the company was closed out in 2022 and we were awarded $112,500 toward our defense costs at that time. IT software and hardware expenses were up $244,000 as we continue to strengthen our overall infrastructure and in 2023 we upgraded our ERP system in our UK offices.

This year we saw a net gain of $130,000 on the disposal of property, plant and equipment. This compares to a net loss on disposals of $15,000 recognized in 2022.

INCOME FROM OPERATING ACTIVITIES

Overall, 2023 income from operating activities was $28,088,000 (11.8% of net product sales) which is up compared to 2022 earnings of $19,442,000 (8.6% of net product sales).

INTEREST

Net interest expense on bank indebtedness and loans was $2,508,000 compared to an expense of $1,372,000 for 2022. The comparative borrowing base has increased throughout the year and is up almost $8.5 million from the end of 2022 to the end of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a breakdown of the interest expenses.

		December 31, 2023		December 31, 2022
Long term debt interest	$	1,668	$	1,032
Bank indebtedness interest		880		340
Interest expense	$	2,548	$	1,372
Interest income earned on cash		(40)		-
Net Interest Expense	$	2,508	$	1,372
Interest expense leases	$	544	$	566
Total Interest and lease interest expense	$	3,052	$	1,938

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

A $29,000 foreign exchange transactional gain was reported in 2023, compared to a transactional loss of $1,270,000 in 2022. The Canadian dollar opened 2022 at $1.00 USD to $1.268 CAD closed 2022 at $1.00 USD to $1.354 CAD. The value fluctuated through the year closing2023 at $1.00 USD to $1.323 CAD. In 2023 the average rate was $1.00 USD to $1.350 CAD level.

A large portion of the transactional impact is from our intercompany receivable. Our Canadian entity has a payable to our US entity in US dollars. This is offset in translational gains of other foreign operations.

INCOME TAX EXPENSE

2023 tax expenses of $6,238,000 were 25.0% of income before income tax. This compares to a 2022 tax expense of $4,032,000 which was 25.1% of income before income tax.

NET INCOME FOR THE YEAR

Net income for the year ended December 31, 2023 was $18,761,000 (7.9% of net product sales) compared to the prior year net income of $12,003,000 (5.3% of net product sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

During 2023, a loss of $627,000 on translational foreign exchange was recorded compared to a gain of $1,530,000 in 2022. As noted earlier a large part of the transactional impact is offset by the foreign exchange transactional impact of intercompany loans.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for 2023 was $18,134,000 (7.6% of net product sales) this compared to comprehensive income of $13,533,000 (6.0% of net product sales) in 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

SELECTED ANNUAL INFORMATION

Consolidated Statements of Comprehensive Income	2023	2022	2021
Net product sales	**$ 238,285**	$ 225,922	$ 190,128
Income from operating activities	**28,088**	19,442	11,773
Net income for the year	**18,761**	12,003	7,702
Per share - basic & fully diluted net earnings for the year	**$1.66**	$1.06	$0.68

Consolidated Statement of Financial Position	2023	2022	2021
Total assets	**$ 189,132**	$ 168,005	$ 136,976
Total funded debt and lease liabilities	**56,451**	48,392	35,533
Working capital	**43,075**	32,665	32,786
Net cash generated from operating activities	**16,895**	4,824	14,923
Dividends declared and paid	**680**	680	453
Shareholders' equity	**$ 98,999**	$ 81,545	$ 68,692

CAPITAL RESOURCES AND LIQUIDITY

Net cash generated in operating activities for 2023 was $16,895,000 (net cash generated in 2022 - $4,824,000). Cash flows from financing activities generated $5,195,000 (2022 – financing activities generated $11,091,000). Net cash used in investing activities was $13,624,000 (2022 - $20,158,000).

Trade and other receivables of $30,856,000 as at December 31, 2023 have increased 2.8% compared to the 2022 year end. The increase can be attributed to higher sales in the corresponding periods.

The year-end investment in inventory of $67,552,000 saw an increase of 6.8% from the 2022 inventory value of $63,267,000. Inventory turnover decreased to 2.3 from 2.8 (cost of sales for the year divided by the twelve-month average inventory level). Turns of 2 to 3 reflect our historical levels. Our value statement hinges on having our standard product on our shelves.

Trade and other liabilities decreased by $4,794,000, or 16.2% over 2022 to $24,815,000. At year end 2022 we had accrued expenses of $2,530,000 toward our new facility project. Total long-term debt, lease liabilities and bank indebtedness increased by $8,059,000 over the prior year to $56,451,000. This was driven by our investment in our new facility. Our debt-to-equity ratio at year-end (excluding lease liabilities) was approximately 0.46:1 (2022 - 0.45:1). Debt-to-equity calculated inclusive of the lease liabilities was 0.57:1 (2022 – 0.59:1). Debt is made up of Bank Indebtedness, Long-term Debt and Lease Liabilities. In July of 2023 the company fixed $26,000,000 in long-term debt secured against some of our properties. The debt will be amortized over 25 years and has a fixed rate of 6.25% for the first 5 years.

Total dividends paid in 2023 were $680,000 (2022 - $680,000).

Property, plant, equipment and intangible asset additions excluding right of use assets in 2023 were $13,764,000 down from $20,218,000 in 2022. The Company spent $4,275,000 (2022 - $14,514,000) on land, building and leasehold improvements. $1,060,000 (2022 - $198,000) was invested toward replacing machinery and equipment, $7,090,000 (2022 - $5,078,000) was invested toward machinery and equipment for capacity growth, $804,000 (2022 - $339,000) was invested in tooling, $424,000 (2022 - $40,000) was invested in office equipment. $75,000 (2022– $49,000) was spent on software and development costs. 2023 spending on product development of $36,000 compared with $nil in 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

The overall cash position increased by $7,948,000 in 2023 compared to a cash position decrease of $3,127,000 in 2022. The company took the opportunity to fix interest rates on debt before additional rate increases went through in 2023. The excess cash will be utilized to fund future growth projects.

In the second quarter of this year the company renewed the lease of one of our production facilities comprising of approximately 26,454 sq. ft. The lease will run until May 31, 2028, and has a renewal option for an additional 5 years. The adjustment to the present value of the lease liability and Right-of-use asset was $1,507,000.

