Annual Report 2015

FORTITUDE

THE STRENGTH
TO PERSIST
AND THE COURAGE
TO ENDURE

Hammond Power Solutions Inc.

"You can always take the easy way out and give up, but real strength comes when you decide to keep pushing forward no matter what the circumstances are."

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ANNUAL GENERAL MEETING

Shareholders are cordially invited to attend the Annual General Meeting held:
Thursday, May 19, 2016 at 1:00 (EST)

The Cutten Club a/o Cutten Fields
(The Cutten Room)
190 College East,
Guelph, Ontario
N1G 3B9

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WHO WE ARE AND WHAT WE DO

The economy has been one of great change and flux – even crisis in the past years.

Our annual reports during these years, have talked about how HPS focuses on **Doing the Right Thing, Strengthening Our Future by What We Do Today.** We have **Stayed the Course** and not waivered from a strategy of growth and investment.

We have a **Different Approach** from others in our industry. We build while others tear down, we invest, while others have cut. We believe in HPS and we have the **Fortitude and Strength to Persist** with our investment and growth strategy – and it has paid off.

In 2015 HPS reports

- Record Sales
- Growing Profitability
- Strong Balance Sheet
- Low Debt Levels

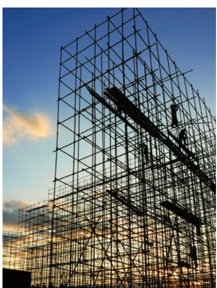
Expanded Capabilities

DOE Energy Efficient

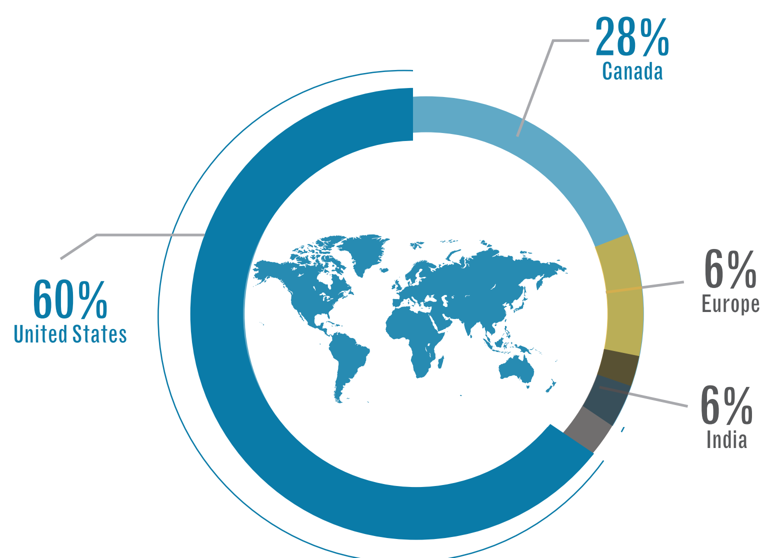
Water-Cooled

Cast Resin

Markets



Sales Geographic Footprint



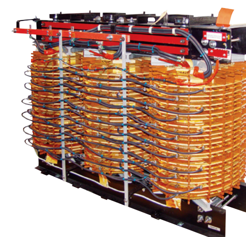
Financial Comparison

(in thousands of dollars, except earnings per share)

		2015		2014
Sales	$	274,639	$	247,756
Earnings from operations	$	12,644	$	6,460
Net earnings	$	6,320	$	2,520
Cash Provided by operations	$	16,065	$	18,450
Basic earnings per share	$	0.53	$	0.22

Control

Drive Isolation



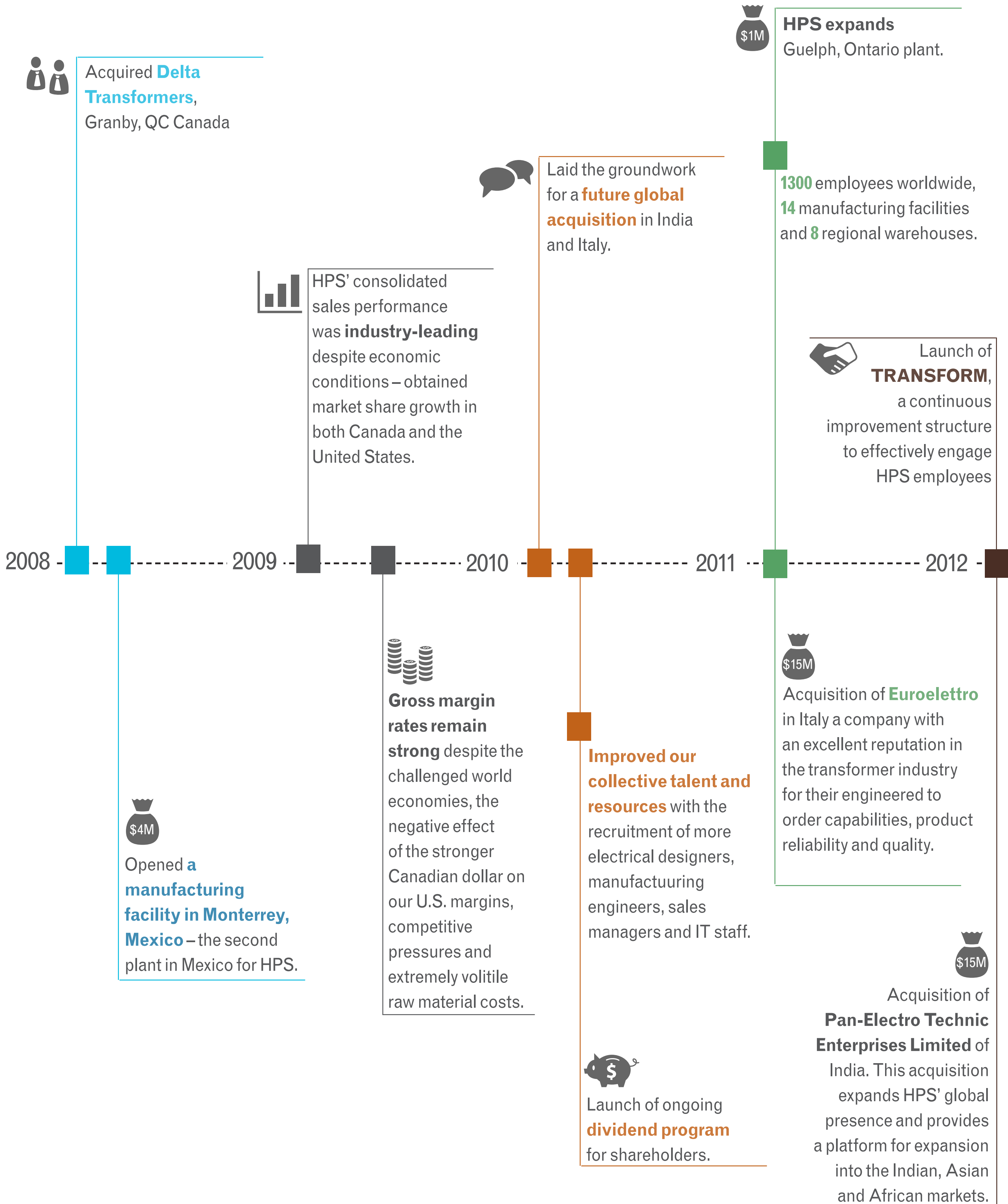
Distribution

Shovel Duty

Oil-filled

Power

A TIMELINE OF FORTITUDE AND STRENGTH



HPS expands Granby, Quebec plant.

HPS products continue to service the needs of the **U.S. energy business** which had a direct impact on both OEM and distributor business in 2014 and a growth area for HPS.

The **HPS EnduraCoil™** 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.

Expansion into the Mexican market via brand label arrangement.

Our new joint venture, **Coreefficient** represents an attractive new business for HPS that is expected to enhance Company financial performance as it expands its presence in the North American transformer component market.

2013 · 2014 · 2015 · NOW

Acquisition and integration of **Marnate** with our existing Italian operation supports our global growth strategies and doubles our product offering in new global markets.

HPS harnessed the efforts of our global capabilities to provide Cast Coil transformers for both the **Canadian and U.S. solar markets**.

Impact of new energy efficiency standards by the U.S. Department of Energy results in strong Q4 2015 financial performance

HPS named Affiliated Distributor's Supplier of the Year for **Leadership**.

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.

HPS invests in new **ERP system**.

FUTURE PREPARED

WHAT'S AHEAD

WE'RE INVESTED IN:

Business Development
- Joint Venture
- Acquisitions

Capacity Expansion

Product Development
- New Legislation
- Cast Coil
- Commercial Power
- Water-cooled
- DOE

People
- Engineering
- Succession
- Training

Global Expansion
- Manufacturing Locations

Continuous Improvement
- TRANSFORM

A Solid Banking Relationship
- Long-term Committed Credit Facility

Multiple Channels to Market
- Direct and Distributor

Original Equipment Manufacturers

Cost Reduction

Shareholders
- Dividend Program

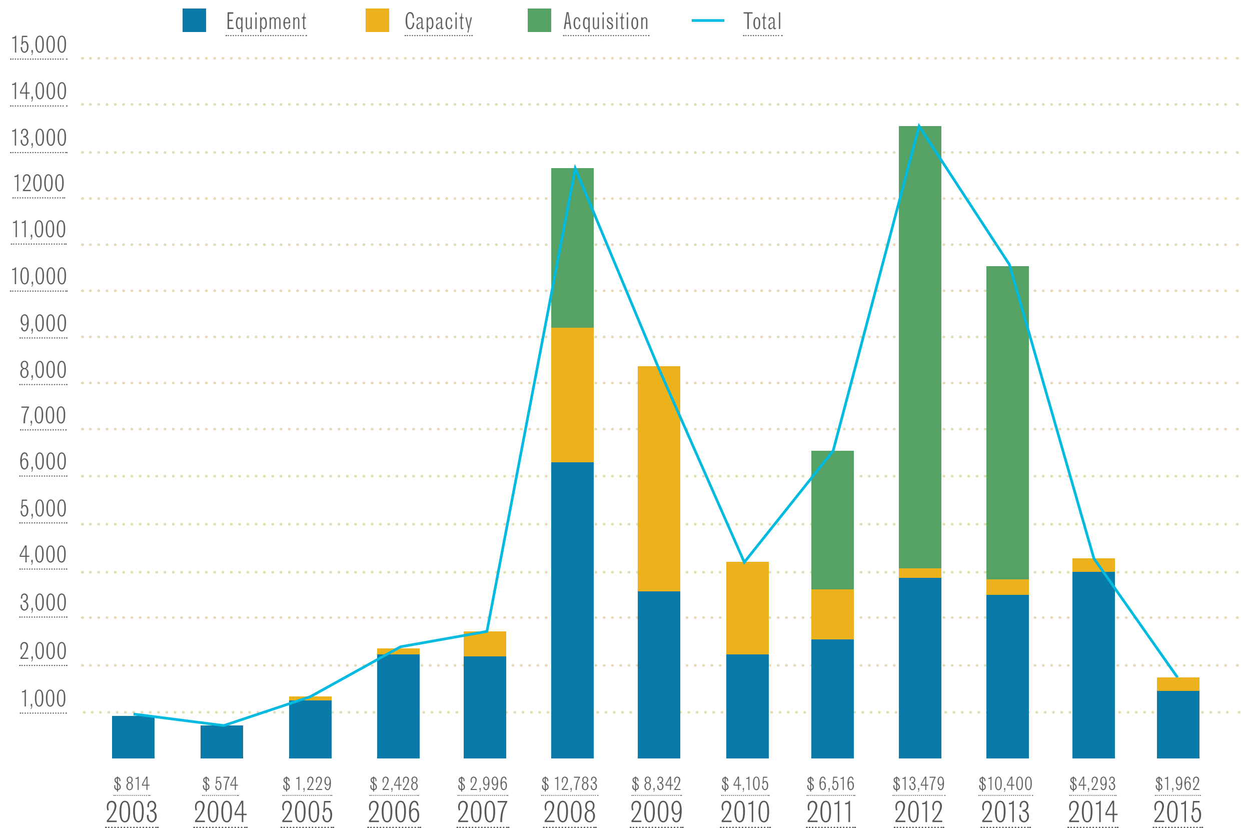
New opportunities have presented themselves which offer continued growth and diversity – a solid future for HPS based on a solid past.

HPS entered into a new joint venture partnership with National Material ("NMLP") Corefficient S. de R.L. de C.V. ("Corefficient"), a new and separate company that will design and manufacture transformer cores for sale to other transformer companies. Together we have invested close to $25 million dollars in an 110,000 square foot state-of-the-art core cutting facility in Monterrey Mexico. With the introduction of new mandatory energy efficiency levels in the United States ("U.S."), we believe that there is a growing and profitable opportunity to build cores for transformer companies in Mexico and the U.S. that may not want to make the investment in equipment necessary to build cost-effective cores to meet the new Department of Energy standards.

