Q1 Report 2025

For the three months ended March 29, 2025

To our **SHAREHOLDERS**

The first quarter of the year ended with positive momentum despite the economy facing increasing geopolitical tensions and global trade uncertainty. Our sales for the same quarter grew 5.6% while achieving record backlog.

There were multiple areas of uncertainty from the end of last year led to a slowdown in construction spending and a dip in standard product sales in December and January. However, a positive rebound in February and March indicated improving momentum. Additionally, sales from our Micron acquisition contributed to our growth. We are pleased with the progress of the Micron integration and have already seen early signs of volume synergies that added to our revenue growth this quarter.

Although our custom product shipments were lower than expected, we still observed robust activity in multiple sectors. We have intensified our marketing efforts in target segments and continue to focus our technical solutions group on collaborating with specifiers and engineers to develop early-stage projects. High conversion rates on new order bookings increased our backlog by more than 17% this quarter. However, sector weakness in bulk growth chip production, primarily related to electric vehicle ("EV") end markets, continues to challenge our induction heating business. We are working closely with our customers and engaged in developing opportunities in additional end markets.

Last year, we saw an increase in inventory due to the ramping up of our new warehouse in the Dallas Fort Worth area. This was a critical part of our logistic optimization project, which will enhance customer service, simplify logistic flows from our factories, and allow us to optimize our finished goods inventories. We expect to see inventory reductions over the next few quarters as this program is implemented. In the first quarter of 2025, the increase in inventory was attributable to the build up of safety stock to ensure that we meet our delivery commitments for upcoming projects. We expect that this too will normalize as the year progresses.

Our capacity additions are progressing well, and our new factory in Monterrey, Mexico has reached a significant milestone of completion. We are now in the installation and setup phase. This timeline is ahead of schedule, just one year after the announcement, and we expect to start shipping products by the end of the year.

In these uncertain and complex times, we remain focused on our business by serving our customers with a team that shares a common purpose and values. Additionally, the tailwinds of electrification continue to be strong, and we believe we are well positioned to continue to grow.

ADRIAN THOMAS
CHIEF EXECUTIVE OFFICER

Management's Discussion **AND ANALYSIS**

Our **VISION**

To be a transformative force that electrifies the world.

Our **MISSION**

We simplify electrification by shaping power solutions with our customers.

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 at March 29, 2025, and December 31, 2024, and performance for the three months ended March 29, 2025, and March 30, 2024 and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2025. This information is based on Management's knowledge as at May 1, 2025. The Company assumes that the reader of this MD&A has access to and has read the audited Annual Consolidated Financial Statements and MD&A of the Company, contained in our 2024 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2024 MD&A. 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 "Corporation" 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 Corporation'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 Corporation 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 Corporation’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 Corporation 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. Comparative figures have also been presented. 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. Operating earnings, EBITDA, adjusted EBITDA and adjusted EPS are some of the measures the Company uses to evaluate 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. The Company presents EPS to measure the company's profitability on a per share basis. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings, net cash or net indebtedness, net income taxes payable/receivable, EBITDA, adjusted EBITDA and adjusted EPS in making investment decisions about the Company and to measure its operational results. A reconciliation of earnings from operations, EBITDA, adjusted EBITDA and adjusted EPS to net earnings for the quarters ending March 29, 2025, and March 30, 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", "adjusted EPS", "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 Quarter 1, 2025 consolidated financial statements, which comprise the consolidated statements of financial position as at March 29, 2025, and December 31, 2024, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the three months ended March 29, 2025, and March 30, 2024, and Notes thereto, have been prepared under IAS 34, Interim Financial Reporting.

Sales

Geography	**Q1, 2025**	Q1, 2024	$ Change	% Change
U.S. & Mexico*	140,906	130,732	10,174	7.8%
Canada	51,635	48,296	3,339	6.9%
India	8,862	11,652	(2,790)	(23.9%)
Total	**201,403**	**190,680**	**10,723**	**5.6%**

* When stated in U.S. dollars, U.S. and Mexico sales have increased from $97,001 in 2024 to $98,151 in 2025, an increase of $1,150 or 1.2%.

U.S. and Mexico sales were positively impacted by the strengthening of the U.S. dollar relative to the Canadian dollar versus 2024. First quarter sales were favourably affected by a 6.5% stronger U.S. dollar ("USD"), $1.00 USD = $1.436 Canadian dollar ("CAD") compared against $1.00 USD = $1.348 CAD in Quarter 1, 2024.

Sales in the U.S. market grew slightly year-over-year, but slowed in the first quarter of 2025 versus the fourth quarter of 2024, mainly due to lower induction heating ("IHI"), Latam, and OEM sales. January sales were unusually low, while sales in February and March recovered to expected levels. Sales of stock products grew versus the fourth quarter, while sales of custom product declined, primarily due to shipment delays. Private label sales grew considerably year-over-year, with growth led by stronger sales to data centre applications.