In the fourth quarter of this year the company renewed the lease of one of our sales offices comprising of approximately 2,237 sq ft. The lease will run until Dec 31, 2028, and has a renewal option for an additional 5 years. The adjustment to the present value of the lease liability and Right-of-use asset was $140,000.

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

As at December 31, 2023 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	$44,727	$38,428	$ 1,404	$ 1,476	$ 1,551	$ 1,553	$ 315
Lease Liabilities	11,293	2,435	2,529	1,825	1,084	869	2,551
Total contractual obligations	$56,020	$40,863	$ 3,933	$ 3,301	$ 2,635	$ 2,422	$ 2,866

As at December 31, 2023 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	$44,727	$ 3,740	$ 4,726	$ 8,414	$ 2,082	$25,450	$ 315
Lease Liabilities	11,293	2,435	2,529	1,825	1,084	869	2,551
Total contractual obligations	$56,020	$ 6,175	$ 7,255	$10,239	$ 3,166	$26,319	$ 2,866

In addition to the contractual obligations above, the Company has current obligations of $395,000 (2022 - $9,959,000) against open purchase orders for outstanding capital expenditures.

The Company also has open purchase commitments with RITEC as at December 31, 2023 of $452,000 (2022 - $2,805,000). These expenditures should be completed in the first half of 2024.

SHARE CAPITAL

As of March 5, 2023, 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 2023 was $36,500,000. This showed improvement over EBITDA of $25,535,000 achieved in 2022.

EBITDA adjusted for transactional impact of foreign exchange was $36,471,000 in 2023 compared to an adjusted EBITDA of 26,805,000 in 2022. 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)*.

(In thousands of Canadian dollars)	**Years Ended:**		**Three Months Ended:**	
	December 31, 2023	**December 31, 2022**	**December 31, 2023**	**December 31, 2022**
Net income for the period	$ 18,761	$ 12,003	$ 5,071	$ 4,999
Add				
Income tax expense	6,238	4,032	1,646	1,633
Depreciation and amortization	5,769	4,748	1,435	1,144
Right-of-use depreciation	2,680	2,814	684	714
Finance costs on debt	2,508	1,372	586	454
Right-of-use finance costs	544	566	139	133
Subtotal	17,739	13,532	4,490	4,078
EBITDA*	$ 36,500	$ 25,535	$ 9,561	$ 9,077
Add:				
FX transactional loss (gain)	(29)	1,270	(191)	(329)
Adjusted EBITDA *	$ 36,471	$ 26,805	$ 9,370	$ 8,748

* 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 expenses for legal and consulting work for 2023 related to this property was $78,000 (2022 - $148,000).

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 plan's 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 (2022 - $225,000) with $80,000 (2022 - $80,000) presented as a current liability in the consolidated financial statements.

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 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.

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.

CONTROLS AND PROCEDURES

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

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

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

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

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

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

Internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Evaluation of Disclosure Controls and Procedures:

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

Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed and are operating effectively as at the December 31, 2023 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, 2023.

RISKS AND UNCERTAINTIES

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

These risks include:

- Security Breaches or Disruptions of Information Technology Systems Risk;
- Key personnel;
- The cyclical effects, unpredictability and volatility of market driven commodity costs, raw materials such as copper and steel pricing and supply and demand;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the US dollar;
- Rising interest rates;
- Economic slowdown in the US and Canada;
- 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 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 $1,104,000 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 39.4% of the Company's debt financing (excluding Right of use obligations). The interest rates have climbed significantly in 2022 as governments try to fight inflation. The Company is cognizant that a rise in interest rates negatively impacts 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 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

Global Pandemics such as the COVID outbreak that started in 2020 can have dramatic impacts on markets as supply chains, labour forces, logistics etc. become susceptible to disruption. It is important to get out in front of these situations and be prepared to react to mitigate the issues as they arise.

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.

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 were adopted January 1, 2023. The impact of adoption of these amendments did not have a material impact on the financial statements.

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 were adopted January 1, 2023. The impact of adoption of these amendments did not have a material impact on the financial statements.

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 were adopted January 1, 2023. The impact of adoption of these amendments did not have a material impact on the financial statements.

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.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction.

The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

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. On October 31, 2022, the IASB issued *Non-current Liabilities with Covenants* (amendments to IAS 1), to improve the information a company provides about long-term debt with covenants.

The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

On May 25, 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

The amendments are effective or periods beginning on or after 1 January 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

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 2024

The feedback we have from our North American markets is that we will see growth in the low-single digit area in 2024 compared to the level of activity we experienced in the latter half of 2023. Our UK and European markets remain weak and we are watching this closely and will react accordingly.

The current outlook for the US dollar is that it will weaken from today's levels. A weaker US dollar will lower our return on sales in our US markets. We continue to competitively price our products and stimulate market share growth.

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 IFRS Accounting 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 four non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board of Directors.

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

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

Guelph, Ontario

March 5, 2024

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120 Victoria Street South
Suite 600
Kitchener, ON N2G 0E1
Canada
Telephone 519 747 8800
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INDEPENDENT AUDITOR'S 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, 2023 and 2022
- 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 material accounting policy information

(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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

Key Audit Matters

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, 2023. 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 auditor's 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 $67,552 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 auditor's 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 auditor's 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 auditor's 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 IFRS Accounting Standards, 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.

Auditor's 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 auditor's 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 auditor’s 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 auditor’s 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 auditor's 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 auditor's 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 auditor's report is Matthew Betik.