As global production becomes more regionalized, one of the developing long-term strategies is the ability to serve the global needs of our OEM customers from one or more plants located in North America, Europe or India. This includes Mexico, Central America, the Caribbean, South Africa, Israel, Saudi Arabia, Singapore, the Philippines and Australia, to name a few. Many products that we sell to the North American OEM market, already end up in the Middle East, Africa or South America. Unlike almost all of our competitors, we have regional plants that serve Europe, Asia and other regions of the globe where products will either be manufactured or shipped to as part of construction projects.

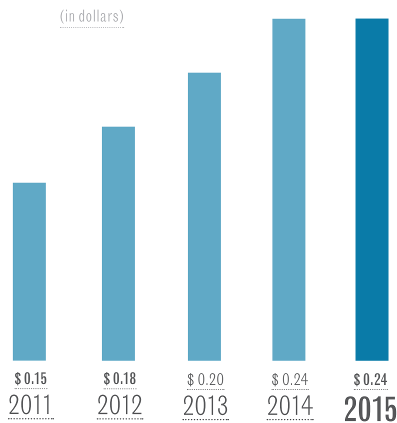
We are taking advantage of our multiple channels to market. This is particularly beneficial in North America where we sell our products through distributors, directly to OEM', as well as private branding transformers for other companies. This strategy gives us a broad penetration of both markets and geography — in some cases globally. This gives HPS a dominant market position in Canada and has also presented three channels of growth in the U.S.

INVESTED IN:

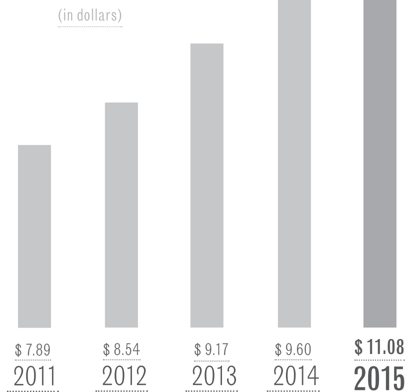


Capital Expeditures

(in thousands of dollars)

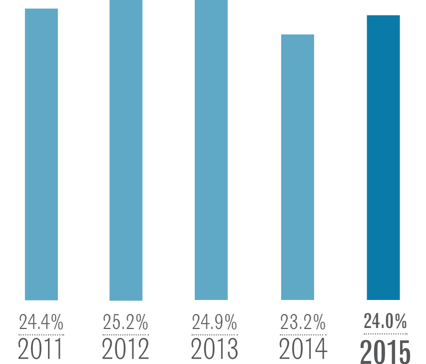


Dividend Per Share

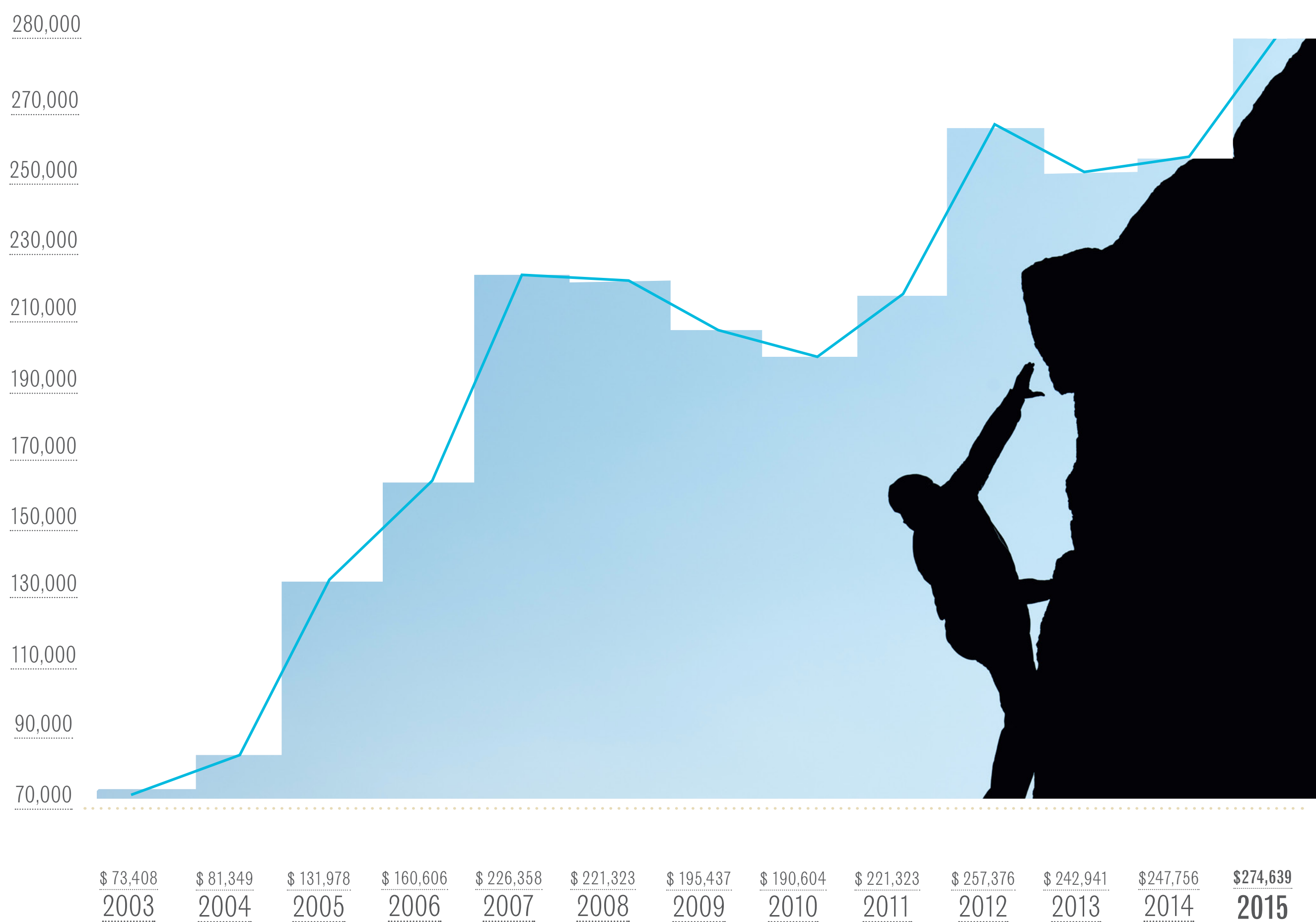


Book Value Per Share

(Excludes non-controlling interests)

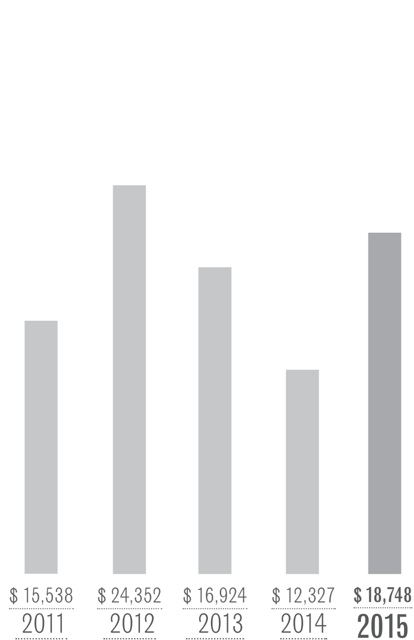


Gross Margin%



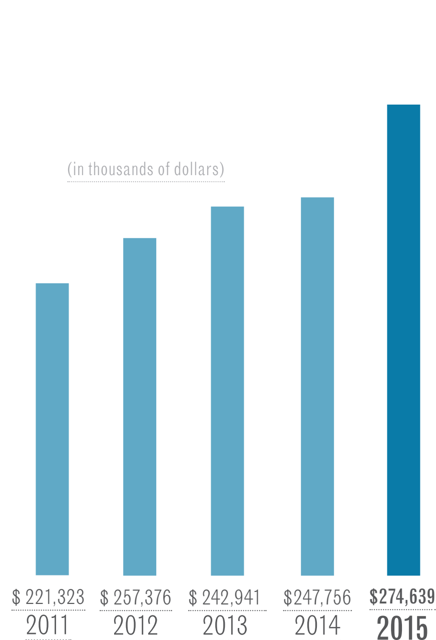
Consolidated Sales

(in thousands of dollars)

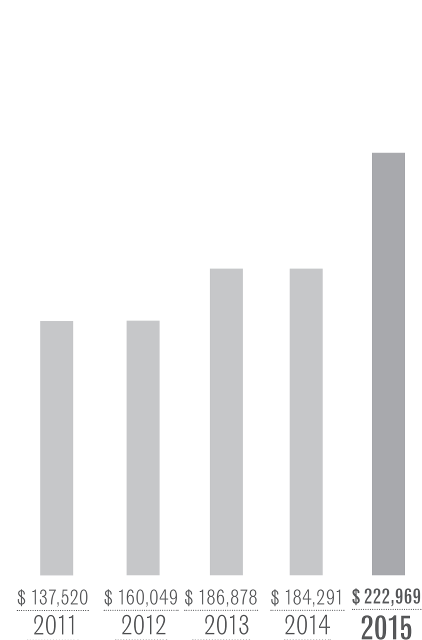


EBITDA

(in thousands of dollars)



Annual Sales



Total Assets

(in thousands of dollars)

U.S. Department of Energy standards for energy efficiency became law on January 1, 2016. New legislation prompted U.S. customers to increase their inventory levels in 2015 for product manufactured and inventoried pre 2016.

We continue to be an industry leader, to grow market share and remain financially and operationally strong.

Fellow Shareholder,

I am pleased to report that despite continuing volatility in many of our markets as well as the global economy, Hammond Power Solutions Inc. ("HPS") delivered increased sales and profit growth in 2015. Sales were up 11% compared to 2014 while net earnings increased by 250% compared to the previous year.

We recognize that our financial performance in 2014 was the worst since the 2008 recession and it bears mentioning that our results in 2015 were delivered in market and economic conditions that were equally as challenging as 2013 and 2014. I believe that our performance came not only from hard work and aggressively growing our market share; but also through the fortitude of our employees to succeed and by our broad diversification of geography, markets, channels, and products, all of which are strategic elements that we have consciously developed and cultivated over the last fifteen years.

Along the way, we have benefitted from the depreciation of the Canadian dollar – a welcome relief from the many years when our dollar was trading at or close to parity with the U.S. dollar, which damaged the competitiveness of manufacturing in Canada for too long.

2015 was also a very busy year in terms of working on and delivering a number of key strategic projects. United States ("U.S.") Department of Energy ("DOE") standards for energy efficiency became law on January 1, 2016 and we were forced to change hundreds of our transformer designs to comply. This new legislation resulted in abnormally stronger Quarter 4, 2015 sales demand, as there was a cost advantage to U.S. customers to increase their inventory levels in 2015 for the product manufactured and inventoried pre 2016. This favourably impacted the Company's Quarter 4, 2015 sales by approximately $7 million and will have a negative effect on the first quarter sales of 2016 as customer demand will soften until their inventory levels normalize.

Along with our strategy to meet these new standards with cost effective transformer designs, we established a joint venture, Corefficient S. de R.L. de C.V. "Corefficient", constructing a new core production facility in Monterrey Mexico. Extensive time and resources went into delivering these two projects before the new efficiency standards came into effect, and as a consequence on a large scale, it is our view that HPS was the best prepared of any transformer company in North America.

Considerable attention was also put into expanding the sales of our operations in Europe and India with some success. Although a slow start to 2015, HPS sales have picked up in India, one of the fastest growing, large economies in the world.

We are very proud of our accomplishments in 2015, especially given the most prolonged, challenging economic environment HPS has experienced in over 30 years. But we remain both cautious and mindful of the current uncertainty surrounding the global economy, while at the same time looking for opportunities to grow our sales and improve our profitability further by taking advantage of our broad market and business diversification.

As we enter 2016, we believe strongly in the fundamental merits of our business, including our objective to grow your investment in HPS through improved performance and execution of our operational goals over the long-term.

We remain focused on strategic market positioning, continued strong organic growth, gross margin improvement and the effective management of our costs and capital.

Establishment of a joint venture – Corefficient S. de R.L. de C.V. "Corefficient", resulted in the construction of a new core production facility in Monterrey Mexico.

Considerable attention was put into expanding the sales of our operations in Europe and India.

WE BELIEVE THAT REMAINING A FOCUSED AND INDEPENDENT COMPANY GIVES US AN ADVANTAGE IN EMPLOYEE AND MANAGEMENT CULTURE AS WELL AS FASTER REACTION TIME COMPARED TO THE TYPICAL GLOBAL CONGLOMERATE.

