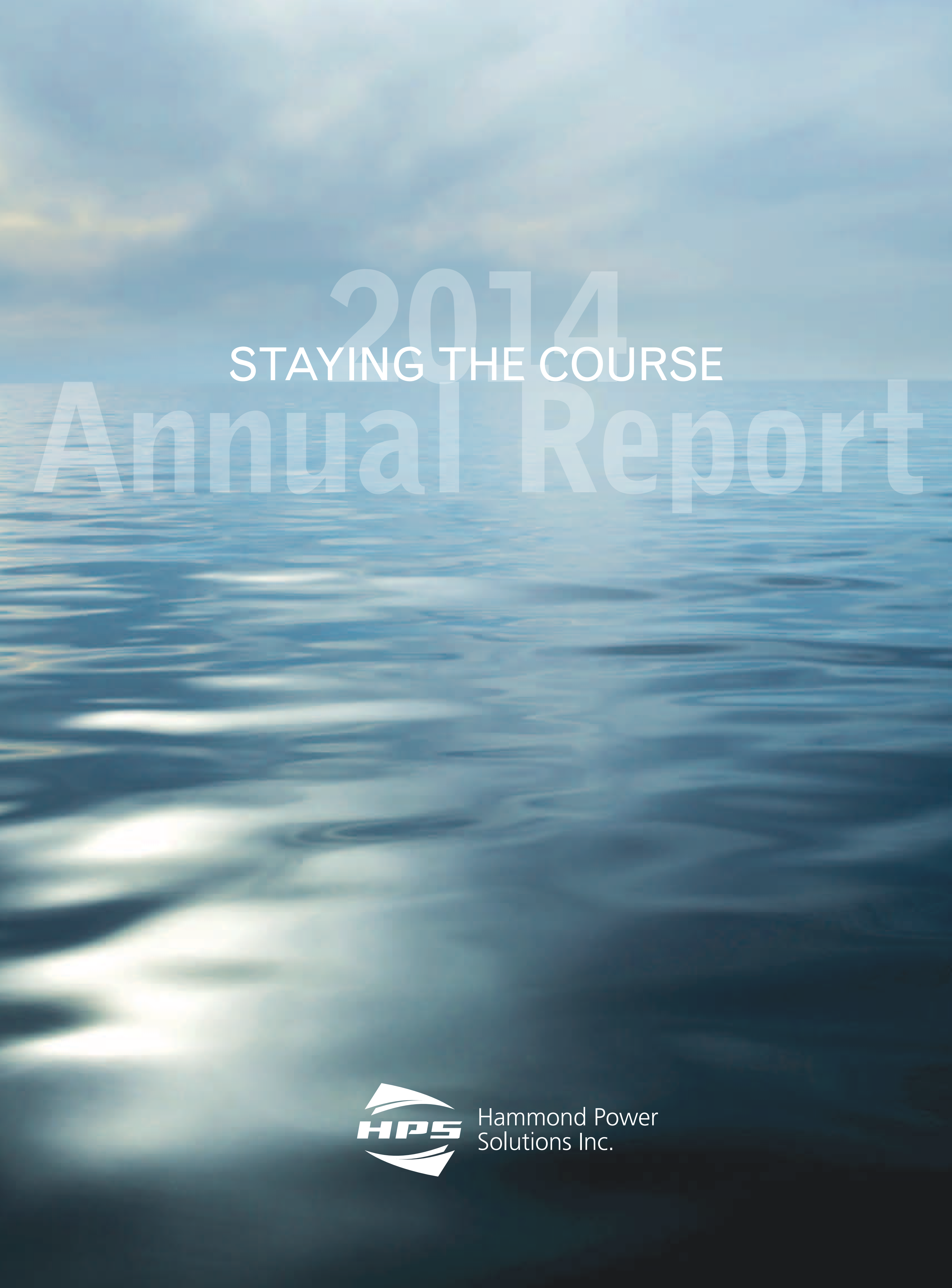
2014 Annual Report

STAYING THE COURSE



Hammond Power Solutions Inc.

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ANNUAL GENERAL AND SPECIAL MEETING

Shareholders are cordially invited to attend
the Annual General Meeting held:
Thursday, May 21, 2015 at 1:00pm (EST)

Cutten Fields
(The Cutten Room)
190 College East,
Guelph, Ontario
N1G 3B9

WE CANNOT CONTROL THE WIND, BUT WE CAN ADJUST OUR SAILS

For nearly a century, Hammond Power Solutions Inc. has been an innovative global leader in the dry-type magnetics industry.

HPS is here to stay.

Despite economic pressures, weather and changing political environments, HPS has continued to weather market fluctuations and proven year-over-year to be a strong, and solid company.
We maintain continued growth by adjusting our sails, and staying the course.


TURBULANCE
IS OPPORTUNITY.
WE EMBRACE IT
AND USE IT FOR CHANGE.

2014 IN REVIEW

2014 was certainly a turbulent year for many. To us, turbulence gives us the opportunity to examine our business and adjust our sails. We are confident that the business fundamentals that we have developed will continue to sustain and grow HPS in the near future and over the long-term. We continue to be prudent but not complacent, conservative but progressive. We will continue to be unwavering in our pursuit of improving productivity gains, cost reduction, sales growth from new product development, geographic diversification, capacity flexibility and escalation of market share.

We continue to be an industry leader, remain financially and operationally strong, able to navigate through the enduring economic turbulence and confident in our vision of the future.

NEW LINE OF CAST RESIN TRANSFORMERS

The **HPS EnduraCoil™** was designed and constructed to maximize the transformer's performance in harsh environments. A complement to HPS' VPI offerings, these cast resin transformers are CSA Certified and suitable for the most challenging commercial and industrial applications, generally found in data centers, marine, petrochemical and pulp and paper industries.

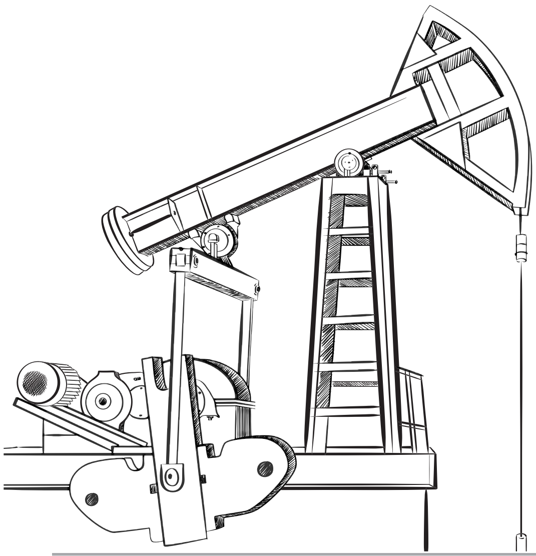
DATA BUSINESS CONTINUES TO GROW

A large portion of new business for 2014, came through the **Internet Data Center** world. A large number of new installations in both the U.S. and Canada drove demand for our specialty products in both power and distribution.

In 2014, three of our largest markets – mining equipment, drive systems, and the Canadian project business, experienced little growth from the significant declines which these markets experienced in 2013. For a variety of reasons, including severe winter weather as well as a slowing global economy, these markets did not begin to get traction until the last quarter of 2014. It is that traction that we are using to leverage for a positive start to 2015.

Despite the outcome of 2014, HPS was able to gain some sales traction in the following growth areas. Diversification is key to growth. By becoming involved in a variety of industries large or small, we are able to fill in the gaps, maintaining growth, even through tough times.

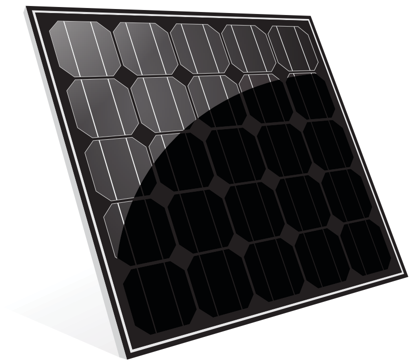
U.S. ENERGY INDUSTRY GROWTH



The ability and range of scope of HPS products continue to service the needs of the **U.S. energy business**. This industry increase has had a direct impact on both OEM and distributor business in 2014.

Our ability to not only service the oil and gas rigs, but also the infrastructure that supports this industry with our potted and control transformers, makes this a growth area for HPS.

SOLAR BUSINESS IS GLOBAL

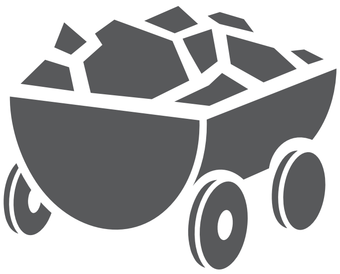


HPS harnessed the efforts of our global abilities to provide Cast Coil transformers for both the **Canadian and U.S. solar markets**. The Solar Energy Industries Association (SEIA) reported Quarter 3, 2014 to be one of the largest quarters ever for solar installations in the U.S. with capacity topping the gigawatt mark. This represents an approximate 41% growth over 2013. Cumulative solar electric capacity operating in the U.S. generates power to more than 3.5 million average American homes.

Source: SEIA.org

Due to our strong commitment to our industry, our employees and our shareholders, HPS continues to stay buoyant and stay the course. Our unique approach has made us an industry leader and ahead of the rest charting our own course for the future.

NEW GROWING PROCESS IN RECOVERY



Our **power transformers** are an important part of the process of powering large ovens and magnets that extract the filings from old mines and factories. These mines were long ago abandoned, but through this new process developed by a growing U.S. joint venture company, these sites are able to be further developed to recover high-quality iron ore concentrate used in the production of steel.

HUGE POWER, POWERING HUGE FUN

From waterparks to skydiving simulation, HPS transformers are the number one choice to power fun. HPS provided transformers to a number of recreational water parks that power huge pumps to make waves or to push water up massive waterslides.


AFTER A STORM,
COMES A CALM.

2015 THE YEAR AHEAD

There is a certain type of calm that happens directly after a storm – a quiet time after a great upheaval. During this time of reflection we are able to focus on the future and the great opportunities that exist to continue the steady growth that we have experienced for almost a century. We have and will continue to persist through our challenges and trust that our course will lead us to new opportunity.

2015 holds promise for Hammond Power Solutions. New opportunities have presented themselves which offer continued growth and diversity – a solid future for HPS.

U.S. DEPARTMENT OF ENERGY EFFICIENCY STANDARDS

The U.S. Department of Energy (DOE) recently amended the current energy conservation standards for distribution transformers. The new standard is expected to reduce energy losses in low-voltage dry-type distribution transformers by an average of 18%, according to the DOE (www1.eere.energy.gov). These standards will come into effect **January 1, 2016**, and the DOE projects savings up to $12.9 billion in total costs to consumers and 3.63 quadrillion Btu of energy over a 30 year period.

HPS supports this change and the environmental benefits society will receive. **HPS will be in a position to support the migration to the new higher-efficiency designs that is anticipated to begin the latter half of 2015.**

JOINT VENTURE

On **October 23, 2014**, HPS entered into a joint venture agreement with National Material L.P. ("NMLP") to manufacture transformer cores for the electrical transformer industry under the new company name of Corefficient S. de R.L. de C.V. ("Corefficient").

HPS will share financial and technological resources with the intent to construct and operate a world-class core manufacturing facility which is expected to be operational by Quarter 4, 2015.

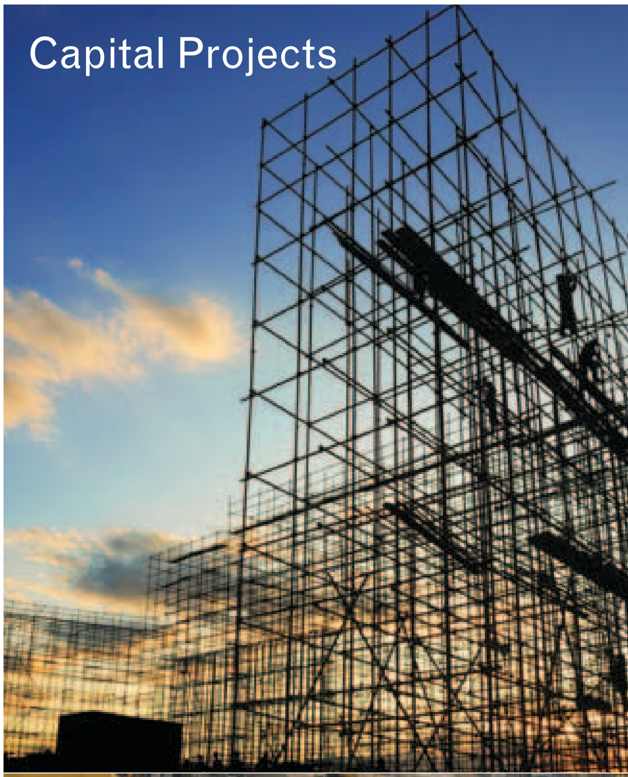
By building on the strengths of both companies, HPS is confident that this venture will enhance our performance going forward.

DIVERSITY GIVES US THE CONFIDENCE TO FACE NEW CHALLENGES

When you make diversity a part of strategy, it gives you the ability and the strength to overcome the toughest challenges. It is an enabler of high quality decision-making.

HPS continues to expand in the markets that have served us well, in addition to making progress within new ones.

Our diversity allows us to be more innovative and that leads to greater success.



Cast Resin Transformers supply Canadian solar market applications.

Dry-Type transformers utilized in a working medical environment.

Support for the growing U.S. Oil and Gas Industry.

New business growth from the Internet Data centre world.

CAST RESIN

Cast Coil transformers are engineered to handle unusually high impact and short circuit loads.

CONTROL

DRIVE ISOLATION

PRODUCT STRENGTH

DISTRIBUTION

Distribution transformers account for more than 50% of HPS sales. These transformers step down higher voltage levels on the utility grid down to lower voltage levels that power lights, equipment and other systems used in commercial, institutional and industrial buildings.

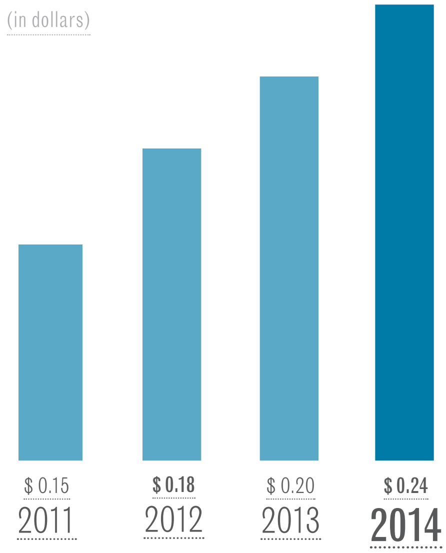
POWER

HPS manufactures transformers to withstand some of the harshest outdoor environments. HPS power transformers can be found on one of the largest and deepest oil-drilling platforms of its kind in the world. Power transformers are cost effective and dependable solutions for indoor commercial, as well as industrial and manufacturing processes.

SHOVEL DUTY

OIL-FILLED

Oil-filled transformers primarily use mineral-based oil and are manufactured at HPS India.