The Canadian market shipped 6.9% more than the first quarter of 2024, but also slowed versus the fourth quarter of 2024, driven by the timing of some large custom projects.

Indian sales for Quarter 1, 2025 were $8,862, $2,790 lower than Quarter 1, 2024 sales of $11,652. The decline in sales is due to project delays.

Quarter 1, 2025 sales stated by geographic segment were derived from U.S. sales of 70.0% (Quarter 1, 2024 – 68.6%) of total sales, Canadian sales of 25.6% (Quarter 1, 2024 – 25.3%) and Indian sales of 4.4% (Quarter 1, 2024 – 6.1%).

Year-over-year growth excluding the Micron acquisition was 2.1%. This is an indicator of organic growth.

Backlog

The Company's Quarter 1, 2025 backlog increased by 18.9% as compared to Quarter 1, 2024, due to large projects driven mostly by data centre activity. The Company's backlog has increased 17.7% from Quarter 4, 2024, for similar reasons. With ongoing capacity expansion in several locations coming into place, we continue to improve competitive lead times, improving our ability to meet our customers' needs.

The backlog cycle is longer for large project driven, mostly custom products, which can be over one year for some factories. For those factories focused on standard products, the backlog does not generally extend beyond six to eight weeks. 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 penalties.

Gross margin

The Company saw a slight decrease in its gross margin rate for Quarter 1, 2025 which was 31.5% compared to Quarter 1, 2024 margin rate of 31.7%, a decrease of 20 basis points. The decline in gross margin reflects increased material and labour costs, and a shift in product mix to relatively more standard products. The company announced a price increase in February, which began to take effect for catalogue-based product in April of 2025, which should offset these higher costs. Margin performance remains sensitive to fluctuations in selling prices, commodity cost volatility, customer mix, and geographic sales distribution.

The increase in sales volumes in Quarter 1, 2025, along with similar organic growth in 2024, has resulted in certain facilities operating at or near capacity. To address this, the Company has invested in additional equipment across existing manufacturing sites over the past 18 months, enabling a steady increase in shipping volumes without a corresponding expansion in facility footprint. In addition, the opening of a new facility in Mexico in late 2024 has further alleviated capacity constraints and supported continued volume growth across key markets.

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 had been stable over the course of 2024, while labour and overhead costs continued to increase. The company has increased prices as its underlying costs rise and will continue to do so as competitive conditions permit.

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 $22,320 in Quarter 1, 2025 or 11.1% of sales versus $21,067 in Quarter 1, 2024 or 11.0% of sales, an increase of $1,253 or 0.1% of sales. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the large increase in sales.

General and administrative expense

General and administrative expenses were $3,745 or 1.9% of sales for Quarter 1, 2025 compared to Quarter 1, 2024 expenses of $29,139 or 15.3% of sales, a decrease of $25,394 or 13.4% of sales. Key drivers for the current quarter decrease are as follows:

- The lower share price in Quarter 1, 2025 has resulted in a recovery of share-based compensation expenses of $10,856 in the quarter, a change of $27,527 from prior year expense of $16,671;
- General and administrative expenses related to newly acquired Micron were $776 in the quarter;
- Approximately $536 of the change in the current year is associated with strategic investments in people resources and development and incentive plans;
- Investments in technology and cloud-based software increased expenses by $504.

Earnings from operations[1]

Quarter 1, 2025 earnings from operations were $37,447 compared to $10,299 for the same quarter last year, an increase of $27,148. The increase in earnings from operations in the quarter is primarily a result of higher sales offset by lower gross margin rate, and a recovery in share-based compensation expenses offset by higher selling, distribution, general and administrative expenses.

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

	Q1, 2025	Q1, 2024
Net earnings	$ 26,222	$ 7,952
Add (subtract):		
Income tax expense	9,686	2,795
Interest expense	431	217
Foreign exchange loss (gain)	1,075	(698)
Other	33	33
Earnings from operations	$ 37,447	$ 10,299

Net Finance and other costs

Net finance and other costs increased $1,987 from a recovery of $448 in 2024 to an expense of $1,539 in 2025. The primary increase from the prior year is a result of a foreign exchange loss in the current year compared to a gain in the prior year.

Net interest expense for Quarter 1, 2025 was $431, an increase of $214 compared to the Quarter 1, 2024 expense of $217. Interest expense increased due to higher operating line usage. Interest expense includes all bank fees.

The foreign exchange loss in Quarter 1, 2025 was $1,075 compared to a gain of $698 in Quarter 1, 2024 – a change of $1,773. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts receivable and payable. The change of the foreign exchange expenses for the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar.

As at March 29, 2025, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $11,000 USD. Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for

[1] Refer to Non-GAAP financial measures on page 3 of this quarterly report

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

$22,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 1, 2025 income tax expense was $9,686 compared to $2,795 in Quarter 1, 2024 an increase of $6,891.