Kitchener, Canada

March 5, 2024

HAMMOND MANUFACTURING COMPANY LIMITED

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

	Note		December 31, 2023		December 31, 2022
Assets					
Current assets:					
Cash		$	8,890	$	942
Trade and other receivables	4, 26		30,856		30,014
Income taxes receivable			799		-
Inventories	5		67,552		63,267
Prepaid expenses			1,890		1,859
Total current assets			109,987		96,082
Non-current assets:					
Property, plant and equipment	6		66,817		57,286
Intangible assets and goodwill	7		383		347
Right-of-use assets	8		10,378		12,423
Investment property	9		1,044		1,044
Equity investment	10		929		823
Total non-current assets			79,551		71,923
Total assets		**$**	**189,538**	**$**	**168,005**
Liabilities					
Current liabilities:					
Bank indebtedness	11	$	431	$	14,446
Trade and other payables	14		24,815		29,609
Income taxes payable			406		2,481
Current portion of provisions	15		260		220
Current portion of employee future benefits	16		137		114
Current portion of long-term debt	12		38,428		13,962
Current portion of lease liabilities	8		2,435		2,585
Total current liabilities			66,912		63,417
Non-current liabilities:					
Provisions	15		145		145
Employee future benefits	16		336		286
Long-term debt	12		6,299		8,236
Lease liabilities	8		8,858		9,163
Deferred tax liabilities	17		7,989		5,213
Total non-current liabilities			23,627		23,043
Total liabilities			**90,539**		**86,460**
Equity:					
Share capital	19		10,249		10,249
Contributed surplus			290		290
Accumulated other comprehensive income			2,786		3,413
Retained earnings			85,674		67,593
Total equity			98,999		81,545
Total liabilities and equity		**$**	**189,538**	**$**	**168,005**

The notes on pages 33 to 65 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	2023	2022
Net product sales	27	$ 238,285	$ 225,922
Cost of sales		152,079	154,291
Gross profit		86,206	71,631
Selling and distribution		51,018	46,054
General and administrative		7,230	6,120
(Gain) Loss on disposal of property, plant and equipment		(130)	15
Income from operating activities		28,088	19,442
Net interest expense	13	(2,508)	(1,372)
Interest expense leases	13	(544)	(566)
Foreign exchange gain (loss)		29	(1,270)
Net finance expense		(3,023)	(3,208)
Share of profit (loss) of equity accounted investees	10	12	(51)
Share of expenses from investment property	9	(78)	(148)
Income before income tax		24,999	16,035
Income tax expense	18	6,238	4,032
Net income for the period		**$ 18,761**	**$ 12,003**
Other comprehensive Income (loss):			
Foreign currency translation for foreign operations, net of income tax		(627)	1,530
Total comprehensive income for the period		**$ 18,134**	**$ 13,533**
Earnings per share			
Basic earnings per share	22	$ 1.66	$ 1.06
Diluted earnings per share	22	$ 1.66	$ 1.06

The notes on pages 33 to 65 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Changes in Equity
For the years December 31, 2023 and December 31, 2022
(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, 2022	$ 10,249	$ 290	$ 1,883	$ 56,270	$ 68,692
Net income for the year	-	-	-	12,003	12,003
Other comprehensive income:					
Foreign currency translation differences	-	-	1,530	-	1,530
Total comprehensive income for the year	-	-	1,530	12,003	13,533
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(680)	(680)
Balance at December 31, 2022	$ 10,249	$ 290	$ 3,413	$ 67,593	$ 81,545
Balance at January 1, 2023	$ 10,249	$ 290	$ 3,413	$ 67,593	$ 81,545
Net income for the year	-	-	-	18,761	18,761
Other comprehensive loss:					
Foreign currency translation differences	-	-	(627)	-	(627)
Total comprehensive income (loss) for the year	-	-	(627)	18,761	18,134
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(680)	(680)
Balance at December 31, 2023	$ 10,249	$ 290	$ 2,786	$ 85,674	$ 98,999

** Accumulated other comprehensive income (loss)

The notes on pages 33 to 65 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,	Note	2023	2022
Cash flows from operating activities			
Net income for the period		$ 18,761	$ 12,003
Adjustments for:			
Depreciation of property, plant and equipment	6	5,691	4,698
Amortization of intangible assets	7	78	50
Depreciation of right-of-use assets	8	2,680	2,814
Interest expense	13	2,508	1,372
Interest expense on leases	13	544	566
Income tax expense	18	6,238	4,032
Loss (gain) on disposal of property, plant and equipment		(130)	15
Provisions and employee future benefits		113	7
Equity investments	10	(106)	13
Change in inventory allowance for lower of cost or market		251	57
		36,628	25,627
Change in non-cash working capital:			
Inventories		(4,426)	(17,974)
Trade and other receivables		(1,159)	(2,114)
Prepaid expenses		(29)	(140)
Trade and other payables		(4,772)	2,706
Cash generated in operating activities		26,242	8,105
Interest paid	13	(2,508)	(1,372)
Interest paid on leases	13	(544)	(566)
Income tax paid		(6,295)	(1,343)
Net cash generated in operating activities		**16,895**	**4,824**
Cash flows from financing activities			
Bank indebtedness (repayment) withdrawl		(14,015)	13,457
Payment of long-term debt		(3,429)	(2,935)
Payment of lease liabilities		(2,681)	(3,091)
Advances of long-term debt		26,000	4,340
Payment of dividends		(680)	(680)
Net cash generated in financing activities		5,195	11,091
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		140	60
Acquisition of property, plant and equipment	6	(13,653)	(20,169)
Intangible asset additions	7	(111)	(49)
Net cash used in investing activities		(13,624)	(20,158)
Net increase (decrease) in cash		**8,466**	**(4,243)**
Cash at beginning of period		942	4,069
Foreign exchange gain on cash and cash equivalents in a foreign currency		(518)	1,116
Cash at end of period		$ 8,890	$ 942

The notes on pages 33 to 65 are an integral part of these consolidated financial statements.

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, 2023 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.

2) Basis of preparation:

a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards.

The Board of Directors approved these consolidated financial statements on March 5, 2024.

b) Basis of measurement:

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

c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars. The functional currency of the Group's entities is the currency of their primary economic environment. 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.

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.

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 judgements 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

Management exercises judgement 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

Management 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 judgement 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 judgement 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.

3) Summary of material 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 consolidated financial statements include the investment in RITEC, which is accounted for using the equity method.

b) Revenue recognition:

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 measured 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. Assets are amortized over their useful life on a straight-line basis, except for specific tooling items which are amortized based on units of production method.

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

Asset	Useful Life
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 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 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 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) 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.

j) 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 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.

k) 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.

