hammond
POWER SOLUTIONS

Expanding Our Horizons

Annual Report 2025

Contents

Annual General Meeting of Shareholders to be held:

May 6, 2026
1:30 p.m. (ET)

Delta Hotels by Marriott Guelph
Conference Centre
(Gryphon Room)
50 Stone Road West
Guelph, Ontario,
Canada
N1G 0A9

Who We Are

Hammond Power Solutions is a North American leader in dry-type transformers and power quality solutions, providing engineered products for the safe and reliable distribution of electrical power across industries including renewable energy, industrial facilities, commercial construction, digital infrastructure, and transportation. Our strengths lie in engineering expertise, manufacturing capabilities, and enduring customer relationships.

Our VISION

To be a transformative force that electrifies the world.

Our MISSION

We simplify electrification by shaping power solutions with our customers.

Our VALUES

We Care

We do the right thing

We strive to be better

We win together

CEO'S Message to Shareholders

Dear Shareholders,

As we close out 2025, Hammond Power Solutions enters the next phase of its strategic journey with clarity, momentum, and purpose. This year was a defining period - one where accelerating demand converged with the foundation we have been building over several years.

Our theme, Expanding Our Horizons, reflects not only the achievements of 2025 but the broader opportunities shaping HPS as an increasingly critical partner in the global electrification landscape.

A Year of Strong Demand and Strategic Execution

Demand for our products remained robust across all geographies and channels. Long-term electrification trends continued to strengthen, complemented by sustained growth in digital infrastructure. Order activity increased steadily throughout the year, especially in larger custom solutions resulting in another year of record revenues of $898.3 million, an increase of 13.9% over 2024. This level of growth reflects both sustained market demand and our ability to convert backlog into shipments across an expanded manufacturing base.

By year-end, our backlog reached historic levels, driven predominantly by data center and technology sectors, resulting in a 122% year-over-year increase at December 31, 2025. These record levels provide improved shipment visibility and reinforce the investments we have made to expand capacity ahead of demand.

This broad-based demand profile underscores the expanding role HPS plays in powering modern infrastructure. Our products continue to support essential systems across renewable energy, industrial processes, and high-capacity digital environments. These trends signal multi-year resilience and a durable growth horizon for our business.

Managing Complexity with Discipline

While 2025 presented headwinds, including material cost inflation, labour market pressures, evolving trade measures, and product mix shifts, we responded with clarity and discipline. Consolidated gross margin was 30.3%, reflecting commodity cost pressures and ramp-up dynamics associated with newly commissioned manufacturing capacity. Importantly, net earnings remained stable at $72.2 million, demonstrating the resilience of our operating model during a year of significant expansion.

Pricing actions, cost controls, and proactive customer engagement helped mitigate margin pressure through parts of the year. Our approach reflects disciplined execution while continuing to invest for long-term value creation.

Investing to Expand Capacity, Capabilities, and Reach

This was also a year of significant strategic investment. We advanced several foundational initiatives to enable scalable growth:

- New capacity – We brought more than $100 million of manufacturing capacity online at Monterrey 4, ahead of schedule and on budget. This capacity is now producing product for customer shipments and supports backlog conversion entering 2026.
- Capacity expansion – We announced plans to

increase our custom transformer capacity by an additional $100 million throughout 2026 and early 2027. This expansion aligns our manufacturing footprint with visible demand in electrification and digital infrastructure markets.

- Logistics and distribution improvements – We opened a distribution hub in Dallas, Texas. This strategic location strengthened our responsiveness and delivery performance across North America.
- Completion of the integration of Micron Industries – We delivered operational synergies, expanded our U.S. manufacturing presence, enhanced support for OEM customers, and completed the final cutover of our integrated ERP system in November.

These investments position HPS to serve increasing market demand while strengthening our competitive position in key growth sectors.

Evolving Our Portfolio and Strengthening Our Strategic Position

In line with our long-term strategy, we continued expanding beyond transformers into Power Quality and Integrated Electrical Solutions. We see evolving demand for products in this category. This evolution enhances our ability to serve customers with comprehensive, integrated offerings across the electrification value chain. The acquisitions of Micron and Mesta provide a foundation to continue developing and acquiring products in this category.

The combination of deep engineering expertise, expanded capacity, and a more diverse portfolio positions HPS as a stronger, more capable partner in emerging and traditional markets alike.

Growing Responsibly and Sustainably

Our values - We Care, We Do the Right Thing, We Strive to Be Better, We Win Together - continue to guide how we operate. In 2025, we made meaningful progress in our sustainability journey, improving energy efficiency and diverting a significant portion of waste away from landfills.

Equally important, we continued to invest in our people, strengthen our culture, and support the communities in which we operate. These efforts reinforce our commitment to responsible growth and long-term resilience.

Positioned for the Future

In 2026, Hammond Power Solutions will mark 25 years as a public company. This milestone reflects disciplined growth, diversification across markets, and a culture grounded in accountability.

The world's demand for reliable, efficient, and resilient power infrastructure continues to accelerate. Electrification is a structural shift in the global economy. With record revenues, historic backlog growth, expanded manufacturing capacity, and a strengthened product portfolio, HPS is exceptionally well positioned to play a central role in this transformation.

As we enter 2026, our focus remains steady: scale with purpose, execute with discipline, and invest in the capabilities that expand what is possible for our customers and our shareholders.

Thank you to our employees for their dedication, to our customers for their trust, and to our shareholders for their continued confidence in our long-term strategy.

Sincerely,

ADRIAN THOMAS
CHIEF EXECUTIVE OFFICER

Year in Review
Expanding Our Horizons

In 2025, Hammond Power Solutions continued strengthening the foundation required to support growing demand for electrical infrastructure. As industries electrify and digital technologies expand, reliable power distribution is becoming increasingly critical across a wide range of applications.

During the year, HPS focused on three priorities that expand our ability to serve customers and support long-term growth.

Capacity Expansion: New manufacturing capacity was brought online ahead of schedule, increasing production capability and operational flexibility across North America. These investments position HPS to support higher volumes and larger customer programs in the years ahead.

Market Diversification: Demand continued to broaden across renewable energy, industrial modernization, infrastructure development, and other electrification-driven markets. A diversified market presence strengthens resilience while aligning the business with long-term infrastructure investment trends.

Digital Infrastructure: Demand from digital infrastructure continued to accelerate, particularly for large custom solutions supporting data centre environments. As computing power and artificial intelligence applications expand, reliable electrical distribution becomes increasingly essential.

Together, these initiatives expanded HPS's manufacturing capacity, market reach, and solution capabilities as electrification continues to accelerate.

2025 Performance Highlights

REVENUE
$898.3 in Millions

BASIC EARNINGS PER SHARE
$6.07

ADJUSTED EBITDA
$133.3 in Millions

GROSS MARGIN
30.3%

Canadian dollars

- Certified™ Great Place to Work® across all locations including Canada, the U.S., India for the second year in a row, and Mexico, for the first time.

- Recognized among the 2025 TSX30 top-performing companies, for the second year in a row.

- Honoured by tED magazine with a Best of the Best Marketing Award.

The Power Landscape is Evolving

Demand for electricity is rising as economies become more digital, industrial processes electrify, and infrastructure relies increasingly on electric power. At the same time, the energy system itself is evolving. New technologies, including renewable generation, distributed energy resources, energy storage, and microgrids, are changing how electricity is generated and how it moves through power networks.

Several structural forces are shaping this environment:

Digital Infrastructure: The expansion of data centres, cloud computing, and artificial intelligence is increasing the need for reliable, high-capacity power.

Energy Transition: Renewable generation and distributed energy resources are changing how electricity is produced and integrated into power networks.

Industrial Electrification: Industries are adopting electric technologies to improve efficiency and support modern operations.

Aging Infrastructure: Much of today's electrical infrastructure was built decades ago and requires modernization to support higher loads.

Together, these developments are placing greater demands on electrical infrastructure, increasing the importance of technologies that ensure reliable power and strong power quality across modern electrical systems.

Markets We Serve

Industrial
Oil and Gas, mining, steel, pulp and paper, machinery manufacturing and supply chains.

Data Centres
Big data analytics and the growing demand for artificial intelligence ("AI").

Commercial Construction and Infrastructure
Growing demand for new industrial, wastewater, hospitals and other facilities.

Mobility and Transportation
EV charging, marine-shore-to-ship and hydrogen.

Renewable Energy Sources
The renewable energy market involves solar and wind power as well as geothermal generation.

Microgrids
Public and private microgrids feed power back into the grid.

Utilities
Hydro, coal, natural gas and nuclear.

Semi-conductors
Enabling advances in communications and clean energy.

Power Quality in a Changing Electrical Environment

As power systems evolve, customers are operating in increasingly demanding electrical environments. Facilities such as data centres, industrial operations, and modern infrastructure projects require not only reliable power distribution, but also stronger management of power quality to maintain stable and efficient operations.

As electrical environments become more complex, managing power quality is becoming an increasingly important part of overall system performance.

Hammond Power Solutions continues to build on its transformer expertise while expanding its capabilities in power quality technologies.

This reflects a broader shift in how electrical solutions are delivered, where individual products increasingly need to work together to support the reliability and performance of modern electrical infrastructure.

In 2025, alongside expansion in manufacturing capacity and market participation, HPS also expanded its power quality and integrated solutions capabilities—strengthening the Company's ability to support increasingly complex power environments.

Powering Modern Electrical Infrastructure

Across modern electrical environments - from industrial operations to digital infrastructure - power quality technologies play an increasingly important role in maintaining stable system performance. HPS solutions help address these challenges across a wide range of electrical environments

Motor Protection in Industrial Drives

As variable-speed drives became widespread across industrial operations, protecting motors from electrical stress became critical. HPS line and load reactors lower motor operating temperatures by **10–20°C** and reduce harmonic currents by **30–40%**.

System-Level Harmonic Management

Industrial facilities such as refineries and pumping stations can experience **20–30%** THDi harmonic distortion. HPS passive harmonic filters reduce distortion to **~5–8%**, helping prevent transformer heating and nuisance trips.

Managing High-Frequency Drive Effects

Modern drive switching can create damaging voltage spikes. HPS **dV/dT** filters reduce voltage spikes by **30–50%**, enabling reliable motor operation with cable runs exceeding **300–1,000 ft.**

Supporting Electrified and Digital Infrastructure

Renewable natural gas facilities can operate with **~99% non-linear load**, while data centres often exceed **70–90%**. HPS **TruWave™ Active Harmonic Filters** maintain **~5% total demand distortion** while operating at **~98% efficiency**.

Together, these applications illustrate how HPS power quality technologies support stable electrical performance across increasingly complex power systems.

Built for What's Next

With the evolution of the power landscape and technologies, Hammond Power Solutions is well positioned to lead. Decades of engineering expertise, expanding capabilities, and strong customer relationships provide a solid foundation as demand for reliable electrical infrastructure continues to increase. The pages that follow highlight the priorities guiding our long term growth and value creation, our scale and footprint.

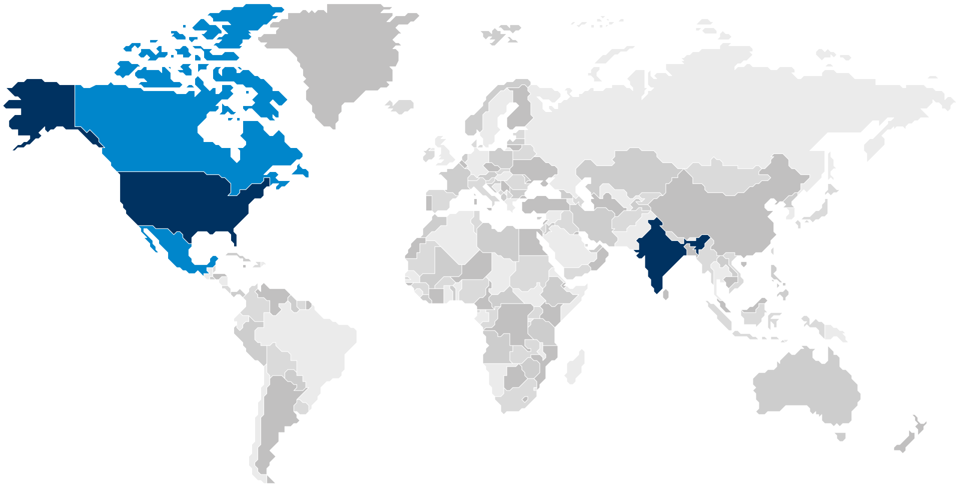
Our Strategic Focus

1	**Customers and Markets**	Drive organic growth through competitive product offering and unparalleled customer experience and enhance strategic growth via acquisitions.
2	**Operational and Financial Excellence**	Achieve operational excellence through continuous improvement and efficiency plays, and grow revenue / EBITDA with strategic acquisitions and cost reduction initiatives.
3	**People and Culture**	Build the next leadership team, and be a preferred employer due to our clarity of purpose and employee value proposition.
4	**Sustainability**	Design energy-efficient products; shrink the ecological footprint of our operations and energize the world responsibly for generations to come.

Our Scale and Footprint

As electrical infrastructure becomes more critical to modern economies, customers increasingly rely on partners with the engineering expertise, manufacturing capability, and global reach required to deliver reliable solutions. Hammond Power Solutions has built that foundation over decades of growth.

18 Locations
2500 Employees
2800 Distributors



Competitive Strengths

Size and Scale

Expanding production capacity supports larger programs and growing global demand.

Customization

Deep technical expertise enables HPS to design solutions tailored to complex customer requirements.

Diversification

Participation across multiple industries provides resilience and long-term growth opportunities.

Broad Market Access

An extensive network enables HPS technologies to reach customers around the world.

2025 Review of Operations

Hammond Power Solutions achieved record revenues in 2025, driven by sustained demand across North America and growth in custom transformer applications, despite continued volatility in commodity markets and evolving trade measures.

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Sales for the year ended December 31, 2025 were $898.3 million, an increase of 13.9% compared to 2024. Revenue growth reflected increased volumes in custom products, supported by pricing actions implemented during the year. Sales in the United States and Mexico increased 18.1% to $631.9 million, driven by strong performance in distribution and private label channels and higher volumes of custom products. Canadian sales increased 8.6% to $234.0 million, supported by activity in utilities, distribution, and infrastructure markets. Sales in India decreased 15.0% to $32.4 million, attributable to project delays and intensified price competition.

During the year, the Company focused on margin preservation through more selective project participation in that market.

Order activity increased throughout the year, particularly in larger custom projects. Backlog at December 31, 2025 increased 122% compared to the prior year, reflecting several significant custom orders, including data centre-related projects with extended delivery timelines. The increase in backlog aligns with recently added manufacturing capacity and supports shipment visibility entering 2026.

Consolidated gross margin for 2025 was 30.3%, compared to 32.8% in 2024. The decrease reflects higher material costs, tariff impacts, and ramp-up costs associated with new manufacturing capacity brought online during the year. Approximately 140 basis points of the margin impact related to unabsorbed overhead during the initial stages of production ramp-up. These ramp-up costs are typical during early production phases and reflect capacity scaling rather than structural margin deterioration. These impacts were partially offset by favourable product mix, including higher volumes of custom products.

Net earnings were $72.2 million, compared to $71.5 million in 2024. Adjusted EBITDA increased to $133.3 million from $130.5 million in 2024. Earnings stability during a period of margin compression and capacity expansion reflects disciplined pricing actions, cost management, and higher sales volumes.

During 2025, the Company brought approximately $100 million of manufacturing capacity online at Monterrey 4 and announced plans to expand custom transformer capacity by an additional $100 million through 2026 and early 2027. The Company also completed the integration of Micron Industries and opened a distribution hub in Dallas to enhance logistics capabilities.