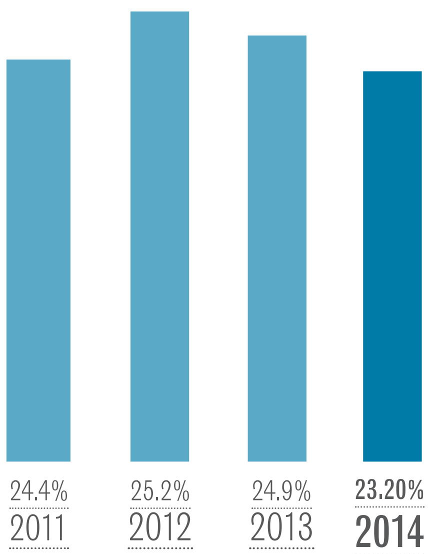
Dividend Per Share

$0.24

Book Value Per Share

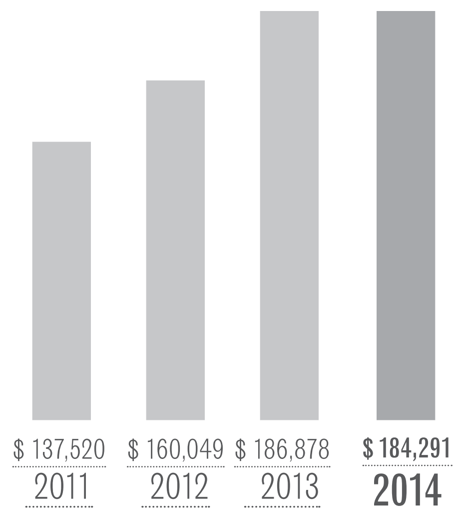
(Excludes non-controlling interests)

$9.60



Gross Margin%

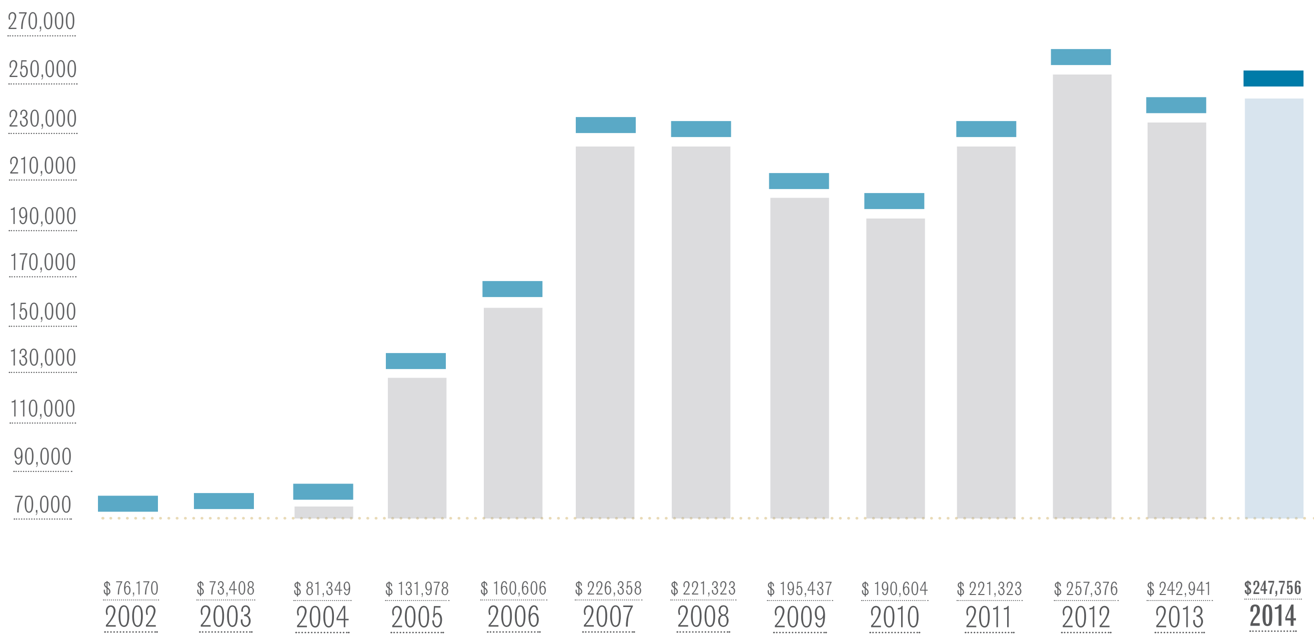
23.2%



Total Assets

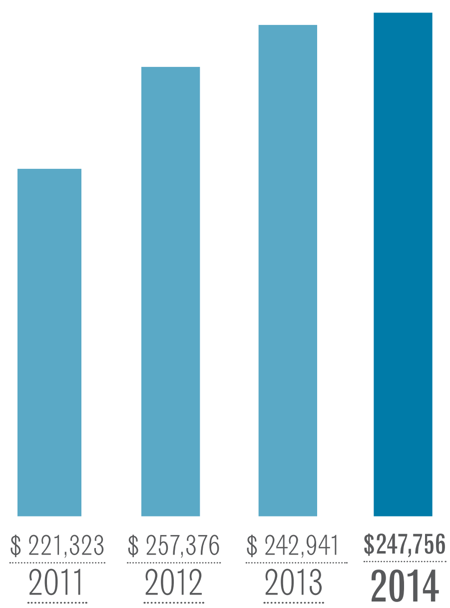
(in thousands of dollars)

$184,291



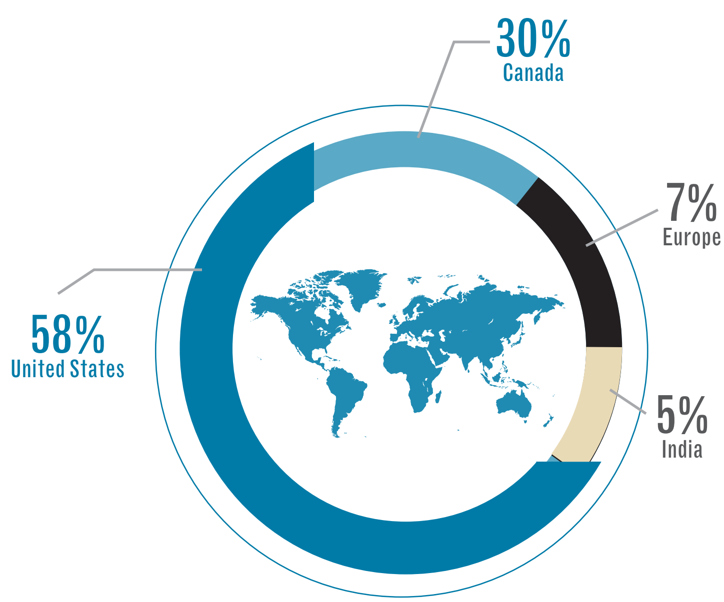
Consolidated Sales

(in thousands of dollars)



Annual Sales

(in thousands of dollars)



Sales Geographic Footprint

$247,756

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

Fellow Shareholder,

There are those who suggest you should bypass the letter to shareholders as they tend to be nothing more than a friendly discussion highlighting the positives of a company and perhaps rationalizing its less than favourable results. I believe that this letter is a way of communicating our annual recap as well as our future focus.

I firmly believe in the long-term capabilities and success of Hammond Power Solutions Inc., ("HPS" or "the Company") and I consider it important to present those positives while never avoiding communicating the disappointments that have occurred as well. As one of the largest shareholders of HPS, I too am substantially impacted, professionally and personally by what transpires within our Company.

2014 for HPS was the second consecutive year that proved to be more challenging than expected. Three of our largest markets – mining equipment, drive systems, and the Canadian project business, experienced little growth from the significant declines which these markets experienced in 2013. We had expected our U.S. business to improve over the course of the year, but for a variety of reasons, including severe winter weather as well as a slowing global economy, these markets did not begin to get traction until the last quarter of 2014.

Forecasted improvements in the North American economy did not materialize and due to the unpredictability, we did not reduce our cost structures early enough in 2014. We did however reduce expenses and employee levels in the final months of the year which will positively impact our financial results going forward.

The surprising, rapid decline in the Canadian dollar also created challenges for us toward the fourth quarter of the year. Although a lower Canadian dollar is overall a positive for HPS, the unpredicted significant drop in such a short period of time, resulted in a higher foreign exchange loss for the year.

On the positive side, we continued to expand our penetration of the U.S. distributor channel and commercial market, even in the slow economic conditions that persisted through the year. Our sales in both Europe and India increased over 2013 as we implemented strategies to expand our market coverage and become more aggressive.

2014 was a very busy year in terms of working on several large multi-year strategic projects, which have absorbed considerable resources, capital and expenses. The largest is the redesign of a significant number of our transformers to meet new energy efficiency laws in the U.S., which become effective in January of 2016. An offshoot of this has been the announced joint venture with NMLP to create a new company "Corefficient" which will build transformer cores to be sold to other transformer companies in the U.S. and Mexico, as well as to provide the internal needs of HPS. These proactive investments will make HPS one of the best prepared companies in the North American transformer industry and better able to respond to the opportunities created by the new energy efficiency legislation.

HPS is developing and seeking approval for a North American line of cast transformers. The project was nearing completion and final industry approval at the end of 2014 and will launch in 2015 allowing us to increase our sales in a variety of applications, including data centres, alternative energy, liquified nature gas ("LNG") projects, as well as marine and mining.

We are cautiously optimistic about our ability to grow sales and profits in the upcoming year. We began 2015 with our consolidated backlog more than 10% higher from the beginning of the fourth quarter of 2014. We have seen a lift in booking activities and booking rates from our Original Equipment Manufacturers ("OEM") and commercial project markets. Momentum from our distributor channel in both Canada and the U.S. is beginning to build as the first quarter of 2015 comes to end. Quotation activity and bookings are also increasing in India as they enter into the busiest part of the year. Despite this positive backdrop, we are mindful of the economic and geo-political uncertainties that are battering parts of the world at the current time. Like other manufacturers, we have also seen a slowdown in spending and projects related to the oil and gas sector in parts of Canada and the U.S.

In late 2014, we reorganized our management structure in order to give HPS more depth and experience to support the execution of our planned growth strategies. In February of 2015 we hired our first COO who has broad global and lean manufacturing experience, and will be responsible for all aspects of manufacturing, engineering, supply chain and quality for all of our operations globally. This realignment allows me to commit more time to strategic projects and focus on increasing our global growth rate going forward.

In closing, we acknowledge we did not generate the level of financial results in 2014 that we were committed to. We strongly believe that this was related more to the prolonged and unexpected slowdown of the global economy as a whole with a number of specific markets in particular, than due to the Company's capabilities and/or the execution of our strategies. We all want HPS to be successful – to see a rising share price, and that is what we are working diligently to do.

WGH

COMMITTED TO DELIVERING ESCALATING IMPROVEMENT IN OUR FINANCIAL RESULTS.

"Looking beyond 2015, I believe as a result of extensive engineering and manufacturing efforts to grow our sales following the implementation of the new U.S. DOE standards in 2016 that we are very well positioned. I also believe that our new joint venture with NMLP in building assembled transformer cores will become a growing and profitable new business for HPS in the years ahead."

Our Mission

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

HPS has been working earnestly to adjust to the realities of the new global economic environment over the last three years. Even though the "Great Recession" as it's been officially coined ended in 2009, the reality is that we and many other electrical manufacturers are navigating through seismic shifts in our markets and the macroeconomic changes that drive our businesses.

During the growth cycle of the last decade, the world was being driven by the consumer-spending engine of the U.S. and by the emerging economies of Brazil, Russia, India and China "BRIC" in particular. All of this fuelled an unparalleled boom in the consumption and prices for commodities as well as a boom in manufactured exports to the developing world as countries like China invested heavily in new public and industrial infrastructure. Experts predicted that this new global economic expansion was going to continue into the new decade. As a result, companies in a variety of industries increased their capacity all over the world to accommodate this ongoing growth – steel mills, cement factories, metal and mineral mining, housing, commercial construction and all of the companies that made equipment or systems that were used in all of these applications and more.

This economic nirvana came crashing down first in North America and Europe in 2008. The BRIC nations soldiered on for a few more years until the lack of demand in the developed world pulled their growth rates down significantly. By 2012, all of the global engines of growth that had propelled HPS and most other manufacturers around the world had slowed considerably. This left many industries and companies with too much production capacity, whether it was to make things like steel, cars, and appliances, or to mine raw materials like coal, copper, and iron ore. Consequently for a variety of reasons this recovery has been the longest and most tepid of any since the Second World War.

HPS was bruised by the decline in the North American economy in 2008 and 2009, but the impact was limited due to the diverse and broad markets, channels, and geography that we served. At that time when the U.S. seemed in so much financial and debt trouble, we decided to expand overseas not only to broaden our diversity across what was still a growing global economy, but to also acquire new technology and product capabilities. These strategies led to our acquisitions in Europe and India. Shortly afterwards, the rest of the developing world began to slow down unexpectedly which in turn affected North American exporters of mining equipment as well as other machinery and systems. Cut backs in government spending curtailed institutional and infrastructure projects; another important market for HPS in North America. Predictions of economic growth over the last two years, have frustratingly never materialized and this economic stagnation has fuelled a prolonged, highly competitive environment.

This brings us to where we are today. In North America HPS has continued to expand penetration of the U.S. distributor channel and with that, coverage across all of the markets and regions of that country. Presence in the U.S. commercial construction market has been expanded. In both situations we have increased our market share while waiting for the U.S. economy to improve. We have been negatively impacted in Canada, by the spending decline in the resource sector as well as the drop in government funded institutional projects. Yet we have been able to hold on to both market share and marketing margins as the dominant player in the transformer market.

At the same time, we have invested considerable resources, capital, and spending on a number of large long-term strategic projects without yet seeing the financial benefits of these efforts. During 2012 and 2013, we expanded our power transformer designs and plant capabilities to increase our penetration of the U.S. commercial market. This strategy began generating new business for us in 2014 and is expected to be a strong contributor of growth in the years ahead.

Shortly after the acquisition of Marnate Trasformatori in 2012 ("Marnate"), we began to develop our own line of cast transformers for the North American market. The Underwriter Laboratories ("UL") electrical standards for the

U.S. market and most applications in North America require that these transformers operate at higher temperature levels than the International Electro-technical Commission ("IEC") standards used elsewhere in the world. The design of our cast products must also meet the Office of State-wide Health Planning and Development ("OSHPD") regulatory approvals for applications in earthquake prone areas. Third party thermal aging trials at an outside test laboratory were carried out over an 18-month period to finally secure the required North American regulatory approvals. This new product line is in the process of being launched in stages in both the U.S. and Canada and will support HPS growth in the years ahead.

One of the most time consuming and important projects we have been working on over the last two years is the redesign of our products to meet the new U.S. Department of Energy ("DOE") standards for energy efficiency, which come into effect on January 1, 2016. Considerable time in 2014 was spent looking at and validating general design and product construction, to give us the lowest cost designs that meet these new mandatory standards. Now that the concepts are nearing completion, our Engineering group will be focusing on the 600 low voltage and medium voltage designs affected by the new regulations. All transformer manufacturers will require the use of higher grades of steel to meet the new efficiency standards. Toward that end, our marketing and sales departments are implementing our launch strategy of these new products to our distributor network and the consultant community for the January 1, 2016 effective date.

One of the creative off shoots of the DOE project is the recent formation of a new company, located in Monterrey, Mexico; Corefficient S. de R.L. de C.V. ("Corefficient"), owned jointly by HPS and NMLP which will build and sell transformer cores to the U.S. and Mexican transformer industries. Together we are investing more than $20 million in a state-of-the-art manufacturing facility with the capability of building high quality, cost effective cores that meet the new energy efficiency standards. This company also represents a new revenue and profit stream for both NMLP and HPS in 2016 and beyond.

In addition to these strategic projects, the Company has been focused on growing HPS globally through our acquisitions in Italy and India. During the last twelve months we have been working to expand our sales organizations in these locations in order to increase our core sales of cast, oil-filled, and Vacuum Pressure Impregnation ("VPI") products. We have also added rep agencies to sell our transformers in selective export markets such as Africa, the Middle East, Australia, Asia, and Latin America. During this time, we have made positive inroads into the Indian drive system OEM market, by taking advantage of our HPS experience and brand. We also believe that we can use the same strategy with OEMs in Europe to grow our sales and profits out of our Italian operations.

Furthermore, we have been developing a range of products to sell into alternative energy markets in India, intended to lead to global specifications and business in and around the world. Where possible we are sharing best practices between our North American, Italian, and Indian operations, as well as establishing corporate wide agreements with global suppliers to improve availability and reduce costs. All of this activity is intended to increase sales and improve the profitability of these companies, as both faced very volatile economic conditions during 2014.

In Europe, our expected momentum was affected by the slowing German economy and the lack of recovery in France and Italy. We also faced unexpected challenges created by an abrupt decline with sales activity in Russia, the Ukraine, and Israel due to armed conflicts affecting their economies. Business conditions in India were very slow at the beginning of the year due to the national elections, which elected a new Federal government in Quarter two of 2014. Also of significance was the splitting of Andhra Pradesh into two states; the location of our plants in India and where roughly 70% of our domestic sales have been recognized. This created a high level of business uncertainty and affected investment decisions and projects until the new government bureaucracies and tax rates were in place.

Our new Enterprise Resource Planning ("ERP") system went live in our Corporate and North American operations in August of 2013 however additional time and resources were invested in 2014 to work through a number of modifications and reporting requirements to maximize the operational effectiveness of the software. Overall, our new ERP software was implemented successfully and within budget.

In difficult times, we must make difficult yet necessary decisions such as the downsizing of our staff and expenses that occurred in 2014. Based on the forecasts of respected economists as well as our key customers, we expected a stronger level of activity and growth particularly in the U.S. When sales growth did not materialize as planned, we finally took decisive steps to reduce costs in our North American operations in the last quarter of the year. These included layoffs of both salaried and hourly employees as well as cuts to spending. In hindsight, we should have implemented these actions earlier in the year however even then experts were predicting the U.S. and Canadian economies would improve in the second half of 2014.

Looking forward to 2015, we are obviously being very cautious given the uncertainty surrounding the global economy. Overall, we are expecting the economic and market conditions to be slightly better than 2014. From a general growth perspective, the U.S. and India appear to have the most robust domestic economies for HPS. Although Europe is forecasted to be stronger than 2014, the overall GDP rate of growth

Our Vision

To be the leader in our industry by delivering:

- Lead times as defined by our customers
- A broad range of competitive products
- Quality and service excellence in all that we do
- Technical expertise
- Strong financial performance

Our Values

- We value honesty, integrity and ethical behaviour in our relationships with all stakeholders.
- We value innovation and a relentless pursuit of continuous improvement in all our processes.
- We value timely decisions based on facts and knowledge.
- We value a team-oriented approach.
- We value the personal safety of all stakeholders.
- We believe in treating all stakeholders with dignity and respect.

is expected to be marginally positive and the continuing conflict between Russia and the Ukraine continues to negatively affect the Eurozone. The Canadian economy has certainly taken a hit due to the impact of lower prices on investments in the oil sector as well as the Alberta economy as a whole. Fortunately, the lower Canadian dollar is aiding our manufacturing sector nonetheless this won't totally offset the negative impact of lower oil prices and a slower global economy on our resource sectors.

