ELECTRIFICATION

Annual Report 2021

HPS Hammond Power Solutions Inc.

“ Our planet and life are underpinned by electric power and the expansion of electrification is accelerating. We hear it every day as companies and countries globally are looking to reduce their carbon footprint through the use of electrical power. ”

What’s Inside:

Passionate People Electrifying a Better World

Electrification: The action or process of charging something with electricity; the conversion of a machine or system to the use of electrical power.

Transformers are the unsung heroes of the modern world. They function quietly in the background, working tirelessly, yet rarely receiving the praise they deserve for keeping society electrified and functioning each and every day.

Transformers affect nearly just about every part of our daily lives, reducing or increasing the voltage of an alternating current in many industries and in many applications.

It's 6:00am and your alarm goes off signaling the start of your day. The transformer on the power line feeding into your home has regulated the power all night long stepping down the 7,200 volts to the 240 volts that your household electrical service requires.

As you look at your phone to check the weather, the transformers in the data centre housing that critical application and data play a vital role in the monitoring and metering of operations, ensuring that systems are kept up and running to deliver the information you need on demand. You'll continue to benefit from the functioning of these transformers as you go about your day from your home or away from home office.

HPS Electrifies Communities

When you turn the key in your vehicle to head out for groceries at the end of the day, you can thank the transformer on the oil rig in the Atlantic that was an integral part in the operation to extract, process and store the petroleum and natural gas that lies in the rock formations beneath the seabed. Or perhaps you have decided to go electric, quietly pulling into the parking lot of the grocery store in your electric vehicle and into a spot equipped to charge your car while you're filling up your cart. A series of transformers can be thanked for ensuring that you are getting the right power, right when you need it.

As the day draws to a close and you dim the lights to wind down before bed, take a moment to thank the unsung transformer heroes that have kept your day electrified – working quietly behind the scenes delivering the power you've needed when you needed it – every time.

As the world looks to replace the technologies that use fossil fuels with technologies that use electricity, HPS is meeting the electrification demand. Depending on the resources used to generate electricity, electrification can potentially reduce carbon dioxide (Co_2) emissions from the transportation, building and industrial sectors which account for about 63 percent of all United States ("U.S.") greenhouse gas emissions.[1]

The combination of our resilience, drive, decades of experience, commitment, engineering expertise, solid supplier relationships, and a broad and unique business perspective gained through our diverse products, customers and markets are all key success factors critical to our success in 2022 and beyond.

[1] Source: Electrification 101, Kathryne Cleary, December 2019. Data from EPA "Inventory of US Greenhouse Gas Emissions and Sinks" (2017)

21
Global Locations

1,400
Employees

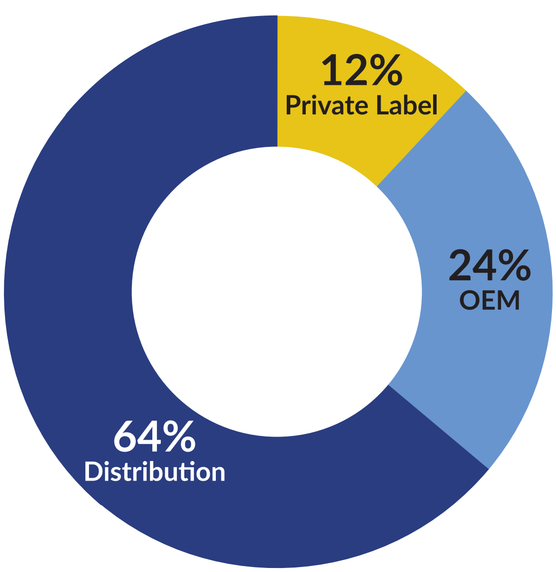
$380M
Global Sales

~600,000
Units/Year

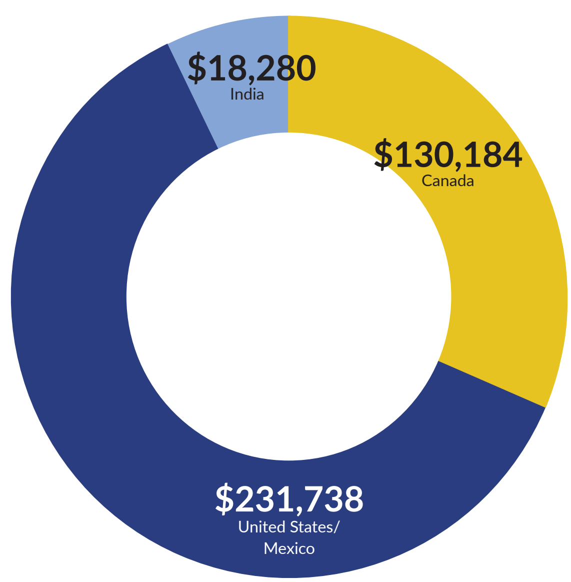
Business Growth

Sales through our expanded U.S. distributor network have been growing at the highest rate we've seen as the U.S. economy recovers from the pandemic. In addition, we are seeing significant growth and future opportunities in sectors such as oil and gas, mining, and data centres.

Sales Channel



Geographic Sales



(in thousands of Canadian dollars)

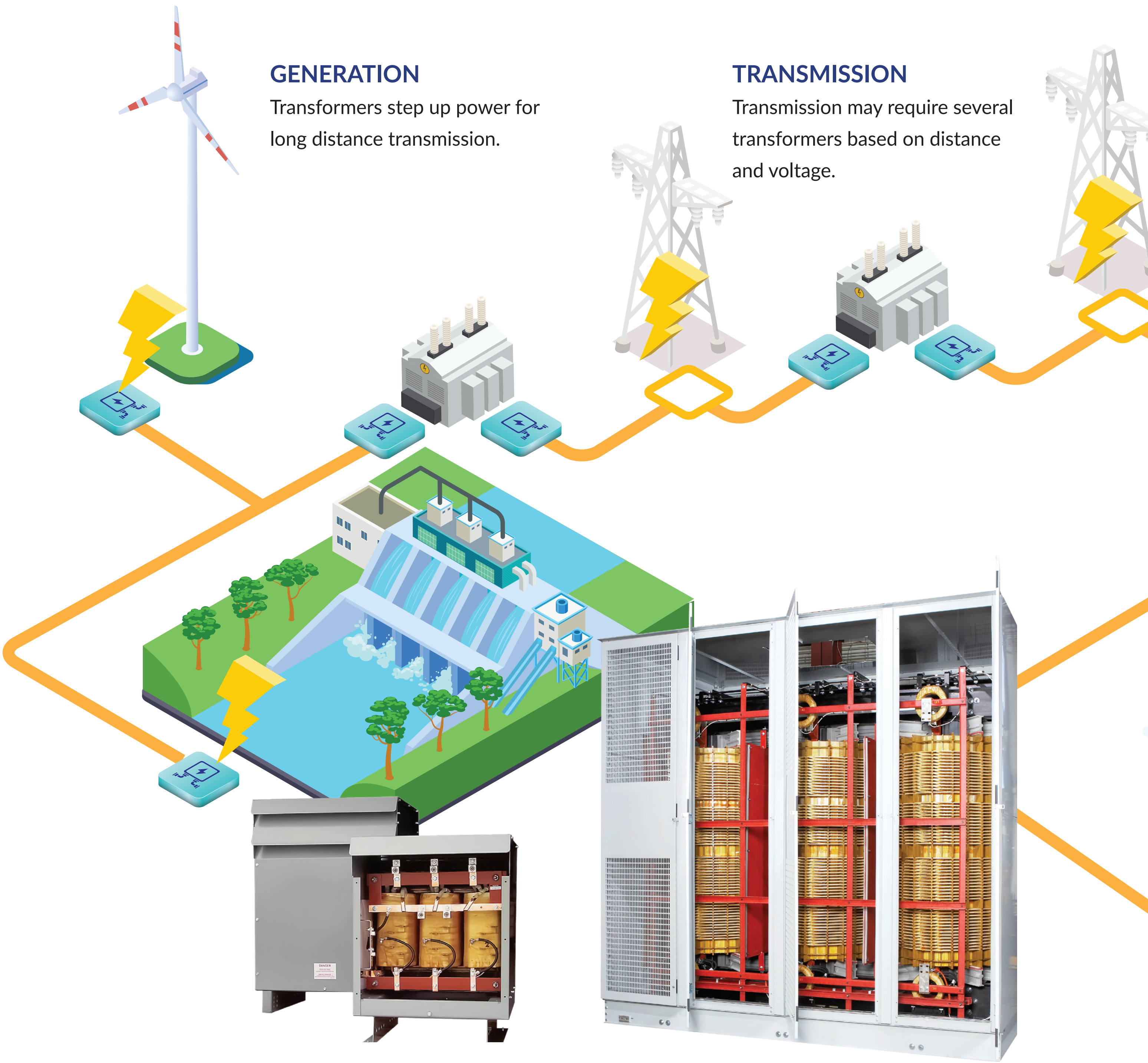
Transformers are essential/multi-purpose/ubiquitous in all electrical grids

GENERATION

Transformers step up power for long distance transmission.

TRANSMISSION

Transmission may require several transformers based on distance and voltage.

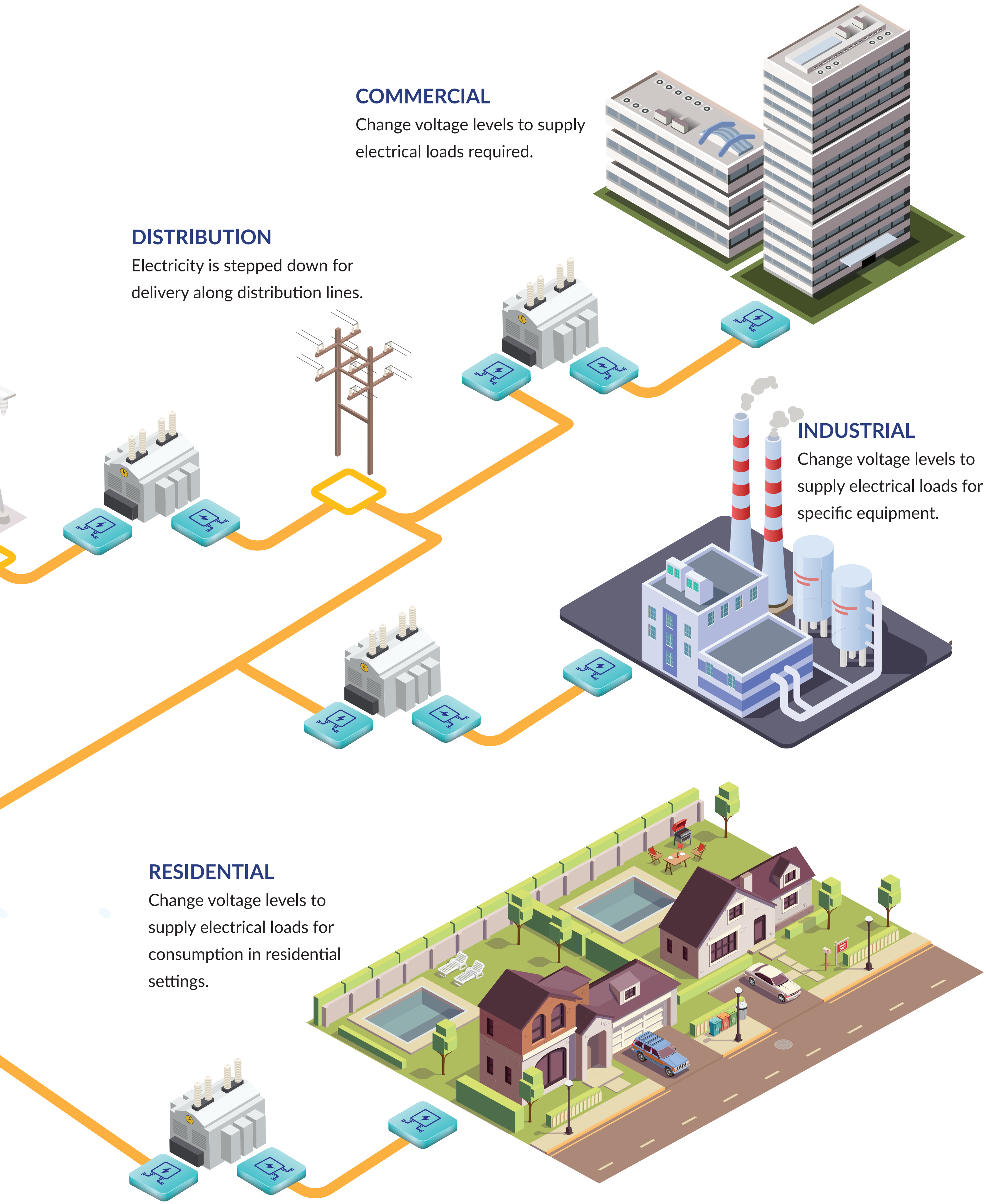


COMMERCIAL
Change voltage levels to supply electrical loads required.

DISTRIBUTION
Electricity is stepped down for delivery along distribution lines.

INDUSTRIAL
Change voltage levels to supply electrical loads for specific equipment.

RESIDENTIAL
Change voltage levels to supply electrical loads for consumption in residential settings.



2021 Highlights

HPS' ERP System

The implementation of a company-wide Enterprise Resource Planning ("ERP") system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, improve customer service, supplement strategic decision making and audit and control – working toward providing one global, integrated, consistent source of information and data. During Quarter 2, 2021 the ERP system went live in our operation in Granby, Quebec and represents the Company's final operation to be converted to the platform.

Employee Health & Safety

In 2020 and 2021, HPS implemented robust health and safety precautions dedicated to providing a safe working environment for our employees while continuing to manufacture and serve our customers during this volatile, unpredictable time. As an essential service, the Company has continued to remain operational during the entire pandemic to ensure our customers have the transformers they require to fulfill the many applications they are purchased for.

Data Centres

The global pandemic forced companies to work remotely and schools to teach remotely creating more demand for rapid access to information from data centres. Maintaining the quality and availability of online services while at the same time regulating the general increase in demand is no simple task. Data centres not only ensure that information technology ("IT") companies function smoothly but also society in general. HPS transformers are integral to this estimated $105.6 billion by 2026 – rapid growth industry.[1]

EV Charging Stations

To recharge an electric vehicle ("EV"), you treat it like your smartphone – just plug it in while you're not using it. EV owners are used to plugging their vehicles in when they can, as every hour adds approximately 40km back into the battery. Why not have it filling up, while you're going on about your life? One Canadian grocery store chain knows this, so they have committed to installing Level 2 EV charging stations in 90 of their locations integrating HPS transformers to regulate the power for different voltage and power level needs.

Hospital Infrastructure Growth

HPS transformers were specified by five of the largest hospital infrastructure projects in Canada and the U.S. in 2021. HPS earned a "preferred supplier" status because of our proven track record of delivering a high quality product, on time and within budget – resulting in no down time.

[1] www.mordorintelligence.com/industry-reports/service-market-for-data-center

Where We’re Headed

HPS is in on the ground floor of expanding energy needs, powering communities when the load gets too heavy for the current infrastructure due to the increase of internet usage or when they experience the effects and devastation of extreme weather events.

Potted transformers used in high efficiency solar-powered bridge lighting have been specified nationally through HPS channels. These low voltage tough-as-nails units operate in all conditions keeping the power on even when the weather is extreme.

As companies refine ways to reach other planets, HPS transformers power the technology and systems to continue advancement in these areas.

More sustainable technologies that reduce environmental impact are a must for the future of our planet, HPS is an integral part of the power process of new breaking technology – meeting the specifications of the innovators.

We are poised and ready to meet the future needs of the world’s communities.

HPS Provides:

For our Customers

- Compliance with regulatory requirements;
- New product development – including an expanded power quality offering;
- Expanded product offering using cast resin technology;
- Superior customer service;
- Accurate ship on time; and
- Competitive pricing for our products.

For our Employees

- The tools to facilitate their best work;
- Space and time for innovation and development;
- Safety in the workplace, including heightened protocols during the COVID-19 pandemic; and
- Ability for remote work, where able, to help manage school closures and health concerns.

For our Shareholders

- Escalating growth of the distribution channel;
- New global customers;
- Expanded relationships with existing customers;
- Capital investment in North American manufacturing facilities in Canada, the U.S., India and Mexico;
- Establishment of a state-of-the-art core manufacturing facility in Mexico;
- Strong earnings per share, solid cash generation; and
- Quarterly dividends paid with an attractive yield.

HPS' strategic vision and operational initiatives support our industry leadership, operational strength and financial stability now and into the future.

Strategic Thinking

Our Purpose

We are passionate people energizing a better world.

Our Vision

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

Our Mission

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

Our Strategic Pillars

Customers and Markets

Drive organic growth through competitive product offering and unparalleled customer experience, and enhance strategic growth via acquisitions.

Operational and Financial Excellence

Achieve operational excellence via continuous improvement and efficiency plays, and grow revenue / EBITDA with opportunistic acquisitions and cost reduction initiatives.

People and Culture

Build the next leadership team, and be a preferred employer due to our clarity of purpose and employee value proposition.

Sustainability

Design energy-efficient products; shrink the ecological footprint of our operations and energize the world responsibly for generations to come.

Our Values

We value the **safety** and **well-being** of all

We expect **honesty, integrity** and **ethical behaviour**

We embrace **diversity** by nurturing an **inclusive** environment and treating everyone with **dignity** and **respect**

We promote **innovation** and a relentless pursuit of **continuous improvement** through **teamwork**

We believe in **a collaborative approach** to **social** and **environmental sustainability**

HPS Corporate Sustainability

Our passion for sustainability ensures that the world is energized today for future generations to come. We commit to designing energy-efficient products; to shrinking the ecological footprint of our operations; and to developing a workplace which fosters inclusion and innovation.

Our 5 Pillars of Sustainability

1. Economics
2. People
3. Community
4. Environment
5. Continuous Improvement

“ The demand for our transformers particularly in North America continues to accelerate and sales volumes have returned to pre-pandemic levels. ”

To Our Shareholders

We are very pleased to report a strong year of performance given the challenging and volatile environment that we faced in 2021.

We delivered sales growth of 18% and earnings growth of almost 8% during a year riddled with material shortages and supply chain delays, unprecedented material cost increases, and an unpredicted resurgence in business from all quarters, all the while managing through the challenges created by two new variant surges of the COVID-19 pandemic, never losing sight of our focus on customer service as well as the health and well-being of our employees.

It doesn't seem that long ago when we were all dealing with the first wave of the COVID-19 pandemic as it washed over the world and caused a short but very severe global recession in 2020. The significant rebound in growth in late 2020 which accelerated in 2021 presented both opportunities and challenges. The strengths and capabilities that we built across our organization over the last decade helped HPS weather these storms better than any dry transformer company in North America. Our diversity in geography, markets, channels and products, as well as being the biggest in our business, gave Hammond both tactical and strategic advantages. But through all of this, it was our focus on doing the best that we can under difficult circumstances to try and meet the needs of our customers that made the difference. None of this would have been possible without the passion, engagement and hard work of our employees. I would like to take this opportunity to recognize and thank not only our employees who helped to make 2021 a very positive year, but also our valued suppliers who did their best during very difficult times to support our plants building all of the products we could to meet our growth and satisfy our distributors and customers.

I believe that 2022 will be even better, yet unfortunately as I write this, serious geopolitical events in Eastern Europe are creating new uncertainties while their effects on us and the broader global economy are still speculative. But as we did in 2020 and 2021, I believe there is no stronger company in the dry transformer business that can weather these storms than Hammond Power Solutions. We have a strong momentum carrying us into 2022.

William G. Hammond
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER

Review of Operations

Over the last five years, we have built a business with greater resilience and diversity.

Over the last two years, we have all been tested by so many new and unexpected events. It has been a very challenging time, and I am hopeful that the worst of this pandemic is behind us and we can move onto whatever the new normal looks like.

After the global recession of 2020, we were all looking for a better 2021. Business in many sectors started to rebound in the last part of 2020 and this momentum accelerated into 2021. I don't think any of us were expecting the new challenges that came with the growing economy. Mines, steel mills and factories across the world were shut down during the severe recession of 2020. As the first wave of the COVID-19 pandemic started to pass and the global economy came to life again, the production of materials and components could not catch up fast enough. These issues became even more evident as growth accelerated even more in 2021, and if this wasn't challenging enough, costs of everything began to increase as well. In fact, we had to deal with the greatest inflation we have experienced in over 40 years. Then on top of this, for a variety of reasons such as the shortage of containers, shortages of workers and COVID-19 outbreaks shutting ports down, coupled by the sheer volume of things moving around the world again, lengthy supply chain delays complicated the situation even more.

Despite all of this, we were able to increase our sales by 18% and our net earnings by almost 8% over 2020. I am very proud of our performance under the circumstances and feel that we are even stronger after maneuvering through the crucible of the last two years. Much of this is because of the strategic and operational advantages that we have built over the last decade that can be defined by one word - diversification. In our business, there is no other dry transformer company that has the diversity of geographical markets, multiple plants in multiple countries, the diversity of markets and channels, as well as the broadest range of dry transformers, both custom and standard, of any competitor. In addition to this, we also have a highly engaged and passionate employee culture focused on doing whatever we can to meet the needs of our distributors and customers.