Total assets increased to $586.3 million, reflecting capital investment and working capital required to support higher sales volumes and backlog growth. At year-end, net operating debt was $15.0 million compared to a net cash position of $21.1 million at December 31, 2024. The increase reflects higher working capital required to support revenue growth and backlog expansion, including increased inventory and receivables, together with capital investment associated with new manufacturing capacity brought online during the year.

Overall, 2025 reflected revenue growth, significant backlog expansion, and deliberate investment in manufacturing capacity to support sustained demand. The Company exited the year with expanded production capability, strengthened operational infrastructure, and improved visibility into 2026, positioning HPS to convert demand into sustainable, scalable performance.

2025 Financial Snapshot

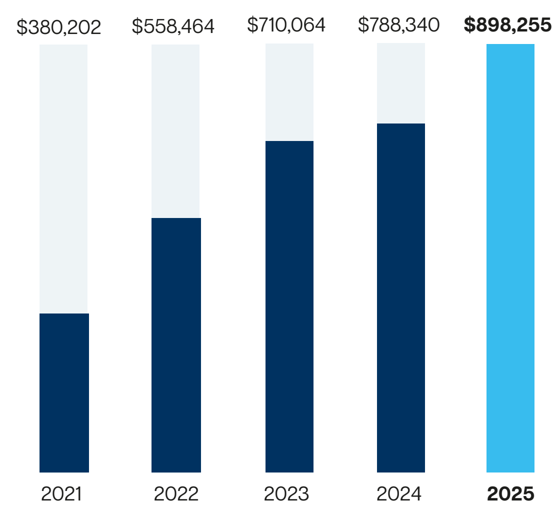
2025 reflected both performance and preparation.

- Achieved record revenues.
- Backlog expanded, reflecting strong custom project activity.
- Adjusted EBITDA increased.
- New manufacturing capacity was brought online.
- The Company strengthened its operational infrastructure.

The year combined financial growth with deliberate investment in long-term capability.

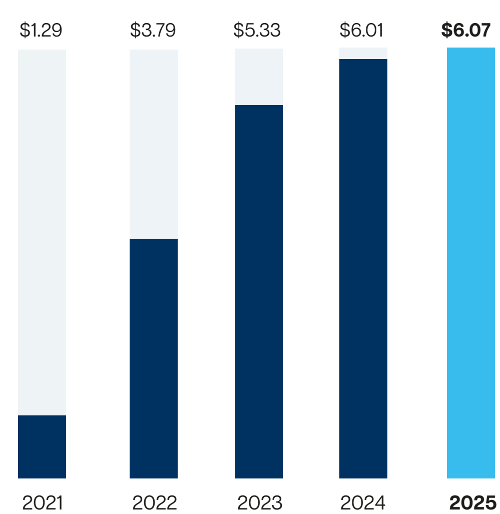
Consolidated Sales
(in thousands of dollars)

22.8%
5-Year Consolidated Sales CAGR



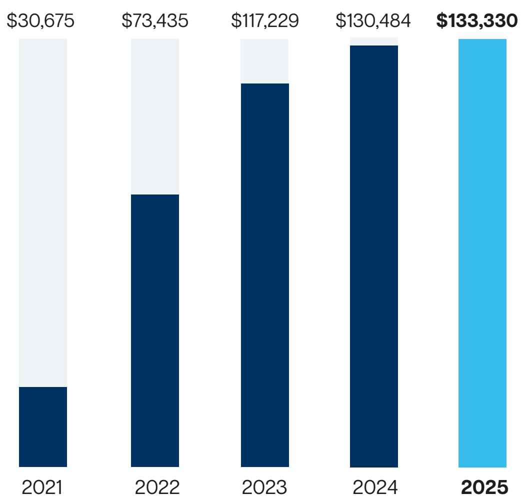
Basic Earnings Per Share
(in dollars)

38.3%
5-Year Basic EPS CAGR



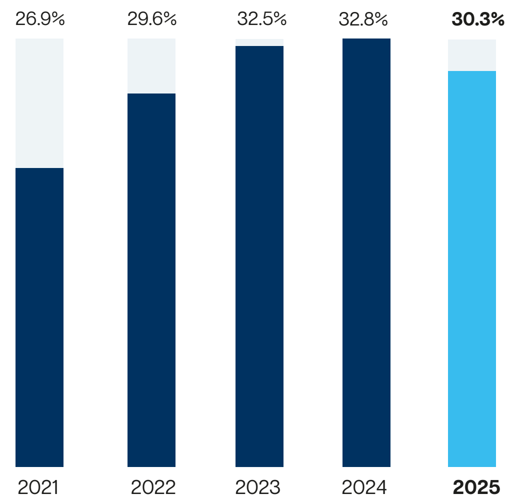
Adjusted EBITDA*

(in thousands of dollars)



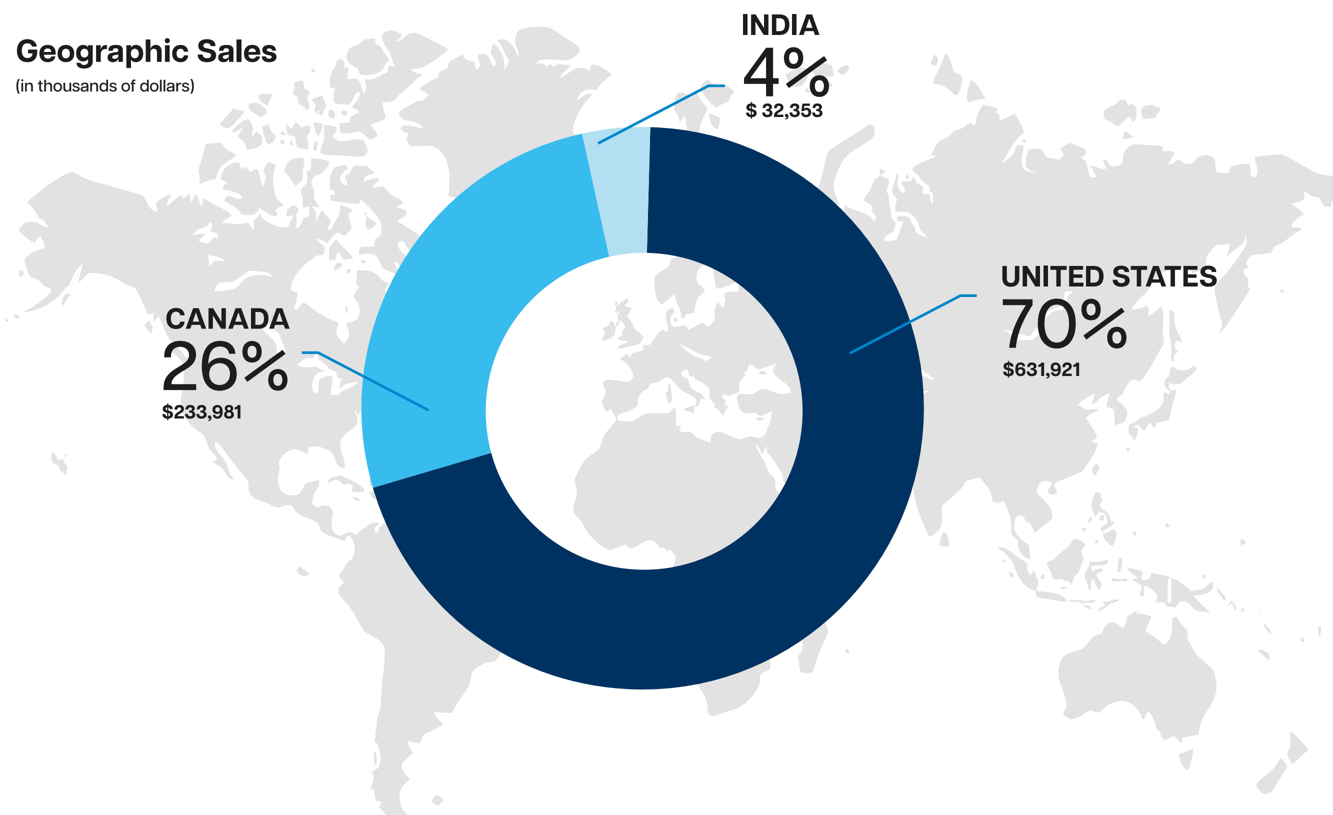
* Non-GAAP financial measure, refer to page 17 of the annual report

Gross Margin %



Geographic Sales

(in thousands of dollars)



Management's Discussion and Analysis

Hammond Power Solutions Inc. ("HPS" or the "Company") enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

Hammond Power Solutions – Energizing our world

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, 2025 and 2024, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2025 and 2024, which have been prepared in accordance with IFRS Accounting Standards ("IFRS"). This information is based on Management's knowledge as at March 19, 2026. 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.sedarplus.ca 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, Hammond Power Solutions Inc.'s (the "Company" or "HPS") strategies, intentions, plans, beliefs, expectations and estimates, in connection with general economic and business outlook, prospects and trends of the industry, expected demand for products and services, product development and the Company's competitive position. Forward-looking statements 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 the Company 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 risks related to foreign currency fluctuations and changing interest rates); risks associated with the Company's business environment (such as risks associated with the financial condition of the oil and gas, mining and infrastructure project business); geopolitical risks; climate related risks; changes in laws and regulations; operational risks (such as risks related to existing and developing new products and services; doing business with partners and suppliers); product sales and performance; legal and regulatory proceedings; dependence on certain customers and suppliers; costs associated with raw materials, products and services; human resources; and the ability to execute strategic plans. The Company 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.

This forward-looking information represents our views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimated, expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations.

There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

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 and share-based compensation. In 2025 adjusted earnings per share ("EPS") has been disclosed which represents EPS adjusted for foreign exchange gain or loss and share-based compensation. 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 receivable is defined as current income taxes receivable less current income taxes payable. Earnings from operations, 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 earnings from operations, 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, 2025 and December 31, 2024 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 Accounting Standards.

"Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. Customer orders in Order bookings and Backlog may not have confirmed ship dates, as the customer may not know the date at which it would like to take delivery at the time of placing the order. A significant percentage of Order bookings could be cancelled by customers without penalty, provided HPS has not commenced purchasing or production for that order. "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 2025 consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2025 and December 31, 2024, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2025 and December 31, 2024, and Notes thereto, have been prepared under IFRS Accounting Standards.

Overview

During the year, HPS achieved the highest annual revenues in company history, reflecting increased activity in many of the markets we serve, including data centres. HPS continues to prioritize a diversified customer and market segment base to manage volatility. Management believes that many of these markets, along with broader electrification trends, continue to exhibit strong long-term growth potential.

HPS serves its customers through a combination of distributor, original equipment manufacturer ("OEM") and private label channels. Distributor sales are primarily comprised of higher-volume standard and modified-standard products, with a growing proportion of custom project work. OEM sales are largely customized and project-driven, while private label sales include a mix of standard and custom offerings. HPS' continued investment in the distributor channel, combined with its ongoing commitment to high service levels and quality for OEM customers, has supported sustained growth and enhanced the resilience of its overall sales profile by expanding market reach and diversification.

With an established global presence and a focus on continued market expansion, HPS is positioned as a leader in the transformer industry. The Company offers a broad portfolio of standard and custom solutions, supported by multiple sales channels, high-quality manufacturing and strong customer service capabilities. HPS continues to leverage its expertise in transformer magnetics to expand its participation across a wider range of products, applications and geographic markets.

HPS' manufacturing footprint is primarily located in North America, with most production capacity in Mexico, followed by Canada and the United States ("U.S."). North American operations are focused on dry-type transformers, power quality products, and induction heating solutions, supported by an integrated supply chain serving the Canadian, U.S., and Mexican markets. In addition, HPS operates manufacturing facilities in India, which primarily serve the Indian domestic and Southeast Asian markets with liquid-filled transformers.

HPS' Management team is proud of its commitment to delivering quality, innovative, energy efficient, diverse transformers and related magnetic products. The Company's alignment of its operational initiatives and long-term strategic vision continues to strengthen its competitive position. HPS has a well-established and growing market presence and a focus on continued growth by addressing a greater share of our customers' needs with custom magnetics and power quality solutions. Supported by a strong financial position, the Company is well positioned to continue investing in growth initiatives. Its global footprint also provides access to new technologies, customers and markets, supporting future revenue and earnings growth.

HPS has been focused on capacity growth to meet increasing customer needs. Over the past two years, the Company has invested significantly in capital expenditures to maintain its asset base and enable scalable growth. Beyond its investment in capacity, HPS maintains a focus on acquisitions to support growth. The acquisition of Mesta Electronics LLC ("Mesta") in 2021 and Micron Group, LLC ("Micron") in 2024, were examples of investments that provided important strategic assets to strengthen growth momentum. Mesta added important active harmonic filter and power electronics technology, while Micron added a larger U.S. footprint, and a broadened customer base. HPS' strong balance sheet and ability to generate cash provide considerable investment capacity to continue with its plans to expand through acquisitions.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Through HPS' strategic planning process, the Company continues to identify and develop new opportunities across new customers and markets, product and technology development and innovation, cost efficiency, competitive lead-times and manufacturing flexibility. One of the Company's core strengths is its strong market access, which it leverages to expand its scope and scale of solutions offered to customers.

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 factors critical to our success.

Sales

Geography	2025	2024	$ Change	% Change
U.S. & Mexico*	631,921	534,888	97,033	18.1%
Canada	233,981	215,394	18,587	8.6%
India	32,353	38,058	(5,705)	(15.0%)
Total	**898,255**	**788,340**	**109,915**	**13.9%**

* When stated in U.S. dollars, U.S. and Mexico sales have increased from $390,771 in 2024 to $452,172 in 2025, an increase of $61,401 or 15.7%.

In 2025, the U.S. market experienced its strongest growth in the private label channel and steady growth in the distribution channel, with strong sales into data centres, switchgear manufacturers, motor control and mining. While sales of stocked standard products have grown, they have been outpaced by higher sales of custom products, primarily sold into the data centre market. General economic conditions in the U.S. deteriorated through 2025 resulting in slower industrial and commercial construction markets. Tariffs resulted in price increases that also contributed to the higher sales in 2025.

U.S. and Mexico sales were positively impacted by the strengthening of the U.S. dollar ("USD") relative to the Canadian dollar versus 2024. The average U.S. to Canadian exchange rate for 2025 was $1.399 versus $1.369 in 2024. 2025 U.S. sales at prior year exchange rates would have been $12,495 or 2.2% lower at $619,426.

The Canadian market was very strong in the year, despite economic headwinds. It continued to achieve year-over-year growth through distribution channels in both stock and flow product and large projects in commercial construction, data centres, public infrastructure, mining and utilities.

Indian sales for 2025 were $32,353 compared to $38,058 in 2024, a decrease of 15.0%. The decline is attributed to project delays and intensified price competition within the Indian market. The Company has focused on sustaining and improving margins through more selective project participation.

Hammond Power Solutions Latin America S. de R.L. de C.V. ("LatAm") sales were $10,435 in 2025, a decrease of 7.0% from prior year sales of $11,218. Mesta product sales were $16,027 in 2025 compared to $14,823 in 2024, an increase of 8.1%. While induction heating inverter ("IHI") sales have declined significantly, active harmonic filter sales have increased due to their beneficial application in data centres. Micron acquisition accounts for 3.2% of 2025 sales. Mesta, Micron and

LatAm are included in the U.S. and Mexico geographic segment.

2025 sales stated by geographic segment were derived from U.S. sales of 70.4% (2024 – 67.9%) of total sales, Canadian sales of 26.0% (2024 –27.3%) and Indian sales of 3.6% (2024 –4.8%).

