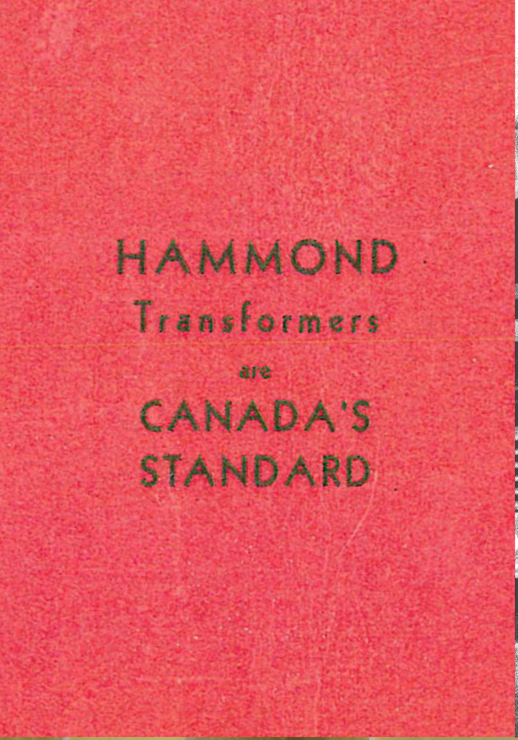
Yesterday Today and into the Future

1917 – 2017

2016 ANNUAL REPORT

HPS Hammond Power Solutions 1917-2017



ANNUAL GENERAL MEETING

Shareholders are cordially invited to attend the Annual General Meeting held:
Wednesday, May 17, 2017
at 1:00pm (EST)

Delta Hotel and Conference Centre
(The McRae Room)
50 Stone Road West,
Guelph, Ontario
N1G 0A9