Growth in 2021 came from multiple geographies, markets and channels. Our U.S. sales grew by 16.8%, in Canada we grew by 19.3%, in India our sales grew by 24.4%, and by the end of 2021 we began to sell transformers in Mexico and Latin America. Our U.S. distributor channel continued to be a massive growth engine for HPS. In the last two years we have added over 400 new distributor branches across the U.S. – and since 2015 we have added close to 2,000. With this large network of distributors, we have not only increased our market share but also been able to participate in new markets and applications as the North American economy has come back to life. Much of this growth is the result of the superior service we can provide from the largest and broadest inventory of transformers from our nine regional warehouses across North America.

With the global economy surging back and the increased consumption of resources, we have also seen interest grow in our Original Equipment Manufacturer ("OEM") business late in the year. As part of this growth, we have added a number of new large OEM customers building data centre systems for the North American market as well as new oil drilling technology being used in the Middle East.

This growth, be it through our distributor channel or direct to our OEM customers, is coming from a broad range of markets. They include new emerging markets like Electric Vehicle ("EV") recharging, solar and energy storage, data centers, distribution centers, oil and gas pumping, pipeline expansions, mining equipment, condominium construction, hospitals, transit expansions, new naval ship construction, elevator manufacturers and factory expansions.

As mentioned earlier in 2021, after a delay of almost two years caused by the COVID-19 pandemic, HPS started to market and sell our products in Mexico and Latin America. With three plants in Monterrey and a highly engaged and enthusiastic group of managers and employees, we believe that HPS is well positioned to take advantage of our broad product capabilities and participate in the consolidation of the Mexican transformer industry. We have already seen keen interest from distributors, OEMs and building developers in working with Hammond – all supported from our facilities and staff in Monterrey. We see very sizable potential and growth in the years to come from Mexico, Central America, selective countries in South America and the Caribbean.

In addition to growth from our traditional markets, we are also starting to see new growth opportunities from our expansion into power quality. For many years, we designed and built reactors for certain kinds of power quality applications. This market has evolved over the last decade with the introduction of more active product solutions and as a result, we decided to expand our product offering and capabilities to broaden our participation in this growing market. We also recognized the opportunity to take advantage of our relationships and scale in the North American distribution channel to grow and take market share from two established competitors in this business. One of the ways that we have done this is through the acquisition of a company called Mesta located near Pittsburgh, Pennsylvania in 2021. This small but highly profitable company builds a line of specialized active filter systems which will help us broaden our power quality experience and product capabilities. They are also involved in producing a line of products used in the induction heating business or more simply put furnaces that melt silica for the production of computer chips. This particular market is very busy right now given the expansion of chip manufacturing in North America and Europe.

Through all of this growth, we have had to deal with the greatest inflationary pressures since the 1970's. This has resulted in multiple and significant cost increases in core steel, copper and aluminum conductors, enclosures, packaging and everything in between that goes into building transformers. During 2021, we increased our prices four times in an effort to recoup our cost increases. Despite these price increases throughout the year, we were at times not able to recover some costs that were rising faster than expected. In the end because of all of this, our gross margins did not grow as much as we would have expected given the higher volumes during the year. As an organization however, we reacted with greater speed and agility than ever before to these cost increases, projecting them forward as best as possible, and implementing multiple price increases. I firmly believe that our margins would have been more adversely affected if we hadn't acted with such speed and aggressiveness. I would also like to recognize the tremendous time and effort of our supply chain employees working with our suppliers to expand our allocations, looking for substitute materials and components where possible, as well as trying their best to keep the containers of materials and products moving from Europe and China to North America.

During the year we made some significant investments in systems and equipment across the organization. Like most companies, we had to quickly expand and improve a myriad of capabilities to allow remote working by most of our salaried employees. We invested time and money into a variety of business system improvements including the continued implementation of our global ERP platform upgrade across all locations, a new Human Resource Management System, ("HRMS"), electrical and mechanical design automation, as well as shop floor information automation And lastly, we began to evaluate new Customer Relationship Management ("CRM") tool and price management systems that would improve the flow of information and decision making across the Company.

In addition to business systems, we also invested in new equipment to expand the capacity of our existing facilities in order to handle the increased growth rate. This included equipment investments in our Walkerton, Ontario plant, our Mexican plants, as well as our operations in India. Our goal is to maximize the output from our seven existing North American plants and remain cautious about investing in new plants until we understand and feel more comfortable about how the global economy may perform through the current uncertainty in the years ahead.

We were also very active in a variety of ways to improve the talent and engagement of our employees across the organization. This included the implementation of our new HRMS, as well as a new leadership development program and broadening the talent depth across the organization in concert with our formal succession planning process.

And in order to improve how we align and manage all business functions in the Company, we began a project to design and implement a formal process to drive continuous improvement of management and business practices. Corporations that have these management systems in place improved efficiencies, reduced waste and costs, improved communication and alignment and ultimately drive better customer service and financial performance. We are continuing to design and plan to roll out an initial version of the Hammond Business System in 2022 before implementing it more fully and across all locations at the beginning of 2023.

Given our goal of growing sales and expanding our market penetration, we engaged on multiple fronts to try and acquire one or more companies in 2021. One was a competitor, one was in a different segment of the electrical business and one was the power quality company called Mesta. We were only successful in acquiring Mesta. But we have recently engaged a U.S. M&A firm in 2022 to help us look for and hopefully succeed in acquiring a company and business that will help us grow and further diversify in the decade ahead.

I would like to point out that we accomplished all of the above during a year when we had no choice but to deal with the challenges and uncertainty created by this ongoing pandemic. Like all companies, we had to manage through two new COVID-19 pandemic variants that swept across our communities causing higher absenteeism and ever changing restrictions depending on the country, province, state and health district you were located in. We happen to have operations in four countries, two provinces, four states, and eight local health districts – all with differing policies and guidelines. I am proud to say that we were successful in our most important goal of protecting the health and safety of our employees over the last two years, and during this time did not have to shut down any of our North American plants due to infections. Unfortunately, our Indian plants were forced to shut down in 2020 and 2021 for a period of time due to a country-wide order that closed all companies. Despite all these new challenges, we still accomplished so much without ever losing focus on doing whatever we could to service the needs of our distributors and customers. This makes 2021 an even more impressive year in my opinion.

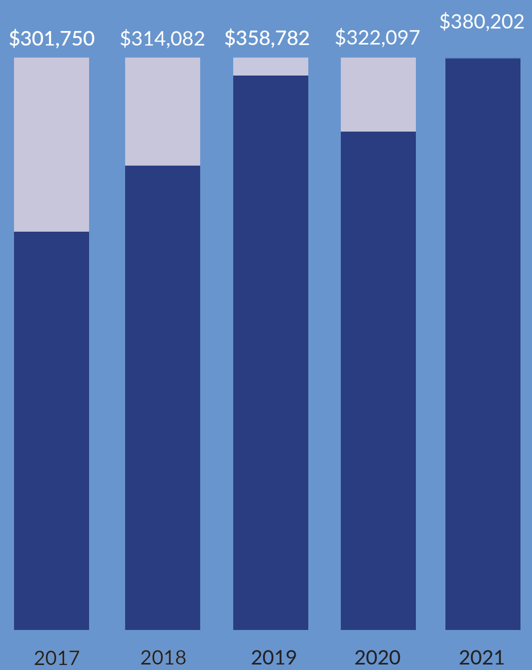
We entered 2022 with great optimism as the strong momentum of 2021 spilled over into the new year. Backlog is at the highest levels we have ever experienced. I believe that we are going to have an even stronger year of growth in sales and profitability, but our crystal ball has become a little murkier with the disturbing events unfolding in Eastern Europe – with the vast majority of our business disconnected from the events and impacts of what is currently happening in Europe. However, the world order has been shaken by these events and we need to be mindful of how this situation effects the global economy going forward particularly in 2023 and 2024.

Over the last five years, we have built a business with greater resilience and diversity. We are a 105-year-old company now serving more than 4,000 distributor branches and OEM customers worldwide – shipping over 600,000 units a year from our 21 global locations. We are in the electrification business and our planet and life are underpinned by electric power. Hammond will benefit from not only the growth of the traditional electrical infrastructure but also new trends like expansion of the smart grid, the accelerating move towards EVs, renewable energy and energy storage. We are the dominant North American leader in dry-type transformers, and we are one of the largest and most profitable companies in this business worldwide. Our superior service, scale and product quality gives us premium pricing power. We have a hard working and passionate employee culture. We are committed to continuous innovation and investment in the transformer business. We have a relentless focus on our customers and their needs. All of this is the foundation of our industry leading reputation and success.

We are very proud of our performance in 2021 and the Company we have built over the last 21 years. Nothing seems easy anymore given what has happened just in the last two years, but we remain cautiously optimistic about our future as we navigate an even more challenging external landscape.

Consolidated Sales*

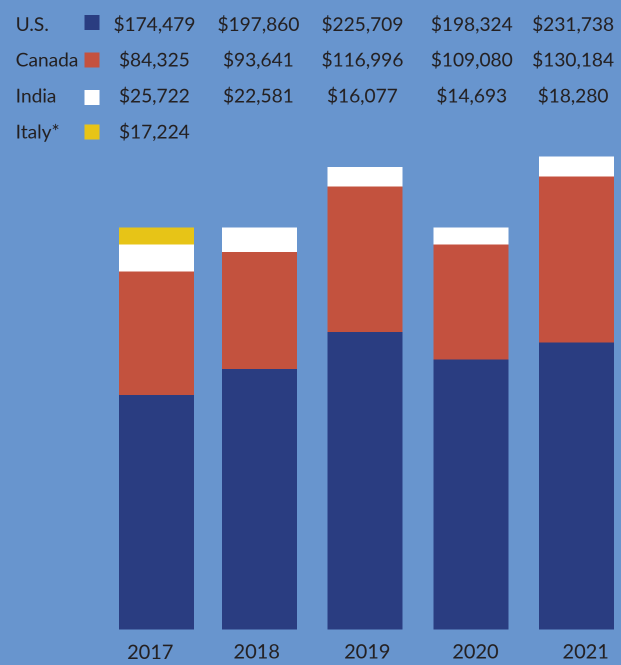
(in thousands of dollars)



* 2017 not restated to reflect discontinued operations

Geographic Sales

(in thousands of dollars)



* 2017 not restated to reflect discontinued operations

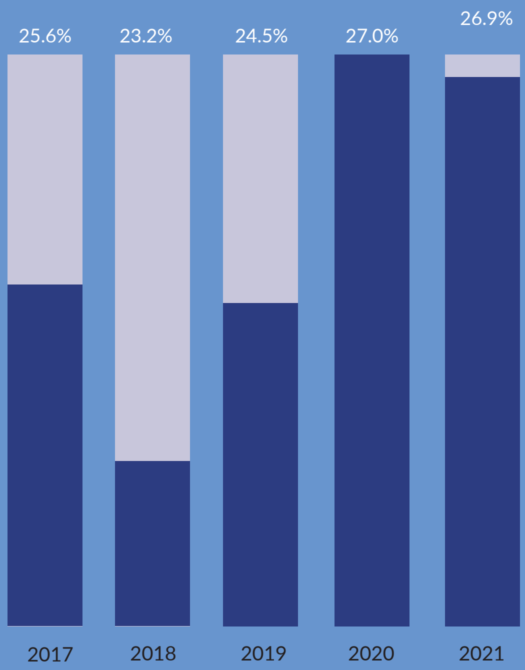
COVID-19 Business Update

HPS is committed to managing the impact the pandemic will have on its financial performance through:

- Robust health and safety precautions;
- A dedication to providing a safe working environment for our employees; and
- Continuing to serve our customers during this volatile and unpredictable time.

HPS has performed very well during these erratic and unpredictable times and remains steadfast in its execution of its operational and strategic plans.

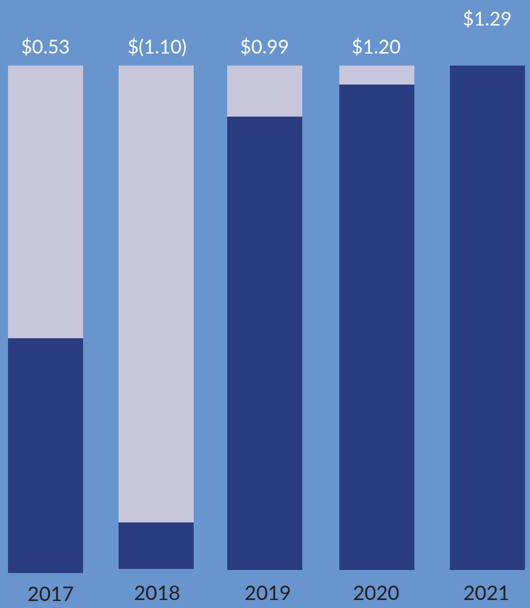
Gross Margin %*



* 2017 not restated to reflect discontinued operations

Basic Earnings (Loss)* Per Share

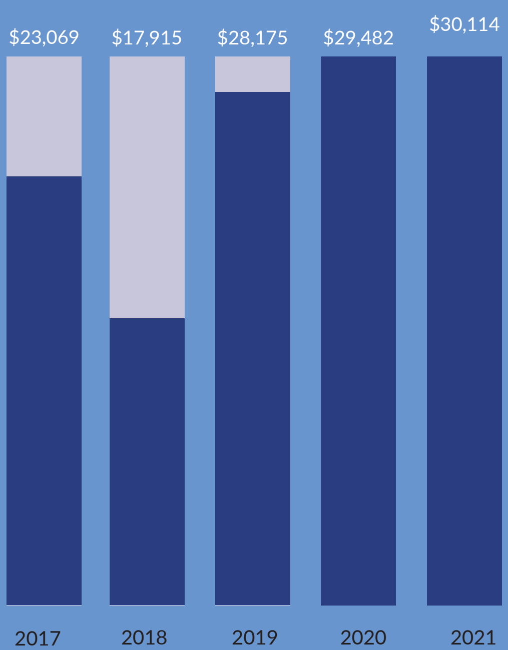
(in dollars)



* 2017 not restated to reflect discontinued operations

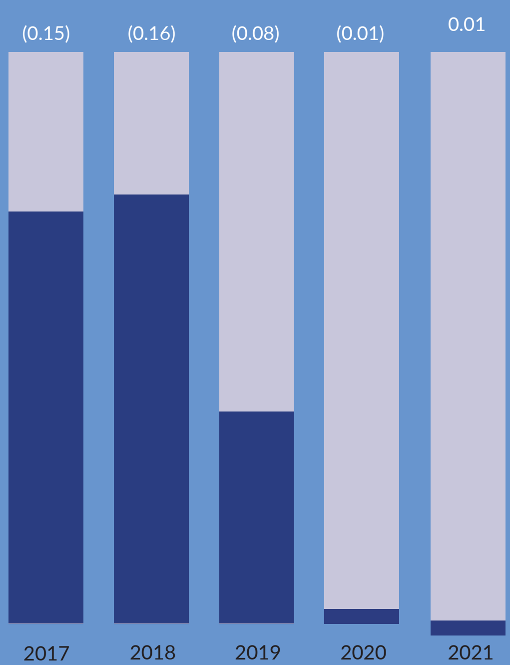
EBITDA*+

(in thousands of dollars)



* 2017 not restated to reflect discontinued operations
+ Non-GAAP financial measure, refer to page 21 of the annual report

Net Operating (Debt) Cash*+ to Equity



* 2017 not restated to reflect discontinued operations
+ Non-GAAP financial measure, refer to page 21 of the annual report

Management's Discussion and Analysis

I am very proud of the overall performance of our Company during the most challenging global environment since the Great Depression.

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated financial position and performance for the years ended December 31, 2021 and 2020, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2021 and 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This information is based on Management's knowledge as at March 24, 2022. All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward-looking information

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

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted for foreign exchange gain or loss. Net cash or net indebtedness is defined as the bank operating lines of credit net of cash and cash equivalents. Net income taxes payable or receiveable is defined as current income taxes receiveable less current income taxes payable. Operating earnings, EBITDA and Adjusted EBITDA are some of the measures the Company uses to evaluate the operational profitability. Net cash or net indebtedness and net income taxes payable or receivable are measures the Company uses to evaluate balance sheet strength. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings, net cash or net indebtedness, net income taxes payable/receivable, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of earnings from operations, EBITDA and Adjusted EBITDA to net earnings for the years ended December 31, 2021 and December 31, 2020 is contained within this MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings determined in accordance with IFRS.

"Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations", "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and therefore may not be comparable to similar measures presented by other companies.

The Company's 2021 consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and December 31, 2020, and Notes thereto, have been prepared under IFRS.

Overview

With an established global market presence and a focus on market growth, HPS is positioned as a transformer industry leader providing standard and custom order solutions, a broad product offering, market access through multiple sales channels, outstanding quality products and exceptional service. The Company's operational initiatives and strategic vision culminate to achieve these competitive differentiators. As an essential service business HPS has been allowed to continue to operate during the global coronavirus ("COVID-19") pandemic. HPS has continued to produce transformers for our customers throughout the entire pandemic period while also supporting and ensuring employee safety during this time.

Demand for our product is increasing, and in 2021 we realized our highest annual revenues in company history. HPS' customers and end-users operate in a variety of industries and the varying levels of economic activity within those industries will have an impact on HPS' overall sales. During 2021, we saw activity in the project and industrial markets increase, which are sectors that had stalled when the pandemic began in 2020. The Canadian lockdown imposed in early 2020 and again in early 2021 impacted several of our markets. While the impact of mandated lockdowns in our customer markets has diminished, there are lingering impacts as a result of supply chain disruptions and rapid inflation.

With our sales dollar increase came continued market share growth. The Company continued to take market share in North America, particularly through its North American Electrical Distributor ("NAED") channel. In response to rising material and logistic costs, we implemented several price increases during 2021. These increases, coupled with strong organic growth, lifted sales, bookings and backlog, particularly towards the end of 2021. Other significant drivers of sales and profitability in 2021 were a sales mix shift towards the distribution channel, the effectiveness of price increases in our OEM and private label channels, higher fixed cost absorption, the Canadian Emergency Wage Subsidy ("CEWS") benefit and cost reductions.

The Company has incurred significant costs related to COVID-19 to ensure the safety of our employees. HPS has been fortunate that there have been a limited number of cases impacting our employees and their families to date. We continue to ensure our efforts do not waiver as the length of the pandemic continues to extend. HPS' health and safety practices, including remote work where possible, have allowed the Company to continue to operate during the pandemic, ensuring business continuity and supplying our customers with the products they need.

HPS' history of success is achieved through its commitment to producing quality, innovative, energy efficient, diverse transformers and related magnetic products. The Company's alignment of its operational initiatives and strategic vision enhances these competitive differentiators. HPS has a well-established and growing market presence and a focus on continued growth through current and new customers and products. The Company has a strong financial footing that allows for continued focus on market share growth. The Company's broad global footprint provides a gateway to new technologies, customers and markets. These strengths are important to future revenue and earnings growth.

Technology and know-how obtained through acquisitions have allowed the Company to accelerate the product research and development program of its cast resin transformer technology, which is now utilized in several HPS facilities. The most recent acquisition of Mesta Electronics Inc. has expanded HPS' offering into standard and custom active filter and induction heating products. Mesta shares an excellent reputation for product quality, design and reliability. Mesta not only expands HPS' U.S. presence but also broadens our power solutions product offering and manufacturing capabilities in power quality solutions.

Looking forward, in an effort to deliver resilient financial performance, HPS continues to concentrate on future sales growth, additional gross margin generation and operational improvement. Globally in the U.S., Canada and Asia, HPS is well situated to grow electrical industry market share and it continues to be a leader in the markets it serves. In 2021, we began our expansion of sales efforts into Mexico, with the addition of sales and marketing resources, and corporate infrastructure to support this important new market.

The Company continues to build market presence through its product capabilities, product quality, cost effectiveness, service, channel development and geographical market expansion. Booking rates and backlog have increased in 2021 and are strong moving into 2022. The benefit of the HPS diversified market approach allows for the capitalization of growth in expanding market segments, while counterbalancing the impact of cyclical market declines. A portion of annual sales are derived from major customer projects, for which exact timing continues to be difficult to predict and will influence quarterly sales fluctuations. Order booking rates continue to grow in strategic target markets delivering additional market share penetration, new account development and expansion of organic sales.

The Company maintains a strong and stable balance sheet and excellent liquidity supported by a committed credit facility available to implement investment strategies, operational plans and advance growth initiatives. The Company's North American credit agreement was renegotiated in 2021 and matures in June 2026. This agreement provides the Company with the resources necessary to continue to grow and expand.

HPS remains confident in its ability to continue to generate growth – through our strategic vision merged with our operational strategies. Management is aware of the need to plan and build for the future and is determined to proactively confront the profitability pressures presented in the market. The Company is persistent in identifying and developing new market opportunities, which will come from organic and new customer sales expansion, product and technology development, cost effectiveness, competitive lead-times and manufacturing flexibility. Our capabilities are extended through our multi-national operations, which provide expanded market opportunities, allowing HPS to deliver results. The Company's commitment to continuous improvement, cost reduction, improved efficiencies and overall cost effectiveness will assist in reaching these goals. These strategies will improve and build revenue and profitability trends.