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 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.

The Group completed its annual impairment test at December 31, 2023 and December 31, 2022, and concluded there was no impairment.

l) 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.

m) Segment reporting:

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

n) Finance costs:

Finance costs consist of interest on borrowings and finance leases.

o) 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.

p) Leases:

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 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.

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.

q) 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.

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 were adopted January 1, 2023. The impact of adoption of these amendments did not have a material impact on the financial statements.

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 were adopted January 1, 2023. The impact of adoption of these amendments did not have a material impact on the financial statements.

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 were adopted January 1, 2023. The impact of adoption of these amendments did not have a material impact on the financial statements.

r) 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.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction.

The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

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. On October 31, 2022, the IASB issued *Non-current Liabilities with Covenants* (amendments to IAS 1), to improve the information a company provides about long-term debt with covenants.

The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

On May 25, 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments introduce two new disclosure objectives

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

– one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

The amendments are effective or periods beginning on or after 1 January 2024, with early application permitted. However, some relief from providing certain information in the year of initial application is available.

4) Trade and other receivables:

	December 31, 2023	December 31, 2022
Trade receivables	$ 30,895	$ 28,910
Employee receivables	15	12
Other receivables	487	1,501
	31,397	30,423
Estimated credit losses	(541)	(409)
Trade and other receivables	$ 30,856	$ 30,014

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, 2023	December 31, 2022
Raw materials	$ 17,120	$ 16,877
Work-in-process	5,615	6,832
Finished goods	44,817	39,558
Inventories	$ 67,552	$ 63,267
Inventories carried at net realizable value	$ 1,788	$ 2,261

In 2023, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to approximately $151,828,000 (2022 - $154,234,000). In 2023, the write-down of inventories to net realizable value net of recovery was $251,000 (2022 - $57,000).

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

6) Property, plant and equipment:

Cost

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2021	$ 26,610	$ 54,995	$ 11,968	$ 2,504	$ 96,077
Reclassifications	$ (322)	$ 799	$ 128	$ 509	$ 1,114
Additions	14,514	5,276	339	40	20,169
Disposals	(21)	(388)	-	-	(409)
Effect of movements in exchange rates	(4)	86	64	6	152
Balance at December 31, 2022	$ 40,777	$ 60,768	$ 12,499	$ 3,059	$ 117,103
Reclassifications	$ -	$ 5,377	$ 181	$ -	$ 5,558
Additions	4,275	8,150	804	424	13,653
Disposals	(146)	(1,008)	(175)	(54)	(1,383)
Effect of movements in exchange rates	3	(44)	(17)	(1)	(59)
Balance at December 31, 2023	$ 44,909	$ 73,243	$ 13,292	$ 3,428	$ 134,872

At December 31, 2023, the amount of expenditures recognized in the carrying amount that were in the course of construction was $Nil (2022 - $15,741,000) in land and buildings, $166,000 (2022 - $3,828,000) in machinery and equipment and $47,000 (2022 - $194,000) in tooling.

In 2023, assets previously classified as right-of-use assets (note 8) were reclassified to property, plant and equipment as a result of the buyout of the leased assets.

In 2022 the Company made certain opening balance reclassifications between property plant and equipment, intangible assets and right-of-use assets during the period to align classification within categories.

Accumulated depreciation

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2021	$ 8,793	$ 35,776	$ 8,331	$ 2,036	$ 54,936
Reclassifications	$ 42	$ (144)	$ 69	$ 441	$ 408
Depreciation for the period	842	2,895	763	198	4,698
Disposals	(10)	(324)	-	-	(334)
Effect of movements in exchange rates	(5)	55	54	5	109
Balance at December 31, 2022	$ 9,662	$ 38,258	$ 9,217	$ 2,680	$ 59,817
Reclassifications	$ -	$ 3,772	$ 181	$ -	$ 3,953
Depreciation for the period	1,120	3,650	702	219	5,691
Disposals	(141)	(1,007)	(171)	(54)	(1,373)
Effect of movements in exchange rates	3	(22)	(14)	-	(33)
Balance at December 31, 2023	$ 10,644	$ 44,651	$ 9,915	$ 2,845	$ 68,055

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

Carrying amounts

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
At December 31, 2021	$ 17,817	$ 19,219	$ 3,637	$ 468	$ 41,141
At December 31, 2022	$ 31,115	$ 22,510	$ 3,282	$ 379	$ 57,286
At December 31, 2023	$ 34,265	$ 28,592	$ 3,377	$ 583	$ 66,817

Depreciation of $5,691,000 (2022 - $4,698,000) was recorded in the consolidated statement of comprehensive income as follows: cost of sales $5,254,000 (2022 – $4,285,000), selling and distribution $336,000 (2022 – $299,000) and general and administrative $101,000 (2022 – $114,000).

7) Intangible assets and goodwill:

Cost

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2021	$ 114	$ 1,102	$ 388	$ 1,604
Reclassifications (see note 6)	$ -	$ (476)	$ 8	$ (468)
Additions	-	49	-	49
Effect of movement in exchange rates	(5)	7	-	2
Balance at December 31, 2022	$ 109	$ 682	$ 396	$ 1,187
Additions	$ -	$ 75	$ 36	$ 111
Disposal	-	(109)	-	(109)
Effect of movement in exchange rates	3	(2)	-	1
Balance at December 31, 2023	$ 112	$ 646	$ 432	$ 1,190

Amortization

	Goodwill	Computer software	Development costs	Total
Balance at December 31, 2021	$ -	$ 869	$ 307	$ 1,176
Reclassifications (see note 6)	$ -	$ (398)	$ 6	$ (392)
Amortization for the period	$ -	$ 22	$ 28	$ 50
Effect of movement in exchange rates	-	6	-	6
Balance at December 31, 2022	$ -	$ 499	$ 341	$ 840
Amortization for the period	$ -	$ 48	$ 30	$ 78
Disposal	-	(109)	-	(109)
Effect of movement in exchange rates	-	(2)	-	(2)
Balance at December 31, 2023	$ -	$ 436	$ 371	$ 807

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

Carrying amounts

	Goodwill	Computer software	Development costs	Total
At December 31, 2021	$ 114	$ 233	$ 81	$ 428
At December 31, 2022	$ 109	$ 183	$ 55	$ 347
At December 31, 2023	$ 112	$ 210	$ 61	$ 383

Amortization expense of $78,000 (2022 - $50,000) was recorded in the consolidated statement of comprehensive income as follows: cost of sales $33,000 (2022 – $12,000), selling and distribution $32,000 (2022 - $25,000) and general and administrative $13,000 (2022 – $13,000).