REVIEW OF OPERATIONS

For the last three years the central theme for running a business in the electrical industry has been how one can grow and improve profitability in a challenging global economy. 2015 was the third consecutive year of the economy not performing up to expectations and forecasts. Our global economy has become much more inter-connected and complicated over the last ten years, making it increasingly difficult to predict and plan even twelve months into the future.

After the world rebounded from the 2008/2009 recession, lead to a great extent by continuing government and infrastructure spending in China, the so called "Commodity Bubble" burst in 2013. This instigated not only a rapid decline in prices for raw materials like copper, iron ore and other metals; it also caused a significant drop in the investment in mining infrastructure which rippled across the world. Then in 2014, a combination of oversupply and falling oil prices began to batter oil exploration and extraction in high cost areas like Canada, the U.S. and deep offshore deposits. These circumstances have not only hurt the economies of many commodity dependent states, provinces and countries around the world, it has also negatively impacted Original Equipment Manufacturers ("OEMs") involved in mining equipment, pipeline construction, refinery expansions and drive system applications such as drilling and pumping – all once sizeable markets for HPS.

The pronounced slowdown of economic activity in China as well as Russia, Brazil and other emerging countries, has also caused a weaker demand for U.S. manufactured products exported abroad. Some of this has been caused by a strong U.S. dollar, and much of it is the consequence of the falling consumption of almost everything around the world in this decade of slow growth.

For a variety of reasons, the two largest geographical markets for HPS, Canada and the U.S., have seen a rapid deceleration of economic growth. Canada had a rough year, with the country technically falling into recession for two of the four quarters in 2015. Parts of the U.S. that benefited significantly from investment in "fracking" activities have also experienced a precipitous drop in economic activity over the last two years as well.

All of this has had a significant impact on HPS. For many reasons well beyond our control, we have seen sales in certain markets fall by as much as $50 million in total since they peaked in 2012. This drop in sales doesn't represent a loss in market share to any of our competitors. The transformer business in these markets just went away with the bursting of the "Commodity Bubble" and all of its direct and indirect impacts on the customers and countries affected by this – which have been significant and broad based.

As a management team two years ago, we resolved that we would not be willing victims to the global economy and things beyond our control. We will instead focus on what we have control over and where possible, take advantage of the strengths we have developed over the last fifteen years as a company, such as geographical reach. When Canada slows, we can elevate our activities in the U.S. – the world's largest market. We have a large and growing footprint across the U.S. and this has allowed us to increase our sales in the construction markets for commercial, retail, data centre and institutional buildings – all positive areas of growth over the last three years.

Following years of recession in the Eurozone, Europe seems to be climbing out of its economic stupor. Spain is leading the recovery with other countries like Germany, the United Kingdom, Poland and even Italy are seeing positive Gross Domestic Product ("GDP") growth. Europe serves as a close base, geographically and culturally, serving North Africa and the Middle East as well.

India is a relatively new market for HPS, with increasingly exciting potential. Even though the country has not benefited as much as expected after the national elections of two years ago, economic momentum is accelerating as China's declines. The huge population, the decrepit state of its infrastructure and the enormous need for improved electrification, all make India one of the most attractive countries for GDP growth in the world for the decade to come.

WHEN CANADA SLOWS, WE CAN ELEVATE OUR ACTIVITES IN THE U.S. – THE WORLD'S LARGEST MARKET.

We are expanding our efforts to grow sales in selective countries and regions around the world, served from one of our plants located in North America, Europe or India. This includes Mexico, Central America, the Caribbean, South Africa, Israel, Saudi Arabia, Singapore, the Philippines and Australia, to name a few. Many products that we sell to the North American OEM market, already end up in the Middle East, Africa or South America. As global production becomes more regionalized, one of the developing long-term strategies is the ability to serve the global needs of our OEM customers from one or more plants around the world. Unlike almost all of our competitors, we have regional plants that can serve Europe, Asia and other regions of the globe where products will either be manufactured or shipped to as part of construction projects.

Another growth opportunity for HPS in these challenging times is to take advantage of our multiple channels to market. This is particularly beneficial in North America where we sell our products through distributors, directly to OEMs, as well as private branding transformers for other companies. This strategy gives us a broad penetration of both markets and geography — in some cases globally, as mentioned. This gives HPS a dominant market position in Canada. It has also given us three channels of growth in the U.S. Over the last decade, we have put considerable effort into expanding our distributor network from coast to coast. This net is now catching more and more industrial and construction business as the U.S. economy improves. It is also offsetting much of the loss in OEM business that we have experienced over the last three years due to the meltdown in commodities and all of the equipment and systems business associated with this.

We are using our experiences from North America to develop multiple channels to markets in both Europe and India. Although the importance of various channels to market differs from region to region, we can build on both our experience as well as relationships to grow our sales in other parts of the world too.

Product development is also playing an important role in finding new ways and places to grow. Over the last three years, we have expanded our products and capabilities in power transformers to take advantage of growth in the U.S. construction markets. We have also been developing our capabilities to design and build cast resin transformers in North America that will open up new applications and customers for HPS in the industrial and alternative energy markets along with the other types of products that we manufacture. At the current time, there are only a handful of companies that build cast resin transformers in North America to the much more demanding Underwriters Laboratories ("UL") electrical standards, and of these only one has substantial market share.

The most recent business that HPS has entered into with our joint venture partner, National Material, is a new and separate company that will design and manufacture transformer cores for sale to other transformer companies. Together we have invested close to $25 million dollars in an 110,000 square foot state-of-the-art core cutting facility in Monterrey Mexico. With the introduction of new mandatory energy efficiency levels in the U.S., we believe that there is a growing

and profitable opportunity to build cores for transformer companies in Mexico and the U.S. that may not want to make the investment in equipment necessary to build cost-effective cores to meet the new Department of Energy standards.

The new Monterrey core cutting facility is the largest single investment not only in 2015 but also in the history of HPS. This is an example of how HPS invests more in its business than any other dry transformer manufacturer in North America. Since 2000, we have invested in three new plants in Mexico, expansion of our Granby and Guelph facilities, a new ERP system, as well as new equipment and tooling in all facilities. Along with four acquisitions over the last ten years, HPS has invested over $100 million in growing our business — expanding our geographical reach, broadening our product range, reducing our costs, and improving our service capabilities.

As important as new plants and equipment are, we believe that our real core advantage is rooted in our employees and Company culture. Hammond was started and grew as a family business with four brothers involved not only in many aspects of its operation but also working closely with their employees. For over sixty years it was very much a "family" business where the wellbeing of our employees mattered very much. Today with over thirteen hundred employees scattered around fourteen facilities in Canada, the U.S., Mexico, Italy and India, it has become increasingly difficult to have the same "family" feeling as years ago. Company shareholdings are still controlled by the Hammond family, and the wellbeing of our employees is still very important, as we believe that caring and passionate employees are our most valuable asset. This is one reason that we created our continuous improvement program "TRANSFORM" in order to eventually engage all of our employees in serving our customers better and as a result create a more satisfying and secure place to work. We also believe that remaining a focused and independent company gives us an advantage in employee and management culture as well as faster reaction time compared to the typical global conglomerate.

In the kind of global economy we find ourselves experiencing this decade, we will need all of the advantages we can to develop and nurture, a reputation for quality second to none including management culture, broad product capabilities, diverse markets and channels and of course passionate employees. Looking forward over the next five years, we believe that the current slow growth environment will continue until the end of the decade. At this point, we haven't been able to identify what will serve as that new catalyst of growth like the rise of China or the speculative spike in commodity prices from the last decade. We believe that in order to grow in this kind of environment, successful companies will have to take market share while controlling costs at the same time to remain competitive. A selective acquisition that expands our market and product coverage may make sense as well, though it has to be the right opportunity at the right price. We are ever mindful that this recovery, as stunted as it has been, is six years old and another recession is lurking maybe one to three years down the road. Some are even concerned that the U.S. could fall back into recession in 2016. Early indications so far show an economy that lacks positive direction and confidence. We are however cautiously optimistic that both the economy and our sales will improve as we move into the middle and later part of the year. A great deal of this optimism is based on the plans that are already underway to increase our market share in North America, Europe and India. As pointed out earlier, we have no control over the economy, so as a management team and Company, we need to focus on what we have control over while aggressively pursuing opportunities for growth around the world, taking advantage of our many strengths in the transformer business.

WE HAVE THE FORTITUDE, AND THE COMMITMENT TO GROW HAMMOND POWER SOLUTIONS THROUGH THE NEXT 100 YEARS.

One thing that we are indeed looking forward to in 2017 is the 100th anniversary of our company. We have been building transformers for over eighty years and Hammond Power Solutions is very proud to be part of this tradition and history. We are also extremely proud to be a Canadian-owned company that is the largest in North America and is working hard to become a global manufacturer. We may have fourteen facilities scattered around the globe, but our head office remains in the same Canadian city, Guelph Ontario, where the original company, O.S. Hammond and Son, started in a farmhouse basement in 1917. We wouldn't have survived this long in such a competitive business or become the biggest in North America if we didn't know where we're going and what we need to do to get there.

We have the fortitude, and the commitment to grow Hammond Power Solutions through the next 100 years.

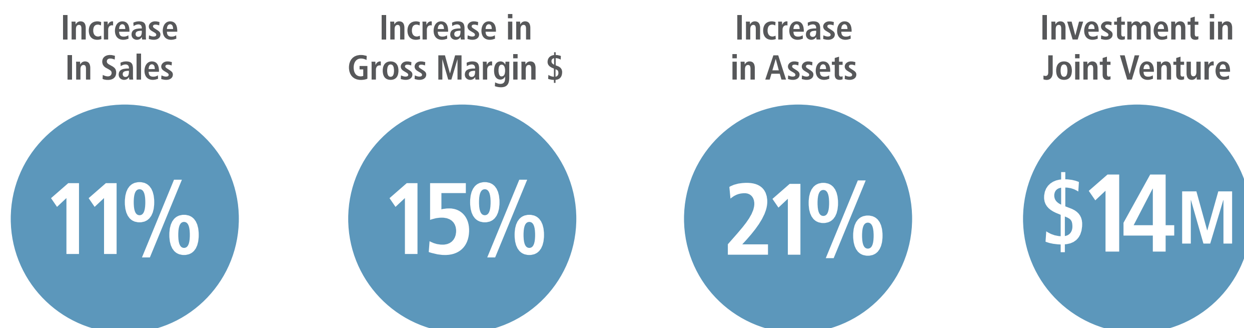
2015 MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the years ended December 31, 2015 and 2014, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2015 and 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This information is based on Management's knowledge as at March 28, 2016. 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.



DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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, 2015 and December 31, 2014 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.

The Company's 2015 consolidated financial statements, which comprise the statement of financial position as at December 31, 2015 and December 31, 2014, the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and Notes thereto, have been prepared using IFRS.

Overview

HPS is a company rich in history and achievement – an industry leader, focused on growth, engineered to order solutions, a broad product offering, multiple sales channel access, high quality standard products and a global presence.

HPS is energized by its employees – our passion and drive is the strength of the organization and we are committed to the execution of the Company's operational initiatives and strategic vision.

The soft global market and economic instability continued to adversely impact the electrical industry and hence HPS as well in 2015. In the face of the negative market conditions particularly in the gas, oil, and mining extraction industries as well as the Original Equipment Manufacturer ("OEM") markets, HPS remains steadfast in its plan and operational execution.

HPS is built on a strong financial base and a clear strategic vision for growth. We continue to be confident in the Company's future. The acquisition of various international companies over the last number of years demonstrates our commitment to sales growth, through an increased global footprint to our served markets as well as providing us with new technology. Going forward, these operations will be solid contributors to our revenue and profitability – an integral part of HPS' success. Our new joint venture, Corefficient S. de R.L. de C.V. ("Corefficient") creates vertical integration for our raw material supply line, provides a competitive advantage and will be a significant contributor of the strategic vision of the Company.

The Company achieved revenue and market share growth, improved margin rates, increased profitability and maintained an overall healthy financial position through the implementation of our operational initiatives and longer-term strategic projects. HPS' focus continues to be on sales growth, gross margin improvements and operational improvement, which

are vital in delivering consistent strong financial performance. Globally, in the United States ("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 challenging economic environment 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.

Current market conditions, which are soft globally, continue to be challenging for the Company. The industry outlook indicates modest economies in Canada, the U.S., and Europe. Globally, the markets' short-term outlook is uncertain and unpredictable. In the medium and longer-term there is moderate optimism of improvements, particularly in North America. The Company maintains a heightened awareness 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.

HPS is continuously developing new market opportunities. 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's facing. Opportunities will come from combined organic and new customer sales expansion, new product development, added capacity, and manufacturing agility. Our multi-national operational capabilities provide expanded market opportunities going forward and deliver solid revenue and profitability increases, while enabling the Company to add to its strong financial position. HPS remains confident and steadfast that the business base that it has constructed, combined with its strategic vision, will support and generate growth. The Company is unwavering in its focus on continuous improvement, cost reduction, efficiency and overall cost effectiveness.