The consolidated effective tax rate[1] for Quarter 1, 2025 was 27.0% versus 26.0% for Quarter 1, 2024, an increase of 1.0%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company as income is generated from different geographical tax jurisdictions and is subject to diverse tax rates and regulations.

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.

Net earnings

Net earnings for Quarter 1, 2025 finished at $26,222 compared to net earnings of $7,952 in Quarter 1, 2024, an increase of $18,270. The increase in the quarterly earnings from operations is primarily a result of higher sales offset by lower gross margin rate, and a recovery of share-based compensation expenses offset by higher selling, distribution, general and administrative expenses.

Earnings per share

Basic earnings per share were $2.20 for Quarter 1, 2025 versus $0.67 in Quarter 1, 2024, an increase of $1.53. Adjusted for foreign exchange loss/gain and share-based compensation expenses adjusted earnings per share[2] were $1.60 for Quarter 1, 2025 versus $1.66 in Quarter 1, 2024, a decrease of $0.06.

Adjusted earnings per share are calculated as outlined in the following table:

	Quarter 1, 2025	Quarter 1, 2024
Net earnings before tax	$ 35,908	$ 10,747
Add (subtract):		
Long-term incentive plan ("LTIP") (recovery) expense	(3,051)	5,834
Deferred Share Units ("DSU") (recovery) expense	(7,805)	10,837
Foreign exchange loss (gain)	1,075	(698)
Adjusted net earnings before tax	$ 26,127	$ 26,720
Adjusted net earnings	19,079	19,771
Adjusted earnings per share	1.60	1.66

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

[2] Refer to Non-GAAP financial measures on page 3 of this quarterly report

EBITDA[1]

EBITDA for Quarter 1, 2025 was $40,697 versus $14,999 in Quarter 1, 2024, an increase of $25,698. Adjusted for foreign exchange loss/gain and share-based compensation expenses adjusted EBITDA for Quarter 1, 2025 was $30,916 versus $30,972 in Quarter 1, 2024, a decrease of $56 or 0.2%.

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

		Quarter 1, 2025		Quarter 1, 2024
Net earnings	$	26,222	$	7,952
Add:				
Interest expense		431		217
Income tax expense		9,686		2,795
Depreciation and amortization		4,358		4,035
EBITDA	$	40,697	$	14,999
Add (subtract):				
Long-term incentive plan ("LTIP") (recovery) expense		(3,051)		5,834
Deferred Share Units ("DSU") (recovery) expense		(7,805)		10,837
Foreign exchange loss (gain)		1,075		(698)
Adjusted EBITDA	$	30,916	$	30,972

Summary of quarterly financial information (unaudited)

Fiscal 2025 Quarters		Q1, 2025
Sales	$	201,403
Net earnings	$	26,222
Net earnings per share – basic	$	2.20
Net earnings per share – diluted	$	2.20
Average U.S. to Canadian exchange rate	$	1.436

Fiscal 2024 Quarters		Q1, 2024		Q2, 2024		Q3, 2024		Q4, 2024		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	$	601
Average U.S. to Canadian exchange rate	$	1.348	$	1.368	$	1.365	$	1.394	$	1.369

[1] Refer to Non-GAAP financial measures on page 3 of this quarterly report

HPS sales remained strong in Quarter 1, 2025 with a slight decrease from Quarter 4, 2024. Before the current quarter, HPS sales have increased quarter-over-quarter for the past nine quarters, except for Quarter 4, 2022, with quarterly sales continuing to accelerate with Quarter 1, 2024 sales higher than any previous quarter. The Quarter 4, 2022 drop was related to the large India order that was shipped but unable to be recognized until Quarter 1, 2023 given the sales terms of freight on board destination. The increase in sales over the past nine quarters is a function of increased pricing, higher volume and additional sales related to Mesta and Mexico. Sales trends have been positively impacted by the stronger U.S. dollar exchange.

Gross margin rates for the quarter have declined from previous quarters, a result of rising material and labour costs as well as product mix. Previous quarters experienced higher margin rates attributed to higher operating leverage, pricing, a shift to higher margin products, and margin improvements in India.

Capital resources and liquidity

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

Cash used in operating activities for Quarter 1, 2025 was $3,008 versus cash generated by operations of $6,285 in Quarter 1, 2024, a difference of $9,293. In Quarter 1, 2025, non-cash working capital used cash of $30,351 compared to $16,310 for the same quarter last year. The increase in working capital is primarily attributable to higher finished goods inventory levels due to a change in our warehousing strategy, and increased raw materials, due to some upcoming project material requirements. Working capital was also negatively affected by typical first quarter payments, including bonuses.

Total cash generated by financing activities was $9,830 in the first three months of 2025, compared to $1,133 in the same period in 2024. The key driver of this change is the higher advances of bank operating lines in the current year.