Given these rather lack-lustre economic conditions, we are focusing on those countries that have the best domestic growth rates, and continuing to increase our market penetration in order to grow sales. While looking for additional areas to reduce and control our costs, we recognize that sales growth is the key to improving our overall financial performance. We have a number of strategies in place to accomplish our goals. As the U.S. economy gradually improves, our expanded U.S. distributor network will aid in growing our industrial and commercial business. After several years of hard work, we expect strong growth in the commercial power market through our selective private branding partners. The launch of our new cast transformer line in North America in 2015 will also assist us in growing our sales both direct and through our distributor network, in markets and applications which we have not participated in until now. We are also increasing our sales in the OEM market as a result of reducing our lead times and are taking advantage of our multiple plants to give us improved flexibility.

Internationally, we expect to benefit from the eighteen months of work done on expanding our sales coverage in India to enable us to participate in business we have not had access to until now. We are also taking advantage of our experience and brand recognition to increase our OEM sales as global companies expand their manufacturing operations to serve the growing Indian market. Simultaneously, we are expanding our agent network in parts of Africa, Asia, and the Middle East in order to expand sales of transformers built in our Indian operations. We are expecting to increase our sales in Europe as a result of increasing our European Sales organization foot-print in Germany, France, Scandinavia and the United Kingdom. We do however anticipate the progress will be slow until which time the conflict with Russia eases and the European economy begins to grow.

We have a number of cost reduction programs underway that are related to expanding our lean manufacturing efforts and improving our operational effectiveness. These will be led by our new COO, a position added in early 2015 to give us better focus and coordination of all manufacturing-related activities across our global operations. We also have projects focused on reducing expenses such as freight and other selling costs. The key to our success in 2015 will be in growing our sales while controlling our expenses.

Looking beyond 2015, I believe as a result of extensive engineering and manufacturing efforts to grow our sales following the implementation of the new U.S. DOE standards in 2016 that we are very well positioned. I also believe that our new joint venture with NMLP in building assembled transformer cores will become a growing and profitable new business for HPS in the years ahead.

After seven years of a very slow and uncertain global economic recovery we recognize that there are many things beyond our control. We are also aware that Hammond Power Solutions has many advantages relative to our competition that will present opportunities for growth in these challenging times; our broad product capabilities, brand recognition, reputation for quality, diversified markets and channels, and now a growing global footprint.

We are cautiously optimistic about our growth going forward which is supported by our growing bookings and backlog, and continue to expand our penetration of the geographies and diverse markets that we serve. We are confident that our financial strength, core competencies and long term strategies will accelerate our growth as markets start to improve.

2014 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the years ended December 31, 2014 and 2013, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2014 and 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This information is based on Management's knowledge as at March 27, 2015. All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR's website at www.sedar.com or on the Company's website at www.hammondpowersolutions.com.

Caution regarding forward-looking information

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

Additional GAAP and Non-GAAP measures

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings and EBITDA, in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the year-to-date periods ending December 31, 2014 and December 31, 2013 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS.

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

On January 1, 2011, the Company adopted IFRS, which have become the generally accepted accounting principles required for use by most Canadian publicly accountable enterprises. The Company's 2014 consolidated financial statements, which comprise the statement of financial position as at December 31, 2014 and December 31, 2013, the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013, and Notes thereto, have been prepared using IFRS.

Overview

HPS is an industry leading, growth oriented, transformer Company offering customer-focused solutions through a broad product range, multiple sales channels, a global presence and high quality standard products and engineered-to-order capabilities. Our employees continue to be the cornerstone of the organization and are committed to the execution of the Company's operational initiatives and strategic vision.

2014 continued to be a challenging year as a consequence of the global market decline and economic challenges impacting both HPS as well as the electrical industry as a whole. While the Company was faced with unexpected negative market conditions particularly in the gas, oil and project business, HPS was persistent with its plan execution and continued to stay the course positioning the Company for the future. HPS continues to build upon a strong financial base, has a strong business model and has a clear strategic vision for growth. We have many reasons to continue to be confident in the Company's future. The three international companies acquired in the past few years demonstrate our commitment to sales growth, product development and expanded global presence. This will build on our financial strength as a company, further expand our market share and provide us with new technology. Going forward, these operations will prove to be highly productive contributors to our revenue and profitability and an integral part of HPS' legacy.

The Company achieved market share growth, protected margin rates and maintained an overall healthy financial position through the implementation of our operational initiatives and longer-term strategic projects. HPS continues to focus on sales growth, gross margin and operational improvement, which are paramount in delivering consistent strong financial performance. Globally, in the U.S., Canada, Europe and Asia, HPS is well situated for electrical industry market share growth and continues to be a leader in the markets it serves. Despite the difficult economic times in North America, the ongoing European financial crisis and soft electrical market conditions globally, the Company continues to build its operational capabilities, new product development and market presence outreach. HPS is well positioned to take advantage of a recovering global economy.

During 2014, the Company contended with soft global market conditions. The challenging industry outlook continues to indicate difficulties ahead in Canada, the U.S., Europe and India. Globally the markets' short-term outlook is very uncertain and unpredictable. In the medium and longer term there is moderate optimism of a strengthening pulse, particularly in North America. The Company remains mindful of the precarious market conditions in Europe, the slower electrical industry, the unpredictability of currencies (particularly with the U.S. dollar), resource-based commodity cost uncertainty and the lingering global economic recovery.

We expect that a combined organic and new customer sales expansion, new product development, added capacity, manufacturing agility as well as our multi-national operations capabilities will provide new market opportunities going forward and deliver solid revenue and profitability increases while enabling the Company to build on its strong financial position. The Company is cognizant of the need to build for the future and continues to forcefully penetrate the industry and confront the profitability pressures it is facing. HPS remains confident and steadfast that the business base that it has constructed combined with its strategic vision will support and generate growth prospects. The Company is unwavering in its focus on continuous improvement, cost reduction, efficiency and overall cost effectiveness.

The Company remains attentive and not complacent, calculating the risks and opportunities that are present and resolute in the execution of its strategies. The benefit of the Company not being single market dependent is that it can capitalize on growth in growing market segments and counterbalance the impact of cyclical market declines. Continued sales variability is expected with growth in some of our market segments with some decline in others. A part of annual sales will continue to be derived from major customer projects for which the exact timing is hard to predict. This will influence quarterly sales fluctuations.

Despite these challenges, sales and order booking rates continue to grow and outperform competitor averages due to the execution of sales growth projects in strategic target markets that deliver additional market share penetration, new account development and further building of organic sales. The Company continues to gain market share momentum in U.S. and Canadian electrical markets as evidenced by improved booking rates, market growth and backlog. HPS expects it will produce sales opportunities leading to growth, through existing and new customer sales and is confident that future sales growth will be achieved through the combination of market expansion initiatives, a solid position in the distributor channel and new product development.

HPS has a strong balance sheet, is well capitalized, has excellent liquidity and a committed credit facility available to implement its growth initiatives and strategic investment strategies. The combination of a secure financial foundation, strong business fundamentals and strategic vision, positions the Company for growth as well as additional long-term stakeholder value.

The Company has benefitted from strategic and operational projects in the areas of market share expansion, new product development, global manufacturing diversification, cost competitiveness and labour efficiency improvements. Adapting to the economic conditions of 2014, the company reconstructed its expense levels. HPS has invested in expanded manufacturing capacity for forecasted demand of customers as well as in markets served despite the increases in fixed cost structures that have a short-term dilutive effect on financial results.

The Company remains attentive to its strategies to grow its market share and will continue to take advantage of Original Equipment Manufacturer ("OEM") and distributor sales opportunities. A focus on custom product design capabilities, competitive lead-times, product breadth and uncompromised quality is expected to continue to generate market share growth. Organic and new customer sales, flexible manufacturing capacity and multi-national operation capabilities, will lead to sales opportunities and overall market growth.

These strategies will improve and build revenue and profitability trends.

The future of the Company is not only focused on market share and sales growth, but also on improving its cost competitiveness. HPS has signed a joint venture agreement with National Material L.P., a leading electrical steel processor to manufacture transformer cores for the electrical transformer industry. HPS will own 55% of this new Company and will share financial and technological resources with the intent to construct and operate a world-class core manufacturing facility, which will be fully operational in Quarter 4, 2015. Management believes this venture will combine the strengths of both companies and enhance HPS' competitiveness as well as financial performance going forward. These electrical steel cores will comply with new U.S. energy efficiency standard coming into effect January 1, 2016. This venture is further evidence of the Company's diversity and dedication to growth and profitability expansion.

We are confident that strategic growth initiatives will be successful and believe HPS will leverage a broad product offering, vast reach, scale and strong financial position to drive innovation and further expand the Company's market share in its strategic markets. The Company is well positioned for the future.

Sales

Sales in 2014 totalled $247,756 as compared to sales of $242,941 in 2013, an increase of $4,815 or 2.0%.

The Company continues to aggressively increase both its market share and sales through distributor conversions. This increase has also been buoyed by a modestly improved North American Electrical Distributor ("NAED") market, construction, alternative energy and oil and gas market segments. The European market remained depressed, while the market in India indicated some improvement in 2014. Additional sales growth came from further expansion of our global markets. Recent acquisitions not only expand HPS' European presence, but also broaden the Company's product offering and manufacturing capabilities in cast resin transformer technology. These factors will allow the Company to continue to grow its market share globally with an expanded product offering and with new customers. HPS' consolidated growth strategy is evidenced by acquisitions over the last five years, overall increased quotation activity and a late year rise in order booking rates. The Company's strategies relating to its expertise in custom engineered products, global presence, product breadth, competitive product design and consistent quality, supported sales growth in several market segments.

The Company's market diversification strategies provide a business hedge, as the Company is not single market or industry dependent.

In 2014, U.S. market sales (stated in Canadian dollars) were $143,500, an increase of $5,019, or 3.6%, compared to 2013 sales of $138,481. U.S. sales, when stated in U.S. dollars, decreased by $4,875 from $134,652 in 2013 to $129,777 in 2014, a decrease of 3.6%. The decline in U.S. sales when stated in U.S. dollars is a result of a slowdown in OEM order booking and sales activity, primarily in the drive systems, mining and equipment market segments.

Consolidated sales were positively impacted by the fluctuations in the U.S. dollar relative to the Canadian dollar (the Company's functional currency). The average U.S. to Canadian exchange rate for 2014 was $1.103 versus $1.029 in 2013, a U.S. dollar strengthening of 7.2%.

Canadian sales were $73,043, a decrease of $6,723 or 8.4% as compared to sales of $79,766 in 2013. Canadian sales continue to be negatively impacted by lower business activity in several market segments, particularly the power and mining project markets and fewer institutional construction projects. The Canadian distribution channel continued to remain softer than anticipated for the year.

The Company made solid gains in market growth in its international operations in 2014. The Company realized sales growth in India of $4,057 or 42.5%, finishing at $13,592 for the year versus sales of $9,535 in 2013. European sales were $17,621 in 2014 compared to $15,159 in 2013, an increase of 16.2% or $2,462. Despite the continuing European economic crisis the Company is increasing market share. The addition of cast coil technology further enhances the Company's ability to serve new customers and expanded markets.

Stated by geographic segment, sales in the U.S. were 57.9% of our total sales in 2014 versus 57.1% in 2013, sales in Canada were 29.5% in 2014 as compared to 32.8% last year, sales within Europe accounted for 7.1% of the Company's overall sales in 2014 compared to 6.2% in 2013 and sales in India accounted for 5.5% of total sales in the current year as compared to 3.9% of overall sales in 2013.

HPS continues to focus on channel sales growth initiatives in strategic market segments in the U.S., Canada, Europe and India. Strategic acquisitions over the past several years have built a foundation for global expansion. This combined with a strong distribution channel and multi-national manufacturing capabilities, will continue to be a competitive advantage and critical to revenue growth.

The Company is committed to producing transformers with uncompromised quality standards, competitive custom engineered designs, new product development and product breadth. We expect that this, combined with our capabilities in custom product design, manufacturing agility and competitive lead-times will result in sales growth through existing and new customer sales.

Order bookings and backlog

Overall, bookings increased by 16.3% over 2013. Direct sales bookings increased 22.8% and 10.2% through the distributor channel. The direct channel increase was impacted by significant booking increases internationally especially in Europe and higher U.S. booking rates aided also by a higher U.S. dollar exchange rate. The distributor channel increased primarily in the U.S. and was also supported by the increased U.S. dollar exchange rate.

Due to the higher booking rates the Company recognized a backlog increase of 11.7% over the prior year. Despite the continued soft general world economies and poorer North American "OEM" market conditions, quotation activity continues to increase. This bodes favorably going forward, as the Company is now seeing a brighter booking picture. As well, it is expected that the Company's strategic sales initiatives, expanded distributor network and new products will result in a growing improvement in our booking rates. We are cognizant that although we may experience some booking rate volatility, HPS will realize a lift in booking rates going forward.

The Company is sensitive to the volatility and unpredictability of current global economies and the impact that this will have on booking trends. While several markets are seeing positive quotation and order trends, the Company is very cognizant that it may see some volatility and unpredictability in longer term booking rates.

Gross margin

The Company achieved gross margin rates of 23.2% in 2014 versus 24.9% in 2013, a decrease of 1.7% of sales. The change in margin rates can be attributed to a less favourable product mix, marketing pricing pressures and lower than anticipated manufacturing throughput. Foreign currency fluctuations have also had an unfavourable impact on manufacturing costs. A portion of these increases have been offset by market specific pricing gains, increased U.S resale sales and cost reductions. The achievement of the current gross margin rates is notable, as the Company continues to experience negative selling price pressures due to the available excess capacity currently in the industry. The Company continues to implement changes to protect the gross margin rate.

As a result of the decline in the gross margin rate, gross margin dollar contribution decreased $3,116 or 5.1% finishing 2014 at $57,485 versus $60,601 in 2013.

It is important to note that the Company has invested in its capacity expansion initiatives in support of future sales growth, geographic diversification and new product development. The company is steadfast in its growth strategies despite the shorter term dilutive effect these investments have on gross margin rates, particularly during down turn economies. As manufacturing throughput increases, there is an accretive effect on margin rates, which bodes well as sales increase. Gross margin rates are being negatively impacted by selling price pressures due to weak market conditions as the Company is seeing unsustainable pricing from many of its competitors in the marketplace. Gross margin rates are supported by the maintenance of market price combined with material procurement and engineering cost reduction initiatives.

The latter half of the year has shown modest signs of economic improvement. The vacillating economic environment and slow global recovery have hurt margin rates. The Company has implemented a number of cost reduction activities including manufacturing expense variable capacity reductions. Despite this however, HPS continues to advance its geographic footprint, manufacturing capabilities and new product development. A diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. In the short-term, the additional fixed costs associated with the expansion are dilutive to net margin rates, but as sales grow, the favourable impact that higher manufacturing throughput will have on the absorption of factory overheads, will positively affect margin rates. The Company's capacity expansion strategy is paramount for future increased sales demand. HPS is unyielding in obtaining increased productivity improvements, cost reductions and lead-time improvements in the entire organization. The Company is confident that these actions combined with increased sales and higher manufacturing throughput will also improve margin rates.

Selling and distribution expense

Total selling and distribution expenses were $28,247 for 2014 versus $27,156 in 2013, an increase of $1,091 or 4.0%. When compared on a percentage-of-sales basis, total selling and distribution increased moderately to 11.4% of sales compared to 11.2% of sales in 2013. The majority of the change is attributed to increased sales for the year with associated variable commission and freight costs. These costs have increased by $431 and account for 39.5% of the year-to-date increase. There was also an increase of $660 or 60.5% of the change related to the foreign exchange translation of our U.S. denominated expenses compared to the previous year.

General and administrative expense

General and administrative expenses in 2014 were higher by $369 or 1.6%, totaling $22,778 when compared to $22,409 for 2013. On a percentage-of-sales basis these costs were consistent at 9.2% for both 2013 and 2014. On an annual basis, $963 of the year-over-year change is related to the foreign exchange translation of our U.S. denominated expenses. This increase in expenses is offset by reductions in salaries as part of expense restructuring that occurred during the year.

A significant portion of HPS' general and administrative costs are in support of strategic growth initiatives and in an investment in its people resources, specifically in the areas of sales, engineering and information services. The current year restructuring was strategically executed to protect these areas of key initiatives and investment while ensuring that these departments continue to operate efficiently. While investing in growth and financial performance is paramount, HPS remains very cognizant of prudent general and administrative expense management.

Earnings from operations

Earnings from operations were $6,460 in 2014, as compared to $11,036 in 2013, a decrease of $4,576 or 41.5%.

The earnings from operations are reflective of a volatile sales year experienced in several market segments, reduced selling prices, lower manufacturing throughput and capacity expansion costs for a company building for growth. Earnings from operations for the year were unfavourably impacted by decreased gross margin rates and an increase in selling, general and administrative expenses.

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

		2014		2013
Net earnings for the year	$	**2,520**	$	6,104
Add:				
Income tax expense		**2,223**		3,863
Finance and other costs		**1,717**		1,069
Earnings from operations	$	**6,460**	$	11,036

Interest expense

The interest expense for the year-ended December 31, 2014, finished at $1,029 as compared to $860 in 2013, an increase of $169 or 19.7%. The increase in interest expense is a result of higher operating debt levels related to acquisition activity, working capital requirements and lower net earnings. Interest expense includes all bank fees.