Sales

Sales in 2021 were $380,202 as compared to sales of $322,097 in 2020, a significant increase of $58,105 or 18.0%.

U.S. and Mexico market sales (stated in Canadian dollars) were $231,738, an increase of $33,414, or 16.8%, compared to 2020 sales of $198,324. U.S. and Mexico sales, (stated in U.S. dollars), have increased from $147,561 in 2020 to $184,900 in 2021, an increase of $37,339 or 25.3%. Sales were negatively impacted by the weakening of the U.S. dollar relative to the Canadian dollar versus 2020. The average U.S. to Canadian exchange rate for 2021 was $1.253 versus $1.343 in 2020, a U.S. dollar weakening of 6.7%. The 2021 U.S. sales at prior year exchange rates would have been $16,142 or 7.0% higher at $247,880.

The U.S. market experienced significant increases in the NAED channel as the Company continues to add additional distributors to the network. There were also improvements in the specialty, motor control and switchgear markets during 2021.

Canadian sales were $130,184, an increase of $21,104 or 19.3% as compared to sales of $109,080 in 2020. The Canadian market experienced increases in the NAED, mining and capital equipment markets.

Indian sales in 2021 were $18,280, an increase of $3,587 or 24.4% compared to sales of $14,693 in 2020. The prior year sales, and the second quarter of 2021 were negatively impacted by COVID-19 as the pandemic dramatically constrained the Indian market, leading to delays in projects because of government imposed lockdowns. 2021 sales benefited from the realization of these delayed orders.

Stated by geographic segment, sales in the U.S. and Mexico were 61.0% (2020 – 61.6 %), In Canada were 34.2% (2020 – 33.9 %) and India accounted for 4.8% (2020 – 4.5 %) of our total sales.

HPS is dedicated to its growth strategy through our focus on product development, our capital expenditure program to increase capacity, vertical integration strategies, geographic diversification, innovative research and development projects and our expanded

NAED network. Expanded product offerings, the addition of new customers, geographically diverse manufacturing facilities and market influence will allow the Company to continue to grow market share globally.

The Company experienced significant increases in North American sales through its established NAED and OEM channels. In the prior year, these markets were significantly impacted by COVID-19, resulting in an overall drop in demand, project deferrals and cancellations. HPS continues to grow its market share through distributor conversions and its custom transformer capabilities. The ability to continue to expand these segments is a result of new customer additions, organic customer diversity, expanded product offerings and geographically diverse manufacturing capabilities. HPS is not single-market or industry dependent and our market diversification strategies provide a natural business hedge.

We are committed to consistent quality, competitive product design, expertise in custom engineered products and product breadth. These factors combined with a strong, effective distribution channel and multi-national manufacturing capabilities will continue to be a competitive advantage for the Company and important to continued revenue growth. HPS prides itself on providing value to our customers.

Backlog[1]

The Company's December 31, 2021 backlog has increased by a record 58.8% as compared to December 31, 2020 and has increased 25.9% from Quarter 3, 2021. The combination of price increases, strong demand in the third and fourth quarters, and delayed shipments due to material availability contributed to the record-high backlog. Both the direct and distributor channels contributed to higher demand towards the end of the year, and that demand was compounded by the realization of price increases implemented over the course of 2021. The increased bookings were across a number of market and geographical segments. In terms of organic growth, our strategic sales initiatives, service, broad distributor footprint, new product development and low industry inventories have all supported backlog growth.

HPS is sensitive to the volatility and unpredictability of current global economies and the impact that this could have on booking trends. While several markets are seeing positive quotation and order trends, the Company is very cognizant that it may see some volatility and unpredictability in longer term booking rates. Some industry-related factors may be contributing to the higher booking rates and backlog, such as global supply chain constraints and low inventories, and therefore may be temporary in nature.

Gross margin

The consolidated gross margin rate in 2021 declined slightly to 26.9% versus 27.0% in 2020, a decrease of 0.1% of sales. The small decline in margin rates is significant given the volatile commodity pricing and supply chain challenges experienced during 2021, and the inclusion of higher CEWS benefits in 2020. The ability to maintain this margin rate is attributed to favourable sales mix, selling price increases, higher fixed cost absorption and cost reductions.

The CEWS program provides an employee wage subsidy for our Canadian entities for periods where there was a significant decline in Canadian trade sales due to the impact of COVID-19. During 2021, the wage subsidy received for production labour was $2,482 or 0.7% of sales (2020 – $5,557 or 1.7% of sales). The Company did incur additional operating expenses of $956 during 2021 (2020 – $1,902) relating to amounts paid for suspended operational employee wages, non-productive wages support for "at risk" employees, employee transportation, increased cleaning, sanitation and personal protective equipment expenses for the safety of employees. Excluding the wage subsidy and

[1]Refer to Non-GAAP financial measures on page 21 of this annual report

COVID-19 related expenses, gross margins increased from 25.9% in 2020 to 26.6% in 2021.

Sales and margins were impacted by the Company's ability to source materials and maintain a continuous supply to meet demand, which was exacerbated by global logistical disruptions. The manufacture of transformers requires copper, aluminum and electrical steel. All of these commodities, particularly electrical steel, have seen significant price increases driven mainly by supply constraints. During 2021, there has been a heightened awareness of the challenges and strain on the global supply markets and a focus on ensuring that materials required for production are received on a timely basis and when needed.

Given the rapid rise in the prices of the commodities noted above, HPS has had to increase prices several times during 2021 in order to protect our gross margins. In raising prices, we have been proactive in anticipating cost increases, judicious in maintaining margins, and conscientious of our customer relationships. For some channels, particularly those with longer backlog dates and lead times, as is the case in our OEM and private label channels, raising prices is more difficult to do in a timely way due to the nature of the contracts. Because of that, we believe there was some margin deterioration during 2021 as we were catching up to cost increases. HPS continues to focus on price realization strategies and achievement of cost reductions in an effort to maintain and increase margin rates.

Fluctuating markets, product mix and the continued effects of COVID-19 on the current global economy may still have a short-term impact on financial results. However, through the two years of the pandemic, HPS was identified as an essential service in all countries that we operate in, and was able to continue to manufacture with the exception of India. Country-wide lockdowns impacted HPS' India location from the end of Quarter 1 and the majority of Quarter 2 in 2020. Lockdowns were also in place for a month in Quarter 2 during 2021. Looking forward, the lessening impact of the economic, social and industrial aspects of the pandemic, combined with an increasing backlog allow for cautious optimism in 2022.

While some growth strategies can have a shorter-term dilutive effect on gross margin rates, the Company continues to focus on long-term investment to fuel future growth. Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. While the Company has reaped the benefits of higher absorption of factory overheads due to the increased sales volume, we continue to implement a number of cost reduction and expense management initiatives to protect our margin rates.

HPS continues to commit resources to its continuous improvement program, which will result in implementing productivity enhancements, cost reductions and lead-time improvements across the entire organization. HPS is confident that these actions will enhance future margin rates and improve profitability and overall financial performance.

Quotation activity, improving bookings and backlog since the end of 2020 as well as an encouraging sales outlook support optimism for the future. Looking ahead, HPS remains cautiously optimistic for the future as growth will be realized in some markets along with a decline in others – underscoring the volatility of markets and sales demand. Over the past few years, to manage the impact of volatility, the Company widened its distributor footprint in North America, expanded its Indian market presence, implemented engineering and material cost reduction initiatives, invested in new product development and broadened manufacturing capabilities. A diversified geographic approach supports anticipated growth from implemented market strategies and subsequent economic improvement.

Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. The Company continues to combat competitor short-sighted pricing strategies through its total value-added engineered solutions. HPS' focus during the year has been on execution of its selling price realization strategies and achievement of cost reductions in an effort to protect and eventually raise margin rates.

Selling and distribution expenses

Total selling and distribution expenses were $46,459 for 2021 versus $40,217 in 2020, an increase of $6,242 or 15.5%. On a percentage-of-sales basis, total selling and distribution expense decreased to 12.2% of sales for 2021 from 12.5% in 2020. The higher sales value for the year resulted in additional commission expense of $1,841 and higher freight expense of $2,653 which are variable selling expenses that naturally fluctuate with sales changes. The CEWS benefit in 2021 of $352 or 0.1% of sales was lower than the benefit of $766 of 0.2% in 2020, therefore contributing $414 to the increased net expenses. Approximately $980, or 0.3% of selling and distribution expenses increase relates to strategic investments in people resources as well as increased incentive plan payments related to higher sales.

General and administrative expense

General and administrative expenses in 2021 were $32,821 compared to $24,736 for 2020, an increase of $8,085 or 32.7%. On a percentage-of-sales basis these costs have increased from 7.7% in 2020 to 8.6% in 2021. Key drivers for the current year increase are as follows:

- During the prior year there was a reversal of an abnormal expected credit loss provision related to the settlement of the note receivable balance in the amount of $956;
- The CEWS benefit related to general and administrative employees in 2021 was $649 or 0.2% of sales and was $1,950 or 0.6% of sales in 2020, resulting in additional net expenses of $1,310 in 2021 compared to 2020;
- Approximately $1,103 of the increase in the current year is associated with strategic investments in people resources and incentive plans. There were critical roles replaced during 2021 as a large number of individuals within the organization retired;
- The Mesta acquisition contributed an additional $452 to the general and administrative expenses;
- Additional investment in information technology contributed additional expenses of $460 related to maintenance contracts;
- The higher share price and additional awards granted in 2021 has caused the DSU expense to increase $691 from prior year; and
- Higher spending with outside services such as placement and legal fees account for $1,296 of the current year increase.

HPS continues to invest in growth while remaining very cognizant of prudent general and administrative expense management.

Earnings from operations[1]

Earnings from operations improved finishing at $23,151 in 2021, as compared to earnings of $22,041 in 2020 – an increase of $1,110 or 5.0%. The increase in earnings from operations is due to higher sales and additional gross margin dollars, offset by higher selling, distribution, general and administrative expenses.

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

	2021	2020
Net earnings for the year	$ 15,176	$ 14,062
Add:		
Income tax expense	6,074	6,904
Finance and other costs	1,901	1,075
Earnings from operations	$ 23,151	$ 22,041

[1]Refer to Non-GAAP financial measures on page 21 of this annual report

Net Finance and other costs

Net finance and other costs increased $826 from $1,075 in 2020 to $1,901 in 2021. The increase from the prior year is a result of a foreign exchange loss in the current year and a gain in the prior year, as well as higher interest expense and lower income from the joint venture in the current year.

Interest expense for the year-ended December 31, 2021 finished at $1,301 as compared to $1,247 in 2020, a small increase of $54. Interest expense includes all bank fees.

The foreign exchange loss in 2021 of $561 related primarily to the transactional exchange loss of the Company's U.S. dollar trade accounts receivable, compared to a foreign exchange gain of $123 in 2020. The increase of the foreign exchange expense for the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar which decreased 6.7% relative to the Canadian dollar in 2021.

As at December 31, 2021, the Company had outstanding foreign exchange contracts in place to buy 17,350 Euros ("EUR") and $23,275 USD – both of which were implemented as an economic hedge against translation gains and losses on inter-company loans as well as $68,500 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS operations. The Company also had outstanding foreign exchange contracts to sell for 34,700 EUR and $69,757 USD.

Exchange rate volatility is managed by HPS' foreign exchange contract hedging program. Details of the outstanding forward foreign exchange contracts at December 31, 2021 can be found in note 27 in the Notes to Consolidated Financial Statements included in our 2021 Annual Report.

Earnings before income tax

2021 earnings before income taxes were $21,250 as compared to earnings of $20,966 in 2020, – growing by $284 or 1.4%. The main contributors to the higher current year earnings before income tax were higher sales and additional gross margin dollars. These gains were offset by increases in selling, distribution, general and administration expenses, lower government wage subsidy support in the current year, the foreign exchange loss in 2021 and a gain in 2020, as well as higher interest expense and lower income from the joint venture in the current year.

Income taxes

Income tax expense from operations for 2021 was $6,074 as compared to $6,904 in 2020 – a decrease of $830 or 12.0%. The consolidated effective tax rate on earnings from operations for 2021 decreased to 28.6% versus 32.9% last year – a decrease of 4.3%.

The Company's deferred tax assets and liabilities are related to temporary differences in various tax jurisdictions, primarily reserves and allowances, which are not deductible in the current year. A difference in the carrying value of property, plant and equipment and intangible assets for accounting purposes and for tax purposes is a result of business combination accounting and a different basis of depreciation utilized for tax purposes. The Company's income tax provision is explained further in note 16 in the Notes to Consolidated Financial Statements included in our 2021 Annual Report.

Net earnings

Net earnings from operations for 2021 finished at $15,176 compared to net earnings of $14,062 in 2020, an increase of $1,114 or 7.9%. The main contributors to the higher current year earnings before income tax were higher sales and additional gross margin dollars. These gains were offset by increases in selling, distribution, general and administration expenses, lower government wage subsidy support in the current year, the foreign exchange loss in 2021 and a gain in 2020, as well as higher interest expense and lower income from the joint venture in the current year. The effective tax rate was 4.3% lower in the current year than prior year.

EBITDA[1]

EBITDA from operations for the year-ended December 31, 2021 was $30,114 versus $29,482 in 2020 – an increase of $632 or 2.1%. Adjusted for foreign exchange loss/gain, adjusted EBITDA for 2021 was $30,675 versus $29,359 in 2020 – an increase of $1,316 or 4.5%.

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

		2021		2020
Net earnings	$	15,176	$	14,062
Add:				
Interest expense		1,301		1,247
Income tax expense		6,074		6,904
Depreciation and amortization		7,563		7,269
EBITDA	$	30,114	$	29,482
Add (subtract):				
Foreign exchange loss (gain)		561		(123)
Adjusted EBITDA	$	30,675	$	29,359

Summary of quarterly financial information (unaudited)

Fiscal 2021 Quarters		Q1		Q2		Q3		Q4		Total
Sales	$	80,121	$	88,277	$	95,526	$	116,278	$	380,202
Net earnings	$	2,298	$	4,689	$	3,948	$	4,241	$	15,176
Net earnings per share – basic	$	0.19	$	0.40	$	0.34	$	0.36	$	1.29
Net earnings per share – diluted	$	0.19	$	0.40	$	0.34	$	0.35	$	1.28
Average U.S. to Canadian exchange rate	$	1.268	$	1.231	$	1.257	$	1.258	$	1.253

Fiscal 2020 Quarters		Q1		Q2		Q3		Q4		Total
Sales	$	88,420	$	75,393	$	78,115	$	80,169	$	322,097
Net earnings	$	2,148	$	4,420	$	3,462	$	4,032	$	14,062
Net earnings per share – basic	$	0.18	$	0.38	$	0.30	$	0.34	$	1.20
Net earnings per share – diluted	$	0.18	$	0.38	$	0.30	$	0.34	$	1.20
Average U.S. to Canadian exchange rate	$	1.339	$	1.391	$	1.335	$	1.309	$	1.343

With the exception of Quarter 1, sales increased significantly versus the comparable quarters in 2020. Quarter 2,

[1]Refer to Non-GAAP financial measures on page 21 of this annual report

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

2020 was the first quarter where the Company saw sales declines due to the pandemic. A portion of the sales escalation was due to price increases but the Company has also experienced volume growth over previous quarters. There has been an upward trend over the past six quarters due to an overall improvement in general economic activity. Sales in the current year were negatively impacted by the weaker USD exchange and the price increases had a cumulative impact on sales as 2021 progressed.

Changing and challenging economic conditions, changes in product mix and competitive pricing pressures have all had an impact on the year-over-year quarterly fluctuations for both sales and income.

Quarter 4, 2021 financial results

	Quarter ended December 31, 2021		Quarter ended December 31, 2020	
Sales	$	116,278	$	80,169
Gross margin rate		27.4%		28.9%
Earnings from operations	$	6,220	$	7,047
Exchange loss	$	129	$	401
Net earnings	$	4,241	$	4,032
Earnings per share – basic	$	0.36	$	0.34
Earnings per share – diluted	$	0.35	$	0.34
Cash provided by operations	$	19,900	$	8,073

Sales for the quarter ended December 31, 2021 were $116,278, an increase of $36,109 or 45.0% from the comparative quarter last year.

Gross margin rates for the fourth quarter have decreased from the same quarter last year by 1.5% from 28.9% in 2020 to 27.4% in 2021. Included in the fourth quarter 2020 gross margin was $1,722 of CEWS (2.15% of sales), and none in the fourth quarter of 2021. The margin was also impacted by sales mix, market specific pricing, raw material commodity costs, cost reductions and expense containment.

Total selling and distribution expenses amounted to $14,559 in Quarter 4, 2021 versus $10,202 in Quarter 4, 2020 – an increase of $4,357 or 42.7%. Selling and distribution expenses as a percentage of sales have decreased to 12.5% in 2021 compared to 12.7% in 2020. The increases were a result of higher commission and freight variable expenses.

General and administrative expenses as a percentage of sales have increased to 9.5% in 2021 compared to 7.4% in 2020. General and administrative expenses for Quarter 4, 2021 totaled $11,055, an increase of $5,105 when compared to Quarter 4, 2020 costs of $5,950. During the prior year there was a reversal of an abnormal expected credit loss provision related to the settlement of the note receivable balance in the amount of $956. The Mesta acquisition contributed an additional $452 to the general and administrative expenses. Additional salary, incentive and outside service costs and other miscellaneous accruals also account for the increase in the quarter.

Quarter 4, 2021 net finance and other costs were $490 compared to $582 for the same quarter in 2020, a decrease of $92 or 15.8%. The Quarter 4, 2021 interest cost increased from $296 in Quarter 4, 2020 to $368 in Quarter 4, 2021. Foreign exchange loss in Quarter 4, 2021 was $129 compared to a foreign exchange loss of $401 in Quarter 4, 2020.

Earnings from operations for the quarter were $6,220 in 2021 and $7,047 in 2020 a decrease of $827 or 11.7%. Additional gross margin dollars were offset by higher general, administrative, selling and distribution expenses.

Quarter 4, 2021 income tax expense was $1,489 on earnings before income taxes of $5,730 (an effective tax rate[1] of 26.0%) as compared to an income tax expense of $2,433 on income before income taxes of $6,465 (an effective tax rate[1] of 37.6%) in Quarter 4, 2020 – a decrease of $944.

Net income for Quarter 4, 2021 was $4,241 compared to net income of $4,032 in Quarter 4, 2020 – an improvement of $209.

Cash provided by operations for Quarter 4, 2021 was $19,900 versus $8,073 in Quarter 4, 2020 – an increase of $11,827. The main driver for this change was cash generated from working capital of $9,447 for Quarter 4, 2021 versus cash used by working capital of $825 for Quarter 4, 2020, an improvement of $10,272.

Overall net operating cash balance[1] was $1,638 as at December 31 2021, an improvement of $2,916 as compared to a net operating debt balance of $1,278 as at December 31, 2020, primarily reflecting improved profitability and cash generated from operations.

Capital resources and liquidity

The Company continued to focus on generating cash from operations, debt management, investment and liquidity.

Cash provided from operating activities during 2021 was $20,447 versus $19,683 in 2020, an increase in cash generated of $764 or 3.9%. This increase in cash generated from operating activities was due to a lower increase in non-cash working capital versus 2020. Non-cash working capital used cash of $4,777 in 2021 versus $4,992 in 2020, resulting in a decrease of $215 from 2020. The change in non-cash working capital in 2021 was primarily a result of increases in accounts receivable and inventory, offset by increases in accounts payable.

Accounts receivable finished the year at $72,004 as compared to $53,078 as at December 31, 2020, an increase of $18,926 – a result of higher sales in Quarter 4, 2021 compared to Quarter 4, 2020. HPS' days sales outstanding ratio remains stable, which can be attributed to effective credit policies and tightly managed accounts receivable administration.

Inventories finished the year at $62,467 as at December 31, 2021, versus $49,206 as at December 31, 2020, an increase of $13,261. The higher inventory levels in 2021 were attributed to increased sales volume, and the higher cost of raw materials.

Accounts payable and accrued liabilities, excluding derivative and share-based compensation liabilities, increased by $29,599 finishing at $73,826 as at December 31, 2021 compared to $44,227 at the end of 2020. The change in accounts payable is due to higher sales volumes, higher raw materials costs, higher accruals and the timing of purchases from and payments to suppliers.

Net income taxes payable[2] were $1,181 as at December 31, 2021, versus net income taxes payable of $454 (income taxes receivable of $488 less income taxes payable of $942) as at December 31, 2020 – a change of $727 due to changes in the effective tax rate[3].

Cash used in financing activities was $4,257 in

[1]Overall net operating cash balance is the bank operating lines of credit of $19,267 net of cash and cash equivalents of $20,905. Refer to Non-GAAP financial measures on page 21 of this annual report.

[2]Effective tax rate is calculated as the income tax expense divided by the earnings before income taxes

[3]Net income taxes payable consists of income taxes receivable of $807 less income taxes payable of $1,988. Refer to Non-GAAP financial measures on page 21 of this annual report.

2021, compared to cash used of $24,184 in 2020, a decrease of $19,927. The change in the balance can be attributed to repayment from the operating line in 2020 compared to advances on the bank operating lines in 2021.