Impairment testing for CGUs:

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, 2023.

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, 2023 and December 31, 2022, the assets, including goodwill of $112,000 (2022 - $109,000), 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, 2021	$ 15,238	$ 6,351	$ 221	$ 17	$ 2,115	$ 23,942
Reclassifications (see note 6)	$ -	$ (606)	$ (40)	$ -	$ -	$ (646)
Additions for the period	-	-	-	-	978	978
Disposals	-	(10)	-	(8)	(249)	(267)
Effect of movements in exchange rates	(60)	(36)	-	1	6	(89)
Balance at December 31, 2022	$ 15,178	$ 5,699	$ 181	$ 10	$ 2,850	$ 23,918
Reclassifications (see note 6)	$ -	$ (5,377)	$ (181)	$ -	$ -	$ (5,558)
Additions for the period	1,647	-	-	19	499	2,165
Disposals	-	-	-	-	(294)	(294)
Effect of movements in exchange rates	73	16	-	(1)	(3)	85
Balance at December 31, 2023	$ 16,898	$ 338	$ -	$ 28	$ 3,052	$ 20,316

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

Accumulated depreciation

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2021	$ 4,924	$ 2,982	$ 221	$ 8	$ 807	$ 8,942
Reclassifications (see note 6)	$ -	$ 24	$ (40)	$ -	$ -	$ (16)
Depreciation for the period	1,722	573	-	3	516	2,814
Disposals	-	(10)	-	(8)	(249)	(267)
Effect of movements in exchange rates	19	3	-	-	-	22
Balance at December 31, 2022	$ 6,665	$ 3,572	$ 181	$ 3	$ 1,074	$ 11,495
Reclassifications (see note 6)	$ -	$ (3,772)	$ (181)	$ -	$ -	$ (3,953)
Depreciation for the period	1,826	267	-	4	583	2,680
Disposals	-	-	-	-	(294)	(294)
Effect of movements in exchange rates	11	1	-	-	(2)	10
Balance at December 31, 2023	$ 8,502	$ 68	$ -	$ 7	$ 1,361	$ 9,938

Carrying amounts

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
At December 31, 2021	$ 10,314	$ 3,369	$ -	$ 9	$ 1,308	$ 15,000
At December 31, 2022	$ 8,513	$ 2,127	$ -	$ 7	$ 1,776	$ 12,423
At December 31, 2023	$ 8,396	$ 270	$ -	$ 21	$ 1,691	$ 10,378

Depreciation of $2,680,000 (2022 - $2,814,000) was recorded in the consolidated statement of comprehensive income as follows: cost of sales $967,000 (2022 – $1,175,000), selling and distribution $1,700,000 (2022 – $1,627,000) and general and administrative $13,000 (2022 – $12,000).

Total Lease obligations:

	December 31, 2023	December 31, 2022
Total Leases	$ 11,293	$ 11,748
Less current portion due in the next 12 months	2,435	2,585
Non-current leases	$ 8,858	$ 9,163

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.

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

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2023 were as follows:

	Minimum lease payments due						
	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years	Total
December 31, 2023							
Lease Payments	$ 2,930	$ 2,914	$ 2,107	$ 1,293	$ 1,030	$ 2,812	$ 13,086
Finance Charge	(495)	(385)	(282)	(209)	(161)	(261)	(1,793)
Net Present Value	**$ 2,435**	**$ 2,529**	**$ 1,825**	**$ 1,084**	**$ 869**	**$ 2,551**	**$ 11,293**
December 31, 2022							
Lease Payments	$ 3,057	$ 2,588	$ 2,562	$ 1,763	$ 972	$ 2,499	$ 13,441
Finance Charge	(472)	(373)	(278)	(192)	(133)	(245)	(1,693)
Net Present Value	**$ 2,585**	**$ 2,215**	**$ 2,284**	**$ 1,571**	**$ 839**	**$ 2,254**	**$ 11,748**

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, 2023	December 31, 2022
Short Term leases	$ 628	$ 347
Variable lease payments	55	55
Total	$ 683	$ 402

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, 2022. No independent evaluation has been performed. The property is currently vacant, and no income is being derived from it. The Company's direct operating expense in 2023 related to the property was $78,000 (2022- $148,000).

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

10) Equity investment:

RITEC Enclosures Inc.

	Total
December 31, 2021	$ 836
Equity in 2022 loss	(13)
December 31, 2022	$ 823
Equity in 2023 earnings	106
December 31, 2023	$ 929

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,	2023	2022
Share of gain	$ 117	$ 13
Foreign exchange loss	(11)	(26)
Equity investment gain (loss)	$ 106	$ (13)
Share of profit	$ 117	$ 13
Profit in inventory movement	(105)	(64)
Share of profit (loss) of equity accounted investees	$ 12	$ (51)

RITEC Enclosures Inc.

	December 31, 2023	December 31, 2022
Assets	$ 4,847	$ 3,498
Liabilities	3,120	2,065
Revenues	6,144	4,143
Profit (loss) (after tax)	$ 293	$ 33

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.

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

		December 31, 2023		December 31, 2022	
		Local currency	CAD	Local currency	CAD
Canadian entities	CAD	$ -	$ -	$ 13,995	$ 13,995
UK entity	GBP	£ 256	431	£ 277	451
Bank indebtedness			$ 431		$ 14,446

Interest was payable at the rate of bank prime for all of 2022 and 2023.