Cash used in investing activities increased year-over-year with cash used of $7,922 in Quarter 1, 2025 from $7,244 in Quarter 1, 2024, an increase of $678. Capital expenditures were $7,922 in Quarter 1, 2025 compared to $7,487 for Quarter 1, 2024, an increase of $435. This investment is associated with our multi-year capital expansion plans to support growth.

Bank operating lines of credit have increased from prior year levels finishing Quarter 1, 2025 at $27,999 compared to $22,981 at the end of Quarter 1, 2024, an increase of $5,018. The bank operating lines of credit have increased $15,016 since the year-end balance of $12,983. The increase in the bank operating lines of credit during Quarter 1, 2025 is due to increased working capital usage and capital expenditures.

The Company's overall net operating cash balance was $4,840[1], a decrease of $16,542 from the net operating cash balance of $21,102[2] at December 31, 2024. The Quarter 1, 2024 net operating debt balance was $30,893[3], a change of $26,053 as of Quarter 1, 2025.

All bank covenants continue to be met as at March 29, 2025.

The Company will utilize its cash generated from operations combined with the existing available credit facilities to finance ongoing business operational cash requirements for working capital, capital expenditures and investment activities going forward.

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[1] Overall net operating cash balance is the cash and cash equivalents balance of $32,839 net of the bank operating lines of credit of $27,999.

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

[3] Overall net operating debt balance is the bank operating lines of credit of $53,874 net of cash and cash equivalents of $22,981.

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.

	2024	2025	2026	2027	2028 & Thereafter	Total
Accounts payable and accrued liabilities	$ 115,620	–	–	–	–	$ 115,620
Capital expenditure purchase	10,925	–	–	–	–	10,925
Bank operating lines	27,999	–	–	–	–	27,999
Lease liabilities	6,212	5,217	3,971	3,464	5,790	24,654
Contingent consideration	845	–	–	–	–	845
Total	$ 161,601	$ 5,217	$ 3,971	$ 3,464	$ 5,790	$ 180,043

Contingent liabilities

Management is not aware of any contingent liabilities.

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 a quarterly cash dividend of twenty-seven and a half cents ($0.275) per Class B Common Share of HPS 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.

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.

During Quarter 1, 2025 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected or was 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 considered at a material level.

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.

Implementation of tariffs

The potential execution of executive orders that will apply ad valorem duty to goods of Canadian and Mexican origin could represent a significant risk to HPS. If tariffs were implemented, the level of risk depends on the competitive response to the higher costs that most transformer providers will face. The Company has a substantial manufacturing presence in Canada and Mexico, and as the importer of record in the U.S., would be responsible for remitting the tariffs. The company has developed a response plan if tariffs were to be implemented. The Company's short-term efforts would be focused on protecting margins and ensuring an orderly supply 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.

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

Risk of cyber attack

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

Hammond Power Solutions is known for its engineering depth and expertise. As we enter into broader power electronics solutions, a key to our continual continued growth along with maintaining our current core business, will be our ability to acquire and retain key engineering talent. As the world moves to electrification to support decarbonization, as well as onshoring of critical components within North America, competition for top-tier engineers to rival companies has been elevated. As our world undergoes electrification, another significant transformation is occurring as a substantial number of baby boomers retire. HPS, too, experiences the effects of these demographic changes, particularly in the retirement of key and essential skill sets.

The demand for skilled engineering professionals is exceeding the available global supply, making it harder to find and attract the right talent locally or globally. This is leading to extended recruitment lead times, increased salary expectations and elevating labour costs. The need to choose a candidate quickly due to multiple competing offers can lead to a misalignment in terms of cultural fit. This misalignment has the potential to compromise both the quality of our projects and the cohesion of our teams, all while posing a challenge to maintaining our organizational culture during periods of rapid expansion. Our culture serves as a pivotal component of our brand reputation within our market.

Given organizations are competing for limited engineering resources, the risk of poaching or high turnover remains a concern. Proactive and creative recruitment strategies, competitive compensation packages and intentional retention strategies to preserve cultural fit are ways we are ensuring these risks to delivering our growth initiatives are mitigated.

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.

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 make it difficult or impossible to deliver our products or disrupt our global material sourcing.

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

Changing legislative mandates in the countries with which we do business may result in 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 for us. HPS' global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships.

Our industry is highly competitive.

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

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

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

The Company believes that being an agile organization will hold even greater importance in 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.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements other than capital expenditure commitments disclosed in Notes to the Consolidated Financial Statements contained in our 2024 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2025, other than transactions disclosed in Note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2025 Report.