Cash used in investing activities in 2021 increased $6,167 from $4,747 in 2020 to $10,914 in 2021, a result of the Mesta acquisition in the amount of $5,032. There was an increase in capital spending for property, plant and equipment of $829 over the prior year, totaling $5,051 in 2021 – compared to $4,222 for 2020. The Company continues to invest in the areas of manufacturing processes and capabilities as well as information technology.

Bank operating lines of credit finished the year at $19,267 as at December 31, 2021, compared to $16,073 as at December 31, 2020 resulting in an increase of $3,194 in the year. The Company had cash and cash equivalent balances of $20,905 as at December 31, 2021 as compared to $14,795 as at December 31, 2020.

Overall net operating cash balance[1] was $1,638 as at December 31 2021, an improvement of $2,916 as compared to a net operating debt balance of $1,278 as at December 31, 2020, primarily reflecting improved profitability and cash generated from operations.

All bank covenants were met as at December 31, 2021, and the Company was in compliance with its covenants throughout the year.

The Company's liquidity is strong. HPS is well funded, with sufficient cash and debt capacity to fund its operating activities, investments and strategic growth initiatives. The Company has several alternatives to fund future capital requirements, including its existing cash position, credit facility, future operating cash flows and debt financing. The Company continually evaluates these options to ensure that the appropriate mix of capital resources is effectively managed for current and future requirements.

The Company has outstanding capital expenditure commitments of $483 primarily for manufacturing efficiency improvement projects and capacity expansion. These ongoing projects are in support of future business development and growth.

Additional details of our change in non-cash working capital can be found in note 25 in the Notes to Consolidated Financial Statements contained in our 2021 Annual Report.

Credit Agreement

During the year, the Company entered into a new banking agreement, which expires on June 20, 2026, consisting of a $50,000 U.S. revolving credit facility. This new agreement provides an additional $10,000 U.S. of credit to HPS. Based on exchange rates in effect at December 31, 2021, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $78,000.

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

Hammond Power Solutions S.p.A – Italy

As part of the VPI asset sale agreement, the lease agreement relating to the Meledo, Italy building includes a put and call sale option related to the leased premises, exercisable within 60 days after September 30, 2023. The call option grants the purchaser an option to purchase the premises from the Company for consideration equal to 2,225 EUR. The plant purchase price will be reduced by 50% of the monthly rent installments received, to

[1]Overall net operating cash balance is the bank operating lines of credit of $19,267 net of cash and cash equivalents of $20,905. Refer to Non-GAAP financial measures on page 21 of this annual report.

Contractual obligations

The following table outlines payments due for each of the next 5 years and thereafter related to debt, lease, purchase and other long-term obligations.

	2022	2023	2024	2025	2026 & Thereafter	Total
Accounts payable and accrued liabilities	$ 75,669	–	–	–	–	$ 75,669
Capital expenditure purchase commitments	483	–	–	–	–	483
Operating lines of credit	–	–	–	–	19,267	19,267
Derivative liability	91	–	–	–	–	91
Lease liabilities	2,762	2,034	1,806	978	733	8,313
Contingent liabilities	616	595	298	–	–	1,509
Total	$ 79,621	$ 2,629	$ 2,104	978	$ 20,000	$ 105,332

a maximum of 375 EUR (approximately $573). If the purchaser does not execute the call option HPS can exercise its put option which grants HPS an option to sell the plant to the purchaser for consideration equal to the same plant purchase price. If the purchaser rejects the put option, the purchaser will pay 500 EUR (approximately $764) as liquidated damages.

Contingent liabilities

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

Management is not aware of any further contingent liabilities, other than contingent consideration issued in connection with the acquisition of Mesta. Refer to note 30 to the consolidated financial statements for additional information.

Regular quarterly dividend

The Board of Directors of HPS declared quarterly cash dividend of eight and a half cents ($0.085) per Class A Subordinate Voting Share of HPS and of eight and a half cents ($0.085) per Class B Common Share of HPS, for each of the quarters of 2021.

The Quarter 1 dividend was paid on March 25, 2021 to shareholders of record at the close of business on March 18, 2021 – the ex-dividend date was March 17, 2021. The Quarter 2 dividend was paid on June 29, 2021 to shareholders of record at the close of business on the 22nd day of June 2021 – the ex-dividend date was June 21, 2021. The dividend for Quarter 3 was paid on September 24, 2021 to shareholders of record at the close of business on September 17, 2021 – the ex-dividend date was September 16, 2021. The Quarter 4 dividend was paid on December 17, 2021 to shareholders of record at the close of business on December 10, 2021 – the ex-dividend date was December 9, 2021.

In 2021, the Company has paid a total cash dividend of thirty-four cents ($0.34) per Class A Subordinate Voting Share and thirty-four cents ($0.34) per Class B Common Share. In 2020, the Company had paid a total cash dividend of thirty-four cents ($0.34) per Class A Subordinate Voting Share and thirty-four cents ($0.34) per Class B Common Share.

Controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations, therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As at December 31, 2021, the Company conducted an evaluation, under the direction and supervision of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2021 such disclosure controls and procedures were operating effectively.

Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Canadian Securities Administrators require that companies certify the effectiveness of internal controls over financial reporting. It also requires a company to use a control framework such as the COSO Framework to design internal controls over financial reporting. As well, the threshold for reporting a weakness of internal controls over financial reporting should be of a "material weakness" rather than "reportable deficiency." HPS has designed its internal controls in accordance with the COSO Framework and has carried out retesting in 2021, which was completed in the fourth quarter.

As of December 31, 2021 Management, with the supervision and participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting. Based on that assessment, the Chief Executive Officer and Chief Financial Officer have concluded that the internal controls are effective and that there were no material weaknesses in the Company's internal control over financial reporting as of December 31, 2021.

Changes in internal control over financial reporting and disclosure controls and procedures

During 2021 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or were reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing was considered at a material level.

Subsequent events

Dividends

On March 4, 2022, the Company declared a dividend of eight and a half cents ($0.085) per Class A subordinate voting shares of HPS and a quarterly cash dividend of eight and a half cents ($0.085) per Class B common shares of HPS payable on March 24, 2022 to shareholders of record at the close of business on March 16, 2022. The ex-dividend date is March 18, 2022.

Joint venture ownership change

The Company and National Material L.P. ("National") have operated the joint venture in Monterray, Mexico under the name Corefficient S. de R.L. de C.V. Subsequent to year-end, the Company and National have amicably agreed to divide the operations. In connection with this transaction, HPS will retain certain equipment, employees, obligations and other financial assets and liabilities, and National will withdraw ceratin assets and capital in exchange for redeeming their ownership interest. The Compnay will operate the retained portion of the joint venture as a wholly owned subsidiary of the Group. The operation will continue to produce transformer cores to supply the Group's facilities in Mexico. The Corefficient name will be retained by National. Further details can be found in note 31 in the Notes to Consolidated Financial Statements included in our 2021 Annual Report.

Risks and uncertainties

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However, as with most businesses, HPS is subject to a number of marketplace, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is aware of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Market supply and demand impact on commodity prices

HPS relies on a global supply chain to meet its manufacturing needs. We source both raw materials and components from our own factories and third party suppliers. Industry supply shortages, including those caused by logistics disruptions and global conflicts may interrupt manufacturing production, and therefore affect our ability to ship product to customers. These risks are mitigated through strategic supply line agreements and alliances in place with suppliers.

The cyclical effects and unprecedented rise of global commodity prices, including prices for copper, aluminum and electrical steel may put margins at risk. There is a risk in our ability to recoup the rapid escalating commodity costs through timely and effective selling price increases.

Other Business Risks

If any of the following risks were to occur they could materially adversely affect HPS' financial condition, liquidity or results of operations.

Coronavirus (COVID-19) Pandemic – Business Disruption/Interruption

Markets, governments and health organizations around the world have been impacted by the COVID-19 pandemic. COVID-19 has presented a wide range of issues and complications for the Company, some of which the Company is unable to know the full extent.

Looking forward, while the increase in vaccination levels are climbing, there is a guarded business optimism but some uncertainty and unpredictability persist on the impacts of the COVID-19 pandemic on the business climate and governmental and health authorities' legislation. The full negative financial impact of the unprecedented pandemic will not be fully known until the economy fully recovers.

We may not realize all of the anticipated benefits of our acquisitions, divestitures, joint ventures or strategic initiatives, or these benefits may take longer to realize than expected.

In order to be profitable, the Company must successfully execute upon its strategic initiatives and effectively manage the resulting changes in its operations. The

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

These strategic initiatives can include acquisitions and joint ventures. To be successful, management will conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete complex transactions and manage post-closing matters such as the integration of acquired startup businesses. Management's due diligence reviews are subject to the completeness and accuracy of disclosures made by third parties. The Company may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation or other liabilities.

Many of the factors that could have an adverse impact will be outside of management's control and could result in increased costs and decreases in the amount of expected revenues and diversion of management's time and attention. Failure to implement an acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and result of operations.

We sell to customers around the world and have global operations and, therefore, are subject to the risks of doing business in many countries.

We do business in a host of countries around the world. Approximately 70% of our sales were to customers outside of Canada. In addition, a number of our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

Our global business translates into conducting business in various currencies, all of which are subject to fluctuations.

HPS' global footprint exposes the Company to currency fluctuations and volatility and, at times, has had a significant impact on the financial results of the Company. The Company's functional currency is the Canadian dollar with its operating results reported in Canadian dollars. A significant portion of the Company's sales and material purchases are denominated in U.S. dollars. There is a natural hedge, as sales denominated in U.S. dollars are largely offset by the cost of raw materials purchased from the U.S., and commodities tied to U.S. dollar pricing. A change in the value of the Canadian dollar against the U.S. dollar will impact earnings, significantly at times. Generally, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results, while a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

HPS has partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output, periodically instituting price increases to help offset negative changes and entering into forward foreign exchange contracts.

Worldwide HPS is subject to, and required to comply with, multiple income and other taxes, regulations and is exposed to uncertain tax liabilities risk.

The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates, which determine taxation expenses, may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. Tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities.

We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.

Our business depends on the movement of goods around the world. Natural disasters, pandemics, acts or threats of war or terrorism, international conflicts, political instability and the actions taken by governments could cause damage to or disrupt our business operations, our suppliers or our customers and could create economic instability. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products make it difficult or impossible to deliver our products, or disrupt our global material sourcing.

Political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.

Changing legislative mandates in the countries with which we do business may result in a number of geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. HPS' current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for us. HPS' global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships.

Our industry is highly competitive.

HPS faces competition in all of our market segments. Current and potential competitors may have greater brand name recognition, more established distribution networks, access to larger customer bases and substantially greater financial, distribution, technical, sales and market, manufacturing and other resources than HPS does. As a result, those competitors may have advantages relative to HPS; including stronger bargaining power with suppliers that may result in more favourable pricing, the ability to secure supplies at time of shortages, economies of scale in production, the ability to respond more quickly to changing customer demands and the ability to devote greater resources to the development, promotion and sales of their products and services. If HPS is unable to compete effectively, it may experience a loss of market share or reduced profitability. We expect the level of competition to remain high in the future.

Our business is highly sensitive to global and regional economic conditions in the industries we serve.

Current global economic conditions influence the Company's focus, direction, strategic initiatives and financial performance. To address the current uncertainty, we are focusing our efforts on projects that will increase our market reach, advance our cost competitiveness, expand capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will hold even greater importance in order to respond quickly to both unexpected opportunities and challenges. HPS' management believes that the key to expanding our market share is growing our access to a variety of domestic and global markets. This will be achieved through our current and new OEM and distributor channels.

The disruption to businesses that can come from unpredictable weather can have an impact on sales volume as customer projects can be delayed or cancelled.

Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present, the Company may see short-term effects of such occurrences due to their unpredictability. This may impact delivery and capacity requirements.

The business practice of extending credit to customers can lead to a risk of uncollectability.

A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk. This risk is partially mitigated by managements credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure and the Company's future collection rate may differ from its historical experience.

Risk of cyber attack

Globally there have been increased incidences of outside cyber attacks and viruses on companies' information infrastructure and technologies. A successful cyber attack could result in misappropriation of assets, cause interruptions to manufacturing and our ability to take orders, as well as impact our general productivity. This risk is reduced through a number of initiatives to mitigate exposure.

Off-balance sheet arrangements

The Company has no off-Balance Sheet arrangements, other than capital commitments disclosed in note 15 in the Notes to the Consolidated Financial Statements contained in our 2021 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2021, as disclosed in note 23 in the Notes to the Consolidated Financial Statements contained in our 2021 Annual Report.

Proposed transactions

The Company had no proposed transactions as at December 31, 2021. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, long-term lease receivable, note receivable, bank operating lines of credit, accounts payable and accrued liabilities, contingent consideration and the following derivative instruments:

At December 31, 2021, the Company had outstanding foreign exchange contracts in place to buy for 17,350 EUR and $23,275 USD – which were implemented as an economic hedge against translation gains and losses on inter-company loans and $68,500 USD to economically hedge the U.S. dollar denominated accounts payable in the Canadian operations of HPS.

The Company also had outstanding foreign exchange contracts to sell for 34,700 EUR and $69,757 USD. The Company had total outstanding foreign exchange contracts in place as at December 31, 2020 for 17,500 EUR and $12,500 USD and 330,000 INR as economic hedges against translation gains and losses on inter-company loans and $46,500 USD to economically hedge the U.S. dollar denominated accounts payable in the Canadian operations.

Further details regarding the Company's financial instruments and the associated risks are disclosed in note 27 in the Notes to the Consolidated Financial Statements contained in our 2021 Annual Report.

Critical accounting estimates

The preparation of the Company's consolidated financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances.

Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The Company conducts its annual impairment assessment of goodwill, intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or Cash Generating Unit ("CGU") may not be recoverable. The Company did not identify any triggering events during the course of 2021 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Business Combinations requires acquirers to recognize the identifiable assets acquired and liabilities assumed at fair value. The determination of fair value requires Management to make estimates around the value an independent third party, under no compulsion to act, would pay for an asset acquired or liability assumed on a standalone basis. Where possible, Management engages third-party appraisers to assist in the determination of the fair value of real property acquired. The fair value of acquired intangible assets are generally determined using discounted cash flow models and involve the use of cash flow forecasts, market-based discount rates, and/or market-based royalty rates. The fair values of liabilities assumed is generally based on discounted cash flow models which involve the use of market-based discount rates. The development of cash flow forecasts involve the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of discount rates and royalty rates.

The Company records a provision for warranties based on historical warranty claim information and anticipated warranty claims, based on a weighted probability of possible outcomes.

The key assumptions made by management in recording the provision are i) warranty cost, ii) probability of claim, and iii) quantum of units which may be subject to any warranty claim.

Quantifying provisions inherently involves judgment, and future events and conditions may impact these assumptions. Differences in actual future experience from the assumptions utilized may result in a greater or lower warranty cost.

Outstanding share data

Details of the Company's outstanding share data as of December 31, 2021, are as follows:

9,011,624	Class A Shares
2,778,300	Class B Common Shares
11,789,924	Total Class A and B Shares

There have been no material changes to the outstanding share data as of the date of this report.

New accounting pronouncements

IBOR – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued Phase 2 amendments, which amended the requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, principally addressing the following areas:

- modification of a financial asset or a financial liability;
- modification of a lease;
- additional reliefs for hedging relationships;
- new disclosures; and
- effective date and transition.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2021. The adoption of the amendments did not have a material impact on the consolidated financial statements.

COVID-19-related rent concessions (Amendments to IFRS 16)

In May 2020, the IASB issued COVID-19-related rent concessions, which amended IFRS 16. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19, only if certain conditions are met. Under the practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2021. The adoption of the amendments did not have any impact on the consolidated financial statements.

Cloud computing arrangement costs

On April 28, 2021 the IFRS Interpretations Committee issued a final agenda decision on cloud computing arrangements. The agenda aimed to clarify guidance on how customers should account for implementation costs incurred in a software-as-a-service arrangement. This further builds upon the March 2019 agenda which distinguished hosting arrangements in which the customer receives a software intangible asset from those that do not, and therefore are service contracts.

The Company adopted this agenda decision on a retrospective basis. The adoption of the amendments did not have a material impact on the financial statements.

New accounting pronouncements to be adopted

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective, have not yet been adopted by the Group and are not expected to have a material impact on the consolidated financial statements.

The Group intends to adopt the following amendments in its financial statements for the annual period beginning on January 1, 2022:

- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Reference to the Conceptual Framework (Amendments to IFRS 3); and
- Annual Improvements to IFRS Standard 2018-2020.

The following amendments are effective for the annual period beginning on January 1, 2023:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Definition of accounting estimates (Amendments to IAS 8);
- Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgments); and

- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes).

The Group is evaluating the impact of adoption. The Group intends to adopt the following amendment once an effective date has been announced:

- Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture.

Strategic direction and outlook

HPS has a rich and extensive history of growth, innovation and resilience. The Company has navigated through difficult and fluctuating economic times, increased globalization, adapted to changes in customers and markets and has experienced significant advances in technology. HPS has framed these challenges as opportunities and developed strategies to address these rapid changes.

The Company is confronting these challenges and continuously building our strategic advantage by focusing on:

- Developing our Customers and Markets by:
  - Driving organic growth through continuing to develop our NAED channel;
  - Offering competitive products, including an expanding product quality offering;
  - Providing unparalleled service to our customers; and
  - Growing through strategic acquisitions.
- Achieving Operational and Financial Excellence by:
  - Driving continuous improvement;
  - Improving efficiency by investing in equipment, people and technology; and
  - Optimizing the efficiency of our global manufacturing footprint.
- Developing our People and Culture by:
  - Building our leadership team for the future;
  - Developing our people to perform; and
  - Making HPS a preferred employer.
- Building a Sustainabilty Program by
  - Designing energy efficient products;
  - Shrinking our ecological footprint; and
  - Energizing the world in a responsible way for the generations to come.

The demand for our transformers particularly in North America continues to accelerate and sales volumes have returned to pre-pandemic levels. While we have seen improvements in business activity and demand, we have also experienced rapidly rising commodity costs as well as supply shortages. Based on the combination of these factors, the Company expects to see continued growth in revenues. It is difficult to know for how long higher commodity prices will be sustained, in particular those for grain-oriented electrical steel, but at this time there are few indicators that would indicate that these costs will come down during the first half of the year. It has been, and is, HPS' objective to maintain gross margins in the face of rising prices. We will continue to do so in the future.

During 2021, we added over 200 new distributors and began to put the infrastructure in place to support our growth initiative into Mexico. We believe that Mexico has strong potential for us as a sales market due to its proximity to our manufacturing locations and our ability to leverage existing people, product, and supply chain.

The most recent acquisition of Mesta Electronics Inc. has expanded HPS' offering into standard and custom active filter and induction heating products. Mesta shares an excellent reputation for product quality, design and reliability. Mesta not only expands HPS' U.S. presence but also broadens our power solutions product offering and manufacturing capabilities in power quality solutions.

Our Canadian entities received a government subsidy for eligible wages in Quarter 2, 3 and 4, 2020 and Quarter 1, 2, and 3, 2021 which supported our Canadian staff employment. Despite lower sales volumes and a high degree of uncertainty during 2020 and 2021, we were able to protect Canadian jobs as a result of the subsidy. The Company has implemented robust health and safety precautions dedicated to providing a safe working environment for our employees while continuing to manufacture and serve our customers during this volatile, unpredictable time. Where able, the Company has provided tools to allow employees to work remotely to assist with managing school closures and health concerns.

The implementation of our ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, improve customer service, supplement strategic decision making and audit and control. During Quarter 2, 2021 the ERP system went live in our operation in Granby, Quebec. This implementation project began in Quarter 1, 2020 and represents the Company's final operation to be converted to our ERP platform. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

During 2021, the Company implemented a new Human Resource Management System, ("HRMS") platform to move the Company to a common payroll and human resource system. This platform will enhance our internal communications, create efficiencies, improve controls, incorporate additional career planning and allow for better data analysis. This implementation project began in Quarter 1, 2021 and went live on January 1, 2022.

HPS has modern manufacturing facilities throughout the world and this continues to be enhanced through our committed capital investment. As we grow, we are investing in equipment and machinery that will allow us to keep up with future demand and allow us to optimize our manufacturing capabilities at our various locations. We are also investing in business technology that will help us become more efficient and provide us with the data that we need to improve our business.

The Company continues to have a strong reputation of being an industry leader and is both operationally and financially strong. HPS is well positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of other market sectors. We continue to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

HPS' strategic vision and operational initiatives have supported our industry leadership, operational strength and financial stability. The combination of our resilience, drive, decades of experience, commitment, engineering expertise, solid supplier relationships and a broad and unique business perspective gained through our diverse products, customers and markets are all key success factors critical to our success.