12) Long term debt:

	December 31, 2023	December 31, 2022
Demand term loan amortized over 25 years drawn in USD funds at a fixed interest rate of 5.30% through November 2025, secured by the assets of HMCL. Monthly blended installments of $9 USD.	$ 1,675	$ 1,769
Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 5.20% through December 2026, secured by the assets of HMCL. Monthly blended installments of $9 CAD.	1,255	1,296
Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 6.25% through December 2026 (2022 - 4% through December 2023), secured by the assets of HMCL. Monthly blended installments of $37 CAD.	5,632	5,837
Demand term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 4.43% through October 2025, secured by the assets of HMCL. Monthly blended installments of $70 CAD.	1,490	2,253
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.	606	891
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.	4,131	4,880
Term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 6.5% through June 2029, secured by the assets of HMCL. Monthly blended installments of $64 CAD.	3,504	4,027
Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 6.25% through July 2028, secured by the assets of HMCL. Monthly blended installments of $170 CAD.	25,833	-
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.	601	1,245
Subtotal	$ 44,727	$ 22,198
Less current portion of long-term debt	38,428	13,962
Non-current long-term debt	$ 6,299	$ 8,236

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

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 if the loans are not placed on demand:

2024	$	3,740
2025		4,726
2026		8,414
2027		2,082
2028		25,450
Thereafter		315
	$	44,727

13) Interest expense

		December 31, 2023		December 31, 2022
Long term debt interest	$	1,668	$	1,032
Bank indebtedness interest		880		340
Interest expense	$	2,548	$	1,372
Interest income earned on cash		(40)		-
Net Interest Expense	$	2,508	$	1,372
Interest expense leases	$	544	$	566
Total Interest and lease interest expense	$	3,052	$	1,938

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

	Lease Liabilities	Long-term debt	Bank indebtedness	Total
Balance at December 31, 2021	$ 13,862	$ 20,676	$ 995	$ 35,533
Changes from financing cash flows				
Proceeds from loans and borrowings	-	4,340	13,457	17,797
Repayment of lease liabilities	(3,091)	-	-	(3,091)
Repayment of borrowings	-	(2,935)	-	(2,935)
Total changes from financing cash flows	(3,091)	1,405	13,457	11,771
Liability related				
Interest expense	566	1,032	340	1,938
Interest paid	(566)	(1,032)	(340)	(1,938)
Impact of interest free term loan	-	-	-	-
Total liability-related other changes	-	-	-	-
Non-cash added liabilities	978	-	-	978
Foreign exchange impact	(1)	117	(6)	110
Balance at December 31, 2022	$ 11,748	$ 22,198	$ 14,446	$ 48,392

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

	Lease Liabilities	Long-term debt	Bank indebtedness	Total
Balance at December 31, 2022	$ 11,748	$ 22,198	$ 14,446	$ 48,392
Changes from financing cash flows				
Proceeds from loans and borrowings	-	26,000	-	26,000
Repayment of lease liabilities	(2,681)	-	-	(2,681)
Repayment of borrowings	-	(3,429)	(14,015)	(17,444)
Total changes from financing cash flows	(2,681)	22,571	(14,015)	5,875
Liability related				
Interest earned on cash	-	-	(40)	(40)
Interest expense	544	1,668	880	3,092
Interest paid	(544)	(1,668)	(840)	(3,052)
Total liability-related other changes	-	-	-	-
Non-cash added liabilities	2,165	-	-	2,165
Foreign exchange impact	61	(42)	-	19
Balance at December 31, 2023	$ 11,293	$ 44,727	$ 431	$ 56,451

14) Trade and other payables:

	December 31, 2023	December 31, 2022
Trade payables	$ 8,500	$ 8,205
Non-trade payables and accrued expenses	16,315	21,404
	$ 24,815	$ 29,609

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

15) Provisions:

	Environmental remediation	Sales returns	Total
Balance at December 31, 2021	$ 225	$ 140	$ 365
Provisions made during the period	54	1,800	1,854
Provisions used during the period	(54)	(1,800)	(1,854)
Balance at December 31, 2022	$ 225	$ 140	$ 365
Provisions made during the period	57	2,353	2,410
Provisions used during the period	(57)	(2,313)	(2,370)
Balance at December 31, 2023	$ 225	$ 180	$ 405
Non-current	145	-	145
Current	80	180	260
Balance at December 31, 2023	$ 225	$ 180	$ 405

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

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 2027. 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 (2022 - $225,000) with $80,000 (2022 - $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.

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% (2022 – 3.5%) per annum health cost increase and a discount rate of 4.0% (2022 – 4.0%) 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 $24,700 (2022 - $22,100). Changes in assumptions resulted in nominal gains/losses which have been included in general and administrative expense.

	December 31, 2023	December 31, 2022
Post employment health benefits	$ 73	$ 60
Employee health benefits while on disability	400	340
Total employee future benefits	$ 473	$ 400

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

	Post employment health benefits	Employee health benefits while on disability	Total
Balance at December 31, 2021	$ 70	$ 323	$ 393
Provisions made during the period	4	149	153
Provisions used during the period	(14)	(132)	(146)
Balance at December 31, 2022	$ 60	$ 340	$ 400
Provisions made during the period	31	234	265
Provisions used during the period	(18)	(174)	(192)
Balance at December 31, 2023	$ 73	$ 400	$ 473
Non-current	56	280	336
Current	17	120	137
Balance at December 31, 2023	$ 73	$ 400	$ 473

17) Deferred tax assets and liabilities:

Unrecognized deferred tax liabilities:

At December 31, 2023, temporary differences of $30,502,000 (2022 - $27,340,000) related to investments in subsidiaries were not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Recognized deferred tax liabilities:

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2023	December 31, 2022
Deferred tax assets		
Investment property	$ 8	$ 8
Inventories	755	617
Provisions	356	304
Other	-	64
Total deferred tax assets	1,119	993
Deferred tax liabilities		
Other	(23)	(25)
Loans and borrowings	(5)	(16)
Property, plant and equipment	(9,080)	(6,165)
Total deferred tax liabilities	(9,108)	(6,206)
Net deferred tax liabilities	$ (7,989)	$ (5,213)

18) Income tax expense:

	December 31, 2023	December 31, 2022
Current tax expense	$ 3,430	$ 3,895
Deferred tax expense:		
Origination and reversal of temporary differences	2,808	137
Total income tax expense	$ 6,238	$ 4,032