Foreign exchange loss

The foreign exchange loss in 2014 of $621 related primarily to the transactional exchange loss pertaining to the Company's U.S. dollar trade accounts payable in Canada, compared to a foreign exchange loss of $80 in 2013. An increase in the foreign exchange loss is related to the increased volatility in the exchange rates during the year where the U.S. dollar gained 7.2%.

At December 31, 2014, the Company had outstanding foreign exchange contracts in place for 10,800 EUR and $6,500 U.S., both implemented as a hedge against translation gains and losses on inter-company loans and $21,000 U.S. to hedge the U.S. dollar accounts payable in the Canadian operations of HPS. The details of the foreign exchange contracts outstanding as at December 31, 2014 are discussed in Note 23 in the Notes to Consolidated Financial Statements contained in our 2014 Annual Report.

Income taxes

As a result of a decrease in income before income tax expense, 2014 income tax expense is $2,223 as compared to $3,863 in 2013, a decrease of $1,640. The consolidated effective tax rate for 2014 increased to 46.9% versus 38.8% last year, a difference of 8.1%. In 2014, non-tax-deductible costs, including stock option expense, increased the effective tax expense rate by 3.2%. The proportion of income earned in higher tax jurisdictions increased the effective tax rate by 2.0% and a smaller proportion of earnings eligible for reduced rates together with other items increased the effective rate by 2.9%.

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. Our income tax provision is explained further in Note 13 in the Notes to Consolidated Financial Statements contained in our 2014 Annual Report.

Net earnings

2014 earnings before income taxes decreased to $4,743 as compared to $9,967 in 2013, a decrease of $5,224 or 52.4%. The main contributors to the lower net earnings were a decrease in gross margins and foreign exchange losses of $621 in the current year compared to a loss of $80 in 2013. Our 2014 net earnings were $2,520 versus $6,104 in 2013, a decrease of $3,584 or 58.7%. Net earnings were also impacted by a higher effective tax rate when compared to 2013. .

EBITDA

EBITDA for the year-ended December 31, 2014 was $12,327 versus $16,924 in 2013, a decrease of $4,597 or 27.2%. Adjusted for foreign exchange loss, adjusted EBITDA for Fiscal 2014 was $12,948 versus $17,004 in Fiscal 2013, a decrease of $4,056 or 23.9%.

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

		2014		2013
Net earnings	$	**2,520**	$	6,104
Add:				
Interest expense		**1,029**		860
Income tax expense		**2,223**		3,863
Depreciation and amortization		**6,555**		6,097
EBITDA	$	**12,327**	$	16,924
Add:				
Foreign exchange losses		**621**		80
Adjusted EBITDA	$	**12,948**	$	17,004

Summary of quarterly financial information (unaudited)

Fiscal 2014 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 59,953	$ 61,716	$ 61,558	$ 64,529	$ 247,756
Net earnings	$ 520	$ 936	$ 260	$ 804	$ 2,520
Net earnings per share – basic	$ 0.04	$ 0.08	$ 0.02	$ 0.08	$ 0.22
Net earnings per share – diluted	$ 0.04	$ 0.08	$ 0.02	$ 0.08	$ 0.22
Average U.S. to Canadian exchange rate	$ 1.101	$ 1.092	$ 1.087	$ 1.130	$ 1.1025

Fiscal 2013 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 63,672	$ 59,072	$ 57,393	$ 62,804	$ 242,941
Net earnings	$ 1,907	$ 510	$ 792	$ 2,895	$ 6,104
Net earnings per share – basic	$ 0.16	$ 0.04	$ 0.07	$ 0.25	$ 0.52
Net earnings per share – diluted	$ 0.16	$ 0.04	$ 0.07	$ 0.25	$ 0.52
Average U.S. to Canadian exchange rate	$ 1.007	$ 1.022	$ 1.038	$ 1.026	$ 1.029

Sales in Quarter 2, Quarter 3 and Quarter 4, 2014 have increased from 2013 due to the timing of some commercial construction projects as well as small improvements in general economic conditions. The year-to-year quarterly fluctuations in both sales and income are affected by the changes in Canadian foreign exchange rates, product mix, changing economic conditions and competitive pricing pressures.

Quarter 4, 2014 financial results

	December 31, 2014	December 31, 2013
Sales	**$ 64,529**	$ 62,804
Earnings from operations	**$ 2,472**	$ 4,157
Exchange loss (gain)	**$ 381**	$ (217)
Net earnings	**$ 804**	$ 2,895
Earnings per share – basic	**$ 0.08**	$ 0.25
Earnings per share – diluted	**$ 0.08**	$ 0.25
Cash provided by (used in) operations	**$ 4,788**	$ (2,674)

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Sales for the quarter ended December 31, 2014 were $64,529, an increase of $1,725 or 2.7% from the comparative quarter last year, which is reflective of the impact of the continued demand for our product, expanding geographic markets and a favorable product mix.

Quarter 4, 2014 gross margin dollars decreased by $1,474 compared to Quarter 4, 2013. Gross margin rates decreased to 24.1% in Quarter 4, 2014 versus 27.1% in Quarter 4, 2013 as a result of sales mix and lower manufacturing throughput.

Total selling and distribution expenses amounted to $7,202 in Quarter 4, 2014 versus $7,461 in Quarter 4, 2013, a decrease of $259 or 3.5%.

The general and administrative expenses for Quarter 4, 2014 totaled $5,864, an increase of $470 or 8.7% when compared to Quarter 4, 2013 costs of $5,394. This increase in Quarter 4, 2014 compared to Quarter 4, 2013 is attributed to the foreign exchange translation of our U.S. denominated expenses.

The foreign exchange loss in Quarter 4, 2014 was $381 compared to a foreign exchange gain of $217 in Quarter 4, 2013. The majority of the Quarter 4, 2014 foreign exchange losses are a result of transactional losses in Canada due to the strengthening of the U.S. dollar relative to the Canadian dollar in the quarter.

Earnings from operations for the quarter were positively impacted by higher sales, which were offset by the decline in margin rates, which created a decrease in gross margin dollars. Quarter 4, 2014 earnings from operations were down $1,685 or 40.5% from the same quarter last year, finishing at $2,472 in the quarter as compared to $4,157 in Quarter 4, 2013.

Quarter 4, 2014 income tax expense was $1,056 on earnings before income taxes of $1,860 (an effective tax rate of 56.8%) as compared to an income tax expense of $1,294 on earnings before income taxes of $4,189 (an effective tax rate of 30.9%) in Quarter 4, 2013, a decrease of $238. The higher effective tax rate in 2014 is primarily the result of minimum tax expense at Hammond Power Solutions s.r.l. ("HPS s.r.l.") and no recognition of the tax benefit of losses in HPS s.r.l..

Net earnings for Quarter 4, 2014 were $804 compared to $2,895 in Quarter 4, 2013, a decrease of $2,091 or 72.2%. Cash provided by operations for Quarter 4, 2014 was $4,788 versus cash used in operations of $2,674 in Quarter 4, 2013, an increase of $7,462. The increase in the cash generated from operations was primarily due to a fluctuation in the changes in non-cash working capital from a source of cash in the quarter of $1,748 compared to use of cash of $5,735 during Quarter 4, 2013.

Cash, net of operating lines of credit, finished the year in a net operating debt position of $10,722 as at December 31 2014, a decrease of $5,237 as compared to a net debt balance of $15,959 as at December 31, 2013, primarily reflecting cash generated from operations during the year.

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 2014 was $18,450 versus $765 in 2013, an increase in cash generated from operations of $17,685. This increase is largely due to a working capital reduction of $7,484 in 2014 versus a working capital usage of $8,790 in 2013, a positive change of $16,274 from 2013. The change in non-cash working capital of $7,484 for 2014 is as a result of decreases in accounts receivable, inventories, prepaid expenses and an increase in foreign exchange adjustments. These balances are offset by a decrease in accounts payable and accrued liabilities.

Accounts receivable finished the year at $47,381 as compared to $49,302 as at December 31, 2013, a decrease of $1,921 which was a result of extended terms to several customers in 2013 that were not extended in 2014, as well as improved fiscal cash receipts from customers. The Company was focused on its customer accounts receivable collections cycle time and current inventory turnover rates in 2014. Even with commercial terms typical in India where credit terms are traditionally longer, the Company's days' sales outstanding ratio remains below industry standards, which can be attributed to effective credit policies and tightly managed accounts receivable administration.

Inventories finished the year at $37,961 as at December 31, 2014, versus $39,327 as at December 31, 2013, a decrease of $1,366. This decrease can be attributed to a planned decrease in levels of standard products in an effort to manage cash flow.

Accounts payable and accrued liabilities decreased by $1,175 finishing at $38,041 as at December 31, 2014 compared to $39,216 at the end of 2013. The decrease in accounts payable is related to the timing of payments to suppliers.

Net income taxes receivable were $1,658 (income taxes recoverable of $1,863 less income taxes payable of $205) as at December 31, 2014, versus net income taxes receivable of $2,862 (income taxes receivable of $2,887 less income taxes payable of $25) as at December 31, 2013 a change of $1,204.

Cash used in financing activities was $10,466 in 2014, compared to cash generated of $10,751 in 2013, a change of $21,217. This change was due to decreases in bank operating lines, payment of dividends of $2,800, advances of $4,064 in other liabilities and repayment of debt of $852. This is explained further in Note 11 in the Notes to Consolidated Financial Statements contained in our 2014 Annual Report.

Cash used in investing activities in 2014 decreased $1,526 from 2013 as a result of the purchase in 2013 of Marnate for $9,394, including cash acquired of $273 which was offset by the acquisition of other assets in 2014 in the amount of $8,562. These other assets represent the equipment deposits related to the joint venture. There was an increase in capital spending of $606 over the prior year, totaling $4,293 in 2014, compared to $3,687 for 2013. Expanded manufacturing capacity, new product development and information technology infrastructure were areas of capital expenditure spending.

In addition there was "normal" maintenance capital invested at all facilities and manufacturing product mandate projects.

The Company saw a decrease in intangible asset purchases of $1,300. The prior year purchases mostly related to software, totalling $1,472 in 2013 versus $172 in 2014.

Bank operating lines of credit finished the year at $17,178 as at December 31, 2014, compared to $27,183 as at December 31, 2013 resulting in a decrease of $10,005 in the year.

Overall cash balances net of bank lines of credit resulted in net debt of $10,722 as at December 31 2014, a decrease of $5,237 as compared to a net debt balance of $15,959 as at December 31, 2013, primarily reflecting cash generated by operations during the year.

All bank covenants were met as at December 31, 2014, and the Company was in compliance with its covenants throughout the year.

The Company's growth strategy continues to include the pursuit of strategic acquisitions and partnerships, which would primarily be funded by cash from operations and our existing available credit facility of $40,000 U.S., against which the Company has currently drawn $17,178, supplemented by debt financing as required. The Company's financial objective is to ensure that the Company has sufficient cash and debt capacity to fund its operating activities, investments and growth. The Company has several alternatives to fund future capital requirements, including its existing cash position, credit facility, future operating cash flows and debt or equity financing. The Company continually evaluates these options to ensure that the appropriate mix of capital resources is maintained to best meet our needs.

The Company has capital expenditure commitments of $5,789 primarily for manufacturing capacity expansion and new product development in support of future business development and growth.

Additional details of our change in non-cash working capital can be found in Note 21 in the Notes to Consolidated Financial Statements contained in our 2014 Annual Report.

Contractual obligations

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

	2015	2016	2017	2018	2019	Total
Operating leases	$ 2,175	$ 1,637	$ 935	$ 882	$ 549	$ 6,178
Accounts payable and accrued liabilities	38,041	–	–	–	–	38,041
Derivative liabilities	105	–	–	–	–	105
Capital expenditure purchase commitments	5,789	–	–	–	–	5,789
Operating lines of credit	17,178	–	–	–	–	17,178
Long-term debt	347	3,764	–	–	–	4,111
Total	**$ 63,635**	**$ 5,401**	**$ 935**	**$ 882**	**$ 549**	**$71,402**

Put option liability

In relation to the non-controlling interest in PETE, HPS has an irrevocable call option exercisable at any time after February 23, 2016, and in certain other circumstances, to purchase the remaining securities of PETE from the non-controlling interests at fair value. The Company also has granted a put option, exercisable at any time after February 23, 2019, and in certain other circumstances, to cause HPS to purchase the remaining securities of PETE at fair value from the non-controlling interests. As the exercise price of the call and put option are at fair value; the fair value of the instruments are considered nominal. The Company has not recognized the present value of the redemption price of the put option as a liability as at December 31, 2014 as it is not considered material to the consolidated financial statements.

Contingent liabilities

In December, 2013, The Corporation received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by the Corporation. At this time the Company feels that there is no merit to the claim.

Management is not aware of any other contingent liabilities.

Regular quarterly dividend

The Board of Directors of Hammond Power Solutions Inc. ("HPS") declared a quarterly cash dividend of six cents ($0.06) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of six cents ($0.06) per Class B Common Share of HPS.

The Quarter 1 dividend was payable on March 27, 2014 to shareholders of record at the close of business on March 20, 2014. The ex-dividend date was March 18, 2014. The Quarter 2 dividend was payable on June 25, 2014 to shareholders of record at the close of business on the 18th day of June 2014. The ex-dividend date was June 16, 2014. The dividend for Quarter 3 was payable on September 25, 2014 to shareholders of record at the close of business on September 18, 2014. The ex-dividend date was September 16, 2014. The final dividend for 2014 was payable on December 19, 2014 to shareholders of record at the close of business on December 12, 2014. The ex-dividend date was December 10, 2014.

Year-to-date, the Company has paid a cash dividend of twenty-four cents ($0.24) per Class A Subordinate Voting Share and twenty-four cents ($0.24) 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 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As at December 31, 2014, we conducted an evaluation, under the supervision and with the participation 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, 2014 such disclosure controls and procedures were operating effectively.

On May 14, 2014 the COSO Framework released an updated version of the 1992 internal control integrated framework, referred to as "2013 COSO". The Company has completed their implementation of the new framework and has completed their testing for the year ending December 31, 2014 using the 2013 COSO standard.

Internal controls over financial reporting

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

Canadian Securities Administrators require that companies certify the effectiveness of internal controls over financial reporting. It also requires a company to use a control framework such as the COSO Framework to design internal controls over financial reporting. As well, the threshold for reporting a weakness of internal controls over financial reporting should be of a "material weakness" rather than "reportable deficiency." HPS has designed its internal controls in accordance with the COSO Framework and has carried out retesting in 2014, which was completed in the fourth quarter.

As of December 31, 2014 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, 2014.

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

During 2014 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 considered at a material level.

Subsequent events

Dividends

On March 5, 2015 Hammond Power Solutions Inc. declared a quarterly cash dividend of six cents ($0.06) per Class A subordinate voting share and a quarterly cash dividend of six cents ($0.06) per Class B common share of HPS, payable on March 26, 2015 to the shareholders of record at the close of business on March 19, 2015. The ex-dividend date was March 17, 2015.

Joint Venture

On March 25, 2015, the Company and National Material announced the formation of Corefficient S. de R.L. de C.V. "Corefficient" located in Monterrey, Mexico. Corefficient will design, manufacture and market energy efficient electrical cores, a major component used in the manufacture of dry type and liquid filled transformers. Under the terms of the JV Agreement the Company will have a 55% ownership interest.

The joint venture will be accounted for using the equity method.

The prepaid balance at December 31, 2014 reflects $8,562,000 of deposits made for capital equipment related to the joint venture and the other liabilities balance of $4,064,000 represents National Material L.P.'s proportionate funding of these deposits.

Under the terms of the JV Agreement the joint venture is scheduled to begin operations in Quarter 4, 2015.

Risks and uncertainties

As with most businesses, HPS is subject to a number of market place, industry and economic related business risks, which could have some material impact on our operating results. These risks include:

- The volatility, unpredictability and cyclical effects of market costs and supply pressures for commodities including, but not limited to, copper, insulation and electrical grain oriented steel;
- A significant, unexpected change in the global demand for resources;
- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;

- Persistent global economic decline or recession;
- Fluctuations of interest rates;
- Unpredictable weather trends and conditions;
- Government protectionism or regulation changes;
- Competition;
- Credit risk; and
- Global political unrest.

The Company is very cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously works to lessen 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.

There are, however, several risks that deserve particular attention:

Commodity prices

An area that has an impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of copper commodity and steel pricing in the global markets. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Currency fluctuations

With the expansion of HPS' global footprint, currency fluctuations and volatility have a larger impact on the financial results and continues to be an area of focus. The Company's functional currency is the Canadian dollar and its operating results are reported in Canadian dollars ("CAD"). A significant portion of the Company sales and material purchases are denominated in U.S. dollars ("USD"). While there is a natural hedge, as sales denominated in U.S. dollars are partially 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. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results. Inversely, a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

The Company also has a U.S. operating subsidiary and U.S. dollar assets. The exchange rate between the Canadian and U.S. dollar can vary significantly from year-to-year and recently have shown significant volatility. There is a corresponding positive or negative impact to the Company's Accumulated Other Comprehensive Income in the Consolidated Statement of Financial Position solely related to the foreign exchange translation of its U.S. Balance Sheet.

The recent acquisitions in Italy and India have created assets to be denominated in Euros and Indian Rupees. There is a corresponding positive or negative impact to the Company's Statement of Comprehensive Income solely related to the foreign exchange translation of its entities Balance Sheets.