The Company has provided shareholders with strong earnings per share, solid cash generation and quarterly dividends paid with an attractive yield. To continue this trend HPS is focused on sales development, continued NAED channel expansion, product development, and bringing quality and value to all that we produce. Our strategic initiatives and focused plans will continue to allow HPS to grow and expand.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information [1]	2017	2018	2019	2020	**2021**
Sales	301,750	314,082	358,792	322,097	**380,202**
Earnings from operations	14,470	13,779	20,543	22,041	**23,151**
EBITDA	23,069	17,915	28,175	29,482	**30,114**
Net earnings (loss)	6,114	(12,917)	11,607	14,062	**15,176**
Total assets	192,449	205,527	214,953	189,394	**235,099**
Non-current liabilities	3,641	2,528	11,271	8,329	**7,104**
Total liabilities	77,438	96,793	105,186	75,478	**109,097**
Total shareholders' equity attributable to equity holders of the Company	114,848	108,734	109,767	113,916	**126,002**
Operating debt, net of cash	(16,983)	(17,056)	(9,326)	(1,278)	**1,638**
Cash provided by operations	1,032	6,474	17,810	19,683	**20,447**
Basic earnings (loss) per share	0.53	(1.10)	0.99	1.20	**1.29**
Diluted earnings (loss) per share	0.52	(1.10)	0.99	1.20	**1.28**
Dividends declared and paid	2,809	2,818	3,287	3,993	**4,009**
Average exchange rate (USD$=CAD$)	1.298	1.294	1.327	1.343	**1.253**
Book value per share	9.80	9.26	9.36	9.70	**10.69**

	2020				2021			
Quarterly Information	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Sales	88,420	75,393	78,115	80,169	80,121	88,277	95,526	116,278
Earnings from operations	3,033	6,514	5,447	7,047	3,402	7,620	5,909	6,220
EBITDA	5,678	8,447	7,466	7,891	5,349	8,694	7,378	8,693
Net earnings	2,148	4,420	3,462	4,032	2,298	4,689	3,948	4,241
Total assets	212,929	197,895	203,443	189,394	192,395	208,865	221,549	235,757
Non-current liabilities	9,729	9,039	8,558	8,329	7,546	7,018	6,486	7,104
Total liabilities	97,156	81,375	87,215	75,478	77,559	91,691	98,951	109,097
Total shareholders' equity attributable to equity holders of the Company	115,773	116,520	116,228	113,916	114,836	117,174	122,598	126,002
Operating debt, net of cash	(18,356)	(12,906)	(4,790)	(1,278)	(11,754)	(14,392)	(15,399)	1,638
Cash (used) provided by operations	(6,038)	7,229	10,419	8,073	(6,854)	(29)	7,430	19,900
Basic earnings per share	0.18	0.38	0.30	0.34	0.19	0.40	0.34	0.36
Diluted earnings per share	0.18	0.38	0.30	0.34	0.19	0.40	0.34	0.35
Dividends declared and paid	998	999	998	998	1,002	1,002	1,002	1,002
Average exchange rate (USD$=CAD$)	1.339	1.391	1.335	1.309	1.268	1.231	1.257	1.258
Book value per share	9.86	9.92	9.90	9.70	9.78	9.94	10.4	10.69

[1] Balances for 2017 not restated to reflect discontinued operations

Management's Responsibility for Financial Statements

The Consolidated Financial Statements are the responsibility of the management of Hammond Power Solutions Inc. These statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), 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 Consolidated Financial Statements and other financial information contained in the report. In the preparation of these statements, estimates were 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 assurances 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 through the Audit Committee of the Board, which is composed of all of the directors, of whom six are 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.

William G. Hammond
Chairman of the Board
& Chief Executive Officer

Richard C. Vollering
Corporate Secretary
& Chief Financial Officer

March 24, 2022

To the Shareholders of Hammond Power Solutions Inc.

Opinion

We have audited the consolidated financial statements of Hammond Power Solutions Inc. (the Entity), which comprise:

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

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

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

We are independent of the Entity 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, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of the carrying value of goodwill for the India cash generating unit

Description of the matter

We draw attention to notes 2(d)(ii), 3(g) and 12 of the financial statements. The goodwill balance is $12,766 thousand, of which, $8,527 thousand relates to the Hammond Power Solutions Private Limited ("India") cash generating unit ("CGU"). The Entity conducts its annual impairment assessment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of a CGU may not be recoverable. Performing impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows. The determination of the recoverable amount requires management to make significant estimates and assumptions which include projected revenue, projected gross margin rates, terminal growth rates, and the discount rate.

Why the matter is a key audit matter

We identified the evaluation of the goodwill impairment analysis for the India CGU as a key audit matter. The estimated recoverable amount of the India CGU approximated its carrying value. This indicated a significant risk of misstatement as changes to certain significant assumptions had a significant effect on the recoverable amount of the India CGU. As a result, significant auditor judgment was required in evaluating the results of the audit procedures.

How the matter was addressed in the audit

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

- We compared the Entity's historical projected revenue and projected gross margin rates to actual results to assess the Entity's ability to accurately project revenue and gross margin rates.
- We performed sensitivity analyses over the projected revenue and gross margin rate assumptions by using average actual growth rates realized in previous years to assess the impact on the Entity's determination that the estimated recoverable amount of the CGU exceeded its carrying value.
- We evaluated the terminal growth rate by comparing to overall market and industry conditions and overall macro-economic conditions.
- We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate assumption used in the estimated recoverable amount, by comparing it to a discount rate range that was independently developed using publicly available information and considering risks specific to the CGU.

Other Information

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

- The information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- The information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report 2021".

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 2021 as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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
- 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants
The engagement partner of the audit resulting in this auditors report is R. Alexander Dilts

March 24, 2022
Waterloo, Canada

Consolidated Statements of Financial Position

(in thousands of dollars)

	As at December 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 20,905	$ 14,795
Accounts receivable (note 4)	72,004	53,078
Inventories (note 5)	62,467	49,206
Income taxes receivable	807	488
Prepaid expenses and other assets (note 6)	3,515	2,687
Total current assets	159,698	120,254
Non-current assets		
Long-term lease and note receivable (note 7)	2,779	3,201
Property, plant and equipment (note 8)	30,960	30,372
Investment in properties (note 9)	3,294	3,649
Investment in joint venture (note 10)	13,279	13,300
Deferred tax assets (note 16)	2,370	1,809
Intangible assets (note 11)	10,503	5,901
Goodwill (note 12)	12,216	10,908
Total non-current assets	75,401	69,140
Total assets	$ 235,099	$ 189,394
Liabilities		
Current liabilities		
Bank operating lines of credit (note 13)	$ 19,267	$ 16,073
Accounts payable and accrued liabilities (notes 17, 21 and 27)	75,760	46,179
Income taxes payable	1,988	942
Provisions (note 20)	1,850	1,811
Current portion of lease and other liabilities (notes 14, and 30)	3,128	2,144
Total current liabilities	$ 101,993	$ 67,149
Non-current liabilities		
Provisions (note 20)	342	317
Deferred tax liabilities (note 16)	401	836
Long-term portion of lease and other liabilities (notes 14 and 30)	6,361	7,176
Total non-current liabilities	7,104	8,329
Total liabilities	$ 109,097	$ 75,478
Shareholders' Equity		
Share capital (note 17)	14,886	14,491
Contributed surplus	2,432	2,498
Accumulated other comprehensive income	2,109	1,519
Retained earnings	106,575	95,408
Total shareholder's equity	126,002	113,916
Commitments (note 15)		
Subsequent events (note 31)		
Total liabilities and shareholders' equity	$ 235,099	$ 189,394

See accompanying Notes to Consolidated Financial Statements.

On behalf of the Board:

William G. Hammond
Chairman of the Board & Chief Executive Officer

David J. FitzGibbon
Chairman Audit Committee

Consolidated Statements of Operations

Years ended December 31, 2021 and 2020 (in thousands of dollars except for per share)

		2021		2020
Sales (note 21)	$	380,202	$	322,097
Cost of sales (note 5 and 22)		277,771		235,103
Gross margin		102,431		86,994
Selling and distribution (note 22)		46,459		40,217
General and administrative (note 22)		32,821		24,736
	$	79,280	$	64,953
Earnings from operations		23,151		22,041
Finance and other costs				
Interest expense		1,301		1,247
Foreign exchange loss (gain)		561		(123)
Share of income of investment in joint venture, net of tax (note 10)		(61)		(153)
Other		100		104
Net finance and other costs		1,901		1,075
Earnings before income taxes		21,250		20,966
Income tax expense (recovery) (note 16):				
Current		7,110		7,827
Deferred		(1,036)		(923)
		6,074		6,904
Net earnings	$	15,176	$	14,062
Earnings per share (note 18)				
Basic earnings per share	$	1.29	$	1.20
Diluted earnings per share	$	1.28	$	1.20

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2021 and 2020 (in thousands of dollars)

		2021		2020
Net earnings	$	15,176	$	14,062
Other comprehensive income (loss)				
Items that will be recognized within profit and loss:				
Foreign currency translation differences for foreign operations		590		(5,920)
Other comprehensive income (loss), net of income tax		590		(5,920)
Total comprehensive income	$	15,766	$	8,142

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2021 and 2020 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2020	$ 14,491	$ 2,498	$ 7,439	$ 85,339	$ 109,767
Total comprehensive income for the period					
Net income	–	–	–	14,062	14,062
Other comprehensive loss					
Foreign currency translation differences related to joint venture (note 10)	–	–	(281)	–	(281)
Foreign currency translation differences	–	–	(5,639)	–	(5,639)
Total other comprehensive loss	–	–	(5,920)	–	(5,920)
Total comprehensive income for the period	–	–	(5,920)	14,062	8,142
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 17)	–	–	–	(3,993)	(3,993)
Total transactions with owners	–	–	–	(3,993)	(3,993)
Balance at December 31, 2020	$ 14,491	$ 2,498	$ 1,519	$ 95,408	$ 113,916
Balance at January 1, 2021	$ 14,491	$ 2,498	$ 1,519	$ 95,408	$ 113,916
Total comprehensive income for the period					
Net income	–	–	–	15,176	15,176
Other comprehensive (loss) income					
Foreign currency translation differences related to joint venture (note 10)	–	–	(82)	–	(82)
Foreign currency translation differences	–	–	672	–	672
Total other comprehensive income	–	–	590	–	590
Total comprehensive income for the period	–	–	590	15,176	15,766
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 17)	–	–	–	(4,009)	(4,009)
Stock options exercised (note 17)	395	(66)	–	–	329
Total transactions with owners	395	(66)	–	(4,009)	(3,680)
Balance at December 31, 2021	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002

*AOCI – Accumulated other comprehensive income
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020 (in thousands of dollars)

	2021	2020
Cash flows from operating activities		
Net earnings	$ 15,176	$ 14,062
Adjustments for:		
Share of income of investment in joint venture	(61)	(153)
Depreciation of property, plant and equipment, right-of-use assets and investment properties	6,092	6,233
Amortization of intangible assets	1,471	1,036
Gain on disposal of right to use asset	–	(10)
Provisions	433	1,080
Interest expense	1,301	1,247
Income tax expense	6,074	6,904
Unrealized (gain) loss on derivatives	(89)	560
Share-based compensation expense	1,210	518
	31,607	31,477
Change in non-cash working capital (note 25)	(4,777)	(4,992)
Cash generated from operating activities	26,830	26,485
Income tax paid	(6,383)	(6,802)
Net cash provided from operating activities	20,447	19,683
Cash flows from investing activities		
Repayment of note and lease receivable	185	188
Acquisition (note 30)	(5,032)	–
Acquisition of property, plant and equipment	(5,051)	(4,222)
Acquisition of intangible assets	(1,016)	(713)
Cash used in investing activities	(10,914)	(4,747)
Cash flows from financing activities		
Proceeds from issue of share capital (note 17)	329	–
Cash dividends paid (note 17)	(4,009)	(3,993)
Net advances (repayments) of bank operating lines of credit	3,194	(16,624)
Interest paid	(1,047)	(917)
Payment of lease liabilities (note 14)	(2,724)	(2,650)
Cash used in financing activities	(4,257)	(24,184)
Foreign exchange on cash and cash equivalents held in a foreign currency	578	672
Cash acquired in business combination (note 30)	256	–
Increase (decrease) in cash and cash equivalents	6,110	(8,576)
Cash and cash equivalents at beginning of period	14,795	23,371
Cash and cash equivalents at end of period	$ 20,905	$ 14,795

See accompanying Notes to Consolidated Financial Statements.

1. Reporting entity

Hammond Power Solutions Inc. ("HPS" or "the Company") is a corporation domiciled in Canada. The address of the Company's registered office is 595 Southgate Drive, Guelph, Ontario. The Company's Class A subordinate voting shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Group has manufacturing plants in Canada, the United States ("U.S."), Mexico and India. The Company also holds a 55% economic interest in a joint venture located in Mexico called Corefficient de R.L. de C.V. ("Corefficient").

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and were approved by the Board of Directors on March 24, 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for inventories carried at net realizable value, derivative financial instruments and share based payments which are measured at fair value, and the initial present value of finance leases receivable which are determined using cash flows implicit in the lease and a discount rate reflecting the interest rate implicit in the lease. Assets acquired and liabilities assumed in connection with business combinations are recorded based on their fair values at the date of acquisition, and contingent consideration granted concurrent with a business combination is recognized initially at fair value, with subsequent measurement occurring at fair value. Changes in the fair value of contingent consideration are recorded either through the statement of operations, or through equity, depending on the characteristics of the consideration granted.

(c) Functional and presentation currency

The functional currency of the Group's entities is the currency of their primary economic environment.
In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the statement of operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar ("CDN"), being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account within accumulated other comprehensive income.

Canadian and Subsidiary Operations	Functional Currency	
Canada	Canadian dollar	($)
United States	U.S. dollar	($ USD)
Mexico	Mexican Peso	(Pesos)
Mexico – Corefficient	U.S. dollar	($ USD)
Italy	Euro	(EU €)
India	Rupee	(INR)

(d) Use of estimates and judgments

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

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

(i) Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that Management has made in the process of applying the Group's accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements.

Cash generating units

As indicated in note 3(g) and 3(k); the Group conducts its impairment tests at the individual asset level or, where the recoverable amount cannot be determined for an individual asset, or for goodwill, at the cash generating unit ("CGU") level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The identification of a cash-generating unit involves judgment.

The Company has defined its cash generating units primarily as each manufacturing and contract manufacturing location, due to the fact that each location is managed separately and has its own dedicated human resources and property, plant and equipment. Each manufacturing facility produces products largely independent of the other facilities and is ultimately responsible for producing products that generate revenue. Management monitors the performance of each manufacturing unit through the use of profitability analysis, and also considers the profitability of each manufacturing unit relative to the Group's business plan.

Initial lease term

The Group leases certain manufacturing facilities, warehouse facilities, vehicles and other assets. In determining the value of a right-of-use asset and lease liability, IFRS 16 requires the Group to determine the lease payments to be made over the initial term of the lease, including renewal options which are reasonably certain to be exercised. Such payments are then discounted based on the interest rate implicit in the lease or the Group's incremental borrowing rate. In determining the initial lease term, Management makes an assessment of the renewal periods available to the Group within each lease and evaluates the likelihood and corresponding time horizon of available renewal options. Such assessments involve judgment and ultimately may differ from the terms of leases actually experienced.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The determination of operating segments involves judgment. Management has determined that the Group operates as a single operating segment, being the design, manufacture and sale of transformers.

Identification of acquired assets and liabilities

IFRS 3, Business Combinations, requires acquirers to recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed. The identification of acquired assets and liabilities involves judgment.

(ii) Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next twelve months.

Recoverability of goodwill and intangible assets

The Group tests annually or more frequently if necessary, whether goodwill or other long-lived assets have suffered any impairment in accordance with the accounting policy provided in note 3(k). Performing impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money.

The key assumptions made by management in deriving the recoverable amount are i) projected revenue, ii) projected gross margin rates, iii) terminal growth rates, and iv) the discount rate.

Impairment assessments inherently involve judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact the Company's assumptions as to prices, costs or other factors that may result in changes in the Company's estimates of future cash flows. Failure to realize the assumed revenues at an appropriate gross margin or failure to improve the financial results of a CGU could result in impairment losses in the CGU in future periods.

For assumptions relating to impairment testing, refer to note 12.

Determination of fair value of acquired long-lived assets, intangible assets, and assumed liabilities

IFRS 3, Business Combinations, requires acquirers to recognize the identifiable assets acquired and liabilities assumed at fair value. The determination of fair value requires Management to make estimates around the value an independent third party, under no compulsion to act, would pay for an asset acquired or liability assumed on a standalone basis. Where possible, Management engages third-party appraisers to assist in the determination of the fair value of real property acquired. The fair value of acquired intangible assets are generally determined using discounted cash flow models and involve the use of cash flow forecasts, market-based discount rates, and/or market-based royalty rates. The fair values of liabilities assumed is generally based on discounted cash flow models which involve the use of market-based discount rates. The development of cash flow forecasts involve the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of discount rates and royalty rates.

Provisions for warranty claims

The Group records a provision for warranties based on historical warranty claim information and anticipated warranty claims, based on a weighted probability of possible outcomes.

The key assumptions made by management in recording the provision are i) warranty cost, ii) probability of claim, and iii) quantum of units which may be subject to any warranty claim.

Quantifying provisions inherently involves judgment, and future events and conditions may impact these assumptions. Differences in actual future experience from the assumptions utilized may result in a greater or lower warranty cost. For further information on the Group's provisions, refer to note 20.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Group entities.

(a) Basis of consolidation

The consolidated financial statements include the accounts of Hammond Power Solutions Inc. and its wholly-owned subsidiaries:

- Hammond Power Solutions, Inc.
- Hammond Power Solutions, S.A. de C.V.
- Montran S.A. de C.V.
- Delta Transformers Inc.
- Hammond Power Solutions Private Limited
- Continental Transformers s.r.l.
- Hammond Power Solutions S.p.A.
- Mesta Electronics, Inc.
- Hammond Power Solutions Latin America S.A de C.V.

Joint operations arise from an arrangement in which the interested parties are bound by a contract which gives two or more parties joint control of the arrangement, and those parties have rights to the assets and obligations for the liabilities relating to the arrangement. The Company has a 50% interest in Glen Ewing Properties, an unincorporated co-tenancy. The consolidated financial statements include the Group's share of the entity's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis.

Joint ventures arise in which the interested parties are bound by a contract which gives two or more parties joint control of the arrangement, and those parties have rights to the net assets of the arrangement.

The Company's interest in Corefficient is considered to represent a joint venture. Interests in joint ventures are initially recognized at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income.

All significant inter-company transactions and balances have been eliminated.

(b) Financial instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Group becomes a party to the financial instrument or derivative contract.

The Group classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Group reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Group has applied the following classifications:

- Cash and cash equivalents, accounts receivable and long-term lease and note receivable are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.
- Accounts payable, accrued liabilities and bank operating lines of credit are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of operations, as applicable.
- Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated. The Group has not historically designated such items as hedging instruments and accordingly changes in fair value are recorded through the statement of operations.
- Contingent consideration issued in connection with a business combination that meets the definition of a financial liability is initially recognized at fair value at the acquisition date and is subsequently re-measured at fair value at the end of each reporting period.

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods.

The Group assesses all information available, including, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Group applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of three months or less.

(d) Property, plant and equipment

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is provided on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings — 14-30 years
- Leaseholds and improvements — lesser of 5 years and lease term
- Machinery and equipment — 4-10 years
- Office equipment — 4-10 years
- Land is not depreciated

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

Assets included in construction-in-progress are not depreciated until the assets are available for use. Idle assets that are available for use are depreciated.

(e) Intangible assets other than goodwill

Intangible assets that are acquired either separately or in a business combination are recognized when they are identifiable and can be reliably measured. Intangible assets are considered to be identifiable if they arise from contractual or other rights, or if they are separable (i.e. they can be disposed of either individually or together with other assets). Intangible assets comprise finite life intangible assets.

Finite life intangible assets are those for which there is an expectation of obsolescence that limits their useful economic life or where the useful life is limited by contractual or other terms. They are amortized over the shorter of their contractual or useful economical lives.

The estimated useful lives for the current and comparative periods are as follows:

• Customer lists and relationships	15 years
• Technology	10-20 years
• Software and other	4-14 years
• Branding	5-15 years

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

(f) Research and development expenses

Research expenses are recognized as expenses in the financial period incurred.

Development expenses are recognized as an intangible asset if the Group can demonstrate the technical feasibility of making the intangible asset ready for commissioning or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of the appropriate resources (technical, financial or other) to complete development and use or sell the intangible asset; and its ability to provide a reliable estimate of expenses attributable to the intangible asset during its development.

(g) Business Combinations and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values.

Goodwill is allocated as of the date of the business combination to the Company's cash generating units that are expected to benefit from the synergies of the business combination, and is tested for impairment at least annually and upon the occurrence of an indication of impairment.

The impairment tests are performed at the CGU level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value, less costs to sell. 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 cash flows correspond to estimates made by Group management in financial and strategic business plans covering a period of five years. They are then projected beyond five years using a steady or declining terminal growth rate given that the Group businesses are of a long-term nature. The Group assesses the uncertainty of these estimates by conducting sensitivity analyses. The discount rate used approximates the CGUs weighted average cost of capital, with business risk incorporated into the development of the cash flow projections.

An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual goodwill impairment tests at December 31, 2021.

(h) Investment properties

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 properties, being the property held by Glen Ewing Properties and the Italian Marnate properties, at historical cost.