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

	2023		2022	
Income before income tax		$ 24,999		$ 16,035
Income tax using the Company's domestic tax rate	26.50%	6,625	26.50%	4,249
Reduced rate for active business and manufacturing and processing		(319)		(190)
Effect of tax rates in foreign jurisdictions		(205)		(105)
Non-deductible expenses		34		44
Other		103		34
	24.95%	$ 6,238	25.15%	$ 4,032

19) 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, 2023	December 31, 2022
8,556,000 Class A shares (2022 - 8,556,000)	$ 10,242	$ 10,242
2,778,300 Class B shares (2022 - 2,778,300)	7	7
	$ 10,249	$ 10,249

No shares were issued in 2023 or in 2022.

c) Dividends:

The following dividends were declared and paid by the Company:

Cash dividends of $0.06 per Class A subordinate voting share were declared and paid in 2023 (2022 – $0.06) and cash dividends of $0.06 per Class B common share were declared and paid in 2023 (2022 – $0.06).

Total dividends declared and paid in 2023 were $680,000 (2022 - $680,000).

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

20) Commitments:

The Company has contractual obligations for outstanding capital expenditures of $395,000 (2022 - $9,959,000). The 2022 expenditures were primarily for a new facility and related equipment the Company was building in Palmerston, Ontario.

21) Contingency:

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. The Company's 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.

22) Earnings per share:

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

	December 31,2023	December 31,2022
Net income for the period	$ 18,761	$ 12,003
Average number of common shares outstanding:		
Basic and Diluted	11,334,300	11,334,300
Earnings per share:		
Basic	$ 1.66	$ 1.06
Diluted	1.66	1.06

No share options to purchase common shares were outstanding as at December 31, 2023 or December 31, 2022.

23) Personnel expenses:

	2023	2022
Wages and salaries	$ 59,658	$ 58,911
Health benefit plans	7,387	6,211
Canada Pension Plan and Employment Insurance	4,058	3,711
Contributions to defined contribution plans	2,026	1,871
	$ 73,129	$ 70,704

	2023	2022
Cost of sales	$ 56,036	$ 54,812
Selling and distribution	13,606	12,705
General and administrative	3,487	3,187
	$ 73,129	$ 70,704

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

24) Management share option plan:

As at December 31, 2023, the Company has a stock-based compensation plan, which is described below. No options were granted through December 31, 2023 or in 2022 and no stock options were outstanding as of January 1, 2022, 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.

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

	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized cost				
Cash	$ 8,890	$ 8,890	$ 942	$ 942
Trade and other receivables	30,856	30,856	30,014	30,014
	$ 39,746	$ 39,746	$ 30,956	$ 30,956
Liabilities carried at amortized cost				
Bank indebtedness	$ 431	$ 431	$ 14,446	$ 14,446
Trade and other payables	24,815	24,815	29,609	29,609
Term loans	44,727	44,418	22,198	20,092
	$ 69,973	$ 69,664	$ 66,253	$ 64,147

Term loans are considered level 2 in the fair value hierarchy.

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

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

Bank indication interest rates	December 31, 2023		December 31, 2022	
	From	To	From	To
Nonsecured variable interest rates	7.20%	8.20%	6.45%	7.45%
Fixed rates				
1 year secured	7.00%	7.80%	6.60%	7.60%
2 year secured	6.40%	7.25%	6.60%	7.60%
3 to 4 year secured	5.65%	6.80%	5.90%	6.90%
5 year secured	5.45%	6.60%	5.75%	6.75%
7 year secured	5.45%	6.60%	5.85%	6.85%
10 year secured	5.65%	6.80%	6.20%	7.20%

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 (ii)
- liquidity risk (iii)
- market risk (iv)
- foreign currency risk (v)
- interest rate risk (vi)
- operational risk (vii)

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.

a) 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.

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

b) Credit risk:

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

Trade and other receivables:

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

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

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

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

The Group establishes an allowance for doubtful accounts that represents its estimate of 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, 2023	December 31, 2022
Cash and receivables:		
Cash	$ 8,890	$ 942
Trade and other receivables	30,856	30,014
	$ 39,746	$ 30,956

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

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

	December 31, 2023	December 31, 2022
Cash and receivables:		
Canada	$ 16,090	$ 15,440
US	22,113	14,055
UK	1,412	1,324
Australia	131	137
	$ 39,746	$ 30,956

The following table reflects the net details of trade receivables as at December 31, 2023 and December 31, 2022:

	December 31, 2023			December 31, 2022		
	Gross	Impairment	Carrying value	Gross	Impairment	Carrying value
Aging of trade receivables:						
1 – 30 days	$ 15,127	$ -	$ 15,127	$ 13,492	$ -	$ 13,492
31 – 60 days	12,053	-	12,053	12,103	-	12,103
61 – 90 days	2,462	-	2,462	2,664	-	2,664
Over 90 days	1,253	(541)	712	651	(409)	242
Trade receivables	$ 30,895	$ (541)	$ 30,354	$ 28,910	$ (409)	$ 28,501

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

	December 31, 2023	December 31, 2022
Allowance for doubtful accounts, beginning of year	$ 409	$ 316
Accounts provided for in the period	262	215
Amounts written off during the period	(130)	(122)
Allowance for doubtful accounts	$ 541	$ 409
Allowance for doubtful accounts as % of net trade receivable	1.8%	1.4%

	December 31, 2023	December 31, 2022
Net trade receivable	$ 30,354	$ 28,501
Employee receivables	15	12
Other receivable	487	1,501
Trade and other receivables	$ 30,856	$ 30,014

c) 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.

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

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

The Group has established a $30,000,000 (2022 – $30,000,000) overdraft facility that is secured against inventory and accounts receivable. If drawn upon, interest would be payable at the rate of bank prime (2022 - bank prime). The Company had available unused credit facilities in the amount of $30,000,000 at December 31, 2023 (2022 - $16,043,000) to meet fluctuations in working capital requirements.

The Group has available a line of credit to finance new equipment purchases of which it has available $10,000,000 (2022 - $10,000,000).