We have partially reduced the impact of foreign exchange fluctuations through increasing our U.S. dollar driven manufacturing output. The Company had also lessened its intercompany loan transactional exchange rate risk by entering into forward foreign exchange contracts.

Finally, HPS periodically institutes price increases to help offset the negative impact of changes in foreign exchange and product cost increases.

Natural disasters and unpredictable weather

Extreme weather conditions such a 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 which may impact delivery and capacity requirements.

Interest rates

There has been an increase in the operating line balances over the last few years related to global acquisitions and working capital needs. The Company's debt financing has been structured to take advantage of the current lower interest rates and minimize interest costs. The Company continues to be cognizant that a rise in interest rates will negatively impact the financial results. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

As part of hedging this risk, the Company may enter into fixed long-term rates on part of its total debt. It is the Company's determination that the interest rate premium to secure longer term interest rates does not provide an economic advantage. The Company believes that a more significant impact of a rise in interest rates would apply to our customers' investment decisions and financing capabilities.

Credit

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, which is partially mitigated by progress payments.

Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current uncertain economic conditions increase this exposure.

Global economic conditions

Current global economic conditions, particularly in Europe and North America, influence the Company's focus and direction. To address the current uncertainty we are focusing our efforts on projects that will increase our cost competitiveness, capacity and improve our manufacturing flexibility.

The Company believes, and results have confirmed, being an agile organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. We also believe the key to expanding our market share during this economic slowdown 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.

Off-balance sheet arrangements

The Company has no off-Balance Sheet arrangements, other than operating leases disclosed in Note 12 in the Notes to the Consolidated Financial Statements contained in our 2014 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2014, as disclosed in Note 19 in the Notes to the Consolidated Financial Statements contained in our 2014 Annual Report.

Proposed transactions

The Company had no proposed transactions as at December 31, 2014. 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, accounts receivable, bank operating lines of credit, accounts payable and accrued liabilities, other liabilities, long-term debt and the following derivative instruments:

At December 31, 2014, the Company had outstanding foreign exchange contracts in place for 10,800 EUR and $6,500 USD both implemented as an economic hedge against translation gains and losses on inter-company loans and $21,000 USD to economically hedge the U.S. dollar accounts payable in the Canadian operations of HPS. The Company had total outstanding foreign exchange contracts in place as at December 31, 2013 for 10,100 EUR, and $7,000 USD as economic hedges against translation gains and losses on inter-company loans and $11,000 USD to hedge the U.S. dollar accounts payable in the Canadian operations.

Further details regarding the Company's financial instruments and the associated risks are disclosed in Note 23 in the Notes to the Consolidated Financial Statements contained in our 2014 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 assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

Outstanding share data

Details of the Company's outstanding share data as of December 31, 2014, are as follows:

8,916,624	Class A Shares
2,778,300	Class B Common Shares
11,694,924	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 International Accounting Standards Board has issued the following Standards, Interpretations and amendments to Standards that are not yet effective and while considered relevant to the Company, have not yet been adopted by the Company.

Defined benefit plans: employee contributions

In November 2013, the IASB issued amendments to pension accounting under IAS 19, Employee Benefits. This amendment will reduce the complexity of accounting for certain contributions from employees or third parties. When employee contributions are eligible, a Company is permitted to recognize them as a reduction of the service cost in the period in which the related service is rendered. The Group intends to adopt the amendments to IAS 19 in its consolidated financial statements for the year commencing January 1, 2015. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Interests in joint operations

On May 6, 2014, the International Accounting Standards Board ("IASB") issued amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. The amendments require business combinations accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts. The extent of the impact of adoption of the standard has not yet been determined.

Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Annual improvements to IFRS (2010 – 2012) and (2011-2013) cycles

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits; and
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure initiative

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Strategic direction and outlook

HPS is dedicated to its strategic investment in growth initiatives in Canada, the U.S., India and Europe. This commitment is evidenced by the Company's international acquisitions, capacity expansion strategies, new product development and increased capital spending for strategic projects.

The poor global economic climate has had a pervasive effect on HPS. The negative impact of an erratic and unpredictable economy, as well as the variability of manufacturing throughput, raw material commodity costs and market pricing pressures has affected the Company. These deterrents are being managed through the Company's strategic projects and operational plans.

The Company's shorter term operational and financial performance has been hindered by these negative influences over the past few quarters, however, we are confident that the business fundamentals that have been developed will sustain and grow the Company in the near future and over the long-term. The Company's reaction to these conditions continues to be prudent but not complacent, conservative but progressive. HPS is seeing the results of these key initiatives having a positive impact. The Company will be unwavering in its pursuit of improving productivity gains, cost reduction, sales growth from new product development, geographic diversification, capacity flexibility and escalation of market share.

We continue to be an industry leader, remain financially and operationally strong, able to navigate through the enduring economic uncertainty and are confident in our vision of the future.

Our approach to improving profitability for the Company includes geographic manufacturing dispersion, global expansion, sales growth, productivity gains, new product development and market share penetration.

The Company is positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of market sectors. Our resilience, drive and commitment, decades of experience, engineering expertise, solid supplier relationships, and a broad and unique business perspective gained through our diverse products, customers and markets are key success factors.

We expect sales growth to continue to be realized in several of our markets, however remain at a lower level in others. A portion of our sales will come from major customer projects, for which the exact timing is hard to predict, thus influencing quarterly sales fluctuations.

The Company is committed to ensuring our strategic advantage going forward by:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- Broad product offering;
- Bringing quality and value to all stakeholders of the Company;
- Identifying and pursuing additional sales opportunities with both existing as well as new customers;
- Cash flow generation;
- Product development;
- Capital expansion; and
- Continue to identify and explore opportunities for enhanced financial performance.

HPS is committed to delivering escalating improvement in its financial results. We believe in the strength of HPS' strategies and are confident in the Company's ability to successfully execute its plan and stay the course. Management is firmly committed to delivering long-term value to our shareholders while contributing profitable growth and remains focused on the success of all stakeholders of the company.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information

	2010	2011	2012	2013	**2014**
Sales	190,604	221,323	257,376	242,941	**247,756**
Earnings from operations	13,642	13,039	18,180	11,036	**6,460**
EBITDA	19,500	15,538	24,352	16,924	**12,327**
Net earnings	10,652	5,993	12,611	6,104	**2,520**
Total assets	118,643	137,520	160,049	186,878	**184,291**
Non-current liabilities	2,825	5,436	5,424	10,220	**9,527**
Total liabilities	32,360	46,072	58,404	77,827	**69,854**
Total shareholders' equity attributable to equity holders of the Company	86,283	91,448	99,387	107,014	**112,271**
Total cash (debt)	17,694	1,681	(990)	(21,104)	**(14,833)**
Cash provided by operations	14,109	6,592	21,371	765	**18,450**
Basic earnings per share	0.92	0.52	1.08	0.52	**0.22**
Diluted earnings per share	0.91	0.51	1.08	0.52	**0.22**
Dividends declared and paid	1,504	1,738	2,098	2,328	**2,800**
Average exchange rate (USD$=CAD$)	1.030	0.989	1.0005	1.029	**1.1025**
Book value per share	7.45	7.89	8.54	9.17	**9.60**

Quarterly Information

	2013				**2014**			
	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Sales	63,672	59,072	57,393	62,804	**59,953**	**61,716**	**61,558**	**64,529**
Earnings from operations	3,359	1,599	1,921	4,157	**1,303**	**1,770**	**915**	**2,472**
EBITDA	5,442	3,254	3,380	4,848	**3,310**	**3,262**	**2,234**	**3,521**
Net earnings	1,907	510	792	2,895	**520**	**936**	**260**	**804**
Total assets	170,729	170,131	169,261	186,878	**185,863**	**182,373**	**191,435**	**184,291**
Non-current liabilities	5,908	10,503	10,394	10,220	**10,303**	**9,887**	**9,698**	**9,527**
Total liabilities	65,830	64,359	65,364	77,827	**73,169**	**72,155**	**78,861**	**69,854**
Total shareholders' equity attributable to equity holders of the Company	102,659	103,652	101,895	107,014	**110,497**	**108,083**	**110,346**	**112,271**
Total cash (debt)	(18,934)	(20,552)	(19,823)	(21,104)	**(24,965)**	**(23,419)**	**(14,976)**	**(14,833)**
Cash (used) provided by operations	(1,011)	1,429	3,439	(3,092)	**(1,645)**	**3,892**	**11,415**	**4,788**
Basic earnings per share	0.16	0.04	0.07	0.25	**0.04**	**0.08**	**0.02**	**0.08**
Diluted earnings per share	0.16	0.04	0.07	0.25	**0.04**	**0.08**	**0.02**	**0.08**
Dividends declared and paid	582	582	582	582	**700**	**700**	**700**	**700**
Average exchange rate (USD$=CAD$)	1.0065	1.022	1.038	1.026	**1.101**	**1.092**	**1.087**	**1.130**
Book value per share	8.82	8.91	8.75	9.17	**9.47**	**9.24**	**9.44**	**9.60**

Management's Responsibility for Financial Statements

The Consolidated Financial Statements are the responsibility of the management of Hammond Power Solutions Inc. These statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments where appropriate.

Management is responsible for the reliability and integrity of the Consolidated Financial Statements, the Notes to Consolidated Financial Statements and other financial information contained in the report. In the preparation of these statements, estimates were sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgment and have been properly reflected in the accompanying Consolidated Financial Statements. Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurances that the assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities through the Audit Committee of the Board, which is composed of all of the directors, of whom six are non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the Consolidated Financial Statements and to recommend approval of the Consolidated Financial Statements to the Board of Directors.

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

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

Christopher R. Huether
Corporate Secretary
& Chief Financial Officer

March 27, 2015

To the Shareholders of Hammond Power Solutions Inc.

We have audited the accompanying consolidated financial statements of Hammond Power Solutions Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hammond Power Solutions Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 27, 2015
Waterloo, Canada

Consolidated Statements of Financial Position

(in thousands of dollars)	As at December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 6,456	$ 11,224
Accounts receivable (note 4)	47,381	49,302
Inventories (note 5)	37,961	39,327
Income taxes recoverable	1,863	2,887
Prepaid expenses and other assets (note 27)	10,169	2,619
Total current assets	$ 103,830	$ 105,359
Non-current assets		
Property, plant and equipment (note 6)	46,365	47,264
Investment in properties (note 7)	1,044	1,044
Deferred tax assets (note 13)	937	363
Goodwill (notes 8 and 9)	17,889	17,557
Intangible assets (note 8)	14,226	15,291
Total non-current assets	80,461	81,519
Total assets	$ 184,291	$ 186,878
Liabilities		
Current liabilities		
Bank operating lines of credit (note 10)	$ 17,178	$ 27,183
Accounts payable and accrued liabilities (note 17)	38,041	39,216
Other liabilities (note 27)	4,064	–
Income tax liabilities	205	25
Provisions (note 18)	387	307
Derivative liabilities (note 23)	105	19
Current portion of long-term debt (note 11)	347	857
Total current liabilities	$ 60,327	$ 67,607
Non-current liabilities		
Employee future benefits (note 17)	294	204
Provisions (note 18)	100	100
Long-term debt (note 11)	3,764	4,288
Deferred tax liabilities (note 13)	5,369	5,628
Total non-current liabilities	9,527	10,220
Total liabilities	$ 69,854	$ 77,827
Shareholders' Equity		
Share capital (note 14)	13,800	13,611
Contributed surplus	2,339	2,133
Accumulated other comprehensive income (loss)	4,613	(524)
Retained earnings	91,519	91,794
Total shareholders' equity attributable to equity holders of the Company	$ 112,271	$ 107,014
Non-controlling interests	2,166	2,037
Total shareholder's equity	114,437	109,051
Commitments and contingencies (note 12)		
Subsequent events (note 27)		
Total liabilities and shareholders' equity	$ 184,291	$ 186,878

See accompanying Notes to Consolidated Financial Statements.

On behalf of the Board:

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

David J. FitzGibbon
Chairman Audit Committee

Consolidated Statements of Earnings

Years ended December 31, 2014 and 2013 (in thousands of dollars, except for per share amounts)

	2014	2013
Sales	$ 247,756	$ 242,941
Cost of sales (note 5)	190,271	182,340
Gross margin	57,485	60,601
Selling and distribution	28,247	27,156
General and administrative	22,778	22,409
Earnings from operations	6,460	11,036
Finance and other costs		
Interest expense (note 11)	1,029	860
Foreign exchange loss	621	80
Other	67	129
Net finance and other costs	1,717	1,069
Earnings before income taxes	4,743	9,967
Income tax expense (note 13):		
Current	3,060	3,507
Deferred	(837)	356
	2,223	3,863
Net earnings	$ 2,520	$ 6,104
Net earnings (loss) attributable to non-controlling interest	(17)	21
Net earnings attributable to the equity holders of the Company	2,537	6,083
Net earnings	$ 2,520	$ 6,104
Earnings per share (note 15)		
Basic earnings per share	$ 0.22	$ 0.52
Diluted earnings per share	$ 0.22	$ 0.52

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2014 and 2013 (in thousands of dollars)

	2014	2013
Net earnings	$ 2,520	$ 6,104
Other comprehensive income		
Item that will be recognized within profit and loss:		
Foreign currency translation differences for foreign operations	5,283	3,005
Items that will not be recognized within profit and loss:		
Defined benefit plan actuarial (loss) gain	(34)	101
Income tax recovery (expense) on comprehensive income (note 13)	22	(38)
	(12)	63
Other comprehensive income for the period, net of income tax	5,271	3,068
Total comprehensive income for the period	$ 7,791	$ 9,172
Total comprehensive income attributable to equity holders of the Company	7,662	9,393
Total comprehensive income (loss) attributable to non-controlling interest	129	(221)
	$ 7,791	$ 9,172

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2014 and 2013 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2013	$ 13,295	$ 1,887	$ (3,771)	$ 87,976	2,258	$ **101,645**
Total comprehensive income for the period						
Net earnings	–	–	–	6,083	21	**6,104**
Other comprehensive income						
Foreign currency translation differences	–	–	3,247	–	(242)	**3,005**
Defined benefit plan actuarial losses net of tax	–	–	–	63	–	**63**
Total other comprehensive income	–	–	3,247	63	(242)	**3,068**
Total comprehensive income for the period	–	–	3,247	6,146	(221)	**9,172**
Transactions with owners, recorded directly in equity						
Dividends to equity holders (note 14)	–	–	–	(2,328)	–	**(2,328)**
Share-based payment transactions (note 14)	–	358	–	–	–	**358**
Share options exercised (note 14)	316	(112)	–	–	–	**204**
Total transactions with owners	316	246	–	(2,328)	-	**(1,766)**
Balance at December 31, 2013	$ 13,611	$ 2,133	$ (524)	$ 91,794	$ 2,037	$ **109,051**
Total comprehensive income for the period						
Net earnings	–	–	–	2,537	(17)	**2,520**
Other comprehensive income						
Foreign currency translation differences	–	–	5,137	–	146	**5,283**
Defined benefit plan actuarial gain, net of tax	–	–	–	(12)	–	**(12)**
Total other comprehensive income	–	–	5,137	(12)	146	**5,271**
Total comprehensive income for the period	–	–	5,137	2,525	129	**7,791**
Transactions with owners, recorded directly in equity						
Dividends to equity holders (note 14)	–	–	–	(2,800)	–	**(2,800)**
Share-based payment transactions (note 14)	–	239	–	–	–	**239**
Stock options exercised (note 14)	189	(33)	–	–	–	**156**
Total transactions with owners	189	206	–	(2,800)	–	**(2,405)**
Balance at December 31, 2014	$ 13,800	$ 2,339	$ 4,613	$ 91,519	$ 2,166	$ **114,437**

*AOCI – Accumulated other comprehensive income

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013 (in thousands of dollars)

	2014	2013
Cash flows from operating activities		
Net earnings	$ 2,520	$ 6,104
Adjustments for:		
Amortization of property, plant and equipment	5,226	4,889
Amortization of intangible assets	1,329	1,208
Provisions	80	(182)
Interest expense	1,029	860
Income tax expense	2,223	3,863
Unrealized loss (gain) on derivatives	86	(28)
Accrued pension benefit obligation	90	(108)
Stock based compensation expense	239	358
	12,822	16,964
Change in non-cash working capital (note 21)	7,484	(8,790)
Cash generated from operating activities	20,306	8,174
Income tax paid	(1,856)	(7,409)
Net cash provided from operating activities	18,450	765
Cash flows from investing activities		
Acquisition of subsidiary company, net of cash acquired (note 25)	–	(9,394)
Acquisition of other assets (note 27)	(8,562)	–
Acquisition of property, plant and equipment	(4,293)	(3,687)
Acquisition of intangible assets	(172)	(1,472)
Cash used in investing activities	(13,027)	(14,553)
Cash flows from financing activities		
Proceeds from issue of share capital	156	204
Cash dividends paid	(2,800)	(2,328)
(Repayment) advances from bank operating lines of credit	(10,005)	14,615
Repayment of long-term debt	(852)	(880)
Advances of other liabilities (note 27)	4,064	–
Interest paid	(1,029)	(860)
Cash (used in) generated by financing activities	(10,466)	10,751
Foreign exchange on cash and cash equivalents held in a foreign currency	275	541
Decrease in cash and cash equivalents	(4,768)	(2,496)
Cash and cash equivalents at beginning of period	11,224	13,720
Cash and cash equivalents at end of period	$ 6,456	$ 11,224

See accompanying Notes to Consolidated Financial Statements.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars, except for per share amounts)

1. Reporting entity

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

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, United States ("U.S."), Mexico, Italy and India, the latter being PETE Hammond Power Solutions Private Limited ("PETE"), a subsidiary in which the Company holds a 70% equity ownership. During 2013, the Company's wholly-owned subsidiary, Euroelettro Hammond s.p.a. ("EH"), acquired 100% of the outstanding share capital of Marnate Trasformatori s.r.l. ("Marnate"), located in Italy. On December 31, 2013, EH and Marnate merged to form one entity, Hammond Power Solutions s.r.l. ("HPS s.r.l.").