(i) Joint venture

The Company applies the equity method of accounting for its investment in the joint venture. Under the equity method of accounting, interests in joint ventures are initially recognized in the Consolidated Statements of Financial Position at initial cost and adjusted thereafter to recognize the Group's share of profits or losses and movements in other comprehensive income in the income statement and in other comprehensive income respectively. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains or transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred.

(j) Inventories

Inventories are valued at the lower of cost and net realizable value.

The cost of inventories is based on the first-in first-out principle and includes 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, cost includes 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 which previously caused inventories to be written down to their net realizable value no longer exist, the previous impairment is reversed.

(k) Impairment of property, plant and equipment and finite life intangible assets

The Group periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. Consideration is given at each reporting date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment and finite life intangible assets. The Group reviews for impairment of long-lived assets, or asset groups, held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

The recoverable amount is the greater of the fair value less cost of disposal and value in use. If the recoverable amount cannot be determined for one individual asset, the Group conducts its impairment test at the CGU level. In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. Assets that suffer impairment are assessed for possible reversal of the impairment at each reporting date.

(l) Share-based payment transactions

Stock option plan

The Group has a stock-based compensation plan, which is described in note 17. The Group accounts for all stock-based payments using the fair value based method.

Under the fair value based method, compensation cost for stock options and direct awards of stock is measured at fair value at the grant date. Compensation cost is recognized in earnings on a straight-line basis over the relevant vesting period, with a corresponding amount recorded in contributed surplus. The amount recognized as an expense, is adjusted to reflect the number of awards for which the related services are expected to be met. Upon exercise of a stock option, share capital is recorded at the sum of the proceeds received and the related amount of contributed surplus.

Deferred share unit plan

The Company maintains a deferred share unit plan ("DSU Plan") for its senior-executive management and Directors. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. DSUs are increased by the dividend rate on a quarterly basis.

Under IFRS, DSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a Redemption Event, as defined in the DSU Plan. DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. As such, the Company recognizes the expense and the liability to pay for eventual redemption when DSUs are issued. Thereafter, the Company re-measures the fair-value of the liability at the end of each reporting date and the date of settlement, with the difference recognized in income or expense for the period. The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date. The DSU liability is included within accrued liabilities.

(m) Provisions

Provisions comprise liabilities of uncertain timing or amounts that arise from restructuring plans, environmental, litigation, commercial or other risks. Provisions are recognized when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. A restructuring provision relating to a sale or termination of a line of business, the closure of business locations in a country or region, changes in management structure or fundamental reorganizations that have a material effect of the nature or focus of the Group's operations are recognized when the Group has a detailed, formal plan for the restructuring that identifies:

- The business or part of a business concerned;
- The principal locations affected;
- The location, function and approximate number of employees affected;
- The expenditures that will be undertaken; and
- When the plan will be implanted.

Notwithstanding the above, no provision is recorded until such time a valid expectation by those affected by the plan has been raised.

(n) Revenue

The Group recognizes revenue using a 5-step approach:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation.

The Group considers a performance obligation satisfied when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. The Group typically satisfies its performance obligation upon shipment of its transformers. Any required testing or compliance requirements will have been satisfied prior to shipment of the transformer. Payment is typically due within 30 days of shipment, with limited customers being granted extended terms of up to 60 days. As a result, consideration is generally fixed and does not contain any significant financing components. The Group has a return policy for credit on standard stocked items and no custom build product can be returned. Historically, returns have been minimal and are expected to continue to remain low. The Group's product is purchased with a standard warranty and there is no option to purchase any additional warranty coverage.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration in that only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Incremental costs to obtain a contract are typically short-term in nature and the Group applies the practical expedient permitted under IFRS 15 to recognize such costs as an expense when incurred if the amortization of the asset that the Group would have otherwise recognized is less than one year.

(o) Income taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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.

(p) Employee benefits

The Group maintains a defined contribution plan, which is described in note 19, and have short-term employee benefits.

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 profit or loss in the periods in which services are rendered by employees.

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.

(q) Finance income and finance costs

Finance income and finance costs comprise interest income, interest expense on borrowings, foreign currency losses (including changes in fair value of derivative foreign currency financial instruments measured at fair value through profit and loss), the Group's share of income or losses arising from its investment in joint ventures and other finance costs.

Foreign currency gains and losses are reported on a net basis.

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing net earnings of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted EPS are computed similar to basic EPS except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that proceeds from such exercises along with any unamortized stock-based compensation were used to acquire common shares at the average market price during the year.

(s) 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, and subsequently at cost less any accumulated depreciation and impairment losses, 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 applies a single discount rate to the portfolio of leases with reasonably similar characteristics.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate or the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group does not recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less or are low-value assets (under $5,000).

(t) Government assistance

The Group recognizes government assistance in the statement of operations on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the assistance is intended to compensate.

(u) New accounting pronouncements adopted during the period

IBOR – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued Phase 2 amendments, which amended the requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, principally addressing the following areas:

- modification of a financial asset or a financial liability;
- modification of a lease;
- additional reliefs for hedging relationships;
- new disclosures; and
- effective date and transition.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2021. The adoption of the amendments did not have a material impact on the consolidated financial statements.

COVID-19-related rent concessions (Amendments to IFRS 16)

In May 2020, the IASB issued COVID-19-Related Rent Concessions, which amended IFRS 16. The 2020 amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19, only if certain conditions are met. Under the practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2021. The adoption of the amendments did not have any impact on the consolidated financial statements.

Cloud computing arrangement costs

On April 28, 2021 the IFRS Interpretations Committee issued a final agenda decision on cloud computing arrangements. The agenda aimed to clarify guidance on how customers should account for implementation costs incurred in a software-as-a-service arrangement. This further builds upon the March 2019 agenda which distinguished hosting arrangements in which the customer receives a software intangible asset from those that do not, and therefore are service contracts.

The Company adopted this agenda decision on a retrospective basis. The adoption of the amendments did not have a material impact on the financial statements.

(v) New accounting pronouncements

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective, have not yet been adopted by the Group and are not expected to have a material impact on the consolidated financial statements.

The Group intends to adopt the following amendments in its financial statements for the annual period beginning on January 1, 2022:

- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Reference to the Conceptual Framework (Amendments to IFRS 3); and
- Annual Improvements to IFRS Standard 2018-2020.

The following amendments are effective for the annual period beginning on January 1, 2023:

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1);
- Definition of accounting estimates (Amendments to IAS 8);
- Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements); and
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes).

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The Group is evaluating the impact of adoption. The Group intends to adopt the following amendment once an effective date has been announced:

- Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture.

4. Accounts receivable

	December 31, 2021	December 31, 2020
Trade accounts receivable	$ 67,359	$ 49,129
Other receivables	4,645	3,949
	$ 72,004	$ 53,078

Trade accounts receivable is presented net of expected credit losses of $2,359,000 (December 31, 2020 – $2,577,000).

A continuity of the Group's allowance for doubtful accounts is as follows:

	December 31, 2021	December 31, 2020
Opening balance	$ 2,577	$ 2,997
Additional allowances	214	494
Writeoffs	(6)	(25)
Adjustments	(426)	(889)
	$ 2,359	$ 2,577

5. Inventories

	December 31, 2021	December 31, 2020
Raw materials	$ 30,731	$ 19,002
Work in progress	4,206	1,867
Finished goods	27,530	28,337
	$ 62,467	$ 49,206

Raw materials and changes in finished goods, and work in progress recognized as cost of sales during the year amounted to $276,850,000 (2020 – $234,395,000). In addition, during the year, write-downs in the amount of $23,000 were recognized (2020 – reversal of write-downs $4,000). Inventories carried at net realisable value as at December 31, 2021 were $1,054,000 (December 31, 2020 – $821,000).

6. Prepaid and other assets

	December 31, 2021	December 31, 2020
Prepaid expenses	$ 3,121	$ 2,455
Fair value of derivative	180	–
Current portion of long-term lease and note receivable (note 7)	214	232
	$ 3,515	$ 2,687

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7. Long-term lease and note receivable

Concurrent with the disposal of the VPI product line in 2017, the Group entered into a lease agreement for one of its manufacturing facilities in Italy, under which the purchaser will have the use of the plant, which includes both the land and the building, to October 2023. Consideration was in the form of a lease receivable, which the Company has determined meets the definition of a finance lease.

The lease receivable is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the lease inception date, determined to be 1.15%. Unless one of the Parties sends to the other a twelve month prior written notice of termination, at the end of each six year term, the agreement will be automatically renewed by an equal period.

Put and call option

The lease agreement includes a put and call option related to the leased premises, exercisable within 60 days after September 30, 2023. The call option grants the purchaser an option to purchase the premises for consideration equal to 2,225,000 Euros ("EUR") (approximately $3,305,000). The put option grants HPS an option to sell the plant to the purchaser for consideration equal to the initial plant purchase price of 2,225,000 EUR. Under both the call and put option the plant purchase price will be reduced by 50% of the monthly rent installments received, to a maximum of 375,000 EUR (approximately $557,000). If the purchaser fails to complete the acquisition of the leased premises upon the exercise of the put option by the Company and pay the required consideration, the purchaser will pay 500,000 EUR (approximately $743,000) in liquidated damages. Management has determined that ownership of the leased premises is reasonably certain to be tranferred by virtue of the put and call options and accordingly has accounted for the lease as a finance lease. The put and call options expire November 23, 2023.

As at December 31, 2021 consideration receivable consists of:

	December 31, 2021	December 31, 2020
Lease receivable of 2,083 EUR (2020 – 2,208 EUR), with monthly lease payments of 13 EUR, bearing interest of 1.15% per annum.		
Gross cash entitlement:	$ 3,057	$ 3,538
Less: unearned finance income	(64)	(105)
Net lease receivable	2,993	3,433
Less: current portion included within prepaid and other assets	214	232
	$ 2,779	$ 3,201

The aggregate amount of principal payments to be received in each of the next two years is as follows:

2022	214
2023	2,779
	$ 2,993

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

8. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property. Carrying amounts of owned and right of use assets are as follows:

	December 31, 2021	December 31, 2020
Property, plant and equipment owned	$ 25,152	$ 23,648
Right-of-use assets (note 14)	5,808	6,724
	$ 30,960	$ 30,372

	Land	Buildings	Leaseholds & Improvements	Machinery & Equipment	Office Equipment	Construction in Progress & Deposits	**Total**
Cost							
Balance at January 1, 2020	$ 4,232	$17,724	$ 1,582	$53,028	$11,075	$ 1,123	$ 88,764
Additions	–	301	325	1,612	489	1,495	4,222
Effect of movements in exchange rates	(22)	(46)	(107)	(574)	(106)	–	(855)
Balance at December 31, 2020	$ 4,210	$17,979	$ 1,800	$54,066	$11,458	$ 2,618	$ 92,131
Balance at January 1, 2021	$ 4,210	$17,979	$ 1,800	$54,066	$11,458	$ 2,618	$ 92,131
Acquisition (note 30)	–	–	–	8	–	–	8
Additions	–	564	106	2,067	486	1,828	5,051
Disposal	–	–	–	(671)	–	–	(671)
Effect of movements in exchange rates	(12)	(25)	(41)	(263)	(45)	(93)	(479)
Balance at December 31, 2021	$ 4,198	$18,518	$ 1,865	$55,207	$11,899	$ 4,353	$ 96,040
Accumulated Depreciation							
Balance at January 1, 2020	$ –	$11,350	$ 1,133	$42,836	$10,030	$ –	$ 65,349
Depreciation for the year	–	779	106	2,456	416	–	3,757
Effect of movements in exchange rates	–	(19)	(80)	(444)	(80)	–	(623)
Balance at December 31, 2020	$ –	$12,110	$ 1,159	$44,848	$10,366	$ –	$ 68,483
Balance at January 1, 2021	$ –	$12,110	$ 1,159	$44,848	$10,366	$ –	$ 68,483
Depreciation for the year	–	816	121	2,183	436	–	3,556
Disposal	–	–	–	(667)	–	–	(667)
Effect of movements in exchange rates	–	(10)	(34)	(401)	(39)	–	(484)
Balance at December 31, 2021	$ –	$ 12,916	$ 1,246	$45,963	$10,763	$ –	$ 70,888
Carrying amounts							
At December 31, 2020	$ 4,210	$ 5,869	$ 641	$ 9,218	$ 1,092	$ 2,618	$ 23,648
At December 31, 2021	$ 4,198	$ 5,602	$ 619	$ 9,244	$ 1,136	$ 4,353	$ 25,152

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Depreciation is recorded in the statement of earnings as follows: cost of sales $3,198,000 (2020 – $3,430,000), selling and distribution $nil (2020 – $5,000) and general and administrative $358,000 (2020 – $322,000).

Right of use assets

The Group leases many assets including buildings, vehicles and office equipment. Information about leases for which the Group is a lessee is presented below.

	Buildings	Vehicles	Office Equipment	**Total**
Balance at January 1, 2020	$ 8,503	$ 523	$ 27	$ 9,053
Additions	–	343	–	343
Disposal	–	(15)	–	(15)
Depreciation	(1,909)	(313)	(18)	(2,240)
Effect of movements in exchange rates	(407)	(9)	(1)	(417)
Balance at December 31, 2020	$ 6,187	$ 529	$ 8	$ 6,724
Balance at January 1, 2021	$ 6,187	$ 529	$ 8	$ 6,724
Additions	853	299	44	1,196
Depreciation	(1,668)	(290)	(16)	(1,974)
Effect of movements in exchange rates	(135)	(3)	–	(138)
Balance at December 31, 2021	$ 5,237	$ 535	$ 36	$ 5,808

Certain building leases maintained by the Group contain renewal options. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The majority of the Group's lease payments related to its production facilities located in Mexico. The first renewal option commenced in May 2020, with annual lease payments of $621,000, and is for a five-year term. The Group retains rights to renew this lease for 3 successive 5-year periods. The Group's lease on its second Mexican production facility expires in March 2023 and carries annual lease payments of $581,000. The Group holds a right to renew this lease for one four-year period following the expiry of the current lease term. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the options.

9. Investment in properties

	December 31, 2021	December 31, 2020
Glen Ewing Property	$ 1,044	$ 1,044
Marnate Property (net of accumulated depreciation of $1,415 (2020 - $1,360))	2,250	2,605
	$ 3,294	$ 3,649

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Glen Ewing Property

The Group has a 50% ownership interest in a property in Georgetown, Ontario (referred to as the Glen Ewing Property). It is a vacant plot of land currently under environmental remediation, and no revenue was derived from it in 2021 or 2020. The property is carried at cost. The estimated fair value of the property as at December 31, 2021 is $1,150,000 (2020 – $1,150,000). The fair value was determined based on independent available market evidence, with reference to comparable market transactions. The Group's share of ongoing legal, consulting and remediation costs during the year was $139,000 (2020 – $121,000).

Marnate Property

The Group owns a property in Marnate, Italy (referred to as the Marnate Property). As part of the sale transaction of certain of the assets and liabilities of the Italian company in 2019, the purchaser has leased the Marnate Property for a period of five years at an annual rental amount of 90,000 EUR (approximately $134,000). The operating expenses for this property were 169,000 EUR (approximately $251,000) in 2021 and 202,000 EUR (approximately $307,000) in 2020. Depreciation on the facility was recorded in the statement of earnings as general and administrative expenses in the amount of $163,000 (2020 – $236,000). The estimated fair value of the property as at December 31, 2021 is 1,566,000 EUR (approximately $2,250,000). The fair value was determined based on independent available market evidence, based on comparable property sales, by an independent valuator.

10. Investment in joint venture

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

	December 31, 2021	December 31, 2020
Cost of investment in joint venture	$ 20,023	$ 20,023
Cumulative share of loss in investment in joint venture, net of tax	(3,172)	(3,233)
Cumulative foreign currency translation differences related to the joint venture	(3,572)	(3,490)
	$ 13,279	$ 13,300

During the year the Company made no additional contributions (2020 – $nil) and recognized its share of income of $61,000 (2020 – $153,000).

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Selected financial information relating to Corefficient is as follows:

	December 31, 2021	December 31, 2020
Cash	$ 1,741	$ 3,553
Trade and other receivables	17,933	8,155
Inventories	3,224	2,932
Other current assets	217	89
Total current assets	$ 23,115	$ 14,729
Non-current assets	13,659	16,425
Total assets	$ 36,774	$ 31,154
Current liabilities	$ 12,905	$ 6,508
Non-current liabilities	–	746
Total liabilities	$ 12,905	$ 7,254

	2021	2020
Revenue	$ 67,908	$ 56,605
Income for the year	113	278

Net income for the year ended December 31, 2020 includes depreciation and amortization expense of $2,893,000 (2020 – $3,118,000), net interest expense of $14,000 (2020 – $62,000) and an income tax expense of $nil (2020 – $nil) related to Corefficient.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

11. Intangible assets

Intangible assets	Technology and Patents	Customer lists, relationships and branding	Externally acquired software	**Total**
Cost				
Balance at January 1, 2020	$ 6,241	$ 8,746	$ 6,690	$ 21,677
Additions	–	–	713	713
Effect of movements in exchange rates	(122)	(87)	35	(174)
Balance at December 31, 2020	$ 6,119	$ 8,659	$ 7,438	$ 22,216
Balance at January 1, 2021	$ 6,119	$ 8,659	$ 7,438	$ 22,216
Acquisition (note 30)	1,710	3,374	–	5,084
Additions	–	–	1,016	1,016
Effect of movements in exchange rates	(53)	(27)	(1)	(81)
Balance at December 31, 2021	$ 7,776	$ 12,006	$ 8,453	$ 28,235
Accumulated Amortization				
Balance at January 1, 2020	$ 4,545	$ 6,750	$ 4,051	$ 15,346
Amortization for the year	138	481	417	1,036
Effect of movements in exchange rates	(53)	(50)	36	(67)
Balance at December 31, 2020	$ 4,630	$ 7,181	$ 4,504	$ 16,315
Balance at January 1, 2021	$ 4,630	$ 7,181	$ 4,504	$ 16,315
Amortization for the year	216	833	422	1,471
Effect of movements in exchange rates	(27)	(26)	(1)	(54)
Balance at December 31, 2021	$ 4,819	$ 7,988	$ 4,925	$ 17,732
Balance at				
At December 31, 2020	$ 1,489	$ 1,478	$ 2,934	$ 5,901
At December 31, 2021	$ 2,957	$ 4,018	$ 3,528	$ 10,503

Amortization of $617,000 (2020 – $342,000) has been recognized in cost of sales, $123,000 (2020 – $131,000) has been recognized in selling and distribution and $731,000 (2020 – $563,000) has been recognized in general and administrative.

None of the intangible assets has been internally developed.

Research and development expenses of $945,000 (2020 – $704,000) have been recognized in cost of sales in the consolidated statements of earnings. No research and development costs have been capitalized (2020 – $nil).

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

12. Goodwill and impairment testing for cash-generating units

Goodwill	December 31, 2021	December 31, 2020
Opening balance	$ 10,908	$ 11,309
Addition (note 30)	1,422	–
Effect of movements of exchange rates	(114)	(401)
Ending balance	$ 12,216	$ 10,908

The Company conducts its annual impairment assessment of goodwill, intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. The Company did not identify any triggering events during the course of 2021 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Impairment testing for cash-generating units containing goodwill

The Company has three subsidiaries identified as CGUs that contain goodwill. The CGUs and their respective goodwill balances are as follows: Delta Transformers Inc. $2,180,000 (2020 – $2,180,000), Hammond Power Solutions Private Limited ("India") $8,527,000 (2020 – $8,728,000) and Mesta Electronics Inc. $1,509,000.

For its 2021 annual impairment assessment of CGUs containing goodwill, the Company used cash flow projections based primarily on its business plan for the following year, and projections for the ensuing four year period. The Company's business plan is primarily based on financial projections submitted by its subsidiaries in the fourth quarter of each year, together with inputs from customer teams. This plan is subjected to reviews by various levels of management as part of its annual planning cycle, and is approved by the Board of Directors. The values used in the cash flow projections are based on historical sales, internal growth rate assumptions and available market data.

India

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 20.0% (2020 – 21.9%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rates of 82.3%, which reflects returning to normal production levels post the COVID-19 pandemic as well as the manufacturing of a new product line in India. The annual sales growth rates for year 2 to year 5 are in the range of 10.5% – 36.2% (2020 – year 1 to year 5 – 6.0% – 80.3%) based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 8% (2020 – 8%). This was then compared to the carrying value of the CGU to determine if there was impairment.

Delta

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 12.3% (2020 – 12.3%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rates of 19.9% which reflects returning to normal production levels post COVID-19 pandemic. The annual sales growth rates for year 2 to year 5 are 3.0% (2020 – year 1 to year 5 – 2.4% – 5.3%) based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 2% (2020 – 2%). This was then compared to the carrying value of the CGU to determine if there was impairment.

Mesta

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present-value using discount rate of 26.8%. Through the five year cash flow projections, the Company's model also incorporated annualized year 1 sales growth rates of 304%. The annual sales growth/contraction rates for year 2 to year 5 range from 15.4% to 5.0% based on the CGUs operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using terminal growth rate of 3%. This was then compared to the carrying value of the CGU to determine if there was impairment.