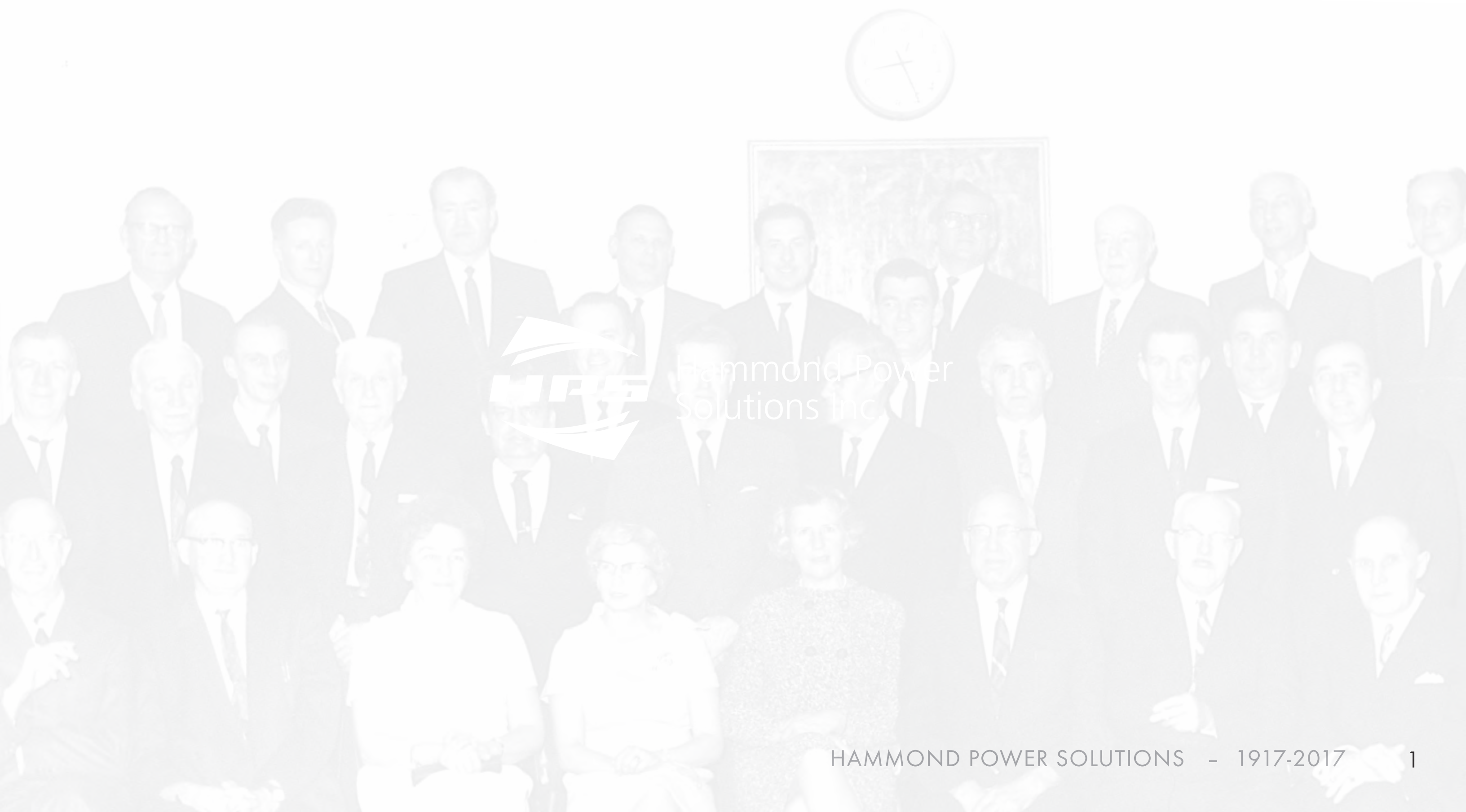
TRANSFORMERS

DESIGNED
TO YOUR
SPECIFICATIONS

100 YEARS OF SERVICE

This report is a tribute to the thousands of employees who have worked diligently over the past century to make Hammond Power Solutions the strong, dynamic company that it is.

We dedicate this to them and to those who will follow in the next 100 years.



CONTENTS

Who We Are

What We Do

How We Perform

The entrepreneurial spirit is a gift that inspires others to become the best they can be. From passion and positivity to leadership and ambition, that spirit is alive and well in the Hammond family. For over 100 years, generations have been passionately contributing to the original spark that started back in 1917 in the basement of a small house in Guelph, Ontario, Canada.

Having the ability to adapt is one of the greatest strengths an entrepreneur can have. Successful businesses must be willing to improve, refine and customize their products to continually give customers what they want. No place is this more evident than in the Hammond story.

From small radio transformers to a leading global supplier of transformers and magnetics, Hammond Power Solutions has never lost sight of the values that founded it.

We took charge of our future a long time ago, and while the rest of the world was slowing, we continued to provide growth, expansion and results for our shareholders. We have continued to provide a stable working environment for our people and we have continued to execute our plan despite global unrest.

Driven by our mission, we are setting our sights on the future and it looks bright.

OUR MISSION

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

OUR VISION

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

OUR VALUES

- We value the safety and well-being of all
- We expect honesty, integrity and ethical behaviour
- We embrace diversity by nurturing an inclusive environment and treating everyone with dignity and respect
- We promote innovation and a relentless pursuit of continuous improvement through teamwork
- We believe in a collaborative approach to social and environmental sustainability

ACHIEVEMENTS

SINCE OUR FOUNDING IN 2001, HAMMOND POWER SOLUTIONS HAS DELIVERED:

5 million enclosures purchased

50 million lbs of lamination steel purchased

100 million lbs of copper purchased

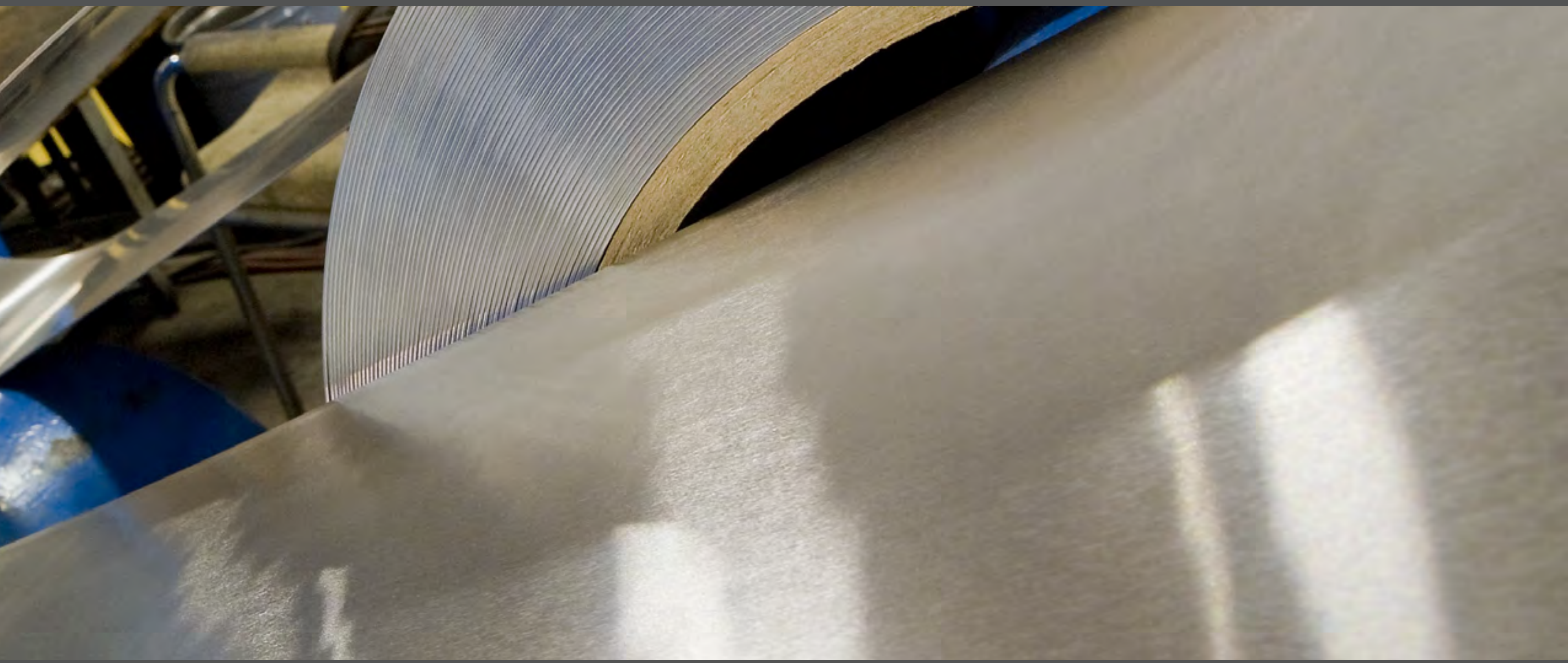
35 MVA
The largest dry-type transformer built

Most unique project:
The Toronto CN Tower Retrofit

9.5 million transformers manufactured

0.2 lbs: Weight of the smallest transformer

72.5 ton
Weight of the largest transformer



MAJOR COMPANY MILESTONES

2016
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

2015
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

2014
Hammond Power Solutions Inc. announces joint venture agreement with National Material LP

2013
Acquisition of Marnate Trasformatori s.r.l. in Varese, Italy

2011
Acquisition of Pan-Electro Technic Enterprises in Hyderabad, India

Acquisition of Euroelettro Hammond s.p.a. in Vicenza, Italy

2010
Expansion of manufacturing capacity at Guelph, Ontario operation

2009
Expansion of manufacturing capacity and warehousing at Granby, Quebec operation

2008
Start-up of second manufacturing facility in Mexico

New logistics centre in Canada

Acquisition of Delta Transformers Inc. (largest Canadian competitor)

2001
HPS was created when the original company split into two strategic and separate entities

HPS ventures into Mexico with the construction of a state-of-the-art

EMERGING MARKETS

HPS EnduraCoil is a high-performance cast resin product designed for many demanding and diverse applications.