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and were approved by the Board of Directors on March 27, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and share based payments which are measured at fair value, and the employee benefits liability, which is recognized as the net total of the fair value of plan assets and the present value of the defined benefit obligation.

(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 income statement. 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 Canadian operations and its subsidiaries are as follows:

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

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

(d) Use of estimates and judgments

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

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

(i) Critical judgments in applying accounting policies

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

Cash generating units

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

Operating segments

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

(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.

Goodwill

The Group tests annually or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in note 3(h). Performing goodwill 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. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to note 9.

3. Summary of significant accounting policies:

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

(a) Basis of consolidation

The consolidated financial statements include the accounts of Hammond Power Solutions Inc. and its wholly-owned subsidiaries, Hammond Power Solutions, Inc., Hammond Power Solutions, S.A. de C.V., Delta Transformers Inc., Continental Transformers s.r.l., and its wholly-owned subsidiary, HPS s.r.l. and a 70% owned subsidiary PETE Hammond Power Solutions Private Limited (previously known as Pan-Electro Technic Enterprises Private Limited). The comparative financial statements include the results of Marnate for the period from February 1, 2013 to December 31, 2013.

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

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

entity's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

(b) Financial instruments

The Group aggregates its financial instruments into classes based on their nature and characteristics. The Group has classified its financial instruments as follows:

- Cash and cash equivalents and accounts receivable are classified as loans and receivables
- Bank operating lines of credit, accounts payable and accrued liabilities, other liabilities and long-term debt are classified as other liabilities
- Derivative financial instruments are classified as fair value through profit or loss

(c) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, unless the transaction costs relate to financial instruments classified as fair value through profit and loss, in which case they are expensed immediately. Subsequent measurement is determined based on initial classification.

The Group uses trade date accounting for regular-way purchases and sales of financial assets.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash and cash equivalents and accounts receivable.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less appropriate allowances for doubtful receivables.

Allowances for doubtful receivables represent the Group's estimates of losses that could arise from the failure or inability of customers to make payments when due and is calculated as the difference between the carrying amount of the account receivable and the present value of the associated future cash flows. Where it becomes apparent that the account receivable will not be collected, the allowance for doubtful receivables is released and the account receivable written off.

(ii) Other liabilities

This category includes bank operating lines of credit, accounts payable and accrued liabilities, other liabilities and long-term debt. Subsequent to initial measurement, other liabilities are carried at amortized cost using the effective interest rate method.

(iii) Fair value through profit or loss

A financial instrument is classified as fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. This category includes derivative financial instruments.

(iv) Derivative financial instruments

From time to time, the Group is party to derivative financial instruments in the form of forward foreign exchange contracts used to hedge foreign currency exposure arising on an intercompany loan and forward copper purchase contracts used to manage commodity price exposures. The Group records all of its forward contracts at fair value, with changes in fair value recognized through finance costs in the consolidated statement of earnings.

(v) Fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties that are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

(d) Cash and cash equivalents

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

(e) Property, plant and equipment

Property, plant and equipment are shown in the statement of financial position at their historical cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

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

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

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

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

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

(f) Intangible assets other than goodwill

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

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

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

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

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

(g) 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.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

(h) Goodwill

Acquisitions occurring on or after January 1, 2010, are accounted for using the acquisition method required by IFRS 3. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's cash generating units that are expected to benefit from the synergies of the business combination.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Goodwill is tested for impairment at least annually and upon the occurrence of an indication of impairment.

The impairment tests are performed 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. 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 growth rate given that the Group businesses are of a long-term nature. The Group assesses the uncertainty of these estimates by making sensitivity analyses. The discount rate used approximates the CGUs weighted average cost of capital. The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates exclude inflation.

An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual impairment tests at December 31, 2014.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business use in the production or supply of goods or services or for administrative purposes. The Group measures its investment property, being the property held by Glen Ewing Properties, at historical cost.

(j) Inventories

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

The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When circumstances which previously caused inventories to be written down to their net realizable value no longer exist, the previous impairment is reversed.

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

The Group periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. Consideration is given at each Statement of Financial Position 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 to sell 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.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

(l) Share-based payment transactions

The Group has a stock-based compensation plan, which is described in note 14. The Group accounts for all stock-based payments using the fair value based method.

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

(m) Provisions

Provisions comprise liabilities of uncertain timing or amounts that arise from restructuring plans, environmental, litigation, commercial or other risks. Provisions are recognized when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue

The Group recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(o) Income taxes

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Employee benefits

The Company maintains a defined contribution and defined benefit plan, which are described in note 17 and has 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.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of the plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss immediately. The Company recognizes all actuarial gains and losses arising from the defined benefit plan immediately in other comprehensive income, and reports them in retained earnings.

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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(q) Finance income and finance costs

Finance income and finance costs comprise interest income, interest expense on borrowings, changes in fair value of financial instruments measured at fair value through profit and loss, foreign currency losses and other finance costs.

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

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

(r) **Earnings per share**

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

(s) **New accounting pronouncements adopted during the period**

Offsetting financial assets and liabilities

The amendments to IAS 32 which are effective for years commencing on or after January 1, 2014, clarify the guidance as to when an entity has a legally enforceable right to set off financial assets and financial liabilities, and, clarify when a settlement mechanism provides for net settlement. The Group adopted the amendments to IAS 32 in its consolidated financial statements for the year commencing January 1, 2014. The adoption of IAS 32 did not have a material impact on the financial statements.

Recoverable Amounts

IAS 36 was amended in May 2013 to change the disclosure required when an impairment loss is recognized or reversed. The amendments require the disclosure of the recoverable amount of an asset or cash generating unit at the time an impairment loss has been recognized or reversed and detailed disclosure of how the associated fair value less costs of disposal has been determined. The Group adopted the amendments for the year commencing January 1, 2014. The adoption of the amendment did not have a material impact on the consolidated financial statements

IFRIC 21, Levies

The IFRIC provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Group adopted the standard for the annual period beginning January 1, 2014. The application of IFRIC 21 did not have a material impact on the consolidated financial statements.

Annual improvements to IFRS (2010 – 2012) and (2011-2013) cycles

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

Amendments were made to clarify the following in their respective standards:

- IFRS version that a first-time adopter can apply in IFRS 1 First-time Adoption of International Financial Reporting Standards;
- Definition of "vesting condition" in IFRS 2 Share-based payment;
- Classification and measurement of contingent consideration and scope exclusion for the formation of joint arrangements in IFRS 3 Business Combinations;
- Disclosures on the aggregation of operating segments in IFRS 8 Operating segments;
- Measurement of short-term receivables and payables; and scope of portfolio exception in IFRS 13 Fair Value Measurement;
- Restatement of accumulated depreciation (amortization) on revaluation in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The Group adopted the amendments to the standards in its financial statements for the annual period beginning on January 1, 2014. The adoption of the amendments to the standards did not have a material impact on the financial statements.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

(t) **New accounting pronouncements**

The International Accounting Standards Board has issued the following Standards, Interpretations and Amendments to Standards that are not yet effective and while considered relevant to the Group have not yet been adopted by the Group.

Defined benefit plans: employee contributions

In November 2013, the IASB issued amendments to pension accounting under IAS 19, Employee Benefits. This amendment will reduce the complexity of accounting for certain contributions from employees or third parties. When employee contributions are eligible, a Company is permitted to recognize them as a reduction of the service cost in the period in which the related service is rendered. The Group intends to adopt the amendments to IAS 19 in its consolidated financial statements for the year commencing January 1, 2015. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Interests in joint operations

On May 6, 2014, the International Accounting Standards Board ("IASB") issued amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. The amendments require business combinations accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers and is effective for fiscal years beginning on or after January 1, 2017. It does not apply to insurance contracts, financial instruments or lease contracts. The extent of the impact of adoption of the standard has not yet been determined.

Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

Annual improvements to IFRS (2012 – 2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits;
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure initiative

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

4. Accounts receivable:

		December 31, 2014		December 31, 2013
Trade accounts receivable	$	42,513	$	45,395
Other receivables		4,868		3,907
	$	47,381	$	49,302

Trade accounts receivable is presented net of an allowance for doubtful accounts of $911,000 (December 31, 2013 - $961,000).

5. Inventories:

		December 31, 2014		December 31, 2013
Raw materials	$	17,406	$	17,284
Work in progress		2,711		4,252
Finished goods		17,844		17,791
	$	37,961	$	39,327

Raw materials and changes in finished goods and work in progress recognized as cost of sales during the year amounted to $189,921,000 (2013 – $181,741,000). In addition, during the year, a write-down in the amount of $10,000 was recognized (2013- reversal of $19,000). Inventories carried at fair value less cost to sell as at December 31, 2014 were $808,000 (December 31, 2013 - $1,008,000).

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

6. Property, plant and equipment:

Cost	Land	Building	Leaseholds & Improvements	Machinery & Equipment	Office Equipment	Construction In Progress	Total
Balance at January 1, 2013	$ 5,904	$ 21,190	$ 875	$ 40,237	$ 8,550	$ 538	$ 77,294
Additions	–	184	84	2,872	325	222	3,687
Additions through business combination	536	4,995	–	1,112	70	–	6,713
Effect of movements in exchange rates	221	921	61	1,202	80	–	2,485
Balance at December 31, 2013	$ 6,661	$ 27,290	$ 1,020	$ 45,423	$ 9,025	$ 760	$ 90,179
Balance at January 1, 2014	$ 6,661	$ 27,290	$ 1,020	$ 45,423	$ 9,025	$ 760	$ 90,179
Additions	–	29	268	2,180	270	1,546	4,293
Effect of movements in exchange rates	(69)	(280)	(2)	1,198	64	–	911
Balance at December 31, 2014	$ 6,592	$ 27,039	$ $1,286	$ 48,801	$ 9,359	$ 2,306	$ 95,383
Depreciation							
Balance at January 1, 2013	$ –	$ 6,237	$ 755	$ 23,480	$ 6,793	$ –	$ 37,265
Depreciation for the year	–	1,264	74	3,046	505	–	4,889
Effect of movements in exchange rates	–	55	52	591	63	–	761
Balance at December 31, 2013	$ –	$ 7,556	$ 881	$ 27,117	$ 7,361	$ –	$ 42,915
Balance at January 1, 2014	$ –	$ 7,556	$ 881	$ 27,117	$ 7,361	$ –	$ 42,915
Depreciation for the year	–	1,145	75	3,537	469	–	5,226
Effect of movements in exchange rates	–	(17)	12	816	66	–	877
Balance at December 31, 2014	$ –	$ 8,684	$ 968	$ 31,470	$ 7,896	$ –	$ 49,018
Carrying amounts							
At December 31, 2013	$ 6,661	$ 19,734	$ 139	$ 18,306	$ 1,664	$ 760	$ 47,264
At December 31, 2014	$ 6,592	$ 18,355	$ 318	$ 17,331	$ 1,463	$ 2,306	$ 46,365

Depreciation is recorded in the statement of earnings as follows: cost of sales $4,892,000 (2013 – $4,537,000), selling and distribution $12,000 (2013 – $4,000), and general and administrative $322,000 (2013 – $348,000).

7. Investment in properties

The Group has a 50% ownership interest in a property in Georgetown, Ontario (referred to as the Glen Ewing Properties). It is a vacant plot of land currently under environmental remediation, and no revenue was derived from it in 2014 or 2013. The property is carried at cost. The estimated fair value of the property as at December 31, 2014 is $1,150,000 (2013 – $1,250,000). The fair value was determined based on available market evidence. The Company's share of ongoing legal, consulting and remediation costs during the year was $130,000 (2013 – $159,000).

On August 2, 2014 the Company and the other ownership interest entered into an Agreement of Purchase and Sale of the Glen Ewing property in the amount of $2,300,000. This agreement is subject to several due diligence conditions being satisfied and is anticipated to close in early 2017.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

8. Intangible assets and goodwill

Intangible assets	Technology	Customer lists relationships and branding	Externally acquired software	**Total**
Cost				
Balance at January 1, 2013	$ 4,169	$ 7,890	$ 3,631	$ 15,690
Additions	–	–	1,472	1,472
Additions through business combination	1,756	713	–	2,469
Effect of movements in exchange rates	180	41	123	344
Balance at December 31, 2013	$ 6,105	$ 8,644	$ 5,226	$ 19,975
Balance at January 1, 2014	$ 6,105	$ 8,644	$ 5,226	$ 19,975
Additions	–	–	172	172
Effect of movements in exchange rates	42	69	(46)	65
Balance at December 31, 2014	$ 6,147	$ 8,713	$ 5,352	$ 20,212
Amortization				
Balance at January 1, 2013	$ 243	$ 1,941	$ 1,155	$ 3,339
Amortization for the year	290	621	297	1,208
Effect of movements in exchange rates	16	10	111	137
Balance at December 31, 2013	$ 549	$ 2,572	$ 1,563	$ 4,684
Balance at January 1, 2014	$ 549	$ 2,572	$ 1,563	$ 4,684
Amortization for the year	313	644	372	1,329
Effect of movements in exchange rates	(1)	2	(28)	(27)
Balance at December 31, 2014	$ 861	$ 3,218	$ 1,907	$ 5,986
Carrying amounts				
At December 31, 2013	$ 5,556	$ 6,072	$ 3,663	$ 15,291
At December 31, 2014	$ 5,286	$ 5,495	$ 3,445	$ 14,226

Amortization of $254,000 (2013 – $152,000) has been recognized in cost of sales, $181,000 (2013 – $193,000) has been recognized in selling and distribution and $894,000 (2012 – $863,000) has been recognized in general and administrative.

None of the intangible assets have been internally developed.

Research and development expenses of $340,000 (2013 – $618,000) have been recognized in cost of sales. No research and development costs have been capitalized (2013 – $nil).

Goodwill	**December 31, 2014**	December 31, 2013
Opening balance	**$ 17,557**	$ 13,643
Additions through business acquisition	**–**	3,767
Effect of movements of exchange rates	**332**	147
Ending balance	**$ 17,889**	$ 17,557

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

9. Impairment testing for cash-generating units

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.

The Company 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 Company's business plan. Where there were indicators of impairment, or where goodwill was allocated to a cash generating unit, the Company performed an impairment test using the value in use method, under which a five year present value cash flow projection was completed and discounted using discount rates ranging from 10.8% to 19.0% depending on the location of the entity. Through the five year cash flow projections, the Company's model also incorporated annual growth rates in the range of 5% - 50% (2013 - 5% - 55%) depending on location, the CGU's operating history and strategic sales growth initiatives. Cash flows beyond the five year period have been extrapolated using steady growth rates ranging from 2% - 8%, depending on the geography of the manufacturing unit. This was then compared to the carrying value of the CGU's net assets to determine if there was impairment.

Impairment testing for cash-generating units containing goodwill

The Company has three subsidiaries identified as cash generating units that contain goodwill. The cash generating units and their respective goodwill balances are as follows: Delta Transformers Inc. $2,180,000 (2013 – $2,180,000), Pan-Electro Technic Enterprises Private Limited $9,229,000 (2013 – $8,613,000) and HPS s.r.l. $6,480,000 (2013 – $6,764,000). As at December 31, 2014, the assets, including goodwill, of these cash generating units were tested and no impairment was found. The recoverable amount for these cash generating units was determined based on a value in use calculation. The calculations use cash flow projections for a five year period based on budgets for fiscal 2015 approved by the Board of Directors, and discounted using discount rates specific to each entity. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause any of the CGUs' carrying amounts to exceed their recoverable amounts.

10. Bank operating lines of credit

The Company's facilities, which expire on March 22, 2017, consist of a $25,000,000 U.S. revolving credit facility, a $5,000,000 U.S. overdraft facility, a 4,000,000 Euro overdraft facility and a $10,000,000 U.S. delayed draw credit facility. The delayed draw facility does not charge any fees on the unutilized balance until the facility is used. The initial use of the facility needs to be approved by the bank. The facilities are unsecured. Interest on the revolving credit lines is dependent on certain financial ratios and ranges from Canadian bank prime rate minus 0.50% to Canadian bank prime rate for the Canadian dollar denominated revolving credit lines or, if designated, the bank's CDOR rate plus 1.25% to 1.75% and from U.S. base rate minus 1.00% to U.S. base rate minus 1.50% for the U.S. dollar denominated revolving credit lines or, if designated, the bank's LIBOR rate plus 1.25% to 1.75%. As at December 31, 2014, the Canadian dollar equivalent outstanding under the Canadian revolving credit line and the U.S. revolving credit line was $12,220,000 (2013 - $18,720,000) and $817,000 (2013 - $4,225,000) respectively, as well as $4,141,000 (2013 - $3,470,000) Canadian dollar equivalent of Euros outstanding under the Euro overdraft facility. The delayed draw credit facility was unutilized at December 31, 2013 and December 31, 2014. Under the terms of the facility, the Group pays an unused line fee at rates ranging from 0.25% to 0.30% calculated monthly in arrears, on the average daily unborrowed portion of the Credit Facility.