In total, sales are 13.9% higher than in 2024. There was a price increase in April 2025 and August 2025 resulting in 4.4% of the increase attributed to pricing and 2.2% due to a stronger U.S. dollar.

Backlog

The Company's December 31, 2025 backlog increased by 122% as compared to December 31, 2024 and has increased 74% from Quarter 3, 2025. Ongoing capacity expansions across key locations are driving improvements in lead times, enhancing our ability to respond to customer demand with greater speed and efficiency.

In the fourth quarter, several large data centre orders were received, resulting in a quarter-over-quarter increase in backlog. Most of these orders are scheduled for shipment in 2026 and will primarily utilize the Company's newly established manufacturing capacity in Mexico, which was constructed to support the production of custom power products. To support the increase in volume, the Company is also expanding capacity at other facilities through additional equipment purchases and production optimization initiatives.

The backlog tenor is typically six to eight weeks for standard and configured standard product and six months for custom power products. Some larger projects requiring custom power products can extend beyond one year. While a strong backlog should be viewed as a positive indicator of future business activity, long lead times are often a limiting factor for backlog growth, as excessive lead times will lead certain customers to seek alternate suppliers.

The backlog represents a customer's intent to buy, but not all orders in the backlog have firm ship dates, and in cases where work has not begun, many can be cancelled without penalty.

The general economic outlook and economic activity within certain sectors can cause volatility in backlog. Standard product tends to track closely to general business investment, macroeconomic growth rates and electro-industry growth rates while custom products are more dependent on sectoral investment trends.

Gross margin

The consolidated gross margin in 2025 decreased to 30.3% versus 32.8% in 2024, a decrease of 250 basis points. Margins in the fourth quarter of 29.2% were lower than the previous three quarters and full year margin of 30.3%. Margin rates remain sensitive to selling price pressures, ability to secure price increases due to tariffs, volatility in commodity costs, customer mix and geographic blend. The reduction in the gross margin is primarily the result of higher material costs related to commodity volatility, inflation and tariffs in the supply chain for raw material purchases and tariffs on product imports. The Company implemented a price increase in April 2025 and an additional increase in August 2025. Not all price increases have an immediate impact on margins due to lead times.

The increased demand, along with organic increases in 2025, resulted in some facilities operating close to or at capacity. This volume increase resulted in higher fixed overhead leverage and as a result, higher gross margins. While some facilities were full, there was some additional capacity built in 2024 that the Company continues to work to fill. The gross margin in 2025 was negatively impacted by approximately 140 basis points due to unabsorbed factory overhead at its new facilities in Mexico, as was expected as the facilities ramp up production.

Gross margins were affected by the product sales mix, which was favourable throughout most of 2025. Higher custom and configured product sales relative to more competitively priced high running products affected margins favourably.

In the interest of protecting gross margins the Company has been proactive in anticipating cost increases, judicious in maintaining margins and conscientious of our customer relationships. Key inputs to our products include electrical steel, copper, aluminum, insulation, carbon steel, resin and fiberglass, as well as labour and overheads. Generally, the price of commodities has risen over the course of 2025, partially due to rising copper and aluminum costs, but also to some degree due to higher global tariffs. Direct tariffs, labour and overhead costs also continued to increase. The Company has in the past increased prices as its underlying costs rise and will continue to do so as competitive conditions permit. Given past challenges and the strain on the global supply markets, HPS has heightened the focus on ensuring that materials required for production are received on a timely basis and when needed.

The Company continues to focus on long-term investment to fuel future sales and margin growth. Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. The Company has reaped the benefits of higher absorption of factory overheads due to increased sales volume. Purchasing at scale, continuous improvement programs, a focus on higher-margin solutions and products and maintaining flexible manufacturing capabilities will all contribute to the ability to maintain and improve margins over time.

Selling and distribution expenses

Total selling and distribution expenses were $100,537 for 2025 versus $83,412 in 2024, an increase of $17,125 or 20.5%. On a percentage-of-sales basis, total selling and distribution expenses increased to 11.2% of sales for 2025 from 10.6% in 2024. The higher sales value for the year resulted in additional commission expense, higher freight costs and additional warehouse costs of $11,268, all of which are variable selling expenses that are expected to fluctuate with sales volume changes. The remainder of the increase in selling and distribution expenses relates to investments in people resources to support growth, marketing and branding initiatives and additional technology to scale the business.

General and administrative expense

General and administrative expenses in 2025 were $67,763 compared to $76,106 for 2024, a decrease of $8,343 or 11.0%. On a percentage-of-sales basis these costs have decreased from 9.7% in 2024 to 7.5% in 2025. Key drivers for the current year decrease are as follows:

- Share-based compensation decreased expenses by $8,314 from the prior year;
- Lower professional fees of $2,541 were paid in 2025 compared to 2024 due to various transactions and initiatives during 2024 that did not repeat;
- Improved credit performance contributed to an $818 reduction in estimated credit loss expenses for the year;
- Strategic investments in people resources and employee programs increased expenses by $4,175 in the current year; and
- Investments in technology and cloud-based software increased expenses by $1,882 in 2025.

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 $104,019 in 2025, as compared to earnings of $98,760

[1] Refer to Non-GAAP financial measures on page 17 of this annual report

in 2024 – an increase of $5,259 or 5.3%. The increase in earnings from operations is due to higher sales, additional gross margin dollars and lower general and administrative expenses offset by higher selling and distribution expenses.

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

	2025	2024
Net earnings	$ 72,241	$ 71,531
Add:		
Income tax expense	24,655	25,391
Interest expense	3,876	1,246
Foreign exchange loss and other costs	3,247	592
Earnings from operations	$ 104,019	$ 98,760

Net Finance and other costs

Net finance and other costs increased by $5,285 from $1,838 in 2024 to $7,123 in 2025. The increase from the prior year is a result of a higher foreign exchange loss in the current year as well as higher interest expense.

Interest expense for the year ended December 31, 2025, finished at $3,876 as compared to $1,246 in 2024, an increase of $2,630 related to higher bank indebtedness balances. Interest expense includes all bank fees.

The foreign exchange loss in 2025 of $3,109 related primarily to the transactional exchange loss on the Company's U.S. dollar trade accounts receivable, compared to a foreign exchange loss of $519 in 2024. The change 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.

As at December 31, 2025, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $21,000 USD – both of which were implemented as a hedge against translation gains and losses on inter-company loans as well as $26,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian HPS operations. The Company also had outstanding foreign exchange contracts to sell for $95,682 USD and 29,000 EUR.

Exchange rate volatility is managed by HPS' foreign exchange contract hedging program. Details of the outstanding forward foreign exchange contracts as at December 31, 2025 can be found in note 27 in the Notes to Consolidated Financial Statements included in our 2025 Annual Report.

Earnings before income tax

2025 earnings before income taxes were $96,896 as compared to earnings of $96,922 in 2024. The main contributors to the consistent current year earnings before income tax were higher sales, additional gross margin dollars and lower general and administrative expenses. These gains were offset by increases in selling and distribution expenses and higher foreign exchange losses.

Income taxes

Income tax expense for 2025 was $24,655 as compared to $25,391 in 2024 – a decrease of $736 or 2.9%. The consolidated effective tax rate on earnings before income taxes for 2025 was 25.4% versus 26.2% last year – a decrease of 0.8%. The effective tax rate has decreased due to differences in the impact of tax rates in foreign jurisdictions and variability in income generated in those jurisdictions.

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 2025 Annual Report.

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Net earnings

Net earnings for 2025 finished at $72,241 compared to net earnings of $71,531 in 2024, an increase of $710 or 1.0%. The main contributors to the higher current year net earnings were higher sales, additional gross margin dollars, lower general and administrative expenses and a lower effective tax rate. These gains were offset by increases in selling and distribution expenses and higher foreign exchange losses.

EBITDA

EBITDA for the year ended December 31, 2025 was $121,443 versus $112,873 in 2024 – an increase of $8,570 or 7.6%. Adjusted for foreign exchange loss/gain and share-based compensation expenses, adjusted EBITDA for 2025 was $133,330 versus $130,484 in 2024 – an increase of $2,846 or 2.2%.

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

		2025		2024
Net earnings	$	72,241	$	71,531
Add:				
Interest expense		3,876		1,246
Income tax expense		24,655		25,391
Depreciation and amortization		20,671		14,705
EBITDA	$	121,443	$	112,873
Add:				
Long-term incentive plan (“LTIP”) Expense		4,181		8,483
Deferred Share Units (“DSU”) Expense		4,597		8,609
Foreign exchange loss		3,109		519
Adjusted EBITDA	$	133,330	$	130,484

Summary of quarterly financial information (unaudited)

Fiscal 2025 Quarters		Q1		Q2		Q3		Q4		Total
Sales	$	201,403	$	224,419	$	218,341	$	254,092	$	898,255
Net earnings	$	26,222	$	13,376	$	17,440	$	15,203	$	72,241
Net earnings per share – basic	$	2.20	$	1.12	$	1.46	$	1.28	$	6.07
Net earnings per share – diluted	$	2.20	$	1.12	$	1.46	$	1.28	$	6.07
Average U.S. to Canadian exchange rate	$	1.436	$	1.387	$	1.376	$	1.397	$	1.399

Fiscal 2024 Quarters		Q1		Q2		Q3		Q4		Total
Sales	$	190,680	$	197,212	$	191,972	$	208,476	$	788,340
Net earnings	$	7,952	$	23,590	$	16,311	$	23,678	$	71,531
Net earnings per share – basic	$	0.67	$	1.98	$	1.37	$	1.99	$	6.01
Net earnings per share – diluted	$	0.67	$	1.98	$	1.37	$	1.99	$	6.01
Average U.S. to Canadian exchange rate	$	1.348	$	1.368	$	1.367	$	1.394	$	1.369

HPS sales have had a steady upward trend in sales for the past two years. The increase in sales over the past eight quarters is a function of increased pricing as well as higher volume and additional sales related to Mesta, Mexico and Micron (starting in Quarter 4, 2024). Sales have also been positively impacted by the stronger U.S. dollar exchange rate.

Gross margin rates have steadily increased quarter-over-quarter except for Quarter 4, 2025. The impact of tariffs on product imports and raw material purchases has had a negative impact on Quarter 4, 2025 margins as timing of price increases lag increased expenses.

Quarter 4, 2025 financial results

	Quarter ended December 31, 2025		Quarter ended December 31, 2024	
Sales	$	254,092	$	208,476
Gross margin rate		29.2%		32.7%
Earnings from operations	$	21,962	$	29,706
Exchange loss (gain)	$	1,405	$	(923)
Net earnings	$	15,203	$	23,678
Earnings per share – basic	$	1.28	$	1.99
Earnings per share – diluted	$	1.28	$	1.99
Cash provided by operations	$	32,657	$	22,413

Sales for the quarter ended December 31, 2025 were $254,092, an increase of $45,616 or 21.9% from the comparative quarter last year. Sales were higher mainly due to higher volumes in the private label, U.S. distributor and Canadian OEM channels.

Gross margin rates for the fourth quarter decreased from the same quarter last year by 3.5% from 32.7% in 2024 to 29.2% in 2025.

Total selling and distribution expenses amounted to $29,328 in Quarter 4, 2025 versus $21,502 in Quarter 4, 2024 – an increase of $7,826. Selling and distribution expenses as a percentage of sales have increased to 11.5% in Quarter 4, 2025 compared to 10.3% in Quarter 4, 2024, an increase of 1.2% of sales. The increased expenses were a result of higher commission, freight and warehouse variable expenses.

General and administrative expenses as a percentage of sales have increased to 9.1% in 2025 compared to 8.1% in 2024. General and administrative expenses for Quarter 4, 2025 totalled $23,019, an increase of $6,138 when compared to Quarter 4, 2024 costs of $16,881. Share-based compensation was an increase of $9,505 with an expense of $9,042 in Quarter 4, 2025 compared to a recovery of $463 in Quarter 4, 2024 due to a decline in the share price. Other general and administrative costs decreased in Quarter 4, 2025 from $17,344 to $13,977 due to decreased professional fees and lower estimated credit losses.

Earnings from operations for the quarter were $21,962 in 2025 and $29,706 in 2024, a decrease of $7,744 or 26.1%. Higher sales resulting in additional gross margin dollars were offset by higher selling, distribution and share-based compensation expenses.

Quarter 4, 2025 net finance and other costs were an expense of $2,988 compared to a gain of $511 for the same quarter in 2024, an increase of $3,499. The Quarter 4, 2025 interest cost increased from $438 in Quarter 4, 2024 to $1,544 in Quarter 4, 2025 due to increased draw on the operating line. Foreign exchange loss in Quarter 4, 2025 was $1,405 compared to a foreign exchange gain of $923 in Quarter 4, 2024.

Quarter 4, 2025 income tax expense was $3,771 on earnings before income taxes of $18,974 (an effective tax rate of 19.9%) as compared to an income tax expense of $6,539 on income before income taxes of $30,217 (an effective tax rate of 21.6%) in Quarter 4, 2024. The effective tax rate has decreased due to differences in the impact of tax rates in foreign jurisdictions.

Net income for Quarter 4, 2025 was $15,203 compared to net income of $23,678 in Quarter 4, 2024 – a decrease of $8,475.

Cash provided by operations for Quarter 4, 2025 was $32,657 versus $22,413 in Quarter 4, 2024 – an increase of $10,244. The main reason for this change was a decrease in net earnings for the quarter offset by a decrease in cash used for working capital.

Overall net operating debt balance[1] was $15,023 as at December 31, 2025, a change of $36,125 as compared to a net operating cash balance of $21,102[2] as at December 31, 2024, primarily reflecting higher working capital requirements and capital spending during 2025.

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 2025 was $26,948 versus $64,751 in 2024, a decrease in cash generated of $37,803 or 58.4%. This decrease in cash generated from operating activities was due to higher non-cash working capital versus 2024 and higher income tax payments. Non-cash working capital used cash of $64,053 in 2025 versus $38,090 in 2024, resulting in an increase of $25,963 from 2024. The change in non-cash working capital in 2025 was primarily a result of increases in inventory and accounts receivable.

Accounts receivable finished the year at $168,074 as compared to $140,400 as at December 31, 2024, an increase of $27,674 – a result of higher sales in Quarter 4, 2025 compared to Quarter 4, 2024. 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 $172,381 as at December 31, 2025, versus $143,276 as at December 31, 2024, an increase of $29,105. The higher inventory levels in 2025 were attributed to increased sales volume and customer specific safety stock.

Accounts payable and accrued liabilities were $143,048 in 2025 and $134,919 in 2024, an increase of $8,129. When excluding derivative and share-based compensation liabilities, this balance increased by $15,600 finishing at $107,539 as at December 31, 2025 compared to $102,789 at the end of 2024. The change in accounts payable balance is due to timing of purchases from and payments to suppliers.

[1] Overall net operating debt balance is bank operating lines of credit of $55,933 net of cash and cash equivalents of $40,910
[2] Overall net operating cash balance is cash and cash equivalents of $34,085 net of bank operating lines of credit of $12,983

Net income taxes receivable were $9,106 as at December 31, 2025, versus net income taxes payable of $780[1] as at December 31, 2024 – a change of $9,886 due to higher tax payments made during the year.

Cash provided by financing activities was $20,531 in 2025, compared to cash used in of $24,208 in 2024, a change of $44,739. The change in the balance can be attributed to advances from the operating line in 2025 compared to repayments on the bank operating lines in 2024.

Cash used in investing activities in 2025 decreased by $24,132 from $62,982 in 2024 to $38,850 in 2025. There was a decrease in capital spending for property, plant and equipment of $5,077 over the prior year, totaling $35,556 in 2025 – compared to $40,633 for 2024. The acquisition of Micron during 2024 used cash of $21,223.