Proposed transactions

The Company had no proposed transactions as at March 29, 2025. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at March 29, 2025, the Company had outstanding foreign exchange contracts in place for 14,500 EUR and $11,000 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $22,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

The preparation of the Company's condensed consolidated interim 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 value 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 Quarter 1, 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 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 that 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 value of liabilities assumed is generally based on discounted cash flow models which involves the use of market-based discount rates. The development of cash flow forecasts involves 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 29, 2025, 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

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 National Association of Equipment Distributors ("NAED") channel;
  - Offering competitive products, including an expanding product quality offering;
  - Providing unparalleled service to our customers; and
  - Growing through strategic acquisitions.
- Achieving Operational and Financial Excellence by:
  - Driving continuous improvement;
  - Improving efficiency by investing in equipment, people and technology; and
  - Optimizing the efficiency of our global manufacturing footprint.
- Developing our People and Culture by:
  - Building our leadership team for the future;
  - Developing our people to 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 breath of solutions that HPS offers, including power quality solutions.

With a focus on growth and advancement, HPS intends to spend approximately $80,000 on capital expansion projects over 2023 through 2025, of which approximately $53,000 has been spent to date. Included in this program was $20,000 announced in August 2024 that will be focused on increasing its planned capital program over two years to build 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 Quarter 1, 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 Industries 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 has begun and will continue throughout 2025.

Early in Quarter 2, 2024 HPS was Certified by Great Place to Work™ at all Canada, U.S. and India 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. HPS is preparing to begin the recertification process in early Quarter 2, 2025.

The Company has provided shareholders with strong earnings per share, solid cash generation and quarterly dividends paid with an attractive yield. To continue this trend HPS is focused on sales development, continued 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.

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.

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)

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to and including the First Quarter of 2025. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

Annual Information	2020	2021	2022	2023	**2024**
Sales	322,097	380,202	558,464	710,064	**788,340**
Earnings from operations	22,041	23,151	59,441	86,721	**98,760**
EBITDA	29,482	30,114	69,746	95,995	**112,873**
Net (loss) earnings	14,062	15,176	44,828	63,399	**71,531**
Total assets	189,394	235,099	302,673	408,343	**493,141**
Non-current liabilities	8,329	7,104	8,101	12,500	**17,620**
Total liabilities	75,478	109,097	125,779	177,965	**185,104**
Total shareholders' equity attributable to equity holders of the Company	113,916	126,002	176,894	230,378	**308,037**
Operating debt, net of cash	(1,278)	1,638	21,972	34,120	**21,102**
Cash provided by operations	19,683	20,447	37,013	44,108	**64,751**
Basic (loss) earnings per share	1.20	1.29	3.79	5.33	**6.01**
Diluted (loss) earnings per share	1.20	1.28	3.77	5.33	**6.01**
Dividends declared and paid	3,993	4,009	4,556	6,548	**11,607**
Average exchange rate (USD$=CAD$)	1.343	1.253	1.301	1.350	**1.369**
Book value per share	9.70	10.69	15.00	19.54	**25.87**

		2023			**2024**			**2025**
Quarterly Information	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Sales	172,451	179,521	186,958	190,680	197,212	191,972	208,476	201,403
Earnings from operations	18,957	20,480	24,661	10,299	35,090	23,665	29,706	37,447
EBITDA	21,444	23,657	26,749	14,999	36,711	27,229	33,934	40,697
Net earnings	13,333	14,437	19,903	7,952	23,590	16,311	23,678	26,222
Total assets	339,358	373,761	408,343	422,778	431,532	454,285	493,141	510,406
Non-current liabilities	9,800	8,373	12,500	11,893	11,066	15,226	17,620	16,390
Total liabilities	138,863	155,952	177,965	184,440	168,513	183,115	185,104	181,581
Total shareholders' equity attributable to equity holders of the Company	200,495	217,809	230,378	238,338	263,019	271,170	308,037	328,825
Operating cash	11,717	22,130	34,120	30,893	34,871	32,913	21,102	4,840
Cash (used in) provided by operations	12,295	22,159	21,053	6,285	18,656	17,397	22,413	(3,008)
Basic earnings per share	1.12	1.21	1.68	0.67	1.98	1.37	1.99	2.20
Diluted earnings per share	1.12	1.21	1.68	0.67	1.98	1.37	1.99	2.20
Dividends declared and paid	1,488	1,787	1,785	1,786	3,276	3,271	3,274	3,274
Average exchange rate (USD$=CAD$)	1.345	1.340	1.365	1.348	1.368	1.368	1.396	1.436
Book value per share	17.01	18.47	19.54	20.02	22.09	22.78	25.87	27.62

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of dollars)