Management's approach to determining projected revenue includes consideration of current bookings, committed product line expansions (for which no additional capital expenditure is required), consultation with its salesforce and historical results. The Company's process for determining projected gross margin rates includes consideration of current pricing information from suppliers and historical gross margin rates realized by the Company. The Company determines the terminal growth rate with reference to published economic data pertaining to the applicable industry and country in which the cash generating unit operates. The discount rate is determined with reference to the cash generating unit's weighted average cost of capital.

While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the impairment test. Management believes that certain reasonable possible changes in the key assumptions on which the recoverable amounts are based could cause the carrying amount to exceed the recoverable amount in the India CGU. As of December 31, 2021, a discount rate increase of 4.8% or a 8.2% lower terminal growth rate than the assumptions utilized would cause the estimated recoverable amount to be equal to the carrying amount for this CGU (December 31, 2020 – a discount rate increase of 2.1% or a 3.5% lower terminal growth rate).

For the Delta Transformers Inc. and Mesta Electronics Inc. CGUs, management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amount to exceed the recoverable amount.

Upon completion of the 2021 annual impairment assessment of goodwill it was determined that the recoverable amount of the CGUs exceeded their respective carrying values and no impairment existed at December 31, 2021.

13. Bank operating lines of credit

The Group's North American current banking agreement, which expires in June 2026, consists of a $50,000,000 U.S. revolving credit facility. The revolving credit facility can be drawn in U.S. Prime borrowings, Canadian Prime borrowings, Canadian Dollar Offered Rate ("CDOR") borrowings or the London Inter-Bank Offered rate ("LIBOR") benchmark replacement rate borrowings. The facilities are unsecured.

Interest on the revolving credit lines is dependent on certain financial ratios and ranges from Canadian bank prime rate to Canadian bank prime rate plus 0.04% for the Canadian dollar denominated revolving credit lines or, if designated, the bank's CDOR rate plus 1.40% to 1.90% and the Canadian overdraft loans at Canadian bank prime rate; and from U.S. base rate minus 1.00% to U.S. base rate minus 0.50% for the U.S. dollar denominated revolving credit lines or, USD overdraft loan at USD prime minus 1.00%.

The Group also has a 4,070,000 EUR unsecured Euro facility that matures June 2026 and may be renewed in writing each year to extend the maturity date for the facility for a further 365 days, subject to approval from the lender. The facility is comprised of a 3,750,000 EUR revolver and 250,000 EUR overdraft facility, as well as a 70,000 EUR letter of credit line. The revolver facility bears interest at 1.75% plus the relevant Market Index (2020 – plus margin of 2.25%, Euribor on December 31, 2021 – 0.499%, Euribor on December 31, 2020 – 0.499%).

Hammond Power Solutions Private Limited maintains an additional demand credit facility for an unsecured working capital loan up to 515,000,000 INR (2020 – 375,000,000 INR) consisting of the sub-facilities of a 90,000,000 INR (2020 – 131,000,000 INR) short-term working capital demand loan, a 425,000,000 INR (2020 – 244,000,000 INR) facility for bank guarantees. The demand loan bears interest at a MCLR + 2.5% and the bank guarantees are at a rate of 1.0%. As at December 31, 2021, there was $nil Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2020 – $nil). As at December 31, 2021 there was $4,481 INR (2020 – nil INR) drawings against the bank guarantees.

Based on exchange rates in effect at December 31, 2021, the combined Canadian dollar equivalent available across all facilities, prior to any utilization of the facilities was $77,788,000 (2020 – $76,477,000).

As at December 31, 2021, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit facility was $14,777,000, consisting of $12,598,000 Canadian dollars drawn and the Canadian equivalent of $2,179,000 U.S. dollars drawn (2020 – $11,215,000 – consisting of $7,577,000 Canadian dollars drawn and the Canadian equivalent of $3,638,000 U.S. dollars drawn). As well, $4,490,000 (2020 – $4,858,000) Canadian dollar equivalent of Euros was outstanding under the Euro facility, and $nil (2020 – $nil) Canadian dollar equivalent of Indian rupees under the Rupee facility. Amounts drawn on the facility have been recognized as current liabilities based on the Company's anticipated repayment plans.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

14. Lease and other long-term liabilities

	December 31, 2021	December 31, 2020
Lease liabilities	$ 7,980	$ 9,320
Contingent consideration (note 30)	1,509	–
	$ 9,489	$ 9,320
Current	3,128	2,144
Non-Current	6,361	7,176

Right of use liability maturity analysis – contractual undiscounted cash flows	December 31, 2021	December 31, 2020
Less than one year	$ 2,762	$ 2,719
One to five years	5,457	7,017
More than five years	94	705
Total undiscounted lease liabilities	$ 8,313	$ 10,441
Less: effect of discounting and foreign exchange	$ (333)	$ (1,121)
Lease liabilities included in the statement of financial position	$ 7,980	$ 9,320
Current	$ 2,512	$ 2,144
Non-current	$ 5,468	$ 7,176

Amounts recognized in statement of operations	Year Ended December 31, 2021	Year Ended December 31, 2020
Interest on lease liabilities	$ 254	$ 330

Amounts recognized in statement of cash flows	Year Ended December 31, 2021	Year Ended December 31, 2020
Payment of lease liabilities	$ 2,724	$ 2,650

15. Commitments

	December 31, 2021	December 31, 2020
Capital expenditure commitments	$ 483	$ 1,029

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

16. Income taxes

Income tax expense	**2021**	2020
Current tax expense		
Current period	$ 7,110	$ 7,827
Deferred tax recovery		
Origination and reversal of temporary differences	(1,071)	(924)
Decrease in tax rate	35	1
	(1,036)	(923)
Total income tax expense	$ 6,074	$ 6,904

Reconciliation of effective tax rate	**2021**	**2021**	2020	2020
Net earnings		$ 15,176		$ 14,062
Income tax expense		6,074		6,904
Earnings before income taxes		21,250		20,966
Income tax expense using the Company's domestic tax rate	39.50%	8,394	39.50%	8,282
Effect of tax rates in foreign jurisdictions	(12.49%)	(2,654)	(12.03%)	(2,522)
Decrease in tax rate	0.16%	34	0.00%	–
Non-deductible expenses/non-taxable income	0.23%	49	0.43%	90
Reduced rate for active business and manufacturing and processing	(1.81%)	(385)	(2.69%)	(564)
Losses for which no deferred tax asset was recognized	2.29%	487	(1.40%)	(294)
Basis difference in subsidiary	0.15%	32	–	–
Dividend withholding tax	0.00%	–	6.11%	1,281
Other	0.55%	117	3.01%	631
	28.58%	$ 6,074	32.93%	$ 6,904

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Unrecognized temporary differences

At December 31, 2021, pre-tax temporary differences of $94,347,000 (2020 – $80,250,000) 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. The tax liability in the event the Company were to sell these investments would be $11,793,000 (2020 – $10,031,000) based on current tax rates.

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2021	December 31, 2020
Tax losses	$ 13,529	$ 13,777
Basis difference in subsidiary	32,831	31,361
Financial interests deductible in a future period	3,309	3,381
Warranty provisions	115	–
Inventory provisions	434	332
	$ 50,218	$ 48,851

The tax losses, financial interests deductible, warranty provisions and inventory provisions carry forward indefinitely and relate to HPS S.p.A and Continental Transformers s.r.l. The basis difference in subsidiary, when realized, will provide the Company a capital loss that carries forward indefinitely. The benefit of these items has not been reflected in the consolidated financial statements as it is uncertain as to whether the Company will be able to utilize the deductions.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2021	2020	**2021**	2020
Property, plant and equipment	$ 811	$ 849	$ (3,552)	$ (4,075)
Intangible assets	91	4	(555)	(641)
Scientific research and experimental development	44	44	(36)	(32)
Inventories	225	291	–	–
Long-term lease and note receivable	–	–	(3,402)	(3,636)
Loans and borrowings	1,950	2,414	–	–
Employee benefits	593	340	(159)	(160)
Unrealized losses (gains) on forward contracts and foreign denominated loans payable/receivable	274	201	(77)	(71)
Provisions and tax reserves	2,263	1,964	(4)	(2)
Tax loss carry-forwards	2,164	2,035	–	–
Basis difference in subsidiary	1,339	1,448	–	–
Tax assets (liabilities)	9,754	9,590	(7,785)	(8,617)
Set off of tax	(7,384)	(7,781)	7,384	7,781
Net tax assets (liabilities)	$ 2,370	$ 1,809	$ (401)	$ (836)

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year ended December 31, 2021:

	Balance December 31, 2020	Recognized in retained earnings	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2021
Property, plant and equipment	$ 3,226	$ –	$ (485)	$ –	$ 2,741
Intangible assets	637	–	(173)	–	464
Scientific research and experimental development	(12)	–	4	–	(8)
Inventories	(291)	–	66	–	(225)
Long-term lease and note receivable	3,636	–	(234)	–	3,402
Loans and borrowings	(2,414)	–	464	–	(1,950)
Employee benefits	(180)	–	(254)	–	(434)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(130)	–	(67)	–	(197)
Provisions and tax reserves	(1,962)	–	(297)	–	(2,259)
Tax loss carry-forwards	(2,035)	–	(129)	–	(2,164)
Basis difference in subsidiary	(1,448)	–	109	–	(1,339)
	$ (973)	$ –	$ (996)	$ –	$ (1,969)
Foreign exchange			$ (40)		
Income tax expense			$ (1,036)		

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year ended December 31, 2020:

	Balance December 31, 2019	Recognized in retained earnings	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2020
Property, plant and equipment	$ 3,997	$ –	$ (771)	$ –	$ 3,226
Intangible assets	767	–	(130)	–	637
Scientific research and experimental development	37	–	(49)	–	(12)
Inventories	(228)	–	(63)	–	(291)
Long-term lease and note receivable	2,974	–	662	–	3,636
Loans and borrowings	(3,123)	–	709	–	(2,414)
Employee benefits	(80)	–	(100)	–	(180)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(728)	–	598	–	(130)
Provisions and tax reserves	(1,463)	–	(499)	–	(1,962)
Tax loss carry-forwards	(1,151)	–	(884)	–	(2,035)
Basis difference in subsidiary	(1,127)	–	(321)	–	(1,448)
	$ (125)	$ –	$ (848)	$ –	$ (973)
Foreign exchange			$ (75)		
Income tax expense			$ (923)		

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

17. Share capital

(a) Authorized:

Unlimited number of special shares, discretionary dividends, non-voting, redeemable and retractable.

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. Annual dividends on the Class B common shares may not exceed the annual dividends on the Class A subordinate voting shares, no par value.

(b) Issued:

		December 31, 2021	December 31, 2020
9,011,624	Class A subordinate voting shares (2020 – 8,966,624)	$ 14,879	$ 14,484
2,778,300	Class B common shares (2020 – 2,778,300)	7	7
11,789,924	Total A and B shares (2020 – 11,744,924)	$ 14,886	$ 14,491

During the year ended December 31, 2021, 45,000 Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $329,000 and a transfer of $66,000 from contributed surplus. During the year ended December 31, 2020 there were no stock options exercised.

The following dividends were declared and paid by the Company:

	December 31, 2021	December 31, 2020
34 cents per Class A subordinate voting shares (2020 – 34 cents)	$ 3,064	$ 3,048
34 cents per Class B common shares (2020 – 34 cents)	945	945
	$ 4,009	$ 3,993

(c) Stock option plan

The Company uses a stock option plan to attract and retain key employees, officers and directors. Shareholders have approved a maximum of 1,200,000 Class A shares for issuance under the Stock Option Plan, with the maximum reserved for issuance to any one person at 5% of the Class A shares outstanding calculated immediately prior to the time of the grant. As per the Stock Option Plan, the Board of Directors may, at its sole discretion, determine the time during which the options shall vest and the method of vesting, or that no vesting restriction shall exist. The stock option exercise price is the price of the Company's common shares on the Toronto Stock Exchange at closing for the day prior to the grant date on which the Class A shares traded. The period during which an option will be outstanding shall be 7 years, or such other time fixed by the Board of Directors, subject to earlier termination upon the option holder ceasing to be a director, officer or employee of the Company. Options issued under the plan are non-transferable unless specifically provided in the Stock Option Plan. Any option granted, which is cancelled or terminated for any reason prior to exercise, shall become available for future stock option grants. All options are to be settled by physical delivery of shares.

There were no options granted for the year ended December 31, 2021, or the year ended December 31, 2020.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Options outstanding and exercisable as at December 31, 2021:

	December 31, 2021		December 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	190,000	$ 6.77	330,000	$ 7.99
Exercised	(45,000)	7.30	–	–
Cancelled	(10,000)	7.50	(10,000)	6.20
Expired	(20,000)	7.50	(130,000)	10.00
Outstanding, end of year	115,000	$ 6.36	190,000	$ 6.77

	Options outstanding			Options exercisable	
Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
6.62	45,000	0.2	6.62	45,000	6.62
6.20	70,000	1.2	6.20	70,000	6.20
	115,000	0.8	$ 6.36	115,000	$ 6.36

Terms and conditions of the stock option plan

Options grants detailed below vest as follows:

- Options granted to directors vest immediately.
- Options granted to officers and senior management vest evenly over two or three years from the grant date, with one-half of the grant vesting immediately for grants with a two-year vesting period, and one-third of the grant vesting immediately for grants with a three-year vesting period.

The contractual life of the options granted below is seven years from the grant date.

Option grant date	**Number of options**	**Recipients**
March 12, 2015	45,000	Board of Directors and Officers
March 10, 2016	70,000	Board of Directors and Officers
Total stock options outstanding	115,000	

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

(d) Deferred Share Units

Under the Company's DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. The first DSUs were issued in March 2017. The number of DSUs was determined by dividing the amount of deferred compensation by the fair market value ("FMV") of DSUs, defined in the DSU Plan as the weighted average closing price of HPS shares for the five business days immediately preceding the relevant date. Upon the occurrence of the redemption event, which could include ceasing to hold any position in the Company and/or any subsidiary or upon death of the participant, the affected participant will be entitled to receive a lump sum cash payment, net of applicable withholding taxes, equal to the product of number of DSUs held by that participant and the FMV on the date of the redemption event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation, nor are they performance based. Under the DSU Plan, outstanding DSUs as at the record date are increased by the dividend rate whenever dividends are paid to shareholders.

The movement in DSUs for the years ended December 31, 2020 and 2021 is as follows:

	Number of DSUs	Closing Share Price
Balance at January 1, 2020	121,571	$ 8.47
DSUs issued	65,905	6.99
DSUs redeemed	(14,788)	6.24
DSUs forfeited	(12,154)	7.17
Balance at December 31, 2020	160,534	$ 8.47

	Number of DSUs	Closing Share Price
Balance at January 1, 2021	160,534	$ 8.47
DSUs issued	61,799	9.20
DSUs redeemed	(20,941)	7.41
Balance at December 31, 2021	201,392	$ 11.99

An expense of $1,210,000 (2020 – $518,000) was recorded in general and administrative expenses. The liability of $2,346,000 (2020 – $1,360,000) related to these DSUs is included in accounts payable and accrued liabilities.

18. Earnings per share

The computations for basic and diluted earnings per share from net earnings are as follows: (earnings in thousands of dollars)

		2021		2020
Basic earnings per share	$	1.29	$	1.20
Calculated as:				
Net earnings attributable to the equity holders of the Company	$	15,176	$	14,062
Weighted average number of shares outstanding		11,778,674		11,744,924
Fully diluted earnings per share	$	1.28	$	1.20
Calculated as:				
Net earnings attributable to the equity holders of the Company	$	15,176	$	14,062
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares		11,824,822		11,748,360
Reconciliation of weighted average number of shares outstanding:				
Weighted average number of shares outstanding used to calculate basic earnings per share		11,778,674		11,744,924
Adjustment for dilutive effect of stock option plan		46,148		3,436
Weighted average number of shares outstanding used to calculate diluted earnings per share		11,824,822		11,748,360

As at December 31, 2021, nil options (2020 – 120,000) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

19. Pension plans

Defined contribution plan

The Group has defined contribution pension plans that are available to virtually all of its Canadian employees with eligible employee contributions based on 2.00% – 6.75% of annual earnings. The Group's contributions of $1,748,000 (2020 – $1,655,000) matches the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $1,313,000 (2020 – $1,240,000) in cost of sales, $216,000 (2020 – $205,000) in selling and distribution, and $219,000 (2020 – $210,000) in general and administrative.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

20. Provisions

	Warranties	Site restoration	Benefits	Restructuring	Total
Balance at January 1, 2020	$ 620	$ 199	$ 229	$ 947	$ 1,995
Provisions made during the period	1,439	257	61	–	1,757
Provisions used during the period	(392)	(225)	(60)	(855)	(1,532)
Recovery of provisions	–	–	–	(92)	(92)
Balance at December 31, 2020	$ 1,667	$ 231	$ 230	$ –	$ 2,128
Balance at January 1, 2021	$ 1,667	$ 231	$ 230	$ –	$ 2,128
Provisions made during the period	161	130	142	–	433
Provisions used during the period	(110)	(145)	(114)	–	(369)
Balance at December 31, 2021	$ 1,718	$ 216	$ 258	$ –	$ 2,192
Current portion	$ 1,718	$ 71	$ 61	$ –	$ 1,850
Non-current portion	$ –	$ 145	$ 197	$ –	$ 342

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2021 and December 31, 2020. The provision is based on estimates made from historical warranty data associated with similar products and claims experience. The Group expects to incur most of the liability over the next year.

Site restoration

The Group has committed to undertaking a joint remediation plan for the Glen Ewing property with the owner of an adjoining industrial property and the co-owner of the property. The Group has recorded a liability for its estimated portion of the joint remediation.

Benefits

The benefit provision relates to statutory pension and leave benefits related to the India facility. Substantially all of this benefit is long-term.

Restructuring charges

The restructuring charges related to severance, termination benefits and closure costs in respect of the closure of the Italian operations.

During 2020 the cancellation and closure costs of $855,000 were paid and $92,000 of the provision was reversed into income to bring the provision balance to nil.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

21. Sales

Sales have been captured based on the geography of where the product was sold, as follows:

		2021		2020
Canada	$	130,184	$	109,080
United States and Mexico		231,738		198,324
India		18,280		14,693
	$	380,202	$	322,097

As at December 31, 2021 the Group had contract liabilities of $5,027,000 (2020 – $204,000) included in accounts payable and accrued liabilities.

As disclosed in note 30, during the year the Group acquired Mesta Electronics Inc. ("Mesta"). From time to time, Mesta will require certain customers to advance payment prior to the satisfaction of performance obligations, which generally occurs at a point in time, upon the assumption of ownership of the transformer ordered by the customer.

22. Government assistance

The Government of Canada implemented the Canada Emergency Wage Subsidy program ("CEWS") that provides a subsidy of up to 75% of eligible remuneration paid by an eligible entity that experienced significant revenue declines due to the COVID-19 pandemic. In 2020 and 2021, the Company has qualified for subsidy payments. The subsidy amounts relating to the year have been recorded as a reduction in expenses as follows: cost of sales $2,482,000, selling and distribution $352,000 and general and administrative $649,000 for a total of $3,483,000. In 2020, the subsidy amounts relating to the year were recorded as a reduction in expenses as follows: cost of sales $5,557,000, selling and distribution $776,000 and general and administrative $1,950,000 for a total of $8,283,000.

23. Related party transactions

Related parties

William G. Hammond, Chief Executive Officer and Chairman of the Company, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (2020 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 921,808 (2020 – 1,065,191) Class A subordinate voting shares of the Company, representing approximately 10.2% (2020 – 11.9%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the year, directly and indirectly to William G. Hammond were $1,283,000 (2020 – $1,306,000).

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Key management personnel compensation

Key management personnel include the Company's directors and members of the executive management team. Compensation awarded to key management is as follows:

	2021	2020
Salaries and benefits	$ 3,511	$ 2,809
Share-based awards	1,210	518
	$ 4,721	$ 3,327

24. Personnel expenses

	2021	2020
Wages and salaries	$ 60,492	$ 57,246
Group portion of government pension and employment pension and employment benefits	15,467	16,636
Contributions to defined contribution plans	1,748	1,655
	$ 77,707	$ 75,537

25. Change in operating working capital

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

	2021	2020
Accounts receivable	$ (18,836)	$ 10,926
Inventories	(12,705)	1,720
Prepaid expenses and other assets	(666)	(15)
Accounts payable and accrued liabilities	29,349	(11,115)
Provisions	(369)	(947)
Settlement of derivatives	(1,952)	–
Foreign exchange	402	(5,561)
	$ (4,777)	$ (4,992)

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

26. Segment disclosures

The Company operates in a single operating segment, being a manufacturer of transformers. The Company and its subsidiaries operate in Canada, the United States, Mexico and India. Inter-segment sales are made at fair market value.