Bank operating lines of credit finished the year at $55,933 as at December 31, 2025, compared to $12,983 as at December 31, 2024 resulting in an increase of $42,950 in the year. The Company had cash and cash equivalent balances of $40,910 as at December 31, 2025 as compared to $34,085 as at December 31, 2024, an increase of $6,825.

Overall net operating debt balance was $15,023[2] as at December 31, 2025, a change of $36,125 as compared to a net operating cash balance of $21,102[3] as at December 31, 2024, primarily reflecting an increase in working capital requirements.

All bank covenants were met as at December 31, 2025, 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 $10,924. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives. HPS has focused the capital program primarily in Mexico and the U.S. In Mexico, HPS has completed the further planned expansion, while also adding equipment to existing facilities there. HPS has also completed the expansion of its facility in Guelph, Ontario, Canada.

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 2025 Annual Report.

[1] Net income taxes payable consists of income taxes payable of $6,054 less income taxes receivable of $5,274

[2] Overall net operating debt balance is bank operating lines of credit of $55,933 net of cash and cash equivalents of $40,910

[3] Overall net operating cash balance is cash and cash equivalents of $34,085 net of the bank operating lines of credit of $12,983

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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.

	2026	2027	2028	2029	2030 & Thereafter	Total
Accounts payable and accrued liabilities	$ 143,048	–	–	–	–	$ 143,048
Capital expenditure purchase commitments	10,924	–	–	–	–	10,924
Operating lines of credit	55,933	–	–	–	–	55,933
Lease liabilities	7,866	7,028	6,374	5,331	4,128	30,727
Contingent consideration	847	–	–	–	–	847
Total	$ 218,618	$ 7,028	$ 6,374	$ 5,331	$ 4,128	$ 241,479

Contingent liabilities

Management is not aware of any contingent liabilities other than contingent consideration disclosed in note 14 in the Notes to the Consolidated Financial Statements contained in our 2025 Annual Report.

Regular quarterly dividend

The Board of Directors of HPS declared a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class A Subordinate Voting Share of HPS and of twenty-seven and a half cents ($0.275) per Class B Common Share of HPS, for each quarter of 2025.

The Quarter 1 dividend was paid on March 28, 2025 to shareholders of record at the close of business on March 21, 2025 – the ex-dividend date was March 21, 2025. The Quarter 2 dividend was paid on June 27, 2025 to shareholders of record at the close of business on the 20th day of June 2025 – the ex-dividend date was June 20, 2025. The dividend for Quarter 3 was paid on September 25, 2025 to shareholders of record at the close of business on September 18, 2025 – the ex-dividend date was September 18, 2025. The Quarter 4 dividend was paid on December 18, 2025 to shareholders of record at the close of business on December 11, 2025 – the ex-dividend date was December 11, 2025.

In 2025, the Company paid a total cash dividend of one dollar and ten cents ($1.10) per Class A Subordinate Voting Share and one dollar and ten cents ($1.10) per Class B Common Share. In 2024, the Company paid a total cash dividend of ninety-seven and a half cents ($0.975) per Class A Subordinate Voting Share and ninety-seven and a half cents ($0.975) 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 IFRS Accounting 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, 2025, 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, 2025 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 IFRS Accounting 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 2025, which was completed in the fourth quarter.

As of December 31, 2025, 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, 2025.

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

During 2025 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

Proposed Acquisition

On February 17, 2026, the Company announced that it signed a definitive agreement to acquire AEG Power Solutions. Under the terms of the agreement, HPS will acquire all outstanding equity of AEG Power Solutions in an all-cash transaction with an enterprise value of C$365 million. As part of the transaction, HPS will repay AEG Power Solutions' outstanding bank debt. The closing of this transaction is subject to certain regulatory and customary closing conditions.

Dividends

On February 26, 2026, the Company declared a dividend of twenty-seven and a half cents ($0.275) per Class A subordinate voting shares of HPS and a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class B common shares of HPS payable on March 27, 2026 to shareholders of record at the close of business on March 19, 2026. The ex-dividend date is March 19, 2026.

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 several 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.

Tariffs and export controls

Ongoing changes to tariffs and export controls impacting our products and supply chain represent a significant risk to HPS. The Company has a substantial manufacturing presence in Canada and Mexico, and as the importer of record in the U.S., is often responsible for remitting any tariffs implemented on our products by the U.S. government. Additionally, unless HPS is able to negotiate otherwise with its suppliers, it may be required to incur the cost of tariffs on raw materials imported into the U.S. to support U.S. manufacturing operations. The imposition of tariffs has had an impact on gross margins and working capital requirements. Tariffs and export controls may also generate a scarcity of raw materials that HPS relies on to support its operations, which may result in increased output costs, longer lead times, and reduced pricing predictability. The Company continues to monitor and respond to trade-related developments, including through enhanced coordination with our customers, suppliers, and customs brokers. The Company's short-term efforts are focused on protecting margins and ensuring an orderly supply of products to our North American customers

Market supply and demand impact on commodity prices

HPS relies on a global supply chain to meet its manufacturing needs. The Company sources 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, therefore affecting our ability to ship products to customers. One particular commodity that is specific to the transformer industry is grain-oriented electrical steel ("GOES"). GOES is produced in relatively few mills in the world and as a result HPS is heavily reliant on foreign sourced products. The Company attempts to mitigate these commodity risks through supplier agreements and supplier diversification.

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. Conversely, there is a risk that decreasing commodity costs will create competitive price pressure in our market, forcing prices down and reducing our gross margins.

Such changes could materially adversely affect HPS' financial condition, liquidity or results of operations.

Risk of cyber attack

The Company relies on information technology systems and digital infrastructure to manage engineering and production processes, supply chain coordination, customer relationships, employee management, and financial reporting. Like many organizations, the Company is subject to outside cyberattacks and viruses, including ransomware attacks, data breaches, phishing attempts, and other unauthorized access or disruption attempts targeting our systems. 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 several initiatives to mitigate exposure, including a transition to cloud-based applications, periodic risk assessments, and more robust practices around employee training and awareness and system updates.

Attraction and retention of skilled talent

HPS is known for its engineering depth and expertise, particularly with respect to transformers. As we deliver more diversified integrated electronic solutions to our customers, a key to our continued success will be our ability to acquire and retain key engineering talent. Competition for top-tier engineering talent is increasing as electrification and decarbonization trends evolve. Extended recruitment lead times, rising salary expectations, and multiple competing offers are increasing labour costs and creating pressure to hire quickly, which can compromise cultural fit. Misalignment in fit may affect project quality, team cohesion, and our organizational culture. Given competition for limited engineering talent, risks of poaching and high turnover persist. Demographic changes, including an aging workforce in Canada, have also contributed to the Company's challenges to attract and retain top talent. We are mitigating these risks through proactive recruitment, competitive compensation, and targeted retention strategies to preserve culture and support our growth initiatives.

Loss of key personnel

HPS' performance and long-term success depend on the continued service of certain members of senior Management and other key personnel who possess significant industry expertise, operational knowledge, and customer and supplier relationships. The loss of one or more of these individuals, whether through resignation, retirement, illness, or other unforeseen circumstances, could disrupt operations, delay the execution of strategic initiatives, and adversely affect financial performance and results of operations.

The markets in which HPS operates are highly competitive and dynamic, and competition for experienced leadership and specialized technical talent is intense. As a result, it may be difficult to replace certain roles quickly or on comparable terms. Prolonged vacancies or transitional disruptions in key roles could negatively impact decision-making, operational execution, customer relationships, and overall business performance. While the Company seeks to mitigate this risk through succession planning, talent development, and competitive compensation practices, there can be no assurance that such measures will be sufficient to avoid adverse impacts should key personnel be lost and not replaced in a timely manner.

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 initiatives may be subjective, the market may react negatively to these plans and HPS may not be able to successfully execute these plans. Even if successfully executed, the initiatives may not be effective or may not lead to the anticipated benefits within the expected time frame.

HPS' 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.

HPS does business in a host of countries around the world. Approximately 75% of our sales are to customers outside of Canada. In addition, several 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 a number 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 making 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 several 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 on us. HPS' global footprint will be critical to mitigating any impact on 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. Additionally, we expect to compete with producers in both market and non-market economies that receive government subsidies and other direct and indirect benefits, including lower energy and input costs, which may allow such competitors to offer products at lower prices or on more favourable terms and could place downward pressure on pricing, margins, and market share.

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

Current global economic conditions and macro-economic factors influence the overall demand for the Company's products and financial performance. Persistent economic uncertainty, fluctuations in interest rates, inflationary pressures, and variability in public and private sector capital spending can have a direct impact on order volumes and customer project timelines. To partially offset uncertainties, 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 its ability 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 Management's 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.

Our products could be the subject of litigation

The Company's products are used in industrial, commercial and large-scale infrastructure applications, many of which involve mechanical, electrical, or structural components operating under demanding conditions. The Company's products are designed to distribute and control high voltages of electricity and are intended solely for installation, use and maintenance by qualified professionals. As a result, the Company is exposed to the risk of tort litigation arising from alleged property damage, personal injury, or death caused by the use or misuse of its products. Improper design, manufacture, installation or use of the Company's products could disrupt significant construction, infrastructure, or industrial projects, potentially exposing the Company to claims for consequential damages, delay-related costs or other contractual and tort-based liabilities. The Company maintains product liability insurance coverage that Management believes is appropriate for the nature and scale of its operations. However, insurance coverage may not be available for all claims or may be insufficient in certain circumstances. The Company has implemented stringent quality-control, product testing and documentation standards, and provides clear installation and operating instructions emphasizing that products must only be installed by licensed professionals in accordance with applicable electrical codes and safety standards. Despite these measures, the Company cannot eliminate the risk of product failures, third-party misuse or unfounded claims. A significant product-related incident or adverse litigation outcome could result in material uninsured financial liability, reputational harm, regulatory scrutiny or restrictions on the sale or use of the Company's products, any of which could adversely affect its business, financial condition and results of operations.

Our business relies on external capital and liquidity from operations

The Company's operations and growth strategy depend on maintaining adequate liquidity and access to financing to support working capital, capital expenditures and strategic initiatives. Changes to the global trade regime involving our products and ongoing volatility in material costs have increased short-term funding requirements. The Company's primary sources of liquidity are cash generated from operations and available lines of credit. Management believes these sources of liquidity are sufficient to meet foreseeable obligations; however, significant changes to credit markets, interest rates, a deterioration in the Company's operating performance or target markets or the failure of the Company to integrate significant acquisitions or launch capital investments to plan could limit the Company's continued ability to obtain financing on acceptable terms. HPS is focusing on mitigating these risks by reducing working capital, aligning customer and supplier payment terms and maintaining a conservative leverage profile relative to its peers.

Risk of technological disruption

Many of the Company's products are based on established and mature technologies that have long product life cycles and are widely used across industrial, commercial and infrastructure applications. While these technologies remain reliable and in demand, the increasing prevalence of disruptive technologies, alternative designs, and evolving customer preferences could reduce demand for certain of the Company's products or require accelerated investment in product development and innovation.

Advances in competing technologies, changes in industry standards, or the adoption of new solutions by customers could render some existing products less competitive or obsolete, potentially impacting sales volumes, pricing and margins. The Company's ability to anticipate, adapt to, and invest in technological change may be constrained by development costs, customer adoption timelines, regulatory requirements and competitive dynamics. If the Company is unable to respond effectively to technological disruption or shifting market expectations, its business, financial condition and results of operations could be adversely affected.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than bank guarantees disclosed in note 13 and capital and lease commitments disclosed in note 15 in the Notes to the Consolidated Financial Statements contained in our 2025 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2025, as disclosed in note 23 in the Notes to the Consolidated Financial Statements contained in our 2025 Annual Report.

Proposed transactions

In reference to the press release dated February 17, 2026, the Company announced the signing of a definitive agreement to acquire AEG Power Solutions, subject to regulatory approvals and customary closing conditions.

The Company has no further proposed transactions as at December 31, 2025. 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, bank operating lines of credit, accounts payable and accrued liabilities, contingent consideration, investments and the following derivative instruments:

As at December 31, 2025, the Company had outstanding foreign exchange contracts in place for 14,500 EUR and $21,000 USD – both of which were implemented as a hedge against translation gains and losses on inter-company loans as well as $26,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian HPS operations. The Company also had outstanding foreign exchange contracts to sell for $95,682 USD and 29,000 EUR.

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 2025 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 2025 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 require 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 March 19, 2026, are as follows:

9,126,624	Class A Shares
2,778,300	Class B Common Shares
11,904,924	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

The Company adopted the amendments to IAS 21, lack of exchangeability (Amendments to IAS 21), in its financial statements for the annual period beginning on January 1, 2025. The adoption of the amendments did not have a material impact on the consolidated 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 the impact on the consolidated financial statements has not yet been determined.

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

- 2026: Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)
- 2026: Annual improvements to IFRS Accounting Standards
- 2027: Presentation and Disclosure in Financial Statements (IFRS 18)

Strategic direction and outlook

HPS has a rich and extensive history of growth, innovation and resilience and continues to experience significant growth and progress. 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 distribution network;
  - 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 excel and thrive; and
   - Making HPS a preferred employer.
- Building a Sustainability Program by:
   - Designing energy efficient products;
   - Shrinking our ecological footprint; and
   - Energizing the world in a responsible way for the generations to come.

The Company will continue to grow in its existing channels by increasing its share of products by offering solutions that cater to the customer's specific needs. This will involve broadening the breadth of solutions that HPS offers, including power quality solutions.

With a focus on growth and advancement, HPS has spent approximately $95,000 on capital expansion projects over 2023 through 2025. Included in this program was $20,000 announced in August 2024 that was focused on building capacity to manufacture custom power transformers in Mexico. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage distribution power, large power, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives.

During 2025 HPS continued to make significant investments in capital to continue to enhance our manufacturing plants and build capacity. 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.

Our acquisition of Mesta in 2021 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. Mesta continues to contribute to both the increase in revenue as well as the increase in profits.

During Quarter 4, 2024, HPS completed an acquisition of assets and liabilities relating to the operations of Micron Industries Corporation. The acquisition was structured as a business combination through the U.S. entity. The combined expertise of our teams is a significant step forward in our growth strategy to offer an even broader array of innovative solutions to our customers and strengthen our reputation for high quality products and services, especially within our OEM markets. Industrial control transformers are essential for protecting sensitive equipment and align with our focus on power quality solutions. With rising demand for U.S.-made products in energy efficiency and automation projects, integrating Micron into HPS is expected to enhance our ability to meet this growing market. Micron's U.S.-based manufacturing strengthens our service to customers across the U.S. and North America, supporting our domestic growth and industrialization efforts. The integration of Micron into HPS continues with the successful implementation of our Enterprise Resource Planning ("ERP") system that went live in November 2025.

In Quarter 2, 2025, HPS continued with the Certification by Great Place to WorkTM at all Canada, U.S. and India locations from 2024 while also gaining the Certification at all Mexico locations. This accomplishment highlights the Company's focus on building talent and preserving our culture through our significant growth. This certification can also be a strong tool when recruiting future talent.

During August 2025, the Company determined that the expanded tariffs on steel and aluminum derivative products applied to certain materials and components included in many of HPS’ products. As expected, the tariffs had a relatively uniform impact across the industry and the Company worked collaboratively with its customers and suppliers to manage and offset the effect of these additional costs.

At the beginning of September 2025 HPS was recognized in the 2025 TSX30 ranking. The TSX30 is an annual ranking of the 30 top-performing companies on the Toronto Stock Exchange based on dividend-adjusted share price performance over a three-year period ending on June 30, 2025.