PETE maintains a credit facility for an unsecured working capital loan up to $4,800,000 U.S. consisting of the sub-facilities of an 80,000,000 INR short-term working capital demand loan and a 160,000,000 INR facility for bank guarantees and letters of credit. The demand loan bears interest at a 9.25% base rate + 3% and the bank guarantees are at a rate of 1.50%. As at December 31, 2014, there was no Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2013 - $768,000). There were no drawings against the bank guarantees or the letter of credit facilities.

HPS s.r.l. has available operating lines of Euro 935,000 ($1,313,000 Canadian dollar equivalent), which are secured by accounts receivable. At December 31, 2014 and December 31, 2013 these operating lines were unutilized.

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

11. Long-term debt

Term loans denominated in Euros, apart from the note payable for EU €2,650,000, are secured by a first priority security interest in certain existing and future property of HPS s.r.l.. The note payable for EU €2,650,000 is secured by certain of the land and buildings of HPS s.r.l.. Term loans denominated in INR are secured by a first priority security interest in inventory, accounts receivable and specific equipment acquired through the acquisition of Pan-Electro Technic Enterprises Private Limited.

	December 31, 2014	December 31, 2013
Term loan repayable in monthly payments of $15,100, non-interest bearing, unsecured maturing April 1, 2016	**$ 225**	$ 407
Term loan of EU €255,595 repayable in monthly payments of EU €8,140 plus interest at Euro base rate plus 6 month Euribor rate (December 31, 2014 and December 31, 2013 – 4.97%), maturing June 1, 2015	**64**	224
Term loan of EU €714,838 repayable in quarterly payments of EU €8,140 plus interest at Euro base rate plus 6 month Euribor rate (December 31, 2014 and December 31, 2013 – 1.97%), maturing March 1, 2015	**93**	585
Term loans totalling INR 11,752,209, with monthly payments ranging from INR 24,100 to INR 195,000, bearing interest at 7% to 16.5%, maturing between July 1, 2014 and March 3, 2015	**9**	46
Note payable of EU €2,650,000, with monthly interest only payments of EU €10,000, bearing interest at 4.5%, principal payment no later than February 2016.	**3,720**	3,883
	4,111	5,145
Less current portion of long-term debt	**347**	857
Total	**$ 3,764**	$ 4,288

The aggregate amount of principal payments required to meet the existing long-term debt obligations in each of the next two years is as follows:

2015	347
2016	3,764
	$ 4,111

Interest expense is comprised as follows:

	2014	2013
Long-term debt	**$ 194**	$ 191
Short term interest, bank fees and other	**835**	669
	$ 1,029	$ 860

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

12. Commitments and contingencies

Commitments

The Company has entered into various non-cancellable operating leases. The future minimum lease payments for years subsequent to the periods below are as follows:

	December 31, 2014	December 31, 2013
Less than 1 year	$ 2,175	$ 2,147
2 to 5 years	$ 4,003	$ 2,567

Operating lease payments recognized as an expense during the year were $2,250,000 (2013- $1,640,000).

	December 31, 2014	December 31, 2013
Capital expenditure commitments	$ 5,789	$ 724

Contingent liability

In December 2013, the Corporation received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by the Corporation. At this time the Company feels that there is no merit to the claim.

13. Income taxes

Income tax expense	2014	2013
Current tax expense		
Current period	$ 3,060	$ 3,507
Deferred tax expense		
Origination and reversal of temporary differences	(884)	358
Increase (reduction) in tax rate	47	(2)
	(837)	356
Total income tax expense	$ 2,223	$ 3,863

Reconciliation of effective tax rate

	2014	2014	2013	2013
Net earnings		$ 2,520		$ 6,104
Income tax expense		2,223		3,863
Earnings before income taxes		$ 4,743		$ 9,967
Income tax using the Company's domestic tax rate	39.50%	1,873	39.50%	3,937
Effect of tax rates in foreign jurisdictions	(0.63%)	(30)	(2.61%)	(260)
(Increase) reduction in tax rate	(0.82%)	(39)	0.02%	2
Non-deductible expenses/non-taxable income	5.99%	284	2.78%	277
Increased (reduced) rate for active business and manufacturing and processing	2.25%	107	(5.36%)	(534)
Current year losses for which no deferred tax asset was recognized	0.00%	–	4.96%	494
(Over) under provided in prior periods	0.14%	7	(0.24%)	(24)
Other	0.44%	21	(0.29%)	(29)
	46.87%	$ 2,223	38.76%	$ 3,863

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

Unrecognized deferred tax liabilities

At December 31, 2014 temporary differences of $58,644,000 (2013 - $49,784,000) 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.

Unrecognized deferred tax assets

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

	2014	2013
Tax losses	$ 2,219	$ 2,317
Financial interests deductible in a future period	$ 949	1,225
	$ 3,168	$ 3,542

The tax losses carry forward indefinitely and relate to HPS s.r.l. The benefit of these losses has not been reflected in the consolidated financial statements as it is uncertain as to whether the Company will be able to utilize these losses.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2014	2013	2014	2013
Property, plant and equipment	$ 177	$ 191	$ (6,361)	$ (6,438)
Intangible assets	14	15	(2,684)	(2,833)
Scientific research and experimental development	11	–	(52)	(59)
Inventories	187	228	(8)	–
Loans and borrowings	1,709	1,784	–	–
Employee benefits	115	74	(131)	(142)
Unrealized losses (gains) on forward contracts and foreign-denominated loans payable/receivable	498	51	(97)	(175)
Provisions and tax reserves	999	1,021	(23)	(2)
Tax loss carry-forwards	1,191	1,020	–	–
Charitable donation carry-forwards	23	–	–	–
Tax assets (liabilities)	4,924	4,384	(9,356)	(9,649)
Set off of tax	(3,987)	(4,021)	3,987	4,021
Net tax assets (liabilities)	$ 937	$ 363	$ (5,369)	$ (5,628)

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

Movement in temporary differences during the year

	Balance December 31, 2012	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in business combinations (note 25)	Balance December 31, 2013
Property, plant and equipment	$ 3,700	$ 534	$ –	$ 2,013	$ 6,247
Intangible assets	2,206	(116)	–	728	2,818
Scientific research and experimental development	42	17	–	–	59
Inventories	(133)	(95)	–	–	(228)
Loans and borrowings	(506)	(163)	–	(1,115)	(1,784)
Employee benefits	35	(5)	38	–	68
Unrealized gains (losses) on forward contracts and foreign-denominated loans payable/receivable	(99)	223	–	–	124
Provisions and tax reserves	(1,159)	242	–	(102)	(1,019)
Tax loss carry-forwards	(753)	(267)	–	–	(1,020)
	$ 3,333	$ 370	$ 38	$ 1,524	$ 5,265
Foreign exchange		$ (14)			
Income tax expense		$ 356			

Movement in temporary differences during the year

	Balance December 31, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2014
Property, plant and equipment	$ 6,247	$ (63)	$ –	$ 6,184
Intangible assets	2,818	(148)	–	2,670
Scientific research and experimental development	59	(18)	–	41
Inventories	(228)	49	–	(179)
Loans and borrowings	(1,784)	75	–	(1,709)
Employee benefits	68	(30)	(22)	16
Unrealized losses (gains) on forward contracts and foreign-denominated loans payable/receivable	124	(525)	–	(401)
Provisions and tax reserves	(1,019)	43	–	(976)
Tax loss carry-forwards	(1,020)	(171)	–	(1,191)
Charitable donation carry-forwards	–	(23)	–	(23)
	$ 5,265	$ (811)	$ (22)	$ 4,432
Foreign exchange		$ (26)		
Income tax expense		$ (837)		

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

14. 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, 2014		December 31, 2013
8,916,624 Class A subordinate voting shares (2013 – 8,891,624)	$	13,793	$	13,604
2,778,300 Class B common shares (2013 – 2,778,300)		7		7
11,694,924 Total A and B shares (2013 – 11,635,924)	$	13,800	$	13,611

During the year, 25,000 (2013 – 34,000) Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $156,000 (2013 – $204,000) and a transfer of $33,000 (2013 – $112,000) from contributed surplus.

The following dividends were declared and paid by the Company:

		December 31, 2014		December 31, 2013
24 cents per Class A subordinate voting shares (2013 – 20 cents)	$	2,132	$	1,773
24 cents per Class B common shares (2013 – 20 cents)		668		555
	$	2,800	$	2,328

(c) Stock option plan

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

During the year, the Company granted 90,000 options (2013 - 150,000), of which 90,000 vested immediately (2013 - 90,000) and the remaining 60,000 from 2013 vest equally through 2015. Stock-based compensation recognized and the amount credited to contributed surplus during the year is $239,000 and relates to 2014 options granted and to options granted in prior years that vested during the year. In 2012, 129,000 options were granted of which 83,000 vested immediately, and the remaining 46,000 vested equally in 2013 and 2014. The stock-based compensation expense recognized and amount credited to contributed surplus in 2013 amounted to $358,000. The weighted average grant date fair value of options granted in 2014 is $1.52 (2013 – $2.37).

Options outstanding and exercisable as at December 31, 2014:

	December 31, 2014			December 31, 2013		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding, beginning of year	651,500	$	10.46	539,500	$	10.28
Granted	90,000		7.50	150,000		10.00
Exercised	(25,000)		6.23	(34,000)		6.00
Expired	(50,000)		10.93	(4,000)		6.00
Outstanding, end of year	666,500	$	10.18	651,500	$	10.46

For the years ended December 31, 2014 and 2013 (tabular amounts in thousands of dollars)

		Options outstanding			Options exercisable		
	Exercise price	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price	Number of options exercisable		Weighted average exercise price
$	13.64	47,500	0.2	$	13.64	47,500	$	13.64
	5.91	30,000	1.2		5.91	30,000		5.91
	10.55	90,000	2.2		10.55	90,000		10.55
	11.70	155,000	3.2		11.70	155,000		11.70
	9.74	119,000	4.2		9.74	119,000		9.74
	10.00	140,000	5.2		10.00	120,000		10.00
	7.50	85,000	6.2		7.50	85,000		7.50
		666,500	3.7	$	10.18	646,500	$	10.19

Terms and conditions of the stock option plan

Options grants detailed below vest as follows: Options granted to directors vest immediately. Options granted to officers and senior management either vest immediately or equally over three years from the grant date, with one-third of the grant vesting immediately. The contractual life of the options granted below is seven years from the grant date.

Option Grant Date	Number of Options	Recipients
March 6, 2008	47,500	Board of Directors, Officers and Senior Management
February 24, 2009	30,000	Board of Directors, Officers
March 15, 2010	90,000	Board of Directors, Officers
March 17, 2011	155,000	Board of Directors, Officers and Senior Management
March 16, 2012	119,000	Board of Directors, Officers and Senior Management
March 14, 2013	140,000	Board of Directors, Officers and Senior Management
March 13, 2014	85,000	Board of Directors, Officers and Senior Management
Total stock options outstanding	666,500	

Inputs for measurement of grant date fair values

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

		2014		2013
Fair value of share options and assumptions				
Fair value at grant date	$	**1.52**	$	2.37
Share price at grant date	$	**7.50**	$	10.00
Exercise price	$	**7.50**	$	10.00
Expected volatility (weighted average volatility)		**34.1%**		34.7%
Option life (expected weighted average life)		**3.5 years**		3.8 years
Expected dividends		**3.14%**		2.01%
Risk-free interest rate (based on government bonds)		**1.27%**		1.27%
Forfeiture rate		**1.56%**		1.71%

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15. Earnings per share

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

		2014		2013
Basic earnings per share	$	0.22	$	0.52
Calculated as:				
Net Earnings attributable to the equity holders of the Company	$	2,537	$	6,083
Weighted average number of shares outstanding		11,688,674		11,644,424
Fully diluted earnings per share	$	0.22	$	0.52
Calculated as:				
Net Earnings attributable to the equity holders of the Company	$	2,537	$	6,083
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares		11,738,674		11,694,424
Reconciliation of weighted average number of shares outstanding:				
Weighted average number of shares outstanding used to calculate basic earnings per share		11,688,674		11,644,424
Adjustment for dilutive effect of stock option plan		30,000		50,000
Weighted average number of shares outstanding used to calculate diluted earnings per share		11,718,674		11,694,424

As at December 31, 2014, 636,500 options (2013 – 551,500) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

16. Put and call option on non-controlling interest

In relation to the non-controlling interest in PETE, HPS has an irrevocable call option exercisable at any time after February 23, 2016, and in certain other circumstances, to purchase the remaining securities of PETE from the non-controlling interests at fair value and has also granted a put option exercizable at any time after February 23, 2019, and in certain other circumstances, to cause HPS to purchase the remaining securities of PETE at fair value from the non-controlling interests. As the exercise price of the call and put option are at fair value, the fair value of the instruments are considered nominal. The Company has not recognized the present value of the redemption cost of the put option as a liability as at December 31, 2014 as it is not considered material to the consolidated financial statements.

17. Pension plans:

(a) Defined contribution plan:

The Group has defined contribution pension plans that are available to virtually all of its employees with eligible employee contributions based on 2.00% - 6.25% of annual earnings. The Group's contributions of $1,350,000 (2013 – $1,410,000) matches the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $1,006,000 (2013 – $1,056,000) in cost of sales, $170,000 (2013 – $176,000) in selling and distribution, and $174,000 (2013 – $178,000) in general and administrative.

(b) Defined benefit plans:

In connection with its Italian operations, the Company is subject to an Italian statutory liability to make termination payments to employees upon their cessation of employment with the Group, either voluntary or involuntary. Italian employment law prescribes the formula under which an annual amount in respect of each employee is determined. This obligation is unfunded. The liability for past service relating to these employees does not change based on future wage escalation; however does increase based on an inflationary component. The Company accounts for the related projected benefit obligation at its present value. As at December 31, 2014 the obligation, recorded within accounts payable and accrued liabilities, was $1,120,000

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(2013 – $1,242,000). During the year, the expense recognized related to this obligation was $169,000 (2013 – $182,000), of which $84,000 (2013 – $120,000) is included within cost of sales, $16,000 (2013 – $11,000) in selling and distribution, and $69,000 (2013 – $51,000) in general and administrative.

In addition, the Group maintains a contributory, defined benefit pension plan covering all of its former hourly employees in Baraboo, Wisconsin. The Group measures its accrued pension benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of August 1, 2014 and the next required valuation is August 1, 2015.

Information about the Group's defined benefit plan is as follows:

		2014		2013
Present value of unfunded obligations	$	–	$	–
Present value of funded obligations		882		809
Total present value of obligations		882		809
Fair value of plan assets		588		605
Recognized liability for defined benefit obligations	$	294	$	204

18. Provisions:

		Warranties		Site restoration		Total
Balance at January 1, 2013		263		259		522
Provisions made during the period		617		208		825
Provisions used during the period		(693)		(247)		(940)
Balance at December 31, 2013	$	187	$	220	$	407
Balance at January 1, 2014		187		220		407
Provisions made during the period		602		220		822
Provisions used during the period		(580)		(162)		(742)
Balance at December 31, 2014	$	209	$	278	$	487
Current portion	$	209	$	178	$	387
Non-current portion	$	–	$	100	$	100

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2014 and December 31, 2013. 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 Company 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 Company has recorded a liability for its estimated portion of the joint remediation.

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19. Related party transactions:

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2013 – 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 1,050,368 (2013 – 1,033,400) Class A subordinate voting shares of the Company, representing approximately 11.8% (2013 – 11.6%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. All of the issued and outstanding shares of Arathorn Investments Inc. are owned by William G. Hammond, Chief Executive Officer and Chairman of the Company. Total dividends paid during the year, directly and indirectly to William G. Hammond were $916,134 (2013 – $762,340).

In the ordinary course of business, the Company enters into transactions with affiliated entities. A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. All related party transactions in the normal course of operations are recorded at the exchange amount of consideration established by and agreed to by the related parties. The Group entered into the following transactions with other related parties:

	Note	2014	2013	Relationship
Purchase of goods and services	(i)	$ 1,114	$ 716	Companies in which key management personnel and/or their relatives have significant influence.

		2014	2013	Relationship
Amounts owed by related parties		$ 650	$ 696	Companies in which key management personnel and/or their relatives have significant influence and key management personnel.

Transactions with key management personnel

During the year, the Group purchased $274,000 (2013 – $317,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as Vice Chairman and CEO. The Company purchases a component part from ILSCO which is utilized in the manufacturing of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $35,000 (2013 – $43,000) which is owed to this company.

(i) During the year ended December 31, 2014, HPS has paid $17,000 (2013 - $17,000) in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE Hammond Power Solutions Private Limited in India. The remainder of this balance relates to the purchase of raw materials, components and finished goods.