2015 financial results were impacted by the new Department of Energy ("DOE") regulations effective January 1, 2016. This new legislation resulted in abnormally stronger Quarter 4, 2015 sales demand, as there was a cost advantage to U.S. customers to increase their inventory levels in 2015 for the product manufactured and inventoried pre 2016. This favourably impacted the Company's Quarter 4, 2015 sales by approximately $7 million and will have a negative effect on the first quarter sales of 2016 as customer demand will soften until their inventory levels normalize.

A benefit of the Company not being single market dependent, allows it to capitalize on growth in expanding market segments and counterbalance the impact of cyclical market declines. Continued sales variability is expected with growth in some of our market segments and with some decline in others. A portion of our 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. The Company remains attentive and not complacent, calculating the risks and opportunities that are present and is resolute in the execution of its strategies. While there are many challenges, there are also many opportunities; sales and order booking rates continue to grow due to the execution of sales growth projects in strategic target markets that deliver additional market share penetration, new account development and expansion of organic sales.

The Company's balance sheet continues to be strong, has resilient 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.

HPS remains attentive to its strategies to grow its market share and will continue to take advantage of OEM and distributor sales opportunities. A focus on custom product design capabilities, competitive lead-times, product breadth, cost competitiveness 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. 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. 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. During 2015 the Company and National Material L.P. announced the formation of Corefficient, a joint venture located in Monterrey, Mexico. Corefficient will design, manufacture and market energy efficient electrical cores, a major component used in dry-type and liquid filled transformers. These electrical steel cores comply with new U.S. energy efficiency standards that came into effect January 1, 2016. Under the terms of the joint venture agreement, the Company has a 55% ownership interest. Management believes this venture will combine the strengths of both companies and enhance HPS' competitiveness and financial performance. This venture is further evidence of the Company's diversity and dedication to growth and profitability expansion.

We are confident in our strategic growth initiatives. HPS will further expand the Company's market share by leveraging its broad product offering, global reach, and strong financial position.

The Company is well positioned for the future.

Sales

Sales in 2015 were $274,639 as compared to sales of $247,756 in 2014, an increase of $26,883 or 10.9%.

U.S. market sales (stated in Canadian dollars) were $165,750, an increase of $22,250, or 15.5%, compared to 2014 sales of $143,500. U.S. sales, when stated in U.S. dollars, were consistent from $129,777 in 2014 to $129,804 in 2015. The U.S. market attained significant increases in the North American Electrical Distributor ("NAED") and switch gear markets, partially offset by decreases in the motor control and alternative energy markets.

Consolidated sales were positively impacted by the strengthening of the U.S. dollar relative to the Canadian dollar which is the Company's functional currency. The average U.S. to Canadian exchange rate for 2015 was $1.274 versus $1.103 in 2014, a U.S. dollar strengthening of 15.5%.

Canadian sales were $76,064, an increase of $3,021 or 4.1% as compared to sales of $73,043 in 2014. There have been moderate increases in capital and institutional construction projects. Canadian sales continue to be negatively impacted by OEM lower business activity in several market segments, particularly the power and switch gear markets. The Canadian distribution channel continued to remain softer than anticipated for the year.

The Company made gains in market growth in its international operations in 2015. The Company realized sales growth internationally of $1,612 or 5.2%, finishing at $32,825 for the year versus sales of $31,213 in 2014. Despite the continuing European economic crisis the Company is increasing market share. Our cast coil technology further enhances the Company's ability to serve new customers and expanded markets.

Past acquisitions have broadened the Company's product offering and manufacturing capabilities in cast resin technology as well as expanded the HPS footprint into Europe and India. The Company will continue to grow its market share globally as a result of its expanded product offering, the addition of new customers, geographically diverse manufacturing facilities and extended market reach. HPS' commitment to its growth strategy is evidenced by its acquisition activities, capital expenditure program and vertical integration strategies – with the most recent example being the joint venture Corefficient.

The Company continues to increase its market share through distributor conversions and custom transformer capabilities. This increase has also been buoyed by a significantly improved NAED market, switch gear, alternative energy and capital projects. The European markets continue to be depressed, while the electrical market in India reflected moderate improvement in 2015. Additional sales growth came from the further expansion of our global markets. Global acquisitions broadened 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 through an expanded product offering and new customers.

The Company's strategies supported sales growth in several market segments relating to its expertise in custom engineered products, global presence, product breadth, competitive product design and consistent quality. The Company's market diversification strategies provide a business hedge, as the Company is not single market or industry dependent.

Stated by geographic segment, sales in the U.S. were 60.4% of our total sales in 2015 versus 57.9% in 2014, sales in Canada were 27.7% in 2015 as compared to 29.5% last year, International sales accounted for 11.9% of the Company's overall sales in 2015 compared to 12.6% in 2014.

International expansion continues to be an area of focus for HPS, as evidenced over the past several years by the Company's strategic acquisitions. The Company is committed to producing transformers with uncompromised quality standards, competitive custom engineered designs, new product development and product breadth. This combined with a strong, effective distribution channel and multi-national manufacturing capabilities, will continue to be a competitive advantage to the Company and important to revenue growth.

Order bookings and backlog

Overall, 2015 bookings increased by 12.0% over the prior year. In 2015, direct sales bookings increased by 13.6% and the distributor channel grew by 10.5%. The direct channel increase was impacted by significant booking increases internationally, especially in Europe and India, and higher U.S. booking rates favourably impacted by a higher U.S. dollar exchange rate. The distributor channel increased in both the U.S. and Canadian markets, supported by the stronger U.S. exchange rate and high demand for distribution transformer sales that will be affected by the U.S. DOE legislation effective January 1, 2016. The Company's backlog decreased by 0.2% over the prior year due to this abnormal surge in the quarter.

Quotation activity is steady despite the soft world economy and wavering North American OEM market conditions. It is expected that the Company's strategic sales initiatives, market share growth, expanded distributor network and new products will result in an elevation in our booking rates.

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 is pleased with the increased gross margin rates of 24.0% achieved in 2015 versus 23.2% in 2014, an improvement of 0.8% of sales. The change in margin rates can be attributed to product and customer mix, pricing gains, geographic blend, cost reduction and lift in manufacturing throughput due to the increased sales levels. Foreign currency fluctuations have also had a net favourable impact on gross margin rates.

While the current year gross margin increased, the Company continues to battle selling price pressures due to the available excess industry capacity. The Company continues to implement changes to protect the gross margin rate. As a result of the sales increase and rise in the gross margin rate, gross margin dollar contribution increased $8,397 or 14.6% finishing 2015 at $65,882 versus $57,485 in 2014.

There continues to be modest signs of economic improvement, particularly in the U.S., although the markets continue to be still somewhat unpredictable. The uncertain economic environment and slow global recovery have negatively impacted margin rates from a

price and manufacturing capacity utilization perspective. To mitigate the impact, the Company has implemented a number of cost reduction activities, continues to advance its geographic footprint, continues to expand manufacturing capabilities and continues to invest in new product development. A diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. While the additional fixed costs associated with capacity expansion are dilutive to net margin rates, in the short-term as sales grow, the favourable influence 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 confident in obtaining increased productivity improvements, cost reductions and lead-time improvements in the entire organization. The Company is confident that these actions will improve margin rates.

The Company has significantly invested 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. Gross margin rates are supported by the maintenance of market price combined with material procurement and engineering cost reduction initiatives.

Selling and distribution expense

Total selling and distribution expenses were $29,914 for 2015 versus $28,247 in 2014, an increase of $1,667 or 5.9%. When compared on a percentage-of-sales basis, total selling and distribution decreased significantly to 10.9% of sales compared to 11.4% of sales in 2014. The majority of the increase, $1,706 or 102.4%, relates to the foreign exchange translation of our U.S. denominated expenses compared to the previous year. Despite the increased sales in 2015, the associated variable commission, freight costs and the impact of the stronger U.S. dollar on our U.S. expenses, the Company effectively reduced its spending as a percentage of sales.

General and administrative expense

General and administrative expenses in 2015 were higher by $546 or 2.4%, totaling $23,324 when compared to $22,778 for 2014. On a percentage-of-sales basis these costs decreased from 9.2% in 2014 to 8.5% in 2015. On an annual basis, $887 of the year-over-year change is related to the foreign exchange translation of our U.S. denominated expenses. The additional expenses caused by the increased foreign exchange are offset by strategic reductions in discretionary spending.

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. 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 $12,644 in 2015, as compared to $6,460 in 2014, a significant increase of $6,184 or 95.7%.

The improvement in earnings from operations is a result of the increase in sales and improved gross margin rates.

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

		2015		2014
Net earnings for the year	$	**6,320**	$	2,520
Add:				
Income tax expense		**4,337**		2,223
Finance and other costs		**1,987**		1,717
Earnings from operations	$	**12,644**	$	6,460

Interest expense

The interest expense for the year-ended December 31, 2015, finished at $1,047 as compared to $1,029 in 2014, an increase of $18 or 1.7%. Interest expense is comparable to the prior year and is a result of similar operating debt levels in the year due to the joint venture investment, operational capital expenditures, previous acquisitions and working capital requirements. Interest expense includes all bank fees.

Foreign exchange loss

The foreign exchange loss in 2015 of $4 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 $621 in 2014. A decrease in the foreign exchange loss is related to the increased volatility in the exchange rates during the year where the U.S. dollar gained 15.5% relative to the Canadian dollar. This volatility was offset by HPS' hedging program.

At December 31, 2015, the Company had outstanding foreign exchange contracts in place for 11,200 EUR and $7,800 U.S., both implemented as a hedge against translation gains and losses on inter-company loans and $25,500 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, 2015 are discussed in Note 25 in the Notes to Consolidated Financial Statements contained in our 2015 Annual Report.

Income taxes

As a result of an increase in income before income tax expense, 2015 income tax expense is $4,337 as compared to $2,223 in 2014, an increase of $2,114. The consolidated effective tax rate for 2015 decreased to 40.7% versus 46.9% last year, a difference of 6.2%. In 2015, non-tax-deductible costs, including stock option expense, decreased the effective tax expense rate by 1.0%. The proportion of income earned in higher tax jurisdictions decreased the effective tax

rate by 3.8% and a smaller proportion of earnings eligible for reduced rates together with other items decreased the effective rate by 1.4%.

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 15 in the Notes to Consolidated Financial Statements contained in our 2015 Annual Report.

Net earnings

2015 earnings before income taxes increased to $10,657 as compared to $4,743 in 2014, an increase of $5,914 or 124.7%. The main contributors to the higher net earnings were increased sales, improved gross margin and a reduction in foreign exchange losses. These increases were partially offset by a loss on investment in joint venture of $848 resulting primarily from costs associated with the startup and commissioning of Coreﬃcient.

Our 2015 net earnings were $6,320 versus $2,520 in 2014, an increase of $3,800 or 150.8%. Net earnings were also positively impacted by a lower effective tax rate when compared to 2014.

EBITDA

EBITDA for the year-ended December 31, 2015 was $18,748 versus $12,327 in 2014, an increase of $6,421 or 52.1%. Adjusted for foreign exchange loss, adjusted EBITDA for Fiscal 2015 was $18,752 versus $12,948 in Fiscal 2014, an increase of $5,804 or 44.8%.

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

	2015	2014
Net earnings	**$ 6,320**	$ 2,520
Add:		
Interest expense	**1,047**	1,029
Income tax expense	**4,337**	2,223
Depreciation and amortization	**7,044**	6,555
EBITDA	**$ 18,748**	$ 12,327
Add:		
Foreign exchange losses	**4**	621
Adjusted EBITDA	**$ 18,752**	$ 12,948

Summary of quarterly financial information (unaudited)

Fiscal 2015 Quarters	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales	$ 63,137	$ 65,384	$ 65,378	$ 80,740	$ 274,639
Net earnings	$ 781	$ 1,096	$ 1,092	$ 3,351	$ 6,320
Net earnings per share – basic	$ 0.07	$ 0.09	$ 0.10	$ 0.27	$ 0.53
Net earnings per share – diluted	$ 0.07	$ 0.09	$ 0.10	$ 0.27	$ 0.53
Average U.S. to Canadian exchange rate	$ 1.235	$ 1.231	$ 1.302	$ 1.329	$ 1.274

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

Sales in 2015 increased each quarter compared to 2014 due to the timing of commercial construction projects, as well as small improvements in general economic conditions. Sales in Quarter 4, 2015 were significantly impacted by customer demand for product affected by the U.S. DOE regulation changes that became effective January 1, 2016. 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, 2015 financial results

	December 31, 2015	December 31, 2014
Sales	$ 80.740	$ 64,529
Earnings from operations	$ 6,100	$ 2,472
Exchange (gain) loss	$ (113)	$ 381
Net earnings	$ 3,351	$ 804
Earnings per share — basic	$ 0.27	$ 0.08
Earnings per share — diluted	$ 0.27	$ 0.08
Cash provided by operations	$ 8,887	$ 4,788

Sales for the quarter ended December 31, 2015 were $80,740, an increase of $16,211 or 25.1% from the comparative quarter last year, which is reflective of the impact of the continued demand for our product, regulation changes, expanding geographic markets and a favorable product mix.