The Company continues to have a strong reputation for 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 focus on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

The Company has provided shareholders with strong earnings per share, solid cash generation and consistent dividend growth. To continue this trend HPS is focused on sales development, continued distributor 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.

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 for HPS.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information	2021	2022	2023	2024	**2025**
Sales	380,202	558,464	710,064	788,340	**898,255**
Earnings from operations	23,151	59,441	86,721	98,760	**104,019**
EBITDA	30,114	69,746	95,995	112,873	**121,443**
Adjusted EBITDA	30,675	69,650	117,229	130,484	**133,330**
Net earnings	15,176	44,828	63,399	71,531	**72,241**
Total assets	235,099	302,673	408,343	493,141	**586,265**
Non-current liabilities	7,104	8,101	12,500	17,620	**19,925**
Total liabilities	109,097	125,779	177,965	185,104	**234,208**
Total shareholders' equity attributable to equity holders of the Company	126,002	176,894	230,378	308,037	**352,057**
Operating cash (debt, net of cash)	1,638	21,972	34,120	21,102	**(15,023)**
Cash provided by operations	20,447	37,013	44,108	64,751	**26,948**
Basic earnings per share	1.29	3.79	5.33	6.01	**6.07**
Diluted earnings per share	1.28	3.77	5.33	6.01	**6.07**
Dividends declared and paid	4,009	4,556	6,548	11,607	**13,095**
Average exchange rate (USD$=CAD$)	1.253	1.301	1.350	1.369	**1.399**
Book value per share	10.69	15.00	19.54	25.87	**29.57**

	2024				**2025**			
Quarterly Information	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Sales	190,680	197,212	191,972	208,476	201,403	224,419	218,341	254,092
Earnings from operations	10,299	35,090	23,665	29,706	37,447	19,682	24,928	21,962
EBITDA	14,999	36,711	27,229	33,934	40,697	23,720	28,746	28,280
Adjusted EBITDA	30,972	32,587	34,377	32,548	30,916	33,396	30,290	38,727
Net earnings	7,952	23,590	16,311	23,678	26,222	13,376	17,440	15,203
Total assets	422,778	431,532	454,285	493,141	510,406	526,049	583,723	586,265
Non-current liabilities	11,893	11,066	15,226	17,620	16,390	17,341	20,223	19,925
Total liabilities	184,440	168,513	183,115	185,104	181,581	199,613	238,919	234,208
Total shareholders' equity attributable to equity holders of the Company	238,338	263,019	271,170	308,037	328,825	326,436	344,804	352,057
Operating cash (debt, net of cash)	30,893	34,871	32,913	21,102	4,840	(13,419)	(28,306)	(15,023)
Cash (used) provided by operations	6,285	18,656	17,397	22,413	(3,008)	42	(2,137)	32,051
Basic earnings per share	0.67	1.98	1.37	1.99	2.20	1.12	1.46	1.28
Diluted earnings per share	0.67	1.98	1.37	1.99	2.20	1.12	1.46	1.28
Adjusted earnings per share	1.66	1.73	1.80	1.91	1.60	1.72	1.56	1.98
Dividends declared and paid	1,786	3,276	3,271	3,274	3,274	3,273	3,274	3,274
Average exchange rate (USD$=CAD$)	1.348	1.368	1.365	1.396	1.436	1.387	1.400	1.399
Book value per share	20.02	22.09	22.78	25.87	27.62	27.42	28.96	29.57

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 IFRS Accounting Standards ("IFRS"), using management's best estimates and judgements 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 judgement 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.

March 19, 2026

Adrian Thomas
Chief Executive Officer

Richard C. Vollering
Chief Financial Officer

Independent Auditor's Report

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 December 31, 2025 and December 31, 2024
- 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 material accounting policy information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2025 and December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

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

We are independent of the 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, 2025. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of the existence and accuracy of inventories

Description of the matter

We draw your attention to Note 6 of the financial statements. The Entity has inventories of $172,381 as at December 31, 2025 which are dispersed across locations in Canada, the United States, Mexico and India.

Why the matter is a key audit matter

We identified the evaluation of the existence and accuracy of inventories as a key audit matter because it required significant auditor effort due to the magnitude of the inventories, geographical dispersion of the inventories, and timing of the physical inventory counts.

How the matter was addressed in the audit

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

- Analyzed locations with inventories to determine where to attend the Entity's physical inventory counts
- For a selection of locations with inventory counts performed by management prior to year-end, observed the inventory count procedures and performed test counts for a selection of inventory items and compared the results to the Entity's inventory records
- Tested a sample of inventory movements in the intervening period between the inventory count dates and the year-end date by inspecting relevant third-party documentation.

Other Information

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

- the information included in Management's Discussion and Analysis.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report 2025".

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

We have nothing to report in this regard

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

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Alexandra Duret.

March 19, 2026
Kitchener, ON
Canada

Consolidated Statements of Financial Position

(in thousands of dollars)

	As at December 31, 2025	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ 40,910	$ 34,085
Accounts receivable (note 5)	168,074	140,400
Inventories (note 6)	172,381	143,276
Income taxes receivable	9,106	5,274
Prepaid expenses and other assets (note 7)	8,769	10,692
Total current assets	399,240	333,727
Non-current assets		
Property, plant and equipment (note 8)	136,965	110,323
Investment in properties (note 9)	2,701	2,790
Investments (note 10)	6,326	2,600
Deferred tax assets (note 16)	14,406	13,967
Intangible assets (note 11)	11,633	13,730
Goodwill (note 12)	14,994	16,004
Total non-current assets	187,025	159,414
Total assets	$ 586,265	$ 493,141
Liabilities		
Current liabilities		
Bank operating lines of credit (note 13)	$ 55,933	$ 12,983
Accounts payable and accrued liabilities (note 17 and note 27)	143,048	134,919
Deferred revenue (note 22)	5,946	4,277
Income taxes payable	–	6,054
Provisions (note 21)	2,333	3,168
Current portion of lease and other liabilities (note 14 and note 27)	7,023	6,083
Total current liabilities	$ 214,283	$ 167,484
Non-current liabilities		
Provisions (note 21)	536	454
Deferred tax liabilities (note 16)	75	2
Long-term portion of lease and other liabilities (note 14 and note 27)	19,314	17,164
Total non-current liabilities	19,925	17,620
Total liabilities	$ 234,208	$ 185,104
Shareholders' Equity		
Share capital (note 17)	15,761	15,761
Contributed surplus	2,289	2,289
Accumulated other comprehensive income (note 18)	11,239	26,365
Retained earnings	322,768	263,622
Total shareholders' equity	$ 352,057	$ 308,037
Commitments (note 15)		
Subsequent events (note 31)		
Total liabilities and shareholders' equity	$ 586,265	$ 493,141

See accompanying Notes to Consolidated Financial Statements.

On behalf of the Board:

William G. Hammond
Chair of the Board

David Wood
Audit Chair

Consolidated Statements of Operations

Years ended December 31, 2025 and 2024 (in thousands of dollars except for per share amounts)

		2025		2024
Sales (note 22)	$	898,255	$	788,340
Cost of sales (note 6)		625,936		530,062
Gross margin		272,319		258,278
Selling and distribution		100,537		83,412
General and administrative		58,985		59,014
Share-based compensation (note 17)		8,778		17,092
		168,300		159,518
Earnings from operations		104,019		98,760
Finance and other costs				
Interest expense (note 27)		3,876		1,246
Foreign exchange loss		3,109		519
Other		138		73
Net finance and other costs		7,123		1,838
Earnings before income taxes		96,896		96,922
Income tax expense (recovery) (note 16):				
Current		24,755		27,914
Deferred		(100)		(2,523)
		24,655		25,391
Net earnings	$	72,241	$	71,531
Earnings per share (note 19)				
Basic earnings per share	$	6.07	$	6.01
Diluted earnings per share	$	6.07	$	6.01

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2025 and 2024 (in thousands of dollars except for per share

		2025		2024
Net earnings	$	72,241	$	71,531
Other comprehensive income				
Item that will be recognized within profit and loss:				
Foreign currency translation differences for foreign operations		(15,126)		17,735
Other comprehensive (loss) income,		(15,126)		17,735
Total comprehensive income	$	57,115	$	89,266

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2025 and 2024 (in thousands of dollars except for per share)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2024	$ 15,761	$ 2,289	$ 8,630	$ 203,698	$ 230,378
Total comprehensive income for the period					
Net income	–	–	–	71,531	71,531
Other comprehensive income					
Foreign currency translation differences	–	–	17,735	–	17,735
Total other comprehensive income	–	–	17,735	–	17,735
Total comprehensive income for the period	–	–	17,735	71,531	89,266
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 17)	–	–	–	(11,607)	(11,607)
Total transactions with owners	–	–	–	(11,607)	(11,607)
Balance at December 31, 2024	$ 15,761	$ 2,289	$ 26,365	$ 263,622	$ 308,037
Balance at January 1, 2025	$ 15,761	$ 2,289	$ 26,365	$ 263,622	$ 308,037
Total comprehensive income for the period					
Net income	–	–	–	72,241	72,241
Other comprehensive income					
Foreign currency translation differences	–	–	(15,126)	–	(15,126)
Total other comprehensive loss	–	–	(15,126)	–	(15,126)
Total comprehensive income for the period	–	–	(15,126)	72,241	57,115
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 17)	–	–	–	(13,095)	(13,095)
Total transactions with owners	–	–	–	(13,095)	(13,095)
Balance at December 31, 2025	$ 15,761	$ 2,289	$ 11,239	$ 322,768	$ 352,057

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2025 and 2024 (in thousands of dollars except for per share)

		2025		2024
Cash flows from operating activities				
Net earnings	$	72,241	$	71,531
Adjustments for:				
Depreciation of property, plant and equipment, right-of-use assets and investment properties		19,015		13,264
Amortization of intangible assets		1,656		1,441
Provisions		1,646		1,420
Interest expense		3,876		1,246
Income tax expense		24,655		25,391
Unrealized loss (gain) on derivatives		1,747		(1,447)
Share-based compensation expense		8,778		17,092
		133,614		129,938
Change in non-cash working capital (note 25)		(64,053)		(38,090)
Cash generated from operating activities		69,561		91,848
Income tax paid		(42,613)		(27,097)
Cash provided from operating activities		26,948		64,751
Cash flows from investing activities				
Repayment of note and lease receivable		–		1,545
Acquisition (note 30)		–		(21,223)
Purchase of investment (note 10)		(3,120)		(2,600)
Acquisition of property, plant and equipment (note 8)		(35,556)		(40,633)
Acquisition of intangible assets (note 11)		(174)		(71)
Cash used in investing activities		(38,850)		(62,982)
Cash flows from financing activities				
Cash dividends paid (note 17)		(13,095)		(11,607)
Net advances (repayments) of bank operating lines of credit		42,950		(5,488)
Interest paid (note 27)		(3,876)		(458)
Payment of lease liabilities (note 14)		(5,448)		(5,305)
Payment of contingent consideration		–		(1,350)
Cash provided by (used in) financing activities		20,531		(24,208)
Foreign exchange on cash and cash equivalents held in a foreign currency		(1,804)		3,933
Increase (decrease) in cash and cash equivalents		6,825		(18,506)
Cash and cash equivalents at beginning of period		34,085		52,591
Cash and cash equivalents at end of period	$	40,910	$	34,085

See accompanying Notes to Consolidated Financial Statements.

1. Reporting entity

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

The 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 enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), and were approved by the Board of Directors on March 19, 2026.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain inventories carried at net realizable value where it is lower than cost, derivative financial instruments, convertible debentures and share-based payments which are measured at fair value. 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, 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.

The functional currency of the Company's operations and its wholly-owned subsidiaries are as follows:

Canadian and Subsidiary Operations	Functional Currency	
Hammond Power Solutions Inc. Delta Transformers Inc.	Canadian dollar	($)
Hammond Power Solutions, Inc. Mesta Electronics LLC 11020 Parker Drive LLC Hammond Power Solutions Latin America S. de R.L. de C.V. Micron Group, LLC 1801 Westwood Drive, LLC	U.S. dollar	($ USD)
Hammond Power Solutions S. A. de C.V.	Mexican Peso	(Pesos)
Continental Transformers s.r.l.	Euro	(EU €)
Hammond Power Solutions Private Limited	Rupee	(INR)

Hammond Power Solutions S.p.A. merged with Continental Transformers s.r.l. as of January 1, 2025

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards 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 judgements 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(j); 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.

Reportable segments

A reportable 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 reportable 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 policies provided in note 3(g) and 3(j). 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 forecasted revenues and forecasted earnings before interest, tax, depreciation and amortization margins ("EBITDA"), market-based discount rates, estimated customer attrition 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 forecasted revenue and EBITDA, discount rates, estimated customer attrition 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 21.

3. Summary of material 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.

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

Certain comparative figures have been reclassified in order to ensure consistency with the current year's financial statement presentation. The reclassification had no impact on net earnings or comprehensive income.

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 and accounts 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.
- Investments in convertible debentures and preferred shares are recognized at fair value on the date of the investment payment and are subsequently re-measured at fair value at the end of each reporting period, with changes recognized through the statement of operations. Interest income on this investment is recorded in the consolidated statement of operations.
- 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, with changes recognized through the statement of operations.

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 payments 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 less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset or bringing the asset to the location and condition necessary for its intended use. 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 homogeneous 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 required.

Assets included in construction-in-progress and deposits 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 economic lives.

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

· Customer lists and relationships	15 years
· Technology and patents	10-20 years
· Externally acquired software	4-14 years
· Branding	5-15 years

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

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.

For an acquisition achieved in stages, under which the Group did not previously control an investee but subsequently obtains control, the carrying value of the Group's investment is remeasured to fair value immediately prior to the business combination, with any gain or loss reflected through the statement of operations.

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 recognized 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 remeasured 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 recognized 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, 2025.

h) Investments

Investment in 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 less accumulated depreciation and accumulated impairment losses.

Investment in convertible debentures

Investment in convertible debentures are held to earn interest income. The Group measures its investment in convertible debentures at fair value.

i) 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.

j) Impairment of 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.

k) Share-based payment transactions

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. The number of DSUs issued to each holder are increased as dividends on common shares are paid to compensate the holders for dividends paid on a quarterly basis, while the DSUs are outstanding.

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.

Long Term Incentive Plan

The Company maintains a long-term Incentive plan ("LTIP") for the Executive Officers of the Company. This plan replaced the Deferred Share Unit plan for executives. The LTIP consists of an annual grant made to the Chief Executive Officer and other executive officers of Performance Share Units ("PSU") and Restricted Share Units ("RSU"). According to the plan, the PSUs constitute 60% of the total grant and will vest at the end of a three-year period at a ratio of 0% - 150%, depending on whether Management met pre-determined EPS and return on net asset ("RONA") targets. The RSUs constitute the remaining 40% of the grant and will vest at the end of a three-year period at 100%. The increase or decrease in value of the vested PSUs and RSUs over the three-year period will be determined by 1) the vesting factor, and 2) the increase or decrease of the share price.

The annual grant is determined by the Compensation Committee, and is currently set at 45% of the executive's salary and 110% of the CEO's salary. The grant vests after a three-year performance period and is dependent on continuous employment with the Company over that period, with exceptions for retirement and involuntary terminations. The vested value will be paid in cash to the participant, after which, the PSUs and RSUs will be extinguished. Under IFRS, RSUs and PSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a Redemption Event, as defined in the LTIP Plan. LTIP units contain vesting conditions, 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 RSUs and PSUs 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 RSUs and PSUs is determined in accordance with the LTIP Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date. The LTIP liability is included within accrued liabilities.

l) 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 on 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.

m) 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.

n) 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.

o) Employee benefits

The Group maintains a defined contribution plan, which is described in note 20, 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.

p) 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 or loss).