In 2015, the Group successfully applied for and was approved by the Federal Economic Development Agency for Southern Ontario for an interest free loan up to $3,461,500 on eligible spending. As at December 31, 2023, the Group had received $3,461,500 of this funding (2022 - $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, 2023 the present value of the funding is $601,000 (2022 – $1,245,000).

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, 2023, 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, 2023

	Carrying amount	Contractual cash flows	2024	2025	2026 to 2027	Thereafter
Non-derivative financial liabilities						
Term loans	$ 44,727	$ (54,337)	$(47,324)	$ (1,692)	$ (3,385)	$ (1,936)
Lease obligations	11,293	(13,086)	(2,930)	(2,914)	(3,400)	(3,842)
Trade and other payables	24,815	(24,815)	(24,815)	-	-	-
Bank indebtedness	431	(431)	(431)	-	-	-
Total	$ 81,266	$ (92,669)	$(75,500)	$ (4,606)	$ (6,785)	$ (5,778)

December 31, 2022

	Carrying amount	Contractual cash flows	2023	2024	2025 to 2026	Thereafter
Non-derivative financial liabilities						
Term loans	$ 22,198	$ (24,689)	$(15,364)	$ (2,312)	$ (3,385)	$ (3,628)
Lease obligations	11,748	(13,441)	(3,057)	(2,588)	(4,325)	(3,471)
Trade and other payables	29,609	(29,609)	(29,609)	-	-	-
Bank indebtedness	14,446	(14,446)	(14,446)	-	-	-
Total	$ 78,001	$ (82,185)	$(62,476)	$ (4,900)	$ (7,710)	$ (7,099)

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

d) 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.

e) Foreign currency risk:

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

The following chart depicts the foreign currency positions.

Currency		Accounts receivable		Accounts payable	
		Dec 31, 2023	Dec 31, 2022	Dec 31, 2023	Dec 31, 2022
Australia	AUD	65	32	(18)	(26)
Europe	EURO	300	328	(53)	(27)
New Zealand	NZD	95	49	-	-
Taiwan	TWD	50	699	(4,375)	(2,328)
UK	GBP	400	484	(530)	(572)
US	USD	11,940	10,325	(5,118)	(3,592)

Currency		Long-term debt		Lease Liabilities	
		Dec 31, 2023	Dec 31, 2022	Dec 31, 2023	Dec 31, 2022
UK	GBP	-	-	(1,541)	(1,753)
US	USD	(1,267)	(1,306)	(556)	(944)

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 2023 would have increased net product sales by $1,078,000 (2022 - $1,025,000) and increased income from operations by $1,183,000 (2022 - $1,104,000). Inversely, a one cent increase in the Canadian dollar against the US dollar in 2023 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.

f) 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 2023 bank indebtedness would increase annual interest expense by $4,000 (2022 - $144,000). This analysis assumes that all other

variables remain constant. Inversely, a one percent decrease in the variable rates charged on ending 2023 bank indebtedness would have had the equal but opposite effect.

g) Operational risk:

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

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

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

Capital management:

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

The Group's objectives when managing capital are to:

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

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

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, 2023 and has been in compliance with its covenants through 2022 and 2023. There were no changes to the Group's approach to capital management during 2023. 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, 2023	December 31, 2022
Net product sales:		
Canada:		
Sales to customers	$ 80,643	$ 81,009
US:		
Sales to customers	143,958	131,034
All other countries:		
Sales to customers	13,684	13,879
Net product sales	$ 238,285	$ 225,922
Non-current assets:		
Canada:		
Non-current assets	$ 74,561	$ 66,350
US:		
Non-current assets	1,923	2,197
All other countries:		
Non-current assets	3,067	3,376
Total Non-current assets	$ 79,551	$ 71,923

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, 2023	December 31, 2022
Salaries and short-term employee benefits	$ 893	$ 835

b) The Company purchased $4,474,000 of products from RITEC in 2023 (2022 - $5,785,000). The Company sold $3,400 of products to RITEC in 2023 (2022 - $43,600). 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.

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

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, 2023 were $140,000 (2022 - $185,000) while payables were $45,000 (2022 - $103,000). Trade receivables and payables to related parties are included within trade and other receivables and trade and other payables on the Consolidated Statement of Financial Position.

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

d) Consolidated entities:

HAMMOND MANUFACTURING COMPANY LIMITED

	Country of incorporation	% Ownership interest December 31, 2023	December 31, 2022
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

2023

Additional contractor product capacity added in Ontario

Hammond Rack and Cabinet Division celebrates 85 years.

2019

85 YEARS MANUFACTURING RACKS & CABINETS SINCE 1934

2017

Hammond Celebrates 100 Years in Business

HAMMOND MANUFACTURING CELEBRATING 100 YEARS SINCE 1917

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

2016

2000

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

TSX

Hammond goes Public on Toronto Stock Exchange

1986

1980's

Hammond expands to the UK opening in Basingstoke

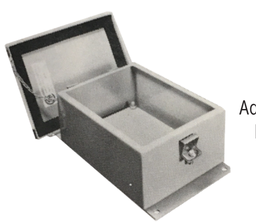
Hammond Manufacturing re-branded to current identify

1976

HAMMOND

1955

New Factory built on Speedvale/ Edinburgh Road



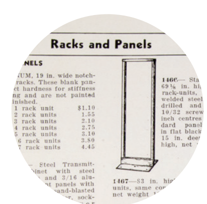
Added NEMA Enclosures

1950

Hammond

1930

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



Manufactured and Fully Guarenteed by
O.S. HAMMOND & SON
GUELPH, ONTARIO, CANADA

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

1927

Backyard Workshop - Charging batteries, installing antennas, custom machining

1917

HAMMOND MANUFACTURING®

Corporate Directory

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Robert F. Hammond
Chairman and CEO

*Edward Sehl
Principal - Sehl Consulting

*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 at Sarku Japan
Director of Tippet Foundation
Director for Odd Burger Corporation

*Blaine Witt
Vice President – Senior Consultant of Witt Holding Company Inc.

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

ATA Audits PTY Ltd

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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