Quarter 4, 2015 gross margin dollars increased by $5,031 compared to Quarter 4, 2014. Gross margin rates increased to 25.5% in Quarter 4, 2015 versus 24.1% in Quarter 4, 2014 as a result of sales mix and higher manufacturing throughput.

Total selling and distribution expenses amounted to $8,806 in Quarter 4, 2015 versus $7,202 in Quarter 4, 2014, an increase of $1,604 or 22.3%.

The general and administrative expenses for Quarter 4, 2015 totaled $5,663, a decrease of $201 or 3.4% when compared to Quarter 4, 2014 costs of $5,864. This decrease in Quarter 4, 2015 compared to Quarter 4, 2014 is a result of prudent and conservative spending, despite increased expenses attributed to the foreign exchange translation of our U.S. denominated expenses.

The foreign exchange gain in Quarter 4, 2015 was $113 compared to a foreign exchange loss of $381 in Quarter 4, 2014. The majority of the Quarter 4, 2015 foreign exchange gain was a result of transactional losses in Canada due to the strengthening of the U.S. dollar relative to the Canadian dollar in the quarter being offset by gains on settlements of foreign exchange contracts.

Earnings from operations for the quarter were positively impacted by higher sales, as well as an increase in margin rates, which created an increase in gross margin dollars. Quarter 4, 2015 earnings from operations improved $3,628 or 146.8% finishing at $6,100 in the quarter as compared to $2,472 in Quarter 4, 2014.

Quarter 4, 2015 income tax expense was $1,874 on earnings before income taxes of $5,274 (an effective tax rate of 35.5%) as compared to an income tax expense of $1,056 on earnings before income taxes of $1,860 (an effective tax rate of 56.8%) in Quarter 4, 2014, an increase of $818.

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, 2015 were $3,351 compared to $804 in Quarter 4, 2014, an increase of $2,547 or 316.8%. Cash provided by operations for Quarter 4, 2015 was $8,887 versus $4,788 in Quarter 4, 2014, an increase of $4,099. The increase in the cash generated from operations was primarily due to the increased net earnings as well as a fluctuation in the changes in non-cash working capital from a generation of cash in the quarter of $1,407 compared to $1,748 during Quarter 4, 2014.

Operating lines of credit, net of cash, finished the year in a net operating debt position of $9,175 as at December 31 2015, a decrease of $1,547 as compared to a net debt balance of $10,722 as at December 31, 2014, 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 2015 was $16,065 versus $18,450 in 2014, a decrease in cash generated from operations of $2,385. This decrease in cash generated from operating activities is due to increased working capital usage, increased income tax expense partially offset by an increase in net earnings. The increase

in the investment in working capital utilized cash of $2,019 in 2015 versus a reduction in the investment in working capital of $7,484 in 2014, a negative change of $9,503 from 2014. The change in non-cash working capital of $2,019 for 2015 is a result of increases in accounts receivable, inventories, prepaid expenses offset by foreign exchange adjustments and an increase in accounts payable and accrued liabilities.

Accounts receivable finished the year at $61,951 as compared to $47,381 as at December 31, 2014, an increase of $14,570 which was a result of higher Quarter 4 sales in 2015 compared to 2014. During 2015, the focus has been on its customer accounts receivable collections cycle time and current inventory turnover rates. 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 $43,549 as at December 31, 2015, versus $37,961 as at December 31, 2014, an increase of $5,588. This increase can be attributed to a planned increase in year-end inventory to address the DOE regulation changes, which took effect on January 1, 2016.

Accounts payable and accrued liabilities increased by $10,124 finishing at $48,165 as at December 31, 2015 compared to $38,041 at the end of 2014. The increase in accounts payable is related to the timing of purchases from and payments to suppliers.

Net income taxes payable were $2,427 (income taxes payable of $3,089 less income taxes receivable of $662) as at December 31, 2015, versus net income taxes receivable of $1,658 (income taxes receivable of $1,863 less income taxes payable of $205) as at December 31, 2014 a change of $4,085.

Cash provided by financing activities was $7,913 in 2015, compared to cash used of $10,466 in 2014, a change of $18,379. This change was due to increases in bank operating lines, less the payment of dividends of $2,807 and repayment of debt of $251.

Cash used in investing activities in 2015 decreased $4,263 from $13,027 in 2014 to $8,764 in 2015, a result of a decrease in capital investment. There was a decrease in capital spending of $2,331 over the prior year, totaling $1,962 in 2015, compared to $4,293 for 2014. Expanded manufacturing capacity and new product development were areas of capital expenditure spending. In addition there was "normal" maintenance capital invested at all facilities and manufacturing product mandated projects.

Bank operating lines of credit finished the year at $29,166 as at December 31, 2015, compared to $17,178 as at December 31, 2014 resulting in an increase of $11,988 in the year.

Overall bank lines of credit, net of cash, resulted in net debt of $9,175 as at December 31 2015, a decrease of $1,547 as compared to a net debt balance of $10,722 as at December 31, 2014, primarily reflecting an increase in cash generated by financing and operations during the year.

All bank covenants were met as at December 31, 2015, 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 $9,175, supplemented by debt financing as required. The Company is well funded, ensuring it has sufficient cash and debt capacity to fund its operating activities, investments and strategic growth initiatives. The Company has several alternatives to fund future capital requirements, including its existing cash position, credit facility, future operating cash flows and debt or equity financing, and continually evaluates these options to ensure that the appropriate mix of capital resources is effectively managed for current and future requirements.

The Company has capital expenditure commitments of $1,982 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 23 in the Notes to Consolidated Financial Statements contained in our 2015 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.

	2016	2017	2018	2019	2020	Total
Operating leases	$ 1,950	$ 1,096	$ 1,055	$ 743	$ 15	$ 4,859
Accounts payable and accrued liabilities	48,165	–	–	–	–	48,165
Derivative liabilities	261	–	–	–	–	261
Capital expenditure purchase commitments	1,128	–	–	–	–	1,128
Operating lines of credit	29,166	–	–	–	–	29,166
Long-term debt	4,027	–	–	–	–	4,027
Total	**$ 84,697**	$ 1,096	**$ 1,055**	**$ 743**	**$ 15**	**$ 87,606**

Put option liability

In relation to the non-controlling interest in PETE Hammond Power Solutions Private Limited ("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, 2015 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 near 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 Company continued with its quarterly cash dividend of six cents ($0.06) per Class A Subordinate Voting Share of HPS and of six cents ($0.06) per Class B Common Share of HPS.

The Quarter 1 dividend was paid on March 27, 2015 to shareholders of record at the close of business on March 20, 2015. The ex-dividend date was March 18, 2015. The Quarter 2 dividend was paid on June 25, 2015 to shareholders of record at the close of business on the 18th day of June 2015. The ex-dividend date was June 16, 2015. The dividend for Quarter 3 was paid on September 24, 2015 to shareholders of record at the close of business on September 17, 2015. The ex-dividend date was September 15, 2015. The Quarter 4 dividend was paid on December 19, 2015 to shareholders of record at the close of business on December 12, 2014. The ex-dividend date was December 10, 2015.

In 2015, the Company has paid a total 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 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, 2015, the Company conducted an evaluation, under the direction and supervision of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2015 such disclosure controls and procedures were operating effectively.

Internal controls over financial reporting

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

Canadian Securities Administrators require that companies certify the effectiveness of internal controls over financial reporting. It also requires a company to use a control framework such as the COSO Framework to design internal controls over financial reporting. As well, the threshold for reporting a weakness of internal controls over financial reporting should be of a "material weakness" rather than "reportable deficiency." HPS has designed its internal controls in accordance with the COSO Framework and has carried out retesting in 2015, which was completed in the fourth quarter.

As of December 31, 2015 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, 2015.

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

During 2015 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 4, 2016 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 25, 2016 to the shareholders of record at the close of business on March 18, 2016. The ex-dividend date was March 16, 2016.

Purchase of Minority Interest

On March 5, 2016, HPS signed an agreement to acquire the shares of a 15% minority shareholder of PETE for 172,625 Indian Rupees (approximately $3,387 Canadian dollars). This increases HPS's equity ownership of PETE to 85%.

Purchase of Marnate Building

On February 18, 2016, HPS signed an amendment to the share purchase agreement for Marnate Trasformatori s.r.l., to defer the date of completion of the transfer of full title to and ownership of the Marnate properties to June 30, 2016. The purchase price of the properties will be 2,580 EUR (approximately $3,800 Canadian dollars).

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:

- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or recession;
- 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;
- 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 aware of these risks and continually assesses the current and potential impacts that they may 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:

Currency fluctuations

With HPS' current global footprint, currency fluctuations and volatility have a significant impact on the financial results and continues to be an area of attention. 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 within quarters. 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. operations.

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.

The acquisitions in Italy and India created assets 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 these foreign entities.

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

Global economic conditions

Current global economic conditions influence the Company's focus, direction and financial results. To address the current uncertainty we are concentrating our efforts on projects that will increase our cost competitiveness, capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. Our focus is on expanding our market share during this economic slowdown and considers the key to achieving this 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.

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.

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 strategic acquisitions, investment in the joint venture, 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 mindful 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 currently 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.

Off-balance sheet arrangements

The Company has no off-Balance Sheet arrangements, other than operating leases disclosed in Note 14 in the Notes to the Consolidated Financial Statements contained in our 2015 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2015, as disclosed in Note 21 in the Notes to the Consolidated Financial Statements contained in our 2015 Annual Report.

Proposed transactions

The Company had no proposed transactions as at December 31, 2015. 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, 2015, the Company had outstanding foreign exchange contracts in place for 11,200 EUR and $7,800 USD both implemented as an economic hedge against translation gains and losses on inter-company loans and $25,500 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, 2014 for 10,800 EUR, and $6,500 USD as economic hedges against translation gains and losses on inter-company loans and $21,000 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 25 in the Notes to the Consolidated Financial Statements contained in our 2015 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, 2015, are as follows:

8,921,624	Class A Shares
2,778,300	Class B Common Shares
11,699,924	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.

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 consolidated financial statements.

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. 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, 2018. 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 consolidated 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 consolidated 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 consolidated financial statements.

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; 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 consolidated 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 consolidated financial statements.

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 with early adoption 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 consolidated 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 consolidated financial statements.

Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has yet to be determined. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

Strategic direction and outlook

HPS has undergone a significant transformation over the past few years.

- Expansion through strategic acquisitions in India and Italy;
- New global customers;
- Expanded relationships with existing customers;
- Compliance with new U.S. Department of Energy regulations and new design and product development;
- Mastering of new technology with the North American introduction of cast resin transformers;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Development and set-up of a joint venture, Corefficient, in a new state of the art facility in Mexico; and
- Implementation of new ERP system to enhance availability of information and streamline processes.

HPS is proud of these accomplishments and the strategic direction of the Company.

While we had a successful year, 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.

Although, the Company's shorter term operating and financial performance has been hindered by these negative factors over the past year, we are confident that the strong business fundamentals that have been established will sustain and grow the Company in the near future and over the long-term. The Company's approach to these circumstances continues to be prudent but not complacent, conservative but progressive. HPS has witnessed the results of these key initiatives having a positive impact. The Company will be unwavering in its pursuit of improvements in terms of productivity gains, cost reductions, sales growth from new product development, geographic diversification, capacity flexibility and escalation of market share.

This approach to growing the company has allowed HPS to continue to be an industry leader, remain financially and operationally strong and able to navigate through the enduring economic uncertainty. We are confident in our vision of the future. The approach to improving profitability for the Company includes sales growth, new product development, market share penetration, geographic manufacturing dispersion, global expansion, and productivity gains.

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 fluctuate in several of our markets. A portion of our sales will come from major customer projects, for which the exact timing is difficult to predict, thus influencing quarterly sales variability.

The Company is committed to ensuring our strategic advantage by focusing our energy on:

- 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; and
- Capital expansion.

Management is determined to continue to enhance the long-term value to our shareholders and remains focused on the success of all stakeholders of the company.