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

q) 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 is 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.

r) 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).

s) New accounting pronouncements adopted during the period

The Company adopted the amendments to IAS 21, lack of exchangeability (Amendments to IAS 21), in its financial statements for the annual period beginning on January 1, 2025. The adoption of the amendments did not have an impact on the consolidated financial statements.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

t) 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 the impact on the consolidated financial statements has not yet been determined.

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

- 2026: Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)
- 2026: Annual improvements to IFRS Accounting Standards
- 2027: Presentation and Disclosure in Financial Statements (IFRS 18)

4. Cash and cash equivalents

	December 31, 2025	December 31, 2024
Cash	$ 23,475	$ 21,735
Cash equivalents	17,435	12,350
	$ 40,910	$ 34,085

5. Accounts receivable

	December 31, 2025	December 31, 2024
Trade accounts receivable	$ 146,140	$ 123,573
Value added tax receivable	16,434	10,984
Other receivables	5,500	5,843
	$ 168,074	$ 140,400

Trade accounts receivable is presented net of expected credit losses of $3,430,000 (December 31, 2024 – $3,534,000).

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

	December 31, 2025	December 31, 2024
Opening balance	$ 3,534	$ 2,616
Additional allowances	801	1,446
Writeoffs	(1,358)	(603)
Adjustments	453	75
	$ 3,430	$ 3,534

6. Inventories

	December 31, 2025	December 31, 2024
Raw materials	$ 92,642	$ 68,974
Work in progress	6,109	4,612
Finished goods	73,630	69,690
	$ 172,381	$ 143,276

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Raw materials and changes in finished goods, and work in progress recognized as cost of sales during the year amounted to $625,463,000 (2024 – $529,828,000). In addition, during the year, write-downs in the amount of $47,000 were recognized (2024 – reversal of write-downs of $32,000). Inventories carried at net realizable value as at December 31, 2025 were $1,351,000 (December 31, 2024 – $202,000).

7. Prepaid and other assets

	December 31, 2025	December 31, 2024
Prepaid expenses	$ 8,769	$ 9,245
Derivative asset (note 27)	–	1,447
	$ 8,769	$ 10,692

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, 2025	December 31, 2024
Property, plant and equipment owned	$ 112,358	$ 90,765
Right-of-use assets	24,607	19,558
	$ 136,965	$ 110,323

	Land	Buildings	Leaseholds & Improvements	Machinery & Equipment	Office Equipment	Construction in Progress & Deposits	**Total**
Cost							
Balance at January 1, 2024	$ 4,349	$ 21,781	$ 2,806	$ 72,948	$ 15,255	$ 16,039	$ 133,178
Acquisition (note 30)	191	1,953	–	3,380	67	32	5,623
Additions	–	4,200	6,612	26,895	3,885	121	41,713
Disposal	–	–	–	(2)	(13)	–	(15)
Effect of movements in exchange rates	52	368	(464)	4,382	(29)	435	4,744
Balance at December 31, 2024	$ 4,592	$ 28,302	$ 8,954	$ 107,603	$ 19,165	$ 16,627	$ 185,243
Balance at January 1, 2025	$ 4,592	$ 28,302	$ 8,954	$ 107,603	$ 19,165	$ 16,627	$ 185,243
Additions/Transfers	–	7,727	5,023	25,273	4,046	(6,513)	35,556
Disposal	–	–	–	(31)	(224)	–	(255)
Effect of movements in exchange rates	(60)	(416)	777	(2,736)	63	(307)	(2,679)
Balance at December 31, 2025	$ 4,532	$ 35,613	$ 14,754	$ 130,109	$ 23,050	$ 9,807	$ 217,865

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

Accumulated Depreciation

Balance at January 1, 2024	$ –	$ 14,857	$ 1,927	$ 53,517	$ 12,520	$ –	$ 82,821
Depreciation for the year	–	1,303	780	5,418	1,333	–	8,834
Disposal	–	–	–	(2)	(11)	–	(13)
Effect of movements in exchange rates	–	84	(122)	2,782	92	–	2,836
Balance at December 31, 2024	$ –	$ 16,244	$ 2,585	$ 61,715	$ 13,934	$ –	$ 94,478
Balance at January 1, 2025	$ –	$ 16,244	$ 2,585	$ 61,715	$ 13,934	$ –	$ 94,478
Depreciation for the year	–	1,790	1,974	7,334	2,036	–	13,134
Disposal	–	–	–	(31)	(216)	–	(247)
Effect of movements in exchange rates	–	(120)	186	(1,868)	(56)	–	(1,858)
Balance at December 31, 2025	$ –	$ 17,914	$ 4,745	$ 67,150	$ 15,698	$ –	$ 105,507
Carrying amounts							
At December 31, 2024	$ 4,592	$ 12,058	$ 6,369	$ 45,888	$ 5,231	$ 16,627	$ 90,765
At December 31, 2025	$ 4,532	$ 17,699	$ 10,009	$ 62,959	$ 7,352	$ 9,807	$ 112,358

Depreciation is recorded in the statement of earnings as follows: cost of sales $12,690,000 (2024 – $8,424,000) and general and administrative $444,000 (2024 – $397,000).

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, 2024	$ 14,707	$ 769	$ 8	$ 15,484
Additions	8,510	378	–	8,888
Disposal	–	(30)	–	(30)
Depreciation	(3,861)	(377)	(6)	(4,244)
Effect of movements in exchange rates	(563)	25	(2)	(540)
Carrying amount at December 31, 2024	$ 18,793	$ 765	$ –	$ 19,558
Balance at January 1, 2025	$ 18,793	$ 765	$ –	$ 19,558
Additions	9,527	176	–	9,703
Depreciation	(5,314)	(342)	–	(5,656)
Effect of movements in exchange rates	1,018	(16)	–	1,002
Carrying amount at December 31, 2025	$ 24,024	$ 583	$ –	$ 24,607

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

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 relate to its production facilities located in Mexico.

- There was additional space leased during 2023 as an extension of plant one which commenced on March 15, 2023 with annual lease payments of $460,000 and is for a five-year term. The Group retains rights to renew this lease for two successive five-year periods.
- The Group's primary lease on its second Mexican production facility was renewed on May 1, 2025, carries annual lease payments of $739,000 and is for a five-year term. The Group retains right to renew this lease for two successive five-year periods.
- There was a third space leased at the end of 2023 with a lease commencement date of February 2024 with annual lease payments of $1,430,000 and is for a seven year term. The Group retains rights to renew this lease for two successive five-year terms.
- There was a fourth space leased with a lease commencement date of April 2025 which annual lease payments of $1,253,000 and is for a six-year term. The Group retains rights to renew this lease for two successive five-year terms.
- 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. Investments in properties

		December 31, 2025		December 31, 2024
Glen Ewing Property	$	1,044	$	1,044
Marnate Property (net of accumulated				
depreciation of $2,219 (2024 - $2,007))		1,657		1,746
	$	2,701	$	2,790

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 that is the subject of ongoing environmental monitoring and remediation activities coordinated with the Ministry of the Environment, Conservation and Parks. No revenue was derived from it in 2025 or 2024. The property is carried at cost of $1,044,000. The estimated fair value of the property as at December 31, 2025 is $1,200,000 (2024 – $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 $167,000 (2024 – $136,000).

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 100,400 EUR (approximately $158,000). The operating expenses for this property were 175,000 EUR (approximately $276,000) in 2025 and 182,000 EUR (approximately $270,000) in 2024. Depreciation on the facility was recorded in the statement of earnings as general and administrative expenses in the amount of $135,000 EUR (approximately $212,000 in 2025) and 135,000 EUR (approximately $199,000) in 2024.. The estimated fair value of the property as at December 31, 2025 is 2,130,000 Euros (approximately $3,434,000). The fair value was determined based on independent available market evidence, based on comparable property sales, by an independent valuator.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

10. Investments

	December 31, 2025	December 31, 2024
SmartD	$ 5,147	$ 2,600
Verdyn	1,179	–
	$ 6,326	$ 2,600

Investments

On March 22, 2024, HPS entered into a convertible debenture subscription agreement with SmartD Technologies Inc. (“SmartD”) under which it advanced $2,600,000 in convertible debt. SmartD produces advanced motor control products, most notably its Clean Power Variable Frequency DriveTM. SmartD’s products combine motor drives with harmonic mitigating technology that help businesses save energy, lower costs and minimize their carbon footprint.

In 2025, the Company entered into an agreement with SmartD to convert its existing debenture and accrued interest, valued at $3,022,000, into preferred shares of SmartD. In addition, the Company agreed to invest a further $5,120,000 in exchange for preferred shares of SmartD, $2,120,000 of which was invested in 2025. A further $3,000,000 may be invested in or after 2026, contingent on SmartD meeting certain development milestones.

In November 2025, the Company entered into a secured convertible debenture transaction with Verdyn Inc. (“Verdyn”), pursuant to which it committed to advance up to $2,000,000 in tranches subject to the satisfaction of specified milestones. As of December 31, 2025, $1,000,000 has been advanced, with any additional advances contingent upon Verdyn achieving certain operational and commercial milestones in accordance with the governing transaction documents. Verdyn specializes in developing power quality solutions for large industrial applications.

Both of these investments are included in Level 3 of the fair value hierarchy, measured at fair value through profit or loss. To determine the fair value of the investment, Management considered the progress of the development of the technology as well as the need to generate additional funding.

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11. Intangible assets

Intangible assets	Technology and Patents	Customer lists, relationships and branding	Externally acquired software	**Total**
Cost				
Balance at January 1, 2024	$ 7,689	$ 11,576	$ 9,478	$ 28,743
Acquisition (note 30)	–	7,621	54	7,675
Additions	–	–	71	71
Effect of movements in exchange rates	298	819	11	1,128
Balance at December 31, 2024	$ 7,987	$ 20,016	$ 9,614	$ 37,617
Balance at January 1, 2025	$ 7,987	$ 20,016	$ 9,614	$ 37,617
Additions	–	–	174	174
Effect of movements in exchange rates	(324)	(678)	23	(979)
Balance at December 31, 2025	$ 7,663	$ 19,338	$ 9,811	$ 36,812
Accumulated Amortization				
Balance at January 1, 2024	$ 5,344	$ 8,653	$ 8,156	$ 22,153
Amortization for the year	311	591	539	1,441
Effect of movements in exchange rates	135	152	6	293
Balance at December 31, 2024	$ 5,790	$ 9,396	$ 8,701	$ 23,887
Balance at January 1, 2025	$ 5,790	$ 9,396	$ 8,701	$ 23,887
Amortization for the year	313	855	488	1,656
Effect of movements in exchange rates	(190)	(192)	18	(364)
Balance at December 31, 2025	$ 5,913	$ 10,059	$ 9,207	$ 25,179
Balance at				
At December 31, 2024	$ 2,197	$ 10,620	$ 913	$ 13,730
At December 31, 2025	$ 1,750	$ 9,279	$ 604	$ 11,633

Amortization of $334,000 (2024 – $404,000) has been recognized in cost of sales, $116,000 (2024 – $119,000) has been recognized in selling and distribution and $1,206,000 (2024 – $918,000) has been recognized in general and administrative.

None of the intangible assets has been internally developed.

Research and development expenses of $519,000 (2024 – $202,000) have been recognized in cost of sales in the consolidated statements of earnings. No research and development costs have been capitalized (2024 – $nil).

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

12. Goodwill and impairment testing for cash-generating units

Goodwill		**December 31, 2025**		December 31, 2024
Opening balance	$	16,004	$	11,736
Acquisition (note 30)		–		3,472
Effect of movements of exchange rates		(1,010)		796
Ending balance	$	14,994	$	16,004

The Company conducts its annual impairment assessment of CGUs which contain goodwill, as well as any corresponding acquired long-lived assets including 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 2025 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 four subsidiaries identified as CGUs that contain goodwill. The CGUs and their respective goodwill balances are as follows: Delta Transformers Inc. ("Delta") $2,180,000 (2024 – $2,180,000), Hammond Power Solutions Private Limited ("India") $7,675,000 (2024 – $8,427,000), Mesta Electronics LLC ("Mesta") $1,638,000 (2024 – $1,720,000) and Hammond Power Solutions Micron Group, LLC $3,501,000 (2024 - $3,677,000).

For its 2025 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 the Company's 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 pre-tax discount rate of 17.6% (2024 – 17.5%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rates of 21.7% (2024 – 28.0%). The annual sales growth rates for year 2 to year 5 are in the range of 10.0% – 14.0% (2024 – year 2 to year 5 – 24.0% – 26.0%) 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 8.0% (2024 – 8.0%).

Delta

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present value using pre-tax discount rate of 16.6% (2024 –15.6%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales decline of 4.3% (2024 – growth of 1.7%). The annual sales growth rates for year 2 to year 5 are 3.0% (2024 – year 2 to 5 years are 3.0%) 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 3.0% (2024 – 3.0%).

Mesta

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present value using pre-tax discount rate of 26.4% (2024 – 25.3%). Through the five year cash flow projections, the Company's model also incorporated year 1 sales growth rate of 42.3% (2024 – 80.8%). The annual sales growth rates for year 2 to year 5 are 3.0% (2024 – 3.0%) 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 3.0% (2024 – 3.0%).

Micron

Based on the Company's projections, a five year cash flow forecast was completed and discounted to present value using pre-tax discount rate of 18.8% (2024 – 20.0%). Through the five year cash flow projections, the Company's model also incorporated annualized year 1 sales growth rate of 21.0% (2024 - 10.8%). The annual sales growth rates for year 2 to year 5 are 6.0% – 6.4% (2024 - 3.0% - 6.0%) 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 4.0% (2024 – 3.0%).

Management's approach to determining projected revenue includes consideration of current bookings, consultation with its sales force 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.

For the Delta, Mesta, India and Micron 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 annual impairment assessment it was determined that the recoverable amount of the CGUs exceeded their respective carrying values and no impairment existed as at December 31, 2025.

13. Bank operating lines of credit

The Group's North American current banking agreement, which was renewed in August 2025, consists of a $75,000,000 U.S. revolving credit facility (2024 - $50,000,000). 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 plus 0.0% to Canadian bank prime rate plus 0.4% 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 4,000,000 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 Euro revolver and 250,000 Euro overdraft facility. The revolver facility bears interest at 2.25% plus the relevant Market Index, Euribor of 2.026% (2024 – plus margin of 2.25%, Euribor on December 31, 2024 – 2.845%, Euribor).

Hammond Power Solutions Private Limited maintains an additional demand credit facility for an unsecured working capital loan up to 515,000,000 Indian Rupee (INR) (2024 – 515,000,000 INR) consisting of the sub-facilities of a 40,000,000 INR (2024 – 40,000,000 INR) short-term working capital demand loan, a 475,000,000 INR (2024 – 475,000,000 INR) facility for bank guarantees. The demand loan bears interest at the relevant Market Index + 2.5% and the bank guarantees are at a rate of 1.0%. As at December 31, 2025, there was $nil Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2024 – $nil). As at December 31, 2025 there was 408,065,000 INR, Canadian equivalent $6,243,000 (2024 – 401,266,000 INR, Canadian equivalent $6,471,000) drawings against the bank guarantees.

Based on exchange rates in effect at December 31, 2025, the combined Canadian dollar equivalent available across all facilities, prior to any utilization of the facilities was $117,258,000 (2024 – $86,722,000).