Geographic Segments		**2021**		2020
Sales				
Canada	$	130,184	$	109,080
United States and Mexico		231,738		198,324
India		18,280		14,693
	$	380,202	$	322,097
Property, plant and equipment and right-of-use assets – net				
Canada	$	15,091	$	15,981
United States		8,686		7,767
Mexico		3,439		3,929
Italy		–		75
India		3,744		2,620
	$	30,960	$	30,372
Investment in properties				
Canada	$	1,044	$	1,044
Italy		2,250		2,605
	$	3,294	$	3,649
Investment in joint venture				
Mexico	$	13,279	$	13,300
Intangibles, net				
Canada	$	3,856	$	3,593
United States		4,664		–
Italy		–		8
India		1,983		2,300
	$	10,503	$	5,901
Goodwill				
Canada	$	2,180	$	2,180
United States		1,509		–
India		8,527		8,728
	$	12,216	$	10,908

27. Financial instruments

Fair value

The fair value of the Group's financial instruments measured at fair value has been segregated into three levels. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Fair value of assets and liabilities included in Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Group's financial instruments measured at fair value consist of foreign exchange forward contracts and contingent consideration issued in conjunction with a business combination. The forward foreign exchange contracts have a fair value of a net asset of $89,000 as at December 31, 2021 (2020 – net liability of $1,952,000) and are included in Level 2 in the fair value hierarchy. The contingent consideration liability is valued at $1,509,000 as at December 31, 2021 (2020 - $nil) and is included in Level 3 of the fair value hierarchy. To determine the fair value of the forward foreign exchange contracts, Management used a valuation technique in which all significant inputs were based on observable market data. There have been no transfers between levels in 2021 or 2020. The gains and losses from these contracts are grouped with foreign exchange gain on the statement of operations.

The contingent consideration is comprised of two components:

- Employee performance – $1,211,000

  To determine the fair value of the contingent consideration, Management calculated the present value of the expected future payments of four installments of approximately $316,000, discounted using a risk-adjusted discount rate of 3.5%. These payments will be made starting January 2022. Management considers the risk of non-payment to be low. The estimated fair value would increase (decrease) if:

  - the risk-adjusted discount rate were lower (higher)

- Revenue achievement - $298,000

  To determine the fair value of the contingent consideration, Management calculated the fair value of the liability based on the present value of the expected payment and a probability weighted formula, discounted using a risk-adjusted discount rate of 2.5%. The estimated fair value would increase (decrease) if:

  - the risk-adjusted discount rate were lower (higher)
  - the ultimate revenue achievement were lower (higher) than the initial probability weighting

  There have been no transfers between levels in 2021.

The carrying values of cash and cash equivalents, accounts receivable, bank operating lines of credit, and accounts payable and accrued liabilities and other liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The lease receivable is valued at the present value of the future receipts which approximates the fair value.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Derivative instruments

The Group has entered into forward foreign exchange contracts in order to reduce the Company's exposure to changes in the exchange rate of the U.S. Dollar, Euro, Mexican Peso and Indian Rupee as compared to the Canadian Dollar. At December 31, 2021, the Company had outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2022.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	EUR	CAD	12,050	1.4390
BUY	EUR	USD	5,300	1.1385
BUY	USD	CAD	68,500	1.2620 – 1.2652
BUY	USD	INR	8,477	74.7100 – 74.8800
BUY	USD	MXN	14,798	20.530
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Buy Currency**	**Traded Rate**
SELL	USD	MXN	29,000	20.6100 – 20.9530
SELL	EUR	CAD	24,100	1.4288 – 1.4391
SELL	EUR	USD	10,600	1.1298 – 1.1385
SELL	USD	CAD	36,500	1.2614
SELL	USD	INR	4,257	74.4700

At December 31, 2020, the Company has outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2021.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	EUR	CAD	11,800	1.5540
BUY	EUR	USD	5,700	1.2210
BUY	USD	CAD	83,500	1.2704 – 1.3099
BUY	USD	INR	8,949	73.0300 – 74.4800
BUY	USD	MXN	12,657	19.892
Buy/Sell	**Buy Currency**	**Selling Currency**	**Amount of Buy Currency**	**Traded Rate**
SELL	USD	MXN	25,000	19.9260 – 20.1420
SELL	EUR	CAD	23,600	1.5541 – 1.5550
SELL	EUR	USD	11,400	1.1846 – 1.2221
SELL	USD	CAD	46,500	1.2702
SELL	USD	INR	4,529	72.8500

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

As at December 31, 2021 the Group has recognized a net unrealized gain of $89,000 representing the fair value of these forward foreign exchange contracts, comprised of an asset of $180,000 included with prepaid expenses and other assets, and a liability of $91,000 included within accounts payable and accrued liabilities. As at December 31, 2020 the Group recognized a net unrealized loss of $1,952,000, comprised of obligation recognized within accounts payable and accrued liabilities.

Financial risk management:

The Group is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, interest rate risk and commodity price risk) credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. There were no changes to types of risk arising from the Group's financial instruments from the previous period.

Risk management is carried out by the finance department under the guidance of the Board of Directors. This department identifies and evaluates financial risks in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated.

Currency risk:

The Group operates internationally and is exposed to foreign exchange risk from various currencies, primarily U.S. dollars, Mexican Pesos, the Euro and the Indian Rupee. Foreign exchange risk arises mainly from U.S. dollar denominated purchases in Canada and Canadian sales to the U.S. as well as recognized financial assets and liabilities denominated in foreign currencies. The Company manages its foreign exchange risk by having geographically diverse manufacturing facilities and purchasing U.S. dollar raw materials in Canada. The Company also monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by entering into forward foreign exchange contracts. Forward foreign exchange contracts are only entered into for the purposes of managing foreign exchange risk and not for speculative purposes.

The following table represents the Group's balance sheet exposure to currency risk as at December 31, 2021:

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Cash	$ 12,855	$ 5,928	2,323	852	€ 1,072	€ 1,526	10,871	187,323
Accounts receivable	31,109	20,526	17,650	24,377	443	831	223,097	227,817
Long-term lease receivable	–	–	–	–	2,083	2,208	–	–
Bank operating lines of credit	(1,724)	(4,622)	–	–	(3,072)	(3,074)	–	–
Accounts payable	(23,226)	(13,373)	(14,265)	(9,612)	(18)	(88)	(223,205)	(111,871)
Lease obligation	(5,967)	(6,836)	–	–	–	–	(3,504)	(6,317)
Contingent consideration	1,194	–	–	–	–	–	–	–
Net exposure	$11,853	$ 1,623	5,708	15,617	€ 508	€ 1,403	7,259	296,952

A one cent ($0.01) decline in the Canadian dollar against the U.S dollar as at December 31, 2021 would have decreased net earnings by $105,000 and increased equity by $149,000. This analysis assumes that all other variables, in particular interest rates, remained constant. Inversely, a one cent ($0.01) increase in the Canadian dollar against the U.S. dollar as at December 31, 2021 would have had an equal but opposite effect.

A one cent ($0.01) decline in the Canadian dollar against the Euro as at December 31, 2021 would have decreased net earnings by $46,000 and increased equity by $8,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Euro as at December 31, 2021 would have had an equal but opposite effect.

A one cent ($0.01) decline in the Canadian dollar against the Indian Rupee as at December 31, 2021 would have increased net earnings and equity by $1,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2021 would have had an equal but opposite effect.

A one cent ($0.01) decline in the Canadian dollar against the Peso as at December 31, 2021 would have decreased net earnings by $4,000 and increased equity by $4,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2021 would have had an equal but opposite effect.

Credit risk:

Credit risk arises from the possibility that the Group's customers and counter parties may experience difficulty and be unable to fulfill their contractual obligations. The Group manages this risk by applying credit procedures whereby analyses are performed to control the granting of credit to its customer and counter parties based on their credit rating. As at December 31, 2021, the Group's accounts receivable are not subject to significant concentrations of credit risk. The long-term lease receivable is subject to credit risk, which is mitigated by the security of the related plant. The Company's maximum exposure to credit risk associated with the Group's financial instruments is limited to their carrying amount.

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

Management has a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management.

The Group limits its exposure to credit risk from trade receivables by establishing a reasonable payment period. Many of the Group's customers have been transacting with the Group for a number of years, and none of these customers' balances have been written off or are credit-impaired at the reporting date.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

An allowance account for accounts receivable is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts are considered to be uncollectible and are written off against the specific accounts receivable amount attributable to a customer. The number of days outstanding of an individual receivable balance is the key indicator for determining whether an account is at risk of being impaired.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

Expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses or full lifetime expected credit losses. The Group has used past due information to determine that there have been no significant increases in credit risk since initial recognition. There are balances in excess of 30 days past due but the Group does not presume that credit risk has increased given the characteristics of the Group's customers, the industries in which they operate, the customer payment track records and the nature of the products the Group sells.

During the year, the expected credit losses for trade accounts receivables decreased $218,000 (2020 – decreased $420,000), for which a recovery (2020 – recovery) was recognized in general and administrative expenses. The aging of accounts receivable and the related allowance is as follows:

	December 31, 2021		December 31, 2020	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	$ 48,820	$ –	$ 35,192	$ –
Past due 0-30 days	18,716	–	10,461	–
Past due 31-120 days	5,963	1,495	6,405	–
Past due more than 120 days	864	864	3,597	2,577
	$ 74,363	$ 2,359	$ 55,655	$ 2,577

Credit risk:

The carrying amount of financial assets representing the maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 20,905	$ 14,795
Accounts receivable	72,004	53,078
Lease receivable	2,993	3,433
	$ 95,902	$ 71,306

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

The maximum exposure to credit risk for accounts receivable at the reporting date by geographic region was:

	Carrying Amount	
	December 31, 2021	December 31, 2020
Canada	$ 25,097	$ 19,711
United States	39,546	26,297
Mexico	1,257	1,561
Italy	334	268
India	5,770	5,241
	$ 72,004	$ 53,078

Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Group to cash flow interest rate risk. Changes in market interest rates also directly affect cash flows associated with the Group's bank operating lines of credit that bear interest at floating interest rates.

The Group manages its interest rate risk by minimizing the bank operating lines of credit balances by applying excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis as well as actively monitoring interest rates. A 1% increase or decrease in interest rates as at December 31, 2021 would increase or decrease net earnings by approximately $193,000 (2020 – $161,000) respectively.

Commodity price risk:

A large component of the Group's cost of sales is comprised of copper and steel, the costs of which can vary significantly with movements in demand for these resources and other macroeconomic factors. To manage its exposure to changes in commodity prices, the Group will enter into supply contracts with certain suppliers, and from time to time will enter into forward commodity purchase contracts. As at December 31, 2021, no forward commodity purchase contracts were outstanding (2020 – none).

Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its obligations as they become due.

The Group manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior Management is also actively involved in the review and approval of planned expenditures.

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

The following are the carrying amounts and related anticipated contractual maturities of the Group's financial liabilities:

December 31, 2021	**Carrying amount**	**1 year or less**	**1-2 years**	**2-5 years**
Bank operating lines of credit	$ 19,267	$ 19,267	$ –	$ –
Accounts payable and accrued liabilities	75,669	75,669	–	–
Contingent consideration	1,509	616	595	298
Derivative liabilities	91	91	–	–
	$ 96,536	$ 95,643	$ 595	$ 298

December 31, 2020	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 16,073	$ 16,073	$ –	$ –
Accounts payable and accrued liabilities	44,227	44,227	–	–
Derivative liabilities	1,952	1,952	–	–
	$ 62,252	$ 62,252	$ –	$ –

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

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

The following is a reconciliation between the opening and closing balances for liabilities arising from financing activities:

	LIABILITIES			EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Contingent Consideration	Share Capital	Retained Earnings	Total
Balance January 1, 2021	$ 16,073	$ 9,320	$ -	$ 14,491	$ 95,408	$ 135,292
Advances of bank operating lines of credit, net	3,194	–		–	–	3,194
Interest payments	(1,301)	254	-	-	-	(1,047)
Exercise of stock options	-	-	-	329	-	329
Cash dividends paid	-	-	-	-	(4,009)	(4,009)
Repayment of lease liability	-	(2,724)	-	-	-	(2,724)
Total changes from financing cash flows	$ 1,893	$ (2,470)	$ –	$ 329	$ (4,009)	$ (4,257)
Other changes						
Liability-related						
Interest expense	1,301	–	–	–	–	1,301
Foreign exchange	–	(65)	8	–	–	(57)
Non-cash additions to lease liabilities	–	1,195	–	–	–	1,195
Non-cash additions to contingent consideration (note 30)	–	–	1,501	–	–	1,501
Total liability-related other changes	$ 1,301	$ 1,130	$ 1,509	$ –	$ –	$ 3,940
Equity-related						
Exercise of stock options	–	–	–	66	–	66
Net income	–	–	–	–	15,176	15,176
Total equity-related other changes	$ –	$ –	$ –	$ 66	$ 15,176	$ 15,242
Balance December 31, 2021	$ 19,267	$ 7,980	$ 1,509	$ 14,886	$ 106,575	$ 150,217

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

	LIABILITIES		EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Share Capital	Retained Earnings	Total
Balance January 1, 2020	$ 32,697	$ 11,404	$ 14,491	$ 85,339	$ 143,931
Advances of bank operating lines of credit	(16,624)	–	–	–	(16,624)
Interest payments	(917)	–	–	–	(917)
Cash dividends paid	–	–	-	(3,993)	(3,993)
Repayment of lease liability	_	(2,650)	–	–	(2,650)
Total changes from financing cash flows	$ (17,541)	$ (2,650)	$ –	$ (3,993)	$ (24,184)
Other changes:					
Liability-related					
Interest expense	917	330	–	–	1,247
Foreign exchange	–	(107)	–	–	(107)
Non-cash additions to lease liabilities	–	343	–	–	343
Total liability-related other changes	$ 917	$566	$ –	$ –	$ 1,483
Equity-related					
Net income	–	–	–	14,062	14,062
Total equity-related other changes	$ –	$ –	$ –	$ 14,062	$ 14,062
Balance December 31, 2020	$ 16,073	$ 9,320	$ 14,491	$ 95,408	$ 135,292

28. Capital risk management

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Group includes cash, bank operating lines, long-term debt and equity, comprising of share capital, contributed surplus and retained earnings in the definition of capital. The Group is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2021.

The following table sets out the Group's capital quantitatively at the following reporting dates:

For the years ended December 31, 2021 and 2020 (tabular amounts in thousands of dollars, except share and per share amounts)

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 20,905	$ 14,795
Bank operating lines of credit	(19,267)	(16,073)
Lease liabilities	(7,980)	(9,320)
Contingent consideration	(1,509)	–
Share capital	14,886	14,491
Contributed surplus	2,432	2,498
Retained earnings	106,575	95,408
	$ 116,042	$ 101,799

29. Determination of fair values:

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability.

(a) Derivatives

The fair value of forward exchange contracts is based on valuations obtained from third parties, based on observable market inputs.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(b) Non-derivative financial assets

The fair value of the lease receivable is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(c) Share-based payment transactions

The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date.

(d) Investment properties

The fair values of the investment properties are based on available market evidence as determined by third party valuators using comparable property sale transactions and is considered to be valued at Level 3 of the fair value hierarchy.

30. Acquisition:

On July 23, 2021, Hammond Power Solutions Inc. completed the acquisition of Mesta Electronics Inc. ("Mesta") in the U.S., acquiring a 100% equity ownership. Mesta is involved in the design and manufacture of standard and custom active filter and induction heating products.

Mesta' annual revenues for 2019 and 2020 have ranged from approximately $4,178,000 - $6,430,000. The Company will operate as Mesta Electronics Inc., a subsidiary of HPS.

Mesta not only expands HPS' U.S. presence but broadens our product offering and manufacturing capabilities in power quality solutions. Management feels that by building on the strengths of both companies, this acquisition will enhance HPS' market share, and performance going forward.

The purchase price has been allocated as follows:

Cash	$	256
Accounts receivable		90
Inventories and other assets		556
Property, plant and equipment		8
Intangibles (note 14)		5,084
Goodwill (note 12)		1,422
Assets	$	7,416
Current liabilities	$	(831)
Total purchase consideration	$	6,585
Satisfied as follows (in thousands of dollars):		
Cash	$	5,032
Accounts payable		52
Contingent consideration		1,501
	$	6,585

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill, which represents the expected synergies to be realized from Mesta's complementary products. The goodwill recognized is anticipated to be fully deductible for income tax purposes.

The transaction includes a contingent liability component for employee performance during the two years following the closing for up to $1,264,000. The liability has been valued at $1,205,000 and is due in quarterly installments of equal amounts payable to the selling shareholders.

The transaction includes a second contingent consideration component of up to $1,000,000, payable 45 days after the third anniversary of the closing date. This liability payment is contingent on management achieving certain revenue targets, and has been recognized at $296,000, based on the Company's assessment of the likelihood of achievement of these targets.

Both contingent liabilities have been recorded as a liability as of December 31, 2021.

The acquisition costs incurred related to this transaction during the year were $174,000 which were included in general and administrative expense.

Included in the Group's consolidated results for the twelve months ended December 31, 2021, is revenue of $1,042,000 and net earnings of $81,000 recognized by Mesta from the date of acquisition to December 31, 2021. If the Company had acquired Mesta effective January 1, 2021, the revenue would have been approximately $1,865,000 and there would have been net loss of approximately $8,000. The revenue of the consolidated group would have been approximately $381,025,000 and net income of the consolidated group would have been $15,087,000.

31. Subsequent events

Joint Venture Ownership Change

As disclosed in note 1, the Company and and National Material L.P. ("National") have operated the joint venture in Monterrey, Mexico under the name Corefficient S. de R.L. de C.V. Effective February 28, 2022, the Company and National have amicably agreed to divide the operations. In connection with the transaction, HPS will retain certain equipment, employees, obligations, and other financial assets and liabilities, and National will withdraw certain assets and capital in exchange for redeeming their ownership interest. After effecting the transaction, the Company will own 100% of the equity and voting interests of Corefficient and will continue to operate the entity as a wholly owned subsidiary of the Group. The operation will continue to produce transformer cores to supply the Groups's facilities in Mexico. The Corefficient name will be retained by National.

As the Company has acquired control of Corefficient, the transaction constitutes a business combination. Total consideration received by National in connection with this transaction is $10,809,000, comprised of inventory valued at $1,705,000 property, plant and equipment valued at $5,589,000 and a note payable in the amount of $3,515,000 repayable in six equal instalments, due monthly commencing March 2022.

The agreement calls for adjustments to the consideration in respect of possible realization of certain tax attributes by March 2023.

The initial accounting for the business combination is not yet complete and accordingly a preliminary purchase price allocation has not been included within these consolidated financial statements. The Company is evaluating the recognition and measurement of possible contingent consideration, as well as the fair-value of the Company's ownership interest immediately prior to the transaction, which may involve the use of third-party valuation specialists. Accordingly, certain disclosures otherwise required under IFRS 3, Business Combinations, have not been included within these financial statements.

Dividends

On March 4, 2022, the Company declared a dividend of eight and a half cents ($0.085) per Class A subordinate voting shares of HPS and a quarterly cash dividend of eight and a half cents ($0.085) per Class B common shares of HPS payable on March 24, 2022 to shareholders of record at the close of business on March 16, 2022. The ex-dividend date is March 18, 2022.

HPS Offices, Manufacturing Facilities and Warehouse Locations

Canada

Hammond Power Solutions Inc.

Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.
795 Industriel Boul.
Granby, Quebec J2G 9A1

3850 place de Java
Suite 200
Brossard, Québec J4Y 0C4

India

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

Italy

Hammond Power Solutions S.p.A.
Via Amedeo Avogadro 26
10121 Torino, Italy
at R & P Legal

Mexico

Hammond Power Solutions S.A. de C.V.
Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Ave. Avante #900
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Mexico

Corefficient, S. de R.L. de C.V.
Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

United States

Hammond Power Solutions, Inc.
1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

6550 Longley Lane, Suite 135
Reno, Nevada 89511

Mesta Electronics, Inc.
11020 Parker Drive,
North Huntington, Pennsylvania 15642

Annual General Meeting of Shareholders to be held:

Thursday May 12, 2022
1:30 p.m. (EASTERN STANDARD TIME)
Via teleconference
Audio Conference Details:
Calling from Canada or the United States:
1-800-207-0148 United States, Brooklyn and International 1-646-828-8082

Participant Code: 610283

Corporate Information

Corporate Officers and Directors

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

Richard C. Vollering
Corporate Secretary and
Chief Financial Officer

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Anne Marie Turnbull *+
Director

David M. Wood *+
Director

* Corporate Governance Committee
\+ Audit and Compensation Committee

Stock Exchange Listing

Toronto Stock Exchange (TSX)
Trading Symbol: HPS.A

Registrar and Transfer Agent

Computershare Investor Share
Services Inc.
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Auditors

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

Legal Representation

Dentons Canada LLP
77 King Street West, Suite 400
Toronto Dominion Centre
Toronto, Ontario M5K 0A1

Banking Institution

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

Investor Relations

Contact: David Feick,
Investor Relations
Phone: 519.822.2441 x453
Email: ir@hammondpowersolutions.com

The Hammond Museum of Radio

is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment.

Tours can be arranged by calling:
(519) 822-2441 x590

YOU DON'T KNOW WHAT'S GOING TO HAPPEN IN BUSINESS
A YEAR FROM NOW... SO YOU HAVE TO BE FLEXIBLE AND
ADAPTABLE, AND THAT'S WHAT WE TRY TO DO

Hammond Power
Solutions Inc.

HAMMONDPOWERSOLUTIONS.COM