We are unwavering in our strength to persist and our courage to endure.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information

	2011	2012	2013	2014	**2015**
Sales	221,323	257,376	242,941	247,756	**274,639**
Earnings from operations	13,039	18,180	11,036	6,460	**12,644**
EBITDA	15,538	24,352	16,924	12,327	**18,748**
Net earnings	5,993	12,611	6,104	2,520	**6,320**
Total assets	137,520	160,049	186,878	184,291	**222,969**
Non-current liabilities	5,436	5,424	10,220	9,527	**5,454**
Total liabilities	46,072	58,404	77,827	69,854	**90,668**
Total shareholders' equity attributable to equity holders of the Company	91,448	99,387	107,014	112,271	**129,665**
Total cash (debt)	1,681	(990)	(21,104)	(14,833)	**(13,202)**
Cash provided by operations	6,592	21,371	765	18,450	**16,065**
Basic earnings per share	0.52	1.08	0.52	0.22	**0.53**
Diluted earnings per share	0.51	1.08	0.52	0.22	**0.53**
Dividends declared and paid	1,738	2,098	2,328	2,800	**2,807**
Average exchange rate (USD$=CAD$)	0.989	1.0005	1.029	1.1025	**1.274**
Book value per share	7.89	8.54	9.17	9.61	**11.08**

Quarterly Information

	2014				**2015**			
	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Sales	59,953	61,716	61,558	64,529	**63,137**	**65,384**	**65,378**	**80,740**
Earnings from operations	1,303	1,770	915	2,472	**1,446**	**2,623**	**2,475**	**6,100**
EBITDA	3,310	3,262	2,234	3,521	**3,589**	**3,403**	**4,163**	**7,593**
Net earnings	520	936	260	804	**781**	**1,096**	**1,092**	**3,351**
Total assets	185,863	182,373	191,435	184,291	**191,972**	**193,039**	**206,687**	**222,969**
Non-current liabilities	10,303	9,887	9,698	9,527	**5,867**	**5,857**	**5,990**	**5,454**
Total liabilities	73,169	72,155	78,861	69,854	**70,482**	**73,347**	**80,859**	**90,668**
Total shareholders' equity attributable to equity holders of the Company	110,497	108,083	110,346	112,271	**119,094**	**117,283**	**123,375**	**129,665**
Total debt cash	(24,965)	(23,419)	(14,976)	(14,833)	**(18,357)**	**(21,828)**	**(18,886)**	**(13,202)**
Cash (used) provided by operations	(1,645)	3,892	11,415	4,788	**421**	**460**	**6,077**	**8,887**
Basic earnings per share	0.04	0.08	0.02	0.08	**0.07**	**0.09**	**0.10**	**0.27**
Diluted earnings per share	0.04	0.08	0.02	0.08	**0.07**	**0.09**	**0.10**	**0.27**
Dividends declared and paid	700	700	700	700	**702**	**701**	**702**	**702**
Average exchange rate (USD$=CAD$)	1.101	1.092	1.087	1.130	**1.235**	**1.231**	**1.302**	**1.329**
Book value per share	9.47	9.24	9.44	9.61	**10.18**	**10.03**	**10.54**	**11.08**

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 seven 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 28, 2016

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, 2015 and December 31, 2014, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards

Chartered Professional Accountants, Licensed Public Accountants
March 28, 2016
Waterloo, Canada

Consolidated Statements of Financial Position

(in thousands of dollars)		As at December 31, 2015		December 31, 2014
Assets				
Current assets				
Cash and cash equivalents	$	**19,991**	$	6,456
Accounts receivable (note 4)		**61,951**		47,381
Inventories (note 5)		**43,549**		37,961
Income taxes recoverable		**662**		1,863
Prepaid expenses and other assets (note 6)		**2,186**		10,169
Total current assets		**128,339**	$	103,830
Non-current assets				
Property, plant and equipment (note 7)		**45,225**		46,365
Investment in properties (note 8)		**1,044**		1,044
Investment in joint venture (note 9)		**13,162**		–
Deferred tax assets (note 15)		**1,735**		937
Intangible assets (note 10)		**13,858**		14,226
Goodwill (notes 10 and 11)		**19,606**		17,889
Total non-current assets		**94,630**		80,461
Total assets	$	**222,969**	$	184,291
Liabilities				
Current liabilities				
Bank operating lines of credit (note 12)	$	**29,166**	$	17,178
Accounts payable and accrued liabilities (note 19)		**48,165**		38,041
Other liabilities (note 9)		**–**		4,064
Income tax liabilities		**3,089**		205
Provisions (note 20)		**506**		387
Derivative liabilities (note 25)		**261**		105
Current portion of long-term debt (note 13)		**4,027**		347
Total current liabilities	$	**85,214**	$	60,327
Non-current liabilities				
Employee future benefits (note 19)		**389**		294
Provisions (note 20)		**100**		100
Long-term debt (note 13)		**–**		3,764
Deferred tax liabilities (note 15)		**4,965**		5,369
Total non-current liabilities		**5,454**		9,527
Total liabilities	$	**90,668**	$	69,854
Shareholders' Equity				
Share capital (note 16)		**13,843**		13,800
Contributed surplus		**2,434**		2,339
Accumulated other comprehensive income		**18,492**		4,613
Retained earnings		**94,896**		91,519
Total shareholders' equity attributable to equity holders of the Company	$	**129,665**	$	112,271
Non-controlling interests		**2,636**		2,166
Total shareholder's equity		**132,301**		114,437
Commitments and contingencies (note 14)				
Subsequent events (note 28)				
Total liabilities and shareholders' equity	$	**222,969**	$	184,291

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, 2015 and 2014 (in thousands of dollars, except for per share amounts)

	2015	2014
Sales	$ 274,639	$ 247,756
Cost of sales (note 5)	208,757	190,271
Gross margin	65,882	57,485
Selling and distribution	29,914	28,247
General and administrative	23,324	22,778
Earnings from operations	12,644	6,460
Finance and other costs		
Interest expense (note 13)	1,047	1,029
Foreign exchange loss	4	621
Share of loss of investment in joint venture net of tax (note 9)	848	–
Other	88	67
Net finance and other costs	1,987	1,717
Earnings before income taxes	10,657	4,743
Income tax expense (recovery) (note 15):		
Current	5,671	3,060
Deferred	(1,334)	(837)
	4,337	2,223
Net earnings	$ 6,320	$ 2,520
Net earnings (loss) attributable to non-controlling interest	153	(17)
Net earnings attributable to the equity holders of the Company	6,167	2,537
Net earnings	$ 6,320	$ 2,520
Earnings per share (note 17)		
Basic earnings per share	$ 0.53	$ 0.22
Diluted earnings per share	$ 0.53	$ 0.22

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2015 and 2014 (in thousands of dollars)

	2015	2014
Net earnings	$ 6,320	$ 2,520
Other comprehensive income		
Item that will be recognized within profit and loss:		
Foreign currency translation differences for foreign operations	14,196	5,283
Items that will not be recognized within profit and loss:		
Defined benefit plan actuarial gain (loss)	22	(34)
Income tax (expense) recovery on comprehensive income (note 15)	(5)	22
	17	(12)
Other comprehensive income for the period, net of income tax	14,213	5,271
Total comprehensive income for the period	$ 20,533	$ 7,791
Total comprehensive income attributable to equity holders of the Company	20,063	7,662
Total comprehensive income attributable to non-controlling interest	470	129
	$ 20,533	$ 7,791

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2015 and 2014 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2014	$ 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 losses 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 16)	–	–	–	(2,800)	–	(2,800)
Share-based payment transactions (note 16)	–	239	–	–	–	239
Share options exercised (note 16)	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
Total comprehensive income for the period						
Net earnings	–	–	–	6,167	153	6,320
Other comprehensive income						
Foreign currency translation differences	–	–	13,879	–	317	14,196
Defined benefit plan actuarial gain, net of tax	–	–	–	17	–	17
Total other comprehensive income	–	–	13,879	17	317	14,213
Total comprehensive income for the period	–	–	13,879	6,184	470	20,533
Transactions with owners, recorded directly in equity						
Dividends to equity holders (note 16)	–	–	–	(2,807)	–	(2,807)
Share-based payment transactions (note 16)	–	108	–	–	–	108
Stock options exercised (note 16)	43	(13)	–	–	–	30
Total transactions with owners	43	95	–	(2,807)	–	(2,669)
Balance at December 31, 2015	$ 13,843	$ 2,434	$ 18,492	$ 94,896	$ 2,636	$ 132,301

*AOCI – Accumulated other comprehensive income

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014 (in thousands of dollars)

	2015	2014
Cash flows from operating activities		
Net earnings	$ 6,320	$ 2,520
Adjustments for:		
Share of loss of investment in joint venture	848	–
Depreciation of property, plant and equipment	5,718	5,226
Amortization of intangible assets	1,326	1,329
Provisions	119	80
Interest expense	1,047	1,029
Income tax expense	4,337	2,223
Unrealized loss on derivatives	(248)	86
Accrued pension benefit obligation	95	90
Stock based compensation expense	108	239
	19,670	12,822
Change in non-cash working capital (note 23)	(2,019)	7,484
Cash generated from operating activities	17,651	20,306
Income tax paid	(1,586)	(1,856)
Net cash provided from operating activities	16,065	18,450
Cash flows from investing activities		
Investment in joint venture (note 9)	(6,639)	–
Acquisition of other assets (note 9)	–	(8,562)
Acquisition of property, plant and equipment	(1,962)	(4,293)
Acquisition of intangible assets	(163)	(172)
Cash used in investing activities	(8,764)	(13,027)
Cash flows from financing activities		
Proceeds from issue of share capital	30	156
Cash dividends paid	(2,807)	(2,800)
Advances from (repayment of) bank operating lines of credit	11,988	(10,005)
Repayment of long-term debt	(251)	(852)
Advances of other liabilities (note 9)	–	4,064
Interest paid	(1,047)	(1,029)
Cash generated by (used in) financing activities	7,913	(10,466)
Foreign exchange on cash and cash equivalents held in a foreign currency	(1,679)	275
Increase (decrease) in cash and cash equivalents	13,535	(4,768)
Cash and cash equivalents at beginning of period	6,456	11,224
Cash and cash equivalents at end of period	$ 19,991	$ 6,456

See accompanying Notes to Consolidated Financial Statements.

1. Reporting entity

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

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group 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. On October 31, 2014 the Company executed a joint venture agreement with National Material L.P. for the manufacturing of transformer cores. On March 25, 2015 the Company and National Material L.P. completed the formation of the joint venture and a new company Corefficient S. de R.L. de C.V. ("Corefficient") was established, in which HPS holds a 55% partnership interest.

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 28, 2016.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for inventories carried at fair value less costs to sell, 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.

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

(d) Use of estimates and judgments

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

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

(i) Critical judgments in applying accounting policies

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

Cash generating units

As indicated in note 3(h) and 3(l); 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 11.

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).

Joint operations arise from an arrangement in which the interested parties are bound by a contract which gives two or more parties joint control of the arrangement, and those parties have rights to the assets and obligations for the liabilities relating to the arrangement. The Company has

a 50% interest in Glen Ewing Properties, an unincorporated co-tenancy. The consolidated financial statements include the Group's share of the entity's assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis.

Joint ventures arise in which the interested parties are bound by a contract which gives two or more parties joint control of the arrangement, and those parties have rights to the net assets of the arrangement. The Company's interest in Corefficient is considered to represent a joint venture. Interests in joint ventures are initially recognized at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income.

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

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.

(d) **Cash and cash equivalents**

Cash and cash equivalents include cash 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.

(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 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.

An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual goodwill impairment tests at December 31, 2015.

(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) Joint Venture

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

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

(k) 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.

(l) 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.

(m) Share-based payment transactions

The Group has a stock-based compensation plan, which is described in note 16. 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.

(n) 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.

(o) 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.

(p) 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.

(q) Employee benefits

The Company maintains a defined contribution and defined benefit plan, which are described in note 19 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.

(r) 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.

(s) 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.

(t) New accounting pronouncements adopted during the period

Defined Benefit plans: employee contributions

IAS 19 was amended in November 2013 to reduce the complexity of account 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 service was rendered. The Group adopted the amendments to IAS 19 in its consolidation financial statements for the year commencing January 1, 2015. The adoption of the amendment did not have a material impact on the consolidated financial statements.

(u) 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.

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, 2018. 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 contract-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, 2018. 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.

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 Company does not expect the amendments to have a material impact on the consolidated financial statements.

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.

Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities from all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition o a lease. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of thes standard has yet to be determined.

4. Accounts receivable

	December 31, 2015	December 31, 2014
Trade accounts receivable	**$ 57,664**	$ 42,513
Other receivables	**4,287**	4,868
	$ 61,951	$ 47,381

Trade accounts receivable is presented net of an allowance for doubtful accounts of $1,525,000 (December 31, 2014 - $911,000).