As at December 31, 2025, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit facility was $51,822,000 consisting of $51,822,000 Canadian dollars drawn and the Canadian equivalent of $nil U.S. dollars drawn (2024 – $9,152,000 – consisting of $6,299,000 Canadian dollars drawn and the Canadian equivalent of $2,853,000 U.S. dollars drawn). As well, $4,111,000 (2024 – $3,832,000) Canadian dollar equivalent of Euros was outstanding under the Euro facility, and $nil (2024 – $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.

The Company is required to comply with certain bank covenants and files certifications of compliance on a quarterly basis. The bank operating lines of credit are subject to the following covenants:

- Debt service coverage covenant – impacted by EBITDA, cash flow available for debt service and total debt service.
- Leverage covenant – calculated as net debt divided by EBITDA to determine leverage ratio.

All bank covenants were met as at December 31, 2025, and the Company was in compliance with its covenants throughout the year.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

14. Lease and other long-term liabilities

	December 31, 2025	December 31, 2024
Lease liabilities	$ 25,490	$ 22,402
Contingent consideration (note 27)	847	845
	$ 26,337	$ 23,247
Current	$ 7,023	$ 6,083
Non-Current	$ 19,314	$ 17,164

Lease liability maturity analysis – contractual undiscounted cash flows	December 31, 2025	December 31, 2024
Less than one year	$ 7,540	$ 5,879
One to five years	21,696	16,295
More than five years	529	3,464
Total undiscounted lease liabilities	$ 29,765	$ 25,638
Less: effect of discounting and foreign exchange	$ (4,275)	$ (3,236)
Lease liabilities included in the statement of financial position	$ 25,490	$ 22,402
Current	$ 6,176	$ 5,238
Non-current	$ 19,314	$ 17,164

Amounts recognized in statement of operations	Year Ended December 31, 2025	Year Ended December 31, 2024
Interest on lease liabilities	$ 1,304	$ 788

Amounts recognized in statement of cash flows	Year Ended December 31, 2025	Year Ended December 31, 2024
Payment of lease liabilities	$ 5,448	$ 5,305

15. Commitments

	December 31, 2025	December 31, 2024
Capital expenditure commitments	$ 10,924	$ 15,771

Subsequent to year-end the Company entered into a lease agreement commencing March 2026 with contractual payments of $807,000.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

16. Income taxes

Income tax expense		2025		2024
Current tax expense				
Current period	$	24,755	$	27,914
Deferred tax recovery				
Origination and reversal of temporary differences		(113)		(2,545)
Decrease in tax rate		13		22
		(100)		(2,523)
Total income tax expense	$	24,655	$	25,391

Reconciliation of effective tax rate	2025		2025	2024		2024
Net earnings		$	72,241		$	71,531
Income tax expense			24,655			25,391
Earnings before income taxes			96,896			96,922
Income tax expense using the Company's domestic tax rate	39.50%		38,274	39.50%		38,284
Effect of tax rates in foreign jurisdictions	(9.20%)		(8,917)	(8.15%)		(7,903)
Decrease in tax rate	0.01%		13	0.02%		22
Non-deductible expenses/non-taxable income	(0.05%)		(44)	1.19%		1,151
Reduced rate for active business and manufacturing and processing	(4.78%)		(4,629)	(6.52%)		(6,315)
Losses for which no deferred tax asset was recognized	(0.22%)		(217)	0.21%		200
Other	0.18%		175	(0.05%)		(48)
	25.44%	$	24,655	26.20%	$	25,391

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

Unrecognized temporary differences

At December 31, 2025, pre-tax temporary differences of $273,752,000 (2024 – $241,286,000) 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 $36,272,000 (2024 – $30,161,000) based on current tax rates.

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

	December 31, 2025	December 31, 2024
Tax losses	$ 11,716	$ 10,642
Basis difference in subsidiary	33,142	33,423
Financial interests deductible in a future period	5,057	4,714
Provisions	933	870
Inventory	486	453
Property, plant and equipment	861	721
	$ 52,195	$ 50,823

The tax losses, financial interests deductible, provisions, inventory and property, plant and equipment deductions carry forward indefinitely and relate to 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, 2025 and 2024 (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	
	2025	2024	**2025**	2024
Property, plant and equipment	$ 754	$ 464	$ (8,767)	$ (8,032)
Intangible assets	247	324	(292)	(332)
Scientific research and experimental development and other tax credits	–	–	(54)	(29)
Inventories	830	1,360	(8)	–
Note receivable	–	–	(3,374)	(3,147)
Loans and borrowings	6,323	5,612	–	–
Employee benefits	8,448	8,041	(236)	(198)
Unrealized losses (gains) on forward contracts and foreign currency-denominated loans payable/receivable	17	96	–	–
Provisions and tax reserves	3,756	3,662	–	–
Tax loss carry-forwards	4,635	4,399	–	–
Basis difference in subsidiary	2,052	1,745	–	–
Tax assets (liabilities)	27,062	25,703	(12,731)	(11,738)
Set off of tax	(12,656)	(11,736)	12,656	11,736
Net tax assets (liabilities)	$ 14,406	$ 13,967	$ (75)	$ (2)

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year ended December 31, 2025:

	Balance December 31, 2024	Recognized in retained earnings	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2025
Property, plant and equipment	$ 7,568	$ –	$445	$ –	$8,013
Intangible assets	8	–	37	–	45
Scientific research and experimental development and other tax credits	29	–	25	–	54
Inventories	(1,360)	–	538	–	(822)
Note receivable	3,147	–	227	–	3,374
Loans and borrowings	(5,612)	–	(711)	–	(6,323)
Employee benefits	(7,843)	–	(369)	–	(8,212)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(96)	–	79	–	(17)
Provisions and tax reserves	(3,662)	–	(94)	–	(3,756)
Tax loss carry-forwards	(4,399)	–	(236)	–	(4,635)
Basis difference in subsidiary	(1,745)	–	(307)	–	(2,052)
	$ (13,965)	$ –	$ (366)	$ –	$ (14,331)
Foreign exchange			$ 266		
Income tax expense			$ (100)		

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year ended December 31, 2024:

	Balance December 31, 2023	Recognized in retained earnings	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2024
Property, plant and equipment	$ 6,153	$ –	$ 1,415	$ –	$ 7,568
Intangible assets	32	–	(24)	–	8
Scientific research and experimental development and other tax credits	41	–	(12)	–	29
Inventories	(712)	–	(648)	–	(1,360)
Note receivable	3,062	–	85	–	3,147
Loans and borrowings	(4,636)	–	(976)	–	(5,612)
Employee benefits	(5,286)	–	(2,557)	–	(7,843)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(126)	–	30	–	(96)
Provisions and tax reserves	(2,878)	–	(784)	–	(3,662)
Tax loss carry-forwards	(5,631)	–	1,232	–	(4,399)
Basis difference in subsidiary	(1,795)	–	50	–	(1,745)
	$ (11,776)	$ –	$ (2,189)	$ –	$ (13,965)
Foreign exchange			$ (334)		
Income tax expense			$ (2,523)		

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

Pillar Two Income Taxes

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Company operates. The legislation was effective for the Company's financial year beginning on January 1, 2024. The Company has performed an assessment of its potential exposure to Pillar Two income taxes. This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the Company. Based on the assessment performed, the Pillar Two effective tax rates in all jurisdictions in which the Company operates are above 15% and Management is not aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

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, 2025	December 31, 2024
9,126,624 Class A subordinate voting shares (2024 – 9,126,624)	$ 15,754	$ 15,754
2,778,300 Class B common shares (2024 – 2,778,300)	7	7
11,904,924 Total A and B shares (2024 – 11,904,924)	$ 15,761	$ 15,761

The following dividends were declared and paid by the Company:

	December 31, 2025	December 31, 2024
110 cents per Class A subordinate voting share (2024 – 97.5 cents)	$ 10,039	$ 8,898
110 cents per Class B common share (2024 – 97.5 cents)	3,056	2,709
	$ 13,095	$ 11,607

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

c) Deferred Share Units

The Company maintains a deferred share unit plan in order to issue deferred share units ("DSUs") to non-employee directors and senior executives of HPS. 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, 2024 and 2025 is as follows:

	Number of DSUs		**Closing Share Price**
Balance at January 1, 2024	168,135	$	81.70
DSUs issued	6,382		94.51
Balance at December 31, 2024	174,517	$	128.04

	Number of DSUs		**Closing Share Price**
Balance at January 1, 2025	174,517	$	128.04
DSUs issued	15,233		86.33
DSUs redeemed	(44,309)		84.56
Balance at December 31, 2025	145,441	$	159.48

An expense of $4,597,000 (2024 – $8,609,000) was recorded in general and administrative expenses. The liability of $23,195,000 (2024 - $22,345,000) related to these DSUs is included in accounts payable and accrued liabilities.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

d) Long Term Incentive Plan

In February 2022, the Board of Directors approved a new Long Term Incentive plan ("LTIP") for the Executive Officers of the Company. This plan replaced the Deferred Share Unit plan described above for executives. The LTIP consists of an annual grant made to the Chief Executive Officer ("CEO") and other Executive Officers of Performance Share Units ("PSU") and Restricted Share Units ("RSU"). According to the plan, the PSUs constitute 60% of the total grant and will vest at the end of a three-year period at a ratio of 0% - 150%, depending on whether Management met pre-determined EPS and Return on net assets ("RONA") targets. The RSUs constitute the remaining 40% of the grant and will vest at the end of a three-year period at 100%. The increase or decrease in value of the vested PSUs and RSUs over the three-year period will be determined by the increase or decrease of the share price.

The annual grant is determined by the Compensation Committee, and is currently set at 45% of the executive's salary and 110% (2024 - 100%) of CEO's salary. The grant vests after a three-year performance period and is dependent on continuous employment with the Company over that period, with exceptions for retirement and involuntary terminations. After vesting, the value of the PSUs and RSUs will be determined based on the PSU vesting factor and the share price. The value will be paid in cash to the participant, after which, the PSUs and RSUs will be extinguished.

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Issued Balance at January 1, 2024	67,239	44,825	112,064	
Units issued	6,232	4,156	10,388	
Units settled	(26,574)	(17,716)	(44,290)	
Issued Balance at December 31, 2024	46,897	31,265	78,162	$ 115.80

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Vested Balance at January 1, 2024	66,343	30,539	96,882	
Units vested	22,980	9,621	32,601	
Units settled	(39,862)	(17,716)	(57,578)	
Vested Balance at December 31, 2024	49,461	22,444	71,905	$ 128.04

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Issued Balance at January 1, 2025	46,897	31,265	78,162	
Units issued	12,622	8,413	21,035	
Units settled	(17,028)	(11,352)	(28,380)	
Issued Balance at December 31, 2025	42,491	28,326	70,817	$ 81.03

	Number of PSUs	Number of RSUs	Total Number of Units	Closing Share Price
Vested Balance at January 1, 2025	49,461	22,444	71,905	
Units vested	19,900	7,680	27,580	
Units settled	(25,543)	(11,352)	(36,895)	
Vested Balance at December 31, 2025	43,818	18,772	62,590	$ 159.48

An expense of $4,181,000 (2024 – $8,483,000) was recorded in general and administrative expenses. The liability of $10,567,000 (2024 - $9,785,000) related to these PSUs and RSUs is included in accounts payable and accrued liabilities.

The market value of the granted PSUs and RSUs is $13,179,000 as of December 31, 2025. The difference between the market value and the accrual value is due to units granted but not yet vested.

For accounting purposes, the grants vest evenly over a three year period. It is assumed that the 2023 PSU grants will vest at 150%, the 2024 PSU grant will vest at 100% and the 2025 PSU grant will vest at 100%.

18. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive loss for the year ended December 31, 2025 was $15,126,000 (2024 – income of $17,735,000), which relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at December 31, 2025 of accumulated other comprehensive income of $11,239,000 (2024 – $26,365,000).

19. Earnings per share

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

		2025		2024
Basic earnings per share	$	6.07	$	6.01
Calculated as:				
Net earnings attributable to the equity holders of the Company	$	72,241	$	71,531
Weighted average number of shares outstanding	$	11,904,924		11,904,924
Fully diluted earnings per share	$	6.07	$	6.01
Calculated as:				
Net earnings attributable to the equity holders of the Company	$	72,241	$	71,531
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares		11,904,924		11,904,924
Reconciliation of weighted average number of shares outstanding:				
Weighted average number of shares outstanding used to calculate basic earnings per share		11,904,924		11,904,924
Adjustment for dilutive effect of stock option plan		–		–
Weighted average number of shares outstanding used to calculate diluted earnings per share		11,904,924		11,904,924

As at December 31, 2025, nil options (2024 – nil) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

20. 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 2.0% – 7.0% (2024 – 2.0% - 7.0%) of annual earnings. The Group's contributions of $2,730,000 (2024 – of $2,244,000) match the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $2,037,000 (2024 – $1,662,000) in cost of sales, $333,000 (2024 – $283,000) in selling and distribution, and $360,000 (2024 - $300,000) in general and administrative.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

21. Provisions

	Warranties	Site restoration	Benefits and incentives	Total
Balance at January 1, 2024	$ 3,162	$ 225	$ 843	$ 4,230
Provisions made during the period	825	132	463	1,420
Provisions used during the period	(957)	(132)	(675)	(1,764)
Recovery during the period	(264)	–	–	(264)
Balance at December 31, 2024	$ 2,766	$ 225	$ 631	$ 3,622
Balance at January 1, 2025	$ 2,766	$ 225	$ 631	$ 3,622
Provisions made during the period	1,228	167	251	1,646
Provisions used during the period	(1,220)	(167)	(159)	(1,546)
Recovery during the period	(853)	–	–	(853)
Balance at December 31, 2025	$ 1,921	$ 225	$ 723	$ 2,869
Current portion	$ 1,921	$ 80	$ 332	$ 2,333
Non-current portion	$ –	$ 145	$ 391	$ 536

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2025 and December 31, 2024. 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 and incentives

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

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

22. Sales and deferred revenue

a) Sales

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

		2025		2024
Canada	$	233,981	$	215,394
United States and Mexico		631,921		534,888
India		32,353		38,058
	$	898,255	$	788,340

b) Deferred revenue

Movements in the Group's contract liabilities (deferred revenue) was as follows:

		2025		2024
Opening balance	$	4,277	$	5,721
Revenue recognized		(4,277)		(5,721)
Increase in contract liabilities		5,946		4,277
Ending balance	$	5,946	$	4,277

From time to time, the Company 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.

23. Related party transactions

Related parties

William G. Hammond, Chair of the Board, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (2024 – 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 424,636 (2024 – 424,636) Class A subordinate voting shares of the Company, representing approximately 4.7% (2024 – 4.7%) 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 $3,523,000 (2024 – $3,335,000).

During 2024 there were professional fees of $351,000 paid by the Company to facilitate the sale of 500,000 Class A Subordinate Voting Shares owned by Arathorn Investments Inc. These expenses were recorded in general and administrative expenses.

For the years ended December 31, 2025 and 2024 (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:

		2025		2024
Salaries and benefits	$	4,643	$	4,494
Share-based awards		8,778		17,092
	$	13,421	$	21,586

24. Personnel expenses

		2025		2024
Wages and salaries	$	123,253	$	116,994
Employment benefits		33,560		28,096
Contributions to defined contribution plans		2,730		2,274
	$	159,543	$	147,364

25. Change in operating working capital

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

		2025		2024
Accounts receivable	$	(27,674)	$	(9,028)
Inventories		(29,105)		(25,738)
Prepaid expenses and other assets		476		(661)
Accounts payable and accrued liabilities		(2,396)		(10,481)
Deferred revenue		1,669		(1,444)
Provisions		(2,399)		(2,028)
Settlement of derivatives		1,447		(1,138)
Foreign exchange		(6,071)		12,428
	$	(64,053)	$	(38,090)

For the years ended December 31, 2025 and 2024 (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.