	As at	
	March 29, 2025	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	$ 32,839	$ 34,085
Accounts receivable	147,988	140,400
Inventories	154,836	143,276
Income taxes receivable	1,520	5,274
Prepaid expenses and other assets (note 4)	10,130	10,692
Total current assets	347,313	333,727
Non-current assets		
Property, plant and equipment (note 5)	114,437	110,323
Investments (note 6)	5,394	5,390
Deferred tax assets	13,982	13,967
Intangible assets	13,310	13,730
Goodwill	15,970	16,004
Total non-current assets	163,093	159,414
Total assets	$ 510,406	$ 493,141
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 27,999	$ 12,983
Accounts payable and accrued liabilities	115,620	134,919
Deferred revenue	4,100	4,277
Income taxes payable	8,509	6,054
Provisions	2,936	3,168
Current portion of lease liabilities (note 7)	6,027	6,083
Total current liabilities	165,191	$ 167,484
Non-current liabilities		
Provisions	454	454
Deferred tax liabilities	2	2
Long-term portion of lease liabilities (note 7)	15,934	17,164
Total non-current liabilities	16,390	17,620
Total liabilities	$ 181,581	$ 185,104
Shareholders' Equity		
Share capital	15,761	15,761
Contributed surplus	2,289	2,289
Accumulated other comprehensive income (note 9)	24,205	26,365
Retained earnings	286,570	263,622
Total shareholders' equity	$ 328,825	$ 308,037
Total liabilities and shareholders' equity	$ 510,406	$ 493,141

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Operations

(unaudited) (in thousands of dollars, except per share amounts)

	Three Months Ending	
	March 29, 2025	March 30, 2024
Sales (note 10)	$ 201,403	$ 190,680
Cost of sales	137,891	130,175
Gross margin	63,512	60,505
Selling and distribution	22,320	21,067
Other general and administrative	14,601	12,468
Share based compensation	(10,856)	16,671
Total general and administrative	3,745	29,139
	26,065	50,206
Earnings from operations	$ 37,447	$ 10,299
Finance and other costs		
Interest expense	431	217
Foreign exchange loss (gain)	1,075	(698)
Other	33	33
Net finance and other costs (income)	1,539	(448)
Earnings before income taxes	35,908	10,747
Income tax expense	9,686	2,795
Net earnings	$ 26,222	$ 7,952
Earnings per share		
Basic earnings per share	$ 2.20	$ 0.67
Diluted earnings per share	$ 2.20	$ 0.67

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of dollars)

	Three Months Ending	
	March 29, 2025	March 30, 2024
Net earnings	$ 26,222	$ 7,952
Other comprehensive income (loss)		
Foreign currency translation differences for foreign operations (note 9)	(2,160)	5,070
Total comprehensive income for the period	$ 24,062	$ 13,022

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the three months ended March 29, 2025

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2025	$ 15,761	$ 2,289	$ 26,365	$ 263,622	$ 308,037
Total comprehensive income for the period					
Net earnings	–	–		26,222	26,222
Other comprehensive income (loss)					
Foreign currency translation differences (note 9)	–	–	(2,160)	–	(2,160)
Total other comprehensive income (loss)	–	–	(2,160)	–	(2,160)
Total comprehensive income (loss) for the period	–	–	(2,160)	26,222	24,062
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(3,274)	(3,274)
Total transactions with shareholders	–	–	–	(3,274)	(3,274)
Balance at March 29, 2025	$ 15,761	$ 2,289	$ 24,205	$ 286,570	$ 328,825

*AOCI – Accumulated other comprehensive income
See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the three months ended March 30, 2024

	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 earnings	–	–	–	7,952	7,952
Other comprehensive income					
Foreign currency translation differences (note 9)	–	–	5,070	–	5,070
Total other comprehensive income	–	–	5,070	–	5,070
Total comprehensive income for the period	–	–	5,070	7,952	13,022
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(5,062)	(5,062)
Total transactions with shareholders	–	–	–	(5,062)	(5,062)
Balance at March 30, 2024	$ 15,761	$ 2,289	$ 13,700	$ 206,588	$ 238,338

*AOCI – Accumulated other comprehensive income
See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Cash Flows

(unaudited) (in thousands of dollars)

	Three Months Ending	
	March 29, 2025	March 30, 2024
Cash flows from operating activities		
Net earnings	$ 26,222	$ 7,952
Adjustments for:		
Depreciation of property, plant and equipment	4,013	3,763
Amortization of intangible assets	345	272
Provisions	254	(571)
Interest expense	431	217
Income tax expense	9,686	2,795
Share-based compensation expense	(10,856)	16,671
Change in unrealized loss (gain) on derivatives included within other assets	724	(733)
	30,819	30,366
Change in non-cash working capital (note 12)	(30,351)	(16,310)
Cash generated from operating activities	468	14,056
Income tax paid	(3,476)	(7,771)
Net cash (used in) generated by operating activities	(3,008)	6,285
Cash flows from investing activities		
Repayment of lease receivable payment	–	1,545
Investment (note 6)	–	(1,300)
Acquisition of intangible assets	–	(2)
Acquisition of property, plant and equipment (note 5)	(7,922)	(7,487)
Cash used in investing activities	(7,922)	(7,244)
Cash flows from financing activities		
Net advances of bank operating lines of credit	15,016	4,510
Payment of lease liabilities (note 7)	(1,709)	(1,585)
Cash dividends paid (note 8)	(3,274)	(1,786)
Interest paid	(203)	(6)
Cash generated by financing activities	9,830	1,133
Foreign exchange on cash held in a foreign currency	(146)	1,109
(Decrease) increase in cash	(1,246)	1,283
Cash and cash equivalents at beginning of period	34,085	52,591
Cash and cash equivalents at end of period	$ 32,839	$ 53,874

See accompanying notes to condensed consolidated interim 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 Condensed Consolidated Interim Financial Statements of the Company as at and for the first quarter ended March 29, 2025 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 condensed consolidated interim financial statements have been prepared in accordance with requirements of IAS 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 1, 2025.

b) Use of estimates and judgements

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

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2024.