Supporting the U.S. Department of Energy's (DOE) new efficiency levels – reducing enregy losses by an average of 13-18% in dry-type transformers over current TP-1 efficiency levels.

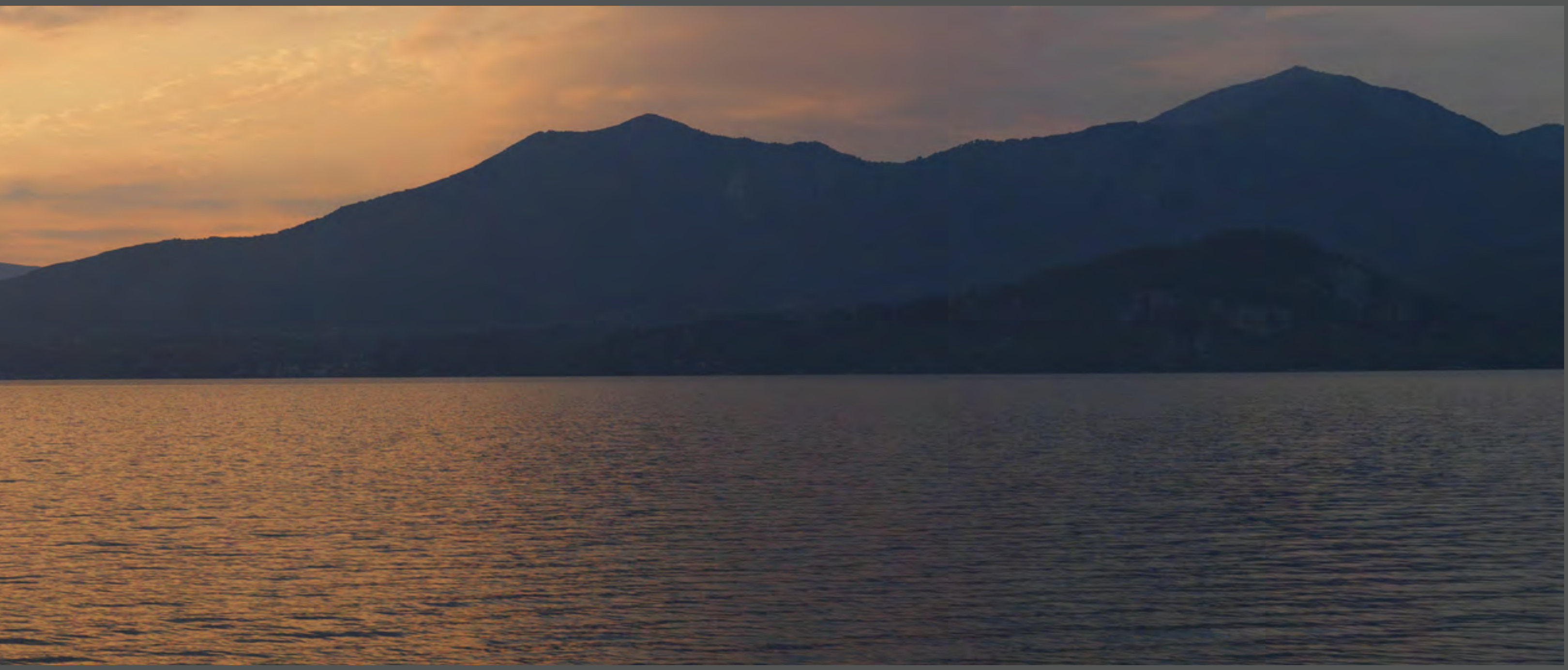
"For over twenty years HAMMOND TRANSFORMERS have held a high place in the esteem of thousands of Engineers, Servicemen and Amateurs throughout Canada. To merit this continued confidence, every effort is put forth to provide better Transformers and allied components. New materials, new processes and new developments are being continually tested and checked. Only those proving superior are incorporated."