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:

	2014	2013
Salaries and benefits	$ 2,251	$ 2,290
Share-based awards	239	358
	$ 2,490	$ 2,648

Key management personnel made contributions of $74,000 (2013 – $24,000) to the defined contribution pension plan. The Group matches the employee contributions.

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20. Personal expenses

	2014	2013
Wages and salaries	$ 42,841	$ 45,459
Group portion of government pension and employment pension and employment benefits	11,555	11,704
Contributions to defined contribution plans	1,350	1,480
Expenses related to defined benefit plans	28	27
	$ 55,774	$ 58,670

21. Change in non-cash operating working capital:

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

	2014	2013
Accounts receivable	$ 1,921	$ (6,345)
Inventories	1,366	(2,863)
Prepaid expenses	1,012	(1,207)
Accounts payable and accrued liabilities	(1,175)	306
Foreign exchange	4,360	1,319
	$ 7,484	$ (8,790)

22. 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, Italy and India. Inter-segment sales are made at fair market value.

Geographic Segments	2014	2013
Sales		
Canada	$ 73,043	$ 79,766
United States and Mexico	143,500	138,481
Italy	17,621	15,159
India	13,592	9,535
	$ 247,756	$ 242,941
Property, plant and equipment, net		
Canada	$ 24,267	$ 23,465
United States and Mexico	6,103	6,073
Italy	13,623	15,275
India	2,372	2,451
	$ 46,365	$ 47,264

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		2014		2013
Investment in properties				
Canada	$	1,044	$	1,044
Intangibles, net				
Canada	$	5,950	$	6,397
Italy		4,233		4,859
India		4,043		4,035
	$	14,226	$	15,291
Goodwill				
Canada	$	2,180	$	2,180
Italy		6,480		6,764
India		9,229		8,613
	$	17,889	$	17,557

23. 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 fair value of the pension assets is based on fair value of the instrument using quoted prices in an active market for that instrument and are included in Level 1 in the fair value hierarchy. There have been not transfers from or to Level 1 in 2014 or 2013.

The Group's financial instruments measured at fair value consist of foreign exchange forward contracts with a fair value of the liability of $105,000 (2013 – $19,000) and are included in Level 2 in the fair value hierarchy. To determine the fair value of the contracts, Management used a valuation technique in which all significant inputs were based on observable market data. There have been no transfers from or to Level 2 in 2014 or 2013.

The carrying values of cash and cash equivalents, accounts receivable, bank operating lines of credit, and accounts payable and accrued liabilities and other liabilities approximate their fair value due to the relatively short period to maturity of the instruments. The investment property is valued based on market evidence. The Company's long term debt is comprised of term loans with a floating rate of interest, for which the fair value is considered to approximate the carrying value given the variable interest rate, and a non-interest bearing debt for which the fair value is approximately $210,000 based on the current market rate of interest for similar instruments. The carrying value of the non-interest bearing debt as at December 31, 2014 is $225,000 (December 31, 2013 - fair value of approximately $390,000 with a carrying value of $407,000). The fair value of the Euro note payable for 2,650,000 EU approximates its carrying value as there has been no significant change in the interest rate environment since its inception. The fair value of long-term debt has been determined using a discounted cash flow model based on interest rates in effect as at the year-end date available to the Company for the same or similar debt instruments. The fair value of the Company's long-term debt was determined using a discount rate of 6.8%.

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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 Rupee as compared to the Canadian dollar ("CAD"). At December 31, 2014, the Company had outstanding forward foreign exchange contracts to buy U.S. $21,000,000 in CAD, sell EU 6,800,000 in U.S., sell EU 4,000,000 in CAD and sell U.S. $6,500,000 for Mexican Pesos at rates of 1.16320, 1.21020, 1.40480 and 14.805 respectively, all with maturity dates in March 2015. At December 31, 2013, the Company had outstanding forward foreign exchange contracts to buy U.S. $11,000,000 in CAD, sell EU 6,100,000 in U.S., sell EU 4,000,000 in CAD and sell U.S. $7,000,000 for Mexican Pesos at rates of 1.06440, 1.38030, 1.47180 and 13.157 respectively, all with maturity dates in March 2014. As at December 31, 2014 the Group has recognized an unrealized loss of $105,000 (2013 – $19,000) representing the fair value of these forward foreign exchange contracts.

Financial risk management:

The Company 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) 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.

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

Currency risk:

The Company 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 exposure to currency risk as at December 31:

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Cash	$ **3,946**	$ 5,563	**608**	994	**€715**	€ 1,894	**20,838**	16,471
Accounts receivable	**22,316**	26,189	**42,470**	38,239	**3,018**	3,732	**82,625**	74,912
Bank operating lines of credit	**467**	–	**–**	–	**2,950**	23	**–**	44,709
Accounts payable	**11,867**	10,799	**7,207**	5,184	**2,123**	4,403	**116,141**	152,388
Other liabilities	**3,653**	–	**–**	–	**–**	–	**–**	–
Long-term debt	**–**	–	**–**	–	**2,761**	3,201	**505**	2,708
Net exposure	$ **10,275**	$ 20,953	**35,871**	34,049	**€(4,101)**	€ (2,001)	**(13,183)**	(108,422)

A one cent ($0.01) decline in the Canadian dollar against the U.S dollar as at December 31, 2014 would have increased net earnings by $34,000. 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, 2014 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, 2014 would have decreased net earnings by $11,000. Inversely, a cent ($0.01) increase in the Canadian dollar against the Euro as at December 31, 2014 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, 2014 would have decreased net earnings by $31,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2014 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, 2014 would have decreased net earnings by $147,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2014 would have had an equal but opposite effect.

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Credit risk:

Credit risk arises from the possibility that the Company's customers and counter parties may experience difficulty and be unable to fulfill their contractual obligations. The Company manages this risk by applying credit procedures whereby analyses are performed to control the granting of credit to its customer and counter parties based on their credit rating. As at December 31, 2014, the Company's accounts receivable are not subject to significant concentrations of credit risk. The Company's maximum exposure to credit risk associated with the Company's financial instruments is limited to their carrying amount.

During the year, the allowance for doubtful trade accounts receivables decreased $50,000 (2013– decrease of $14,000), for which a recovery was recognized in general and administrative expenses. The aging of accounts receivable and the related allowance is as follows:

	December 31, 2014		December 31, 2013	
	Gross	Allowance	Gross	Allowance
Not past due	$ 24,382	$ –	$ 30,421	$ –
Past due 0-30 days	16,693	–	12,189	–
Past due 31-120 days	6,071	–	6,210	–
Past due more than 120 days	1,146	911	1,443	961
	$ 48,292	$ 911	$ 50,263	$ 961

Credit risk:

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

	Carrying Amount	
	December 31, 2014	December 31, 2013
Cash and cash equivalents	$ 6,456	$ 11,224
Accounts receivable	47,381	49,302
	$ 53,837	$ 60,526

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

	Carrying Amount	
	December 31, 2014	December 31, 2013
Canada	$ 12,410	$ 12,360
United States	25,960	27,788
Mexico	3,248	3,105
Italy	3,455	4,333
India	2,308	1,716
	$ 47,381	$ 49,302

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 and components of its long-term debt that bear interest at floating interest rates.

The Group manages its interest rate risk by maximizing the interest income earned on 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, 2014 would increase or decrease net earnings by approximately $300,000 respectively.

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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 long-term supply contracts with certain suppliers, and from time to time will enter into forward commodity purchase contracts.

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 contractual maturities of the Group's financial liabilities:

December 31, 2014	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 17,178	$ 17,178	$ ––	$ –
Long-term debt	4,111	645	3,784	–
Accounts payable and accrued liabilities	38,041	38,041	–	–
Other liabilities	4,064	4,064	–	–
Derivative liabilities	105	105	–	–
	$ 59,388	$ 60,033	$ 3,784	$ –
December 31, 2013				
Bank operating lines of credit	$ 27,183	$ 27,183	$ –	$ –
Long-term debt	5,145	1,049	537	4,102
Accounts payable and accrued liabilities	39,216	39,216	–	–
Derivative liabilities	19	19	–	–
	$ 71,563	$ 67,467	$ 537	$ 4,102

24. Capital risk management:

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Group includes cash, bank operating lines, long-term debt and equity, comprising of share capital, contributed surplus and retained earnings in the definition of capital. The Group is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2014.

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

	December 31, 2014	December 31, 2013
Cash and cash equivalents	$ 6,456	$ 11,224
Bank operating lines of credit	(17,178)	(27,183)
Long-term debt	(4,111)	(5,145)
Share capital	13,800	13,611
Contributed surplus	2,339	2,133
Retained earnings	91,519	91,794
	$ 92,825	$ 86,434

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25. Business combination:

Marnate Trasformatori s.r.l.

On February 12, 2013, Hammond Power Solutions Inc. signed an agreement (the "Definitive Agreement") for the acquisition of Marnate Trasformatori s.r.l. ("Marnate") in Italy, acquiring a 100% equity ownership of its cast resin transformer business for 7,213,000 EUR ($9,667,000 CAD). Marnate is involved in the design and manufacture of standard and custom cast resin transformers and is recognized in the industry for product quality and reliability.

Identifiable assets acquired and liabilities assumed consist of:

Cash	$	273
Accounts receivable		1,350
Inventories		1,292
Prepaid assets		112
Income taxes recoverable		215
Future income tax asset		71
Property, plant and equipment		6,713
Intangible assets		2,469
Goodwill		3,767
Assets	$	16,262
Accounts payable		(1,220)
Provisions and other liabilities		(67)
Future income tax liability		(1,595)
Note payable		**(3,713)**
Liabilities	$	(6,595)
Total purchase consideration	$	9,667

The acquisition was accounted for using the purchase method whereby identified assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over such fair value was recorded as goodwill, which represents the expected synergies to be realized from Marnate's complementary products. None of the goodwill recognized is deductible for income tax purposes.

The Definitive Agreement includes a deferred compensation payment of $557,000 due in semi-annual installments of equal amounts during the two years following the closing, subject to the condition of continued employment of the majority shareholder. The payments as part of this agreement are recorded as compensation expense over the duration of the deferred compensation term.

As part of the acquisition, the Company entered into an agreement to purchase the building. This agreement consists of monthly interest installments of 10,000 EUR at a rate of 4.5% with the principal being paid no later than February 2016. This note payable is secured by the value of the building.

The acquisition costs attributed to Marnate incurred during the year were $nil (2013 - $247,000) which were included in general and administrative expense.

Included in the Group's consolidated results for the year ended December 31, 2013, is revenue of $6,497,000 and net earnings of $223,000 recognized by Marnate from the date of acquisition to December 31, 2013. If the Company had acquired Marnate effective January 1, 2013, the revenue would have been approximately $6,848,000 and there would have been net earnings of approximately $216,000.

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26. 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.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of the acquisition of Marnate was based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of the plant and equipment is based on the market approach and cost approaches using a third party appraisal.

(ii) Intangible assets

The fair value of customer relationships acquired through the purchase of Marnate, was based on the discounted cash flows, expected to be derived from the use of the assets. The fair value of technology and branding is based on the relief from royalty method.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the common course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Derivatives

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

(v) Non-derivative financial liabilities

The fair value of the non-derivative financial liabilities acquired by the acquisitions of Marnate, and determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

For finance leases the market rate of interest is determined by reference to long-term debt of a similar duration.

(vi) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(vii) Investment property

The fair value of the investment property is based on available market evidence.

(viii) Pension plan assets

The fair value of the pension plan assets is based on the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

27. Subsequent events:

Dividends

On March 5, 2015, the Company declared a quarterly cash dividend of six cents ($0.06) per Class A subordinate voting shares of HPS and a quarterly cash dividend of six cents ($0.06) per Class B common shares of HPS payable on March 26, 2015 to shareholders of record at the close of business on March 19, 2015. The ex-dividend date is March 17, 2015.

Joint Venture

On October 23, 2014, the Company executed a joint venture agreement with National Material L.P. (the "JV Agreement") for the manufacturing of transformer cores. Under the terms of the JV Agreement the company will have a 55% ownership interest. On March 25, 2015, the Company and National Material L.P. executed all agreements and a new company Corefficient S. de R.L. de C.V. was established.

The joint venture will be accounted for using the equity method.

Other assets at December 31, 2014 reflect $8,562,000 of deposits made for capital equipment related to the joint venture by the Company and other liabilities of $4,064,000 represents National Material L.P.'s related funding of these deposits. On the execution of the JV Agreement on March 25, 2015, the $8,562,000 in equipment deposits, net of the $4,064,000 in funding from National Material L.P., reflects the Company's initial investment in the joint venture.

Under the terms of the JV Agreement the joint venture is scheduled to begin operations in Quarter 4, 2015.

Hammond Power Solutions Inc.

Canada

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

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.

795 Industriel Boul.
Granby, Quebec J2G 9A1

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

PETE – Hammond Power Solutions Private Limited

India

G-9 to 11, Bhavya's Sree Arcade,
D.No. 8-3-166/6&7
Erragadda, Hyderabad – 500 018

Hammond Power Solutions s.r.l.

Italy

Via dell'Agricoltura, 8/F (Z.I.)
36040 Meledo di Sarego (VI) Italy

Via A. Gramsci, 98
21050 Marnate (VA), Italy

Hammond Power Solutions S.A. de C.V.

Mexico

Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

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

Hammond Power Solutions, Inc.

United States

1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

By **staying the course**, we are firmly committed to deliver long-term value to our shareholders while delivering profitable growth and staying focused on the success of our customers and partners.

Corporate Officers and Directors

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

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
Director

* Corporate Governance Committee
+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

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

Auditors

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

Legal Representation

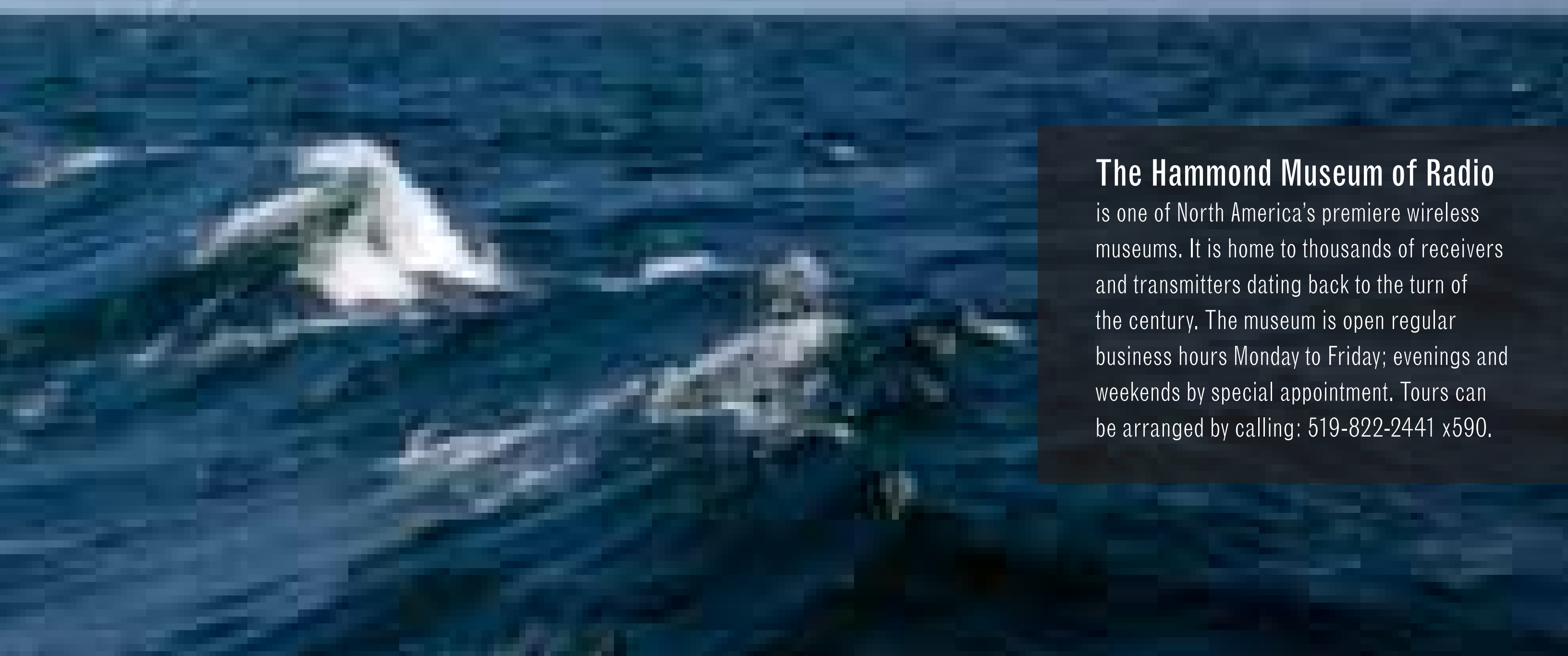
Borden Ladner Gervais LLP
Scotia Plaza
40 King Street West
Toronto, Ontario
Canada M5H 3Y4

Banking Institution

JP Morgan Chase
611 Woodward Avenue
Detroit, Michigan 48226

Investor Relations

Contact: Dawn Henderson, Manager
Investor Relations
Phone: 519.822.2441
Email: ir@hammondpowersolutions.com



The Hammond Museum of Radio is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment. Tours can be arranged by calling: 519-822-2441 x590.

Hammond Power
Solutions Inc.

THE FUTURE IS BRIGHT.