Three months ended March 29, 2025 and March 30, 2024 (tabular amounts in thousands of dollars except share and per share amounts)

3. Summary of significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2024 annual audited financial statements, which are available on SEDAR+'s website at www.sedarplus.ca. The significant accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2024, with the exception of items noted below:

Changes to accounting policies

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.

4. Prepaid expenses and other assets

	March 29, 2025	December 31, 2024
Prepaid expenses	$ 10,130	$ 9,245
Derivative asset	–	1,447
	$ 10,130	$ 10,692

5. 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:

	March 29, 2025	December 31, 2024
Property, plant and equipment owned	$ 95,887	$ 90,765
Right-of-use assets	18,550	19,558
	$ 114,437	$ 110,323

The Group had acquisitions of property, plant and equipment owned for the three months ended March 29, 2025, in the amount of $7,922,000 – $675,000 of buildings, $4,265,000 of machinery and equipment, $2,488,000 of leasehold improvements and $494,000 of computer equipment (2024 – $7,487,000 - $853,000 of buildings, $4,580,000 of machinery and equipment, $1,429,000 of leasehold improvements and $625,000 of computer equipment).

Three months ended March 29, 2025 and March 30, 2024 (tabular amounts in thousands of dollars except share and per share amounts)

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		Total
Balance at January 1, 2025	$	18,793	$	765	$	19,558
Additions		–		89		89
Depreciation		(1,269)		(99)		(1,368)
Disposals		–		–		–
Effect of movements in exchange rates		263		8		271
Balance at March 29, 2025	$	17,787	$	763	$	18,550

6. Investments

		March 29, 2025		December 31, 2024
Investment in properties	$	2,794	$	2,790
Investment in convertible debentures		2,600		2,600
	$	5,394	$	5,390

i) Investment in properties

The Group has a 50% ownership interest in a property in Georgetown, Ontario. The property is carried at cost of $1,044,000. The estimated fair value of the property as at March 29, 2025 is $1,150,000. The fair value was determined based on independent available market evidence, with reference to comparable market transactions.

The Group owns a property in Marnate, Italy. The property is carried at cost of $3,955,000 less accumulated depreciation of $2,205,000. The estimated fair value of the property as at March 29, 2025 is 2,130,000 Euros (approximately $3,302,000). The fair value was determined based on independent available market evidence, based on comparable property sales, by an independent valuator.

ii) Investment in convertible debentures

On March 22, 2024, HPS entered into a financing agreement with SmartD Technologies Inc. ("SmartD"). In the agreement, the Corporation can invest up to $3,900,000 over three years in convertible debentures of SmartD. SmartD Technologies produces advanced motor control products, most notably it's Clean Power Variable Frequency Drive™. SmartD's products combine motor drives with harmonic mitigating technology that help businesses save energy, lower costs and minimize their carbon footprint.

As of March 29, 2025 the investment of $2,600,000 is included in Level 3 of the fair value hierarchy, measured at fair value through profit and loss. As of March 29, 2025 nil had been recorded through profit and 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.

Three months ended March 29, 2025 and March 30, 2024 (tabular amounts in thousands of dollars except share and per share amounts)

7. Lease and other long-term liabilities

	March 29, 2025	December 31, 2024
Lease liabilities	$ 21,116	$ 22,402
Contingent consideration	845	845
	21,961	$ 23,247
Current	6,027	6,083
Non-Current	$ 15,934	$ 17,164

Right of use liability maturity analysis – contractual undiscounted cash flows	March 29, 2025	December 31, 2024
Less than one year	$ 6,212	$ 5,879
One to five years	16,056	16,295
More than five years	2,386	3,464
Total undiscounted lease liabilities	$ 24,654	$ 25,638
Less: effect of discounting and foreign exchange	$ (3,538)	$ (3,236)
Lease liabilities included in the statement of financial position	$ 21,116	$ 22,402
Current	$ 5,182	$ 5,238
Non-current	$ 15,934	$ 17,164

	Three Months Ending	
Amounts recognized in statement of operations	March 29, 2025	March 30, 2024
Interest on lease liabilities	$ 228	$ 211

	Three Months Ending	
Amounts recognized in statement of cash flows	March 29, 2025	March 30, 2024
Payment of lease liabilities	$ 1,709	$ 1,585

8. Share capital

a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending	
	March 29, 2025	March 30, 2024
27.5 cents per Class A common share (2024: 42.5 cents)	$ 2,510	$ 3,881
27.5 cents per Class B common share (2024: 42.5 cents)	764	1,181
	$ 3,274	$ 5,062

On March 27, 2024 the Company declared the Quarter 2 dividend of twenty-seven and a half cents ($0.275). The liability of $3,276,000 was included in accounts payable and accrued liabilities at the end of March 30, 2024. The Quarter 2, 2025 dividend was not declared as of the end of the quarter.