Geographic Segments		2025		2024
Sales				
Canada	$	233,981	$	215,394
United States and Mexico		631,921		534,888
India		32,353		38,058
	$	898,255	$	788,340
Property, plant and equipment and right-of-use assets				
Canada	$	29,906	$	26,169
United States		44,586		35,424
Mexico		56,904		42,977
India		5,569		5,753
	$	136,965	$	110,323
Investments in properties				
Canada	$	1,044	$	1,044
Italy		1,657		1,746
	$	2,701	$	2,790
Intangibles assets				
Canada	$	524	$	815
United States		10,204		11,689
Mexico		28		–
India		877		1,226
	$	11,633	$	13,730
Goodwill				
Canada	$	2,180	$	2,180
United States		5,139		5,397
India		7,675		8,427
	$	14,994	$	16,004

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, investments and contingent consideration issued in conjunction with a business combination. The forward foreign exchange contracts have a fair value of a liability of $1,747,000 as at December 31, 2025 (2024 – an asset of $1,447,000) and are included in Level 2 in 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. The gains and losses from these contracts are grouped with foreign exchange gains and losses on the statement of operations. The investments are valued at $6,326,000 as at December 31, 2025 (2024 - $2,600,000) and are included in Level 3 of the fair value hierarchy. The contingent consideration liability is valued at $847,000 as at December 31, 2025 (2024 - $845,000) and is included in Level 3 of the fair value hierarchy. There have been no transfers between levels in 2025 or 2024.

To determine the fair value of the contingent consideration, Management assessed the probability of realization of future tax losses based on the current year profitability of the entity and expected future forecasted earnings. It was determined that all available losses will be expected to be realized for which the benefit component for our previous partners 45% realization of certain tax losses will be earned. As of December 31, 2025, it was determined to be probable that sufficient future taxable profit will be available against which the unused tax losses can be recovered and utilized. The future tax asset value related to these losses was $1,861,000 and a corresponding liability to National of $847,000.

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.

For the years ended December 31, 2025 and 2024 (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, 2025, the Company had outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2026.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	USD	CAD	26,000	1.4097
BUY	EUR	CAD	14,500	1.6217
BUY	USD	MXN	21,000	18.542
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Sell Currency**	**Traded Rate**
SELL	EUR	CAD	29,000	1.6092 – 1.6105
SELL	USD	CAD	52,000	1.3720 - 1.3725
SELL	USD	MXN	43,682	17.9143 – 18.1021

At December 31, 2024, the Company has outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2025.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	USD	CAD	90,000	1.40 – 1.44
BUY	EUR	CAD	14,500	1.49
BUY	USD	MXN	11,000	20.68
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Sell Currency**	**Traded Rate**
SELL	EUR	CAD	29,000	1.46 – 1.49
SELL	USD	CAD	45,000	1.44

As at December 31, 2025, the Group has recognized a net unrealized expense of $1,747,000 representing the fair value of these forward foreign exchange contracts, comprised of a liability of $1,747,000 included within accounts payable and accrued liabilities. As at December 31, 2024, the Group recognized a net unrealized recovery of $1,447,000, comprised of an asset of $1,447,000 included within prepaids and other assets. The statement of operations impact for both years has been recorded in foreign exchange gains and losses.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

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 the 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 Executive level 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, 2025:

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2025	2024	**2025**	2024	**2025**	2024	**2025**	2024
Cash	$ 20,524	$ 15,172	5,755	5,684	€ 1,022	€ 1,317	573,503	465,555
Accounts receivable	73,958	55,107	214,460	89,538	–	172	241,328	379,154
Bank operating lines of credit	–	–	–	–	(2,535)	(2,555)	–	–
Accounts payable	(30,149)	(19,864)	(26,720)	(22,858)	(556)	(160)	(331,780)	(366,159)
Lease liability	(17,989)	(15,654)	–	–	–	–	(32,509)	–
Contingent consideration	(618)	(618)	–	–	–	–	–	–
Net exposure	$ 45,726	$ 34,143	193,495	72,364	€ (2,069)	€ (1,226)	450,542	478,550

A one cent ($0.01) decline in the Canadian dollar against the U.S. dollar as at December 31, 2025 would have decreased net earnings by $836,000 and increased equity by $640,000. 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, 2025 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, 2025 would have decreased net earnings by $87,000 and increased equity by $83,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2025 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, 2025 would have decreased net earnings by $7,000 and decreased equity by $30,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Euro as at December 31, 2025 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, 2025 would have increased net earnings and equity by $74,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2025 would have had an equal but opposite effect.

Credit risk:

Credit risk arises from the possibility that the Group's customers and counterparties 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 customers and counterparties based on their credit ratings. As at December 31, 2025, the Group's accounts receivable are not subject to significant concentrations of credit risk. 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 accounts receivable 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.

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.

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

During the year, the expected credit losses for trade accounts receivable decreased $105,000 (2024 – increased $918,000), for which a recovery (2024 – loss) was recognized in general and administrative expenses. The aging of trade accounts receivable and the related allowance is as follows:

	December 31, 2025		December 31, 2024	
	Gross	Allowance	Gross	Allowance
Not past due	$ 107,667	$ –	$ 83,652	$ –
Past due 0-30 days	28,429	–	32,648	–
Past due 31-120 days	11,012	968	7,976	703
Past due more than 120 days	2,462	2,462	2,831	2,831
	$ 149,570	$ 3,430	$ 127,107	$ 3,534

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

	Carrying Amount	
	December 31, 2025	December 31, 2024
Cash and cash equivalents	$ 40,910	$ 34,085
Accounts receivable	168,074	140,400
	$ 208,984	$ 174,485

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

	Carrying Amount	
	December 31, 2025	December 31, 2024
Canada	$ 44,222	$ 37,879
United States	99,383	82,269
Mexico	17,850	11,881
Italy	148	11
India	6,471	8,360
	$ 168,074	$ 140,400

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

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, 2025 would increase or decrease net earnings by approximately $150,000 (2024 – $211,000) 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, 2025, no forward commodity purchase contracts were outstanding (2024 – 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.

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

December 31, 2025		**Carrying amount**		**1 year or less**		**1-2 years**		**2-5 years**
Bank operating lines of credit	$	55,933	$	55,933	$	–	$	–
Accounts payable and accrued liabilities		141,301		141,301		–		–
Contingent consideration		847		847		–		–
Derivative liabilities		1,747		1,747				
	$	199,828	$	199,828	$	–	$	–

December 31, 2024		Carrying amount		1 year or less		1-2 years		2-5 years
Bank operating lines of credit	$	12,983	$	12,983	$	–	$	–
Accounts payable and accrued liabilities		134,919		134,919		–		–
Contingent consideration		845		845		–		–
	$	148,747	$	148,747	$	–	$	–

For the years ended December 31, 2025 and 2024 (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 lease liabilities and contingent consideration arising from financing activities:

	LIABILITIES			EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Contingent Consideration	Share Capital	Retained Earnings	Total
Balance January 1, 2025	$ 12,983	$ 22,402	$ 845	$ 15,761	$ 263,622	$ 315,613
Advances of bank operating lines of credit, net	42,950	–	–	–	–	42,950
Interest payments	(2,572)	(1,304)	–	–	–	(3,876)
Cash dividends paid	–	–	–	–	(13,095)	(13,095)
Repayment of lease liability	–	(5,448)	–	–	–	(5,448)
Total changes from financing cash flows	$ 40,378	$ (6,752)	$ –	$ –	$ (13,095)	$ 20,531
Other changes						
Liability-related						
Interest expense	2,572	1,304	–	–	–	3,876
Foreign exchange	–	(1,167)	2	–	–	(1,165)
Non-cash additions to lease liabilities	–	9,703	–	–	–	9,703
Total liability-related other changes	$ 2,572	$ 9,840	$ 2	$ –	$ –	$ 12,414
Equity-related						
Net income	–	–	–	–	72,241	72,241
Total equity-related other changes	$ –	$ –	$ –	$ –	$ 72,241	$ 72,241
Balance December 31, 2025	$ 55,933	$ 25,490	$ 847	$ 15,761	$ 322,768	$ 420,799

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

	LIABILITIES			EQUITY		
	Bank Operating Lines of Credit	Lease Liabilities	Contingent Consideration	Share Capital	Retained Earnings	Total
Balance January 1, 2024	$ 18,471	$ 16,421	$ 2,138	$ 15,761	$ 203,698	$ 256,489
Advances of bank operating lines of credit, net	(5,488)	–	–	–	–	(5,488)
Payment of contingent consideration	–	–	(1,350)	–	–	(1,350)
Interest payments	(458)	–	–	–	–	(458)
Cash dividends paid	–	–	–	–	(11,607)	(11,607)
Repayment of lease liability	–	(5,305)	–	–	–	(5,305)
Total changes from	$ (5,946)	$ (5,305)	$ (1,350)	$ –	$ (11,607)	$ (24,208)
Other changes						
Liability-related						
Interest expense	458	788	–	–	–	1,246
Foreign exchange	–	1,640	57	–	–	1,697
Non-cash disposals to lease liabilities	–	(30)	–	–	–	(30)
Non-cash additions to lease liabilities	–	8,888	–	–	–	8,888
Total liability-related other changes	$ 458	$ 11,286	$ 57	$ –	$ –	$ 11,801
Equity-related						
Net income	–	–	–	–	71,531	71,531
Total equity-related other changes	$ –	$ –	$ –	$ –	$ 71,531	$ 71,531
Balance December 31, 2024	$ 12,983	$ 22,402	$ 845	$ 15,761	$ 263,622	$ 315,613

For the years ended December 31, 2025 and 2024 (tabular amounts in thousands of dollars, except share and per share amounts)

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 lease liabilities 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, 2025.

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

	December 31, 2025	December 31, 2024
Cash and cash equivalents	$ 40,910	$ 34,085
Bank operating lines of credit	(55,933)	(12,983)
Lease liabilities	(25,490)	(22,402)
Contingent consideration	(847)	(845)
Share capital	15,761	15,761
Contributed surplus	2,289	2,289
Retained earnings	322,768	263,622
	$ 299,458	$ 279,527

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) 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.

c) 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.

d) Investment in convertible debentures and preferred shares

The fair values of the convertible debentures are based on specific milestones being achieved as determined by internal financial information related to the investment and a transaction for the issuance of shares/convertible debenture close to year-end which was negotiated between several unrelated parties. This investment is considered to be valued at Level 3 of the fair value hierarchy.

30. Acquisition:

On October 7, 2024, the Company completed the acquisition of assets and liabilities of Micron Industries Corporation ("Micron") in the U.S. The acquisition is structured as a business combination through the U.S. entity. Micron is involved in the design and manufacture of control transformers as well as low voltage transformers and DC power supplies.

Micron's annual revenues for 2022 and 2023 have ranged from approximately $26,655,000 - $30,644,000. The Company will operate as HPS Micron Group, LLC, a subsidiary of HPS.

The purchase price has been allocated as follows:

Accounts receivable		3,342
Inventories and other assets		3,118
Property, plant and equipment		5,623
Software		54
Customer relationships		6,396
Brands		1,225
Goodwill		3,472
Assets	$	23,230
Current liabilities	$	(2,007)
Total purchase consideration	$	21,223

Satisfied as follows (in thousands of dollars):

Cash	$	21,223

The acquisition was accounted for using the acquisition 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 Micron's complementary products. The goodwill recognized is anticipated to be fully deductible for income tax purposes.

The fair values of customer relationships and brands acquired in the business acquisition were determined using an income approach. The Company used the multi-period excess earnings approach to value acquired customer relationships. This method calculated the estimated fair value based on the forecasted cash flows that the asset can be expected to generate over its remaining useful life, and isolates the cash flows attributable to the existing customer relationships alone. The valuation involves subjectivity and significant estimation uncertainty, including assumptions relating to forecasted revenues and forecasted earnings before interest, depreciation and amortization margins attributable to the customer relationships, estimated customer attrition rates, and discount rate.

The Company used the relief from royalty method to value acquired brands. This method calculates the cost savings associated with owning rather than licensing the trade name. The valuation involves subjectivity and significant estimation uncertainty, including assumptions related to forecasted revenues, royalty rate and discount rate.

The acquisition costs incurred related to this transaction during the year were $288,000 which were included in general and administrative expense.

Included in the Group's consolidated results for the twelve months ended December 31, 2024, was revenue of $4,859,000 and net losses of $158,000 recognized by Micron from the date of acquisition to December 31, 2024. If the Company had acquired Micron effective January 1, 2024, the revenue would have been approximately $26,623,000 and there would have been net loss of approximately $92,000. The 2024 revenue of the consolidated group would have been approximately $810,104,000 and net income of the consolidated group would have been $71,597,000.

31. Subsequent events

Proposed Acquisition

On February 17, 2026, the Company announced that it signed a definitive agreement to acquire AEG Power Solutions. Under the terms of the agreement, HPS will acquire all outstanding equity of AEG Power Solutions in an all-cash transaction with an enterprise value of C$365 million. As part of the transaction, HPS will repay AEG Power Solutions' outstanding bank debt. The closing of this transaction is subject to certain regulatory and customary closing conditions.

Dividends

On February 26, 2026, the Company declared a dividend of twenty-seven and a half cents ($0.275) per Class A subordinate voting share of HPS and a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class B common share of HPS payable on March 27, 2026 to shareholders of record at the close of business on March 19, 2026. The ex-dividend date is March 19, 2026.

HPS Global Offices

Canada

Hammond Power Solutions Inc.

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

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

India

Hammond Power Solutions Private Limited
Plot No.6A, Phase-1, IDA Pashamylaram, Patancheru Mandal, Sangreddy District, Telangana, India 502307

Mexico

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

Hammond Power Solutions Latin America S. de R.L. de C.V.
Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, C.P. 67190
Monterrey, México

United States

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

Mesta Electronics LLC
14559 State Route 30
North Huntingdon, Pennsylvania 15642-1054

Micron Group, LLC
1801 Westwood Drive
Sterling, IL 61081

Corporate Information

Auditors

KPMG LLP
120 Victoria Street South,
Kitchener, ON N2G 0E1

Transfer Agent and Registrar

Computershare Investor Share Services Inc.
320 Bay Street, 14th Fl,
Toronto, ON M5H 4A6

Investor Relations

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

Stock Exchange Listing

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

Corporate Officers and Directors

Officers

Adrian Thomas
Chief Executive Officer
& Director

Richard Vollering
Chief Financial Officer

John Bailey
Chief Operations Officer

Paul Gaynor
Chief Information Officer

David Kinsella
Chief Commercial Officer

Kyle Kuepfer
Chief Legal Officer &
Corporate Secretary

Catherine McKeown
Chief People Officer

Norman Bates
EVP, Group Business
Development & President,
Power Quality Solutions

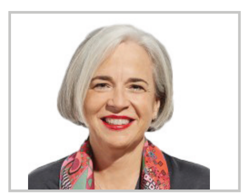
Directors

William G. Hammond
Chair of the Board
& Audit Member

Frederick M. Jaques
Lead Director

Dahra Granovsky
Governance Chair

Christopher R. Huether
Audit Member



Nathalie L. Pilon
Governance Member

Anne Marie Turnbull
Human Resources
& Compensation Chair

David Wood
Audit Chair

Gregory Yull
Human Resources
& Compensation Member

EVERY TIME YOU MOVE NEARER TO YOUR DESIRED DESTINATION, NEW HORIZONS WILL BECOME CLEAR AND NEW OPPORTUNITIES WILL COME INTO VIEW.