5. Inventories

	December 31, 2015	December 31, 2014
Raw materials	**$ 21,559**	$ 17,406
Work in progress	**4,152**	2,711
Finished goods	**17,838**	17,844
	$ 43,549	$ 37,961

Raw materials and changes in finished goods and work in progress recognized as cost of sales during the year amounted to $208,536,000 (2014 – $189,921,000). In addition, during the year, a reversal of previous write-downs in the amount of $17,000 was recognized (2014 – write-down of $10,000). Inventories carried at fair value less cost to sell as at December 31, 2015 were $695,000 (December 31, 2014 – $808,000).

6. Prepaid and other assets

	December 31, 2015	December 31, 2014
Prepaid expenses	$ 1,782	$ 1,607
Derivative assets	404	–
Other assets	–	8,562
	$ 2,186	$ 10,169

Other assets at December 31, 2014 reflect $8,562,000 of deposits made for capital equipment related to Corefficient by the Company.

7. Property, plant and equipment

Cost	Land	Building	Leaseholds & Improvements	Machinery & Equipment	Office Equipment	Construction In Progress	Total
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
Balance at January 1, 2015	$ 6,592	$ 27,039	$ 1,286	$ 48,801	$ 9,359	$ 2,306	$ 95,383
Additions	–	98	120	3,557	292	(2,105)	1,962
Effect of movements in exchange rates	234	669	96	3,802	271	–	5,072
Balance at December 31, 2015	$ 6,826	$ 27,806	$ $1,502	$ 56,160	$ 9,922	$ 201	$ 102,417
Depreciation							
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
Balance at January 1, 2015	$ –	$ 8,684	$ 968	$ 31,470	$ 7,896	$ –	$ 49,018
Depreciation for the year	-	1,111	101	3,812	694	–	5,718
Effect of movements in exchange rates	–	153	(40)	2,147	196	–	2,456
Balance at December 31, 2015	$ –	$ 9,948	$ 1,029	$ 37,429	$ 8,786	$ –	$ 57,192
Carrying amounts							
At December 31, 2014	$ 6,592	$ 18,355	$ 318	$ 17,331	$ 1,463	$ 2,306	$ 46,365
At December 31, 2015	$ 6,826	$ 17,858	$ 473	$ 18,731	$ 1137	$ 201	$ 45,225

Depreciation is recorded in the statement of earnings as follows: cost of sales $5,359,000 (2014 – $4,892,000), selling and distribution $16,000 (2014 – $12,000) and general and administrative $343,000 (2014 – $322,000).

8. 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 2015 or 2014. The property is carried at cost. The estimated fair value of the property as at December 31, 2015 is $1,150,000 (2014 – $1,150,000). The fair value was determined based on independent available market evidence. The Company's share of ongoing legal, consulting and remediation costs during the year was $92,000 (2014 – $130,000).

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.

9. Investment in joint venture

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

	December 31, 2015
Cost of investment in joint venture	$ 14,010
Share of loss in investment in joint venture, net of tax	(848)
	$ 13,162

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 funds advanced to the Group by National Material L.P., relating to the funding of their share 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., reflected the Company's initial investment in the joint venture. During the year the Company made additional contributions of $9,512,000.

Selected financial information relating to Corefficient is as follows:

	December 31, 2015
Cash	$ 108
Trade and other receivables	7,287
Inventories	490
Other current assets	54
Total current assets	$ 7,939
Non-current assets	21,467
Total assets	$ 29,406
Current liabilities	$ 4,693
Non-current liabilities	–
Total liabilities	$ 4,693

	December 31, 2015
Revenue	$ 485
Loss for the year	$ 1,542

The loss for the year ended December 31, 2015 includes depreciation and amortization expense of $159,000, interest expense of $1,000 and an income tax recovery of $533,000 related to Corefficient.

10. Intangible assets and goodwill

Intangible assets	Technology	Customer lists relationships and branding	Externally acquired software	**Total**
Cost				
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
Balance at January 1, 2015	$ 6,147	$ 8,713	$ 5,352	$ 20,212
Additions	–	–	163	163
Effect of movements in exchange rates	605	376	73	1,054
Balance at December 31, 2015	$ 6,752	$ 9,089	$ 5,588	$ 21,429
Amortization				
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
Balance at January 1, 2015	$ 861	$ 3,218	$ 1,907	$ 5,986
Amortization for the year	320	651	355	1,326
Effect of movements in exchange rates	105	96	58	259
Balance at December 31, 2015	$ 1,286	$ 3,965	$ 2,320	$ 7,571
Carrying amounts				
At December 31, 2014	$ 5,286	$ 5,495	$ 3,445	$ 14,226
At December 31, 2015	$ 5,466	$ 5,124	$ 3,268	$ 13,858

Amortization of $266,000 (2014 – $254,000) has been recognized in cost of sales, $192,000 (2014 – $181,000) has been recognized in selling and distribution and $868,000 (2014 – $894,000) has been recognized in general and administrative.

None of the intangible assets have been internally developed.

Research and development expenses of $1,265,000 (2014 – $1,398,000) have been recognized in the statements of earnings. No research and development costs have been capitalized (2014 – $nil).

Goodwill	**December 31, 2015**	December 31, 2014
Opening balance	**$ 17,889**	$ 17,557
Effect of movements of exchange rates	**1,717**	332
Ending balance	**$ 19,606**	$ 17,889

11. 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 8% - 19% (2014 – 11% - 19%) 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% - 43% (2014 - 5% - 50%) 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% (2014 – 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 (2014 – $2,180,000), PETE $10,489,000 (2014 – $9,229,000) and HPS s.r.l. $6,937,000 (2014 – $6,480,000). As at December 31, 2015, 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.

12. 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 EUR overdraft facility, 110,000,000 INR overdraft facility and a $10,000,000 U.S. delayed draw credit facility. The Company also has access to 70,000 EUR and 160,000,000 INR letters of credit. Based on exchange rates in effect at December 31, 2015, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $67,123,000. 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, 2015, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit line was $22,156,000 (2014 – $13,037,000) As well, $5,185,000 (2014 – $4,141,000) Canadian dollar equivalent of Euros was outstanding under the Euro overdraft facility, and $1,825,000 (2014 – $nil) Canadian dollar equivalent of Indian rupees. The delayed draw credit facility was unutilized at December 31, 2015 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 an additional credit facility for an unsecured working capital loan up to $4,800,000 U.S. consisting of the sub-facilities of an 85,000,000 INR short-term working capital demand loan, a 130,000,000 INR facility for bank guarantees and letters of credit and 25,000,000 INR facility for bill discounting. 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, 2015, there was no Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2014 – $nil). There were no drawings against the bank guarantees, the letter of credit facilities or the bill discounting facility.

13. Long-term debt

Term loans denominated in Euros, apart from the note payable for 2,650,000 EUR, are secured by a first priority security interest in certain existing and future property of HPS s.r.l. The note payable for 2,650,000 EUR 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 PETE.

	December 31, 2015	December 31, 2014
Term loan repayable in monthly payments of $15,100, non-interest bearing, unsecured, maturing April 1, 2016	$ 44	$ 225
Term loan of 255,595 EUR repayable in monthly payments of 8,140 EUR plus interest at Euro base rate plus 6 month Euribor rate (December 31, 2015 and December 31, 2014 – 4.97%), maturing June 1, 2015	–	64
Term loan of 714,838 EUR repayable in quarterly payments of 8,140 EUR plus interest at EUR base rate plus 6 month Euribor rate (December 31, 2015 and December 31, 2014 – 1.97%), maturing March 1, 2015	–	93
Term loans totalling 11,752,209 INR, with monthly payments ranging from 24,100 INR to 195,000 INR, bearing interest at 7% to 16.5%, maturing between July 1, 2014 and March 3, 2015	–	9
Note payable of 2,650,000 EUR, with monthly interest only payments of 10,000 EUR, bearing interest at 4.5%, principal payment no later than February 2016 (see note 28).	3,983	3,720
	4,027	4,111
Less current portion of long-term debt	4,027	347
	$ –	$ 3,764

Interest expense is comprised of the following:

	2015	2014
Long-term debt	$ 170	$ 194
Short-term interest, bank fees and other	877	835
	$ 1,047	$ 1,029

14. 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, 2015	December 31, 2014
Less than 1 year	$ 1,983	$ 2,175
2 to 5 years	$ 2,935	$ 4,003

Operating lease payments recognized as an expense during the year were $3,191,000 (2014- $2,225,000).

	December 31, 2015	December 31, 2014
Capital expenditure commitments	$ 1,128	$ 5,789

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.

15. Income taxes

Income tax expense		2015		2014
Current tax expense				
Current period	$	5,671	$	3,060
Deferred tax expense (recovery)				
Origination and reversal of temporary differences		(1,335)		(884)
Increase in tax rate		1		47
		(1,334)		(837)
Total income tax expense	$	4,337	$	2,223

Reconciliation of effective tax rate

	2015		2015	2014		2014
Net earnings		$	6,320		$	2,520
Income tax expense			4,337			2,223
Earnings before income taxes		$	10,657		$	4,743
Income tax using the Company's domestic tax rate	39.50%		4,210	39.50%		1,873
Effect of tax rates in foreign jurisdictions	(4.44%)		(474)	(0.63%)		(30)
Increase in tax rate	–		–	(0.82%)		(39)
Non-deductible expenses/non-taxable income	4.99%		532	5.99%		284
Increased rate for active business and manufacturing and processing	0.37%		39	2.25%		107
Other	0.28%		30	0.58%		28
	40.70%	$	4,337	46.87%	$	2,223

Unrecognized temporary differences

At December 31, 2015, pre-tax temporary differences of $78,094,000 (2014 – $58,644,000) 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.

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

		2015		2014
Tax losses	$	2,376	$	2,219
Financial interests deductible in a future period		1,016		949
	$	3,392	$	3,168

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	
	2015	2014	**2015**	2014
Property, plant and equipment	**$ 209**	$ 177	**$ (6,525)**	$ (6,361)
Intangible assets	**15**	14	**(2,740)**	(2,684)
Scientific research and experimental development	**14**	11	**(47)**	(52)
Inventories	**239**	187	**(8)**	(8)
Loans and borrowings	**1,830**	1,709	**–**	–
Employee benefits	**155**	115	**(128)**	(131)
Unrealized losses (gains) on forward contracts and foreign-denominated loans payable/receivable	**1,231**	498	**(291)**	(97)
Provisions and tax reserves	**1,288**	999	**(21)**	(23)
Tax loss carry-forwards	**1,547**	1,191	**–**	–
Charitable donation carry-forwards	**2**	23	**–**	–
Tax assets (liabilities)	**6,530**	4,924	**(9,760)**	(9,356)
Set off of tax	**(4,795)**	(3,987)	**4,795**	3,987
Net tax assets (liabilities)	**$ 1,735**	$ 937	**$ (4,965)**	$ (5,369)

Movement in temporary differences during the year

	Balance December 31, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2015
Property, plant and equipment	$ 6,184	$ 132	$ –	$ 6,316
Intangible assets	2,670	55	–	2,725
Scientific research and experimental development	41	(8)	–	33
Inventories	(179)	(52)	–	(231)
Loans and borrowings	(1,709)	(121)	–	(1,830)
Employee benefits	16	(48)	5	(27)
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(401)	(539)	–	(940)
Provisions and tax reserves	(976)	(291)	–	(1,267)
Tax loss carry-forwards	(1,191)	(356)	–	(1,547)
Charitable donation carry-forwards	(23)	21		(2)
	$ 4,432	$ (1,207)	$ 5	$ 3,230
Foreign exchange		$ (127)		
Income tax expense		$ (1,334)		

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 gains (losses) on forward contracts and foreign-denominated loans payable/receivable	124	(525)	–	(401)
Provisions	(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)		

16. 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, 2015	December 31, 2014
8,921,624 Class A subordinate voting shares (2014 – 8,916,624)	**$ 13,836**	$ 13,793
2,778,300 Class B common shares (2014 – 2,778,300)	**7**	7
11,699,924 Total A and B shares (2014 – 11,694,924)	**$ 13,843**	$ 13,800

During the year, 5,000 (2014 – 25,000) Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $30,000 (2014 – $156,000) and a transfer of $13,000 (2014 – $33,000) from contributed surplus.

The following dividends were declared and paid by the Company:

	December 31, 2015	December 31, 2014
24 cents per Class A subordinate voting shares (2014 – 24 cents)	**$ 2,140**	$ 2,133
24 cents per Class B common shares (2014 – 24 cents)	**667**	667
	$ 2,807	$ 2,800

(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 95,000 options (2014 - 90,000), of which 55,000 vested immediately (2014 - 90,000) and the remaining 40,000 vest equally in 2016 and 2017. Also during the year, 30,000 options which were granted in 2013 vested. Stock-based compensation recognized and the amount credited to contributed surplus during the year is $108,000 and relates to 2015 options granted and to options granted in prior years that vested during the year. The stock-based compensation expense recognized and amount credited to contributed surplus in 2014 amounted to $239,000. The weighted average grant date fair value of options granted in 2015 is $1.26 (2014 – $1.52).