Three months ended March 29, 2025 and March 30, 2024 (tabular amounts in thousands of dollars except share and per share amounts)

b) 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.

The movement in DSUs for the three months ended March 29, 2025 and March 30, 2024 was as follows:

	Number of DSUs	Closing Share Price
Balance at January 1, 2024	168,135	$ 81.70
DSUs issued	1,335	115.80
Balance at March 30, 2024	169,470	$ 144.00

	Number of DSUs	Closing Share Price
Balance at January 1, 2025	174,517	$ 128.04
DSUs issued	5,648	81.56
DSUs settled	(44,309)	84.56
Balance at March 29, 2025	135,856	$ 79.45

A gain of $7,805,000 (Quarter 1, 2024 – an expense of $10,837,000) for the quarter was recorded in general and administrative expenses. The liability of $10,794,000 (December 31, 2024 - $22,345,000) related to these DSUs is included in accounts payable and accrued liabilities.

c) Long Term Incentive Plan

The Long Term Incentive Plan ("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").

The movement in PSUs and RSUs for the three months ended March 29, 2025 and March 30, 2024 was as follows:

	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	
Issued Balance at March 30, 2024	73,471	48,981	122,452	$ 144.00

	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	5,603	2,605	8,208	
Units settled	–	–	–	
Vested Balance at March 30, 2024	71,946	33,144	105,090	$ 144.00

Three months ended March 29, 2025 and March 30, 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 March 29, 2025	42,491	28,326	70,817	$ 79.45

	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	5,426	–	5,426	
Units settled	(25,543)	(11,352)	(36,895)	
Vested Balance at March 29, 2025	29,344	11,092	40,436	$ 79.45

A gain of $3,051,000 for the three months ended March 29, 2025 (three months ended March 30, 2024 – expense of $5,834,000) was recorded in general and administrative expenses. The liability of $3,385,000 (December 31, 2024 - $9,785,000) related to these PSUs and RSUs is included in accounts payable and accrued liabilities.

9. 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 three months ended March 29, 2025 was $2,160,000 (Quarter 1, 2024 – income of $5,070,000), of which $2,160,000 (Quarter 1, 2024 – $5,070,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at March 29, 2025 of accumulated other comprehensive income of $24,205,000 (March 30, 2024 – $13,700,000).

10. Sales

	Three Months Ending	
	March 29, 2025	March 30, 2024
United States and Mexico	$ 140,906	$ 130,732
Canada	51,635	48,296
India	8,862	11,652
	$ 201,403	$ 190,680

As at March 29, 2025 the Company had contract liabilities of $4,100,000 (December 31, 2024 – $4,277,000).

Three months ended March 29, 2025 and March 30, 2024 (tabular amounts in thousands of dollars except share and per share amounts)

11. Related party transactions

Related parties

William G. Hammond, Chair of the Board, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 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 (December 31, 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, Chair of the Board, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $881,000 (Quarter 1, 2024 – $555,000).

12. Change in non-cash operating working capital

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

	Three Months Ending	
	March 29, 2025	March 30, 2024
Accounts receivable	$ (7,588)	$ (8,282)
Inventories	(11,560)	509
Prepaid expenses	(885)	2,030
Accounts payable and accrued liabilities	(9,167)	(16,170)
Deferred revenue	(177)	2,839
Provisions	(486)	–
Settlement of derivatives	1,447	–
Foreign exchange	(1,935)	2,764
	$ (30,351)	$ (16,310)

HPS Global Offices

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Transfer Agent and Registrar

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Investor Relations

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Stock Exchange Listing

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

Corporate Officers and Directors

Officers

Catherine McKeown
Chief People Officer

Adrian Thomas
Chief Executive Officer
& Director

Richard Vollering
Chief Financial Officer
& Corporate Secretary

John Bailey
Chief Operations Officer

Paul Gaynor
Chief Information Officer

David Kinsella
Chief Commercial Officer

Directors

William G. Hammond
Chair of the Board

Dahra Granovsky
Human Resources &
Compensation Member

Christopher R. Huether
Governance Member

Frederick M. Jaques
Governance Chair

Anne Marie Turnbull
Human Resources &
Compensation Chair

David Wood
Audit Chair

hammond
POWER SOLUTIONS

THOSE WHO LOOK ONLY TO THE PAST OR THE PRESENT
ARE CERTAIN TO MISS THE FUTURE.