This statement is from the Hammond Manufacturing Company Limited's 1948 catalogue. Over 69 years later, this philosophy still rings true and is the foundation of what HPS stands for today.

HPS continues to be an industry leader and remain financially and operationally strong. The Company has a proven ability to navigate through enduring economic uncertainty evoking undying confidence in our vision of the future.

Significant transformations over the past few years:

- Investing in capital and its employees
- Disciplined cost management initiatives
- Identifying and pursuing additional sales opportunities with both existing as well as new customers
- Expansion through strategic acquisitions in India and Italy
- New global customers
- Compliance with new U.S. Department of Energy regulations resulting in new product development and launch
- Implementing new cast resin transformer technology in North American market
- 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
- Implementation of new ERP system to enhance availability of information and streamline processes



Sunrise in Italy

Financial Comparison

(in thousands of dollars, except earnings per share)

		2016		2015
Sales	$	274,793	$	274,639
Earnings from operations	$	10,873	$	12,644
Net earnings	$	1,793	$	6,320
Cash provided by operations	$	15,216	$	16,065
Basic earnings per share	$	0.16	$	0.53

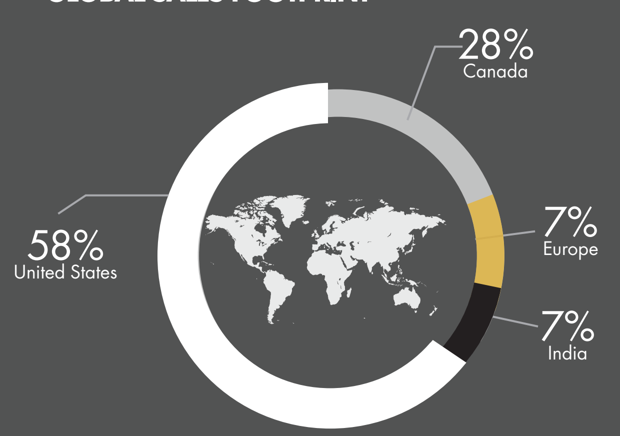
"In a fluctuating world, we are a beacon. We have more than survived adversity in the economy thanks to the diversity of our product. We expand into markets and profit where others could not. We have low debt – just a duty to provide for our customers, our shareholders and our world. We are consistently producing. We are consistently strong."

– Bill Hammond

WHAT WE DO

- Solar and Wind Power Generation
- Powering Commercial Infrastructure
- Motor Control
- Switchgear
- Specialty/Custom Transformers
- Capital Projects
- Construction and Mining
- Utilities
- Oil and Gas

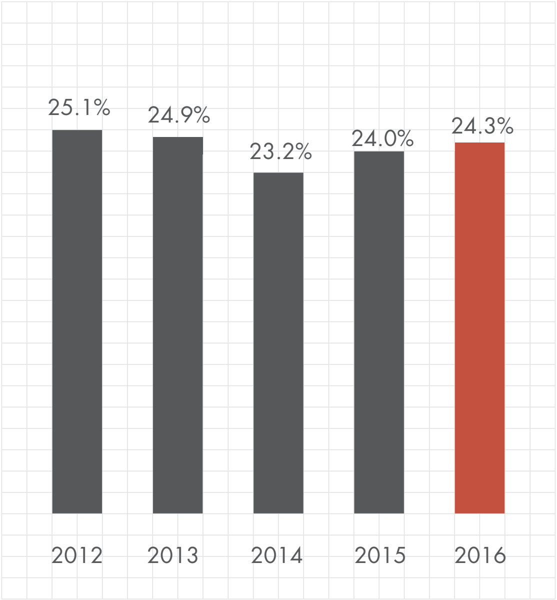
GLOBAL SALES FOOTPRINT



ANNUAL SALES