Options outstanding and exercisable as at December 31, 2015:

	December 31, 2015			December 31, 2014		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding, beginning of year	**666,500**	**$**	**10.18**	651,500	$	10.46
Granted	**95,000**		**6.62**	90,000		7.50
Exercised	**(5,000)**		**5.91**	(25,000)		6.20
Expired	**(47,500)**		**13.64**	(50,000)		10.93
Outstanding, end of year	**709,000**	**$**	**9.50**	666,500	$	10.18

		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
$	5.91	25,000	0.2		5.91	25,000	$	5.91
	10.55	90,000	1.2		10.55	90,000		10.55
	11.70	155,000	2.2		11.70	155,000		11.70
	9.74	119,000	3.2		9.74	119,000		9.74
	10.00	140,000	4.2		10.00	140,000		10.00
	7.50	85,000	5.2		7.50	85,000		7.50
	6.62	95,000	6.2		6.62	55,000		6.62
		709,000	3.5	$	9.50	669,000	$	9.67

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
February 24, 2009	25,000	Board of Directors and Officers
March 15, 2010	90,000	Board of Directors and 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
March 12, 2015	95,000	Board of Directors and Officers
Total stock options outstanding	709,000	

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:

		2015		2014
Fair value of share options and assumptions				
Fair value at grant date	$	1.26	$	1.52
Share price at grant date	$	6.62	$	7.50
Exercise price	$	6.62	$	7.50
Expected volatility (weighted average volatility)		41.3%		34.1%
Option life (expected)		3.8 years		3.5 years
Expected dividends		3.60%		3.14%
Risk-free interest rate (based on government bonds)		1.60%		1.27%
Forfeiture rate		1.45%		1.56%

17. Earnings per share

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

(earnings in thousands of dollars)

	2015	2014
Basic earnings per share	$ 0.53	$ 0.22
Calculated as:		
Net Earnings attributable to the equity holders of the Company	$ 6,167	$ 2,537
Weighted average number of shares outstanding	11,697,424	11,688,674
Fully diluted earnings per share	$ 0.53	$ 0.22
Calculated as:		
Net Earnings attributable to the equity holders of the Company	$ 6,167	$ 2,537
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares	11,701,953	11,713,302
Reconciliation of weighted average number of shares outstanding:		
Weighted average number of shares outstanding used to calculate basic earnings per share	11,697,424	11,688,674
Adjustment for dilutive effect of stock option plan	22,529	24,628
Weighted average number of shares outstanding used to calculate diluted earnings per share	11,701,953	11,713,302

As at December 31, 2015, 684,000 options (2014 – 636,500) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

18. 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 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 cost of the put option as a liability as at December 31, 2015 as it is not considered material to the consolidated financial statements.

19. 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 $1,338,000 (2014 – $1,350,000) matches the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $999,000 (2014 – $1,006,000) in cost of sales, $165,000 (2014 – $170,000) in selling and distribution, and $174,000 (2014 – $174,000) 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, 2015 the obligation, recorded within accounts payable and accrued liabilities,

was $1,291,000 (2014 – $1,120,000). During the year, the expense recognized related to this obligation was $157,000 (2014 – $169,000), of which $91,000 (2014 – $84,000) is included within cost of sales, $18,000 (2014 – $16,000) in selling and distribution, and $48,000 (2014 – $69,000) 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, 2015 and the next required valuation is August 1, 2016.

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

		2015		2014
Present value of unfunded obligations	$	–	$	–
Present value of funded obligations		**879**		882
Total present value of obligations		**879**		882
Fair value of plan assets		**490**		588
Recognized liability for defined benefit obligations	$	**389**	$	294

20. Provisions

		Warranties		Site restoration		Total
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
Balance at January 1, 2015		209		278		487
Provisions made during the period		314		130		444
Provisions used during the period		(195)		(130)		(325)
Balance at December 31, 2015	$	328	$	278	$	606
Current portion	$	328	$	178	$	506
Non-current portion	$	–	$	100	$	100

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2015 and December 31, 2014. 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.

21. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2014 – 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 1,052,953 (2014 – 1,050,368) Class A subordinate voting shares of the Company, representing approximately 11.8% (2014 – 11.8%) 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 $919,135 (2014 – $916,134).

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	2015	2014	Relationship
Purchase of goods and services	(i)	$ 1,088	$ 1,114	Companies in which key management personnel and/or their relatives have significant influence.

		2015	2014	Relationship
Amounts owed by related parties		$ 1,133	$ 650	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 $298,000 (2014 – $274,000) 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 $43,000 (2014 – $35,000) which is owed to this company.

(i) During the year ended December 31, 2015, HPS has paid $21,000 (2014 - $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 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:

	2015	2014
Salaries and benefits	$ 2,292	$ 2,251
Share-based awards	107	239
	$ 2,399	$ 2,490

During the year, the Group made contributions of $107,000 (2014 – $74,000) to the defined contribution pension plan relating to employment service of key management personnel. An equivalent amount was contributed by key management personnel.

22. Personal expenses

	2015	2014
Wages and salaries	$ 44,179	$ 42,841
Group portion of government pension and employment pension and employment benefits	11,634	11,555
Contributions to defined contribution plans	1,338	1,350
Expenses related to defined benefit plans	189	197
	$ 57,340	$ 55,943

23. Change in non-cash operating working capital

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

	2015	2014
Accounts receivable	$ (14,570)	$ 1,921
Inventories	(5,588)	1,366
Prepaid expenses	(175)	1,012
Accounts payable and accrued liabilities	7,251	(1,175)
Foreign exchange	11,063	4,360
	$ (2,019)	$ 7,484

An additional contribution to the joint venture in the amount of $2,873,000 is included within accounts payable and accrued liabilities at December 31, 2015.

24. 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		2015		2014
Sales				
Canada	$	76,064	$	73,043
United States and Mexico		165,750		143,500
Italy		17,668		17,621
India		15,157		13,592
	$	274,639	$	247,756
Property, plant and equipment – net				
Canada	$	22,491	$	24,267
United States and Mexico		6,271		6,103
Italy		13,626		13,623
India		2,837		2,372
	$	45,225	$	46,365
Investment in properties				
Canada	$	1,044	$	1,044
Investment in joint venture				
Mexico	$	13,162	$	–
Intangibles, net				
Canada	$	5,436	$	5,950
Italy		4,139		4,233
India		4,283		4,043
	$	13,858	$	14,226
Goodwill				
Canada	$	2,180	$	2,180
Italy		6,937		6,480
India		10,489		9,229
	$	19,606	$	17,889

25. 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 no transfers from or to Level 1 in 2015 or 2014.

The Group's financial instruments measured at fair value consist of foreign exchange forward contracts with a fair value of a net asset of $143,000 (2014 – a liability of $105,000) 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 2015 or 2014.

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 $43,000 based on the current market rate of interest for similar instruments. The carrying value of the non-interest bearing debt as at December 31, 2015 is $44,000 (December 31, 2014 – fair value of approximately $210,000 with a carrying value of $225,000). 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%.

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. At December 31, 2015, the Company had outstanding forward foreign exchange contracts to buy U.S. $25,500,000 in Canadian dollars, sell 7,000,000 EUR in U.S., sell 4,200,000 EUR in Canadian dollars and sell U.S. $7,800,000 for Mexican Pesos at rates of 1.33600, 1.06520, 1.1920 and 16.5050 respectively, all with maturity dates in January 2016. At December 31, 2014, the Company had outstanding forward foreign exchange contracts to buy U.S. $21,000,000 in Canadian dollars, sell 6,800,000 EUR in U.S., sell EUR 4,000,000 in Canadian dollars 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. As at December 31, 2015 the Group has recognized a net unrealized gain of $143,000 (2014 – loss of $105,000) 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 balance sheet exposure to currency risk as at December 31:

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Cash	**$ 12,223**	$ 3,946	**344**	608	**€ 50**	€ 715	**12,355**	20,838
Accounts receivable	**22,462**	22,316	**30,513**	42,470	**4,580**	3,018	**144,297**	82,625
Bank operating lines of credit	**3,793**	467	**–**	–	**3,450**	2,950	**87,261**	–
Accounts payable	**10,767**	11,867	**8,887**	7,207	**3,582**	2,123	**170,053**	116,141
Other liabilities	**–**	3,653	**–**	–	**–**	–	**–**	–
Long-term debt	**–**	–	**–**	–	**2,650**	2,761	**–**	505
Net exposure	**$ 20,125**	$ 10,275	**21,970**	35,871	**€ (5,052)**	€ (4,101)	**(100,662)**	(13,183)

A one cent ($0.01) decline in the Canadian dollar against the U.S dollar as at December 31, 2015 would have decreased net earnings by $104,000 and increased equity by $256,000. 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, 2015 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, 2015 would have decreased net earnings by $86,000 and decreased equity by $72,000. Inversely, a one cent increase ($0.01) in the Canadian dollar against the Euro as at December 31, 2015 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, 2015 would have decreased net earnings and equity by $20,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2015 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, 2015 would have decreased net earnings by $2,000 and increased equity by $18,000. 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.

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, 2015, 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 increased $614,000 (2014 – decrease of $50,000), for which an expense was recognized in general and administrative expenses. The aging of accounts receivable and the related allowance is as follows:

	December 31, 2015		December 31, 2014	
	Gross	Allowance	Gross	Allowance
Not past due	$ 35,099	$ –	$ 24,382	$ –
Past due 0-30 days	19,302	–	16,693	–
Past due 31-120 days	8,064	514	6,071	–
Past due more than 120 days	1,011	1,011	1,146	911
	$ 63,476	$ 1,525	$ 48,292	$ 911

Credit risk

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

	Carrying Amount	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 19,991	$ 6,456
Accounts receivable	61,951	47,381
Derivative asset	404	–
	$ 82,346	$ 53,837

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

	Carrying Amount	
	December 31, 2015	December 31, 2014
Canada	$ 14,863	$ 12,410
United States	34,306	25,960
Mexico	2,403	3,248
Italy	5,751	3,455
India	4,628	2,308
	$ 61,951	$ 47,381

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, 2015 would increase or decrease net earnings by approximately $302,000 respectively.

Commodity price risk

A large component of the Group's cost of sales is comprised of copper and steel, the costs of which can vary significantly with movements in demand for these resources and other macroeconomic factors. To manage its exposure to changes in commodity prices, the Group will enter into 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, 2015	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 29,166	$ 29,166	$ –	$ –
Long-term debt	4,027	4,058	–	–
Accounts payable and accrued liabilities	48,165	48,165	–	–
Derivative liabilities	261	261	–	–
	$ 81,619	$ 81,650	$ –	$ –
December 31, 2014				
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	–	–
	$ 63,499	$ 60,033	$ 3,784	$ –

26. 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, 2015.

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

	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 19,991	$ 6,456
Bank operating lines of credit	(29,166)	(17,178)
Long-term debt	(4,027)	(4,111)
Share capital	13,843	13,800
Contributed surplus	2,434	2,339
Retained earnings	94,896	91,519
	$ 97,971	$ 92,825

27. Determination of fair values

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

(a) Derivatives

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

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

(b) Non-derivative financial liabilities

The fair value of the non-derivative financial liabilities 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.

(c) 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).

(d) Investment property

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

(e) 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.

28. Subsequent events

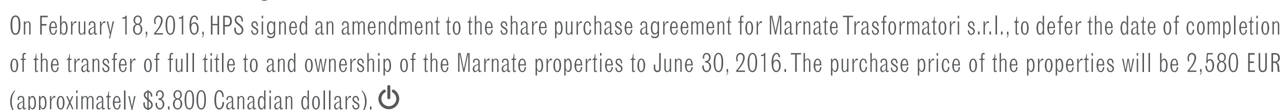
Dividends

On March 4, 2016, 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 25, 2016 to shareholders of record at the close of business on March 19, 2016. The ex-dividend date is March 16, 2016.

Purchase of portion of minority interest

On March 5, 2016, the Company signed an agreement to acquire the shares of a 15% minority shareholder of PETE for 172,625 INR (approximately $3,387 Canadian dollars). The acquisition of this interest will bring the Company's equity ownership in PETE to 85%.

Purchase of Marnate building



On February 18, 2016, HPS signed an amendment to the share purchase agreement for Marnate Trasformatori s.r.l., to defer the date of completion of the transfer of full title to and ownership of the Marnate properties to June 30, 2016. The purchase price of the properties will be 2,580 EUR (approximately $3,800 Canadian dollars).

HPS is a company rich in history and achievement – an industry leader, focused on growth, engineered to order solutions, a broad product offering, multiple sales channel access, high quality standard products and a global presence.

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Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
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Dahra Granovsky *+
Director

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Director

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* Corporate Governance Committee
+ Audit and Compensation Committee

Stock Exchange Listing

Toronto Stock Exchange (TSX)
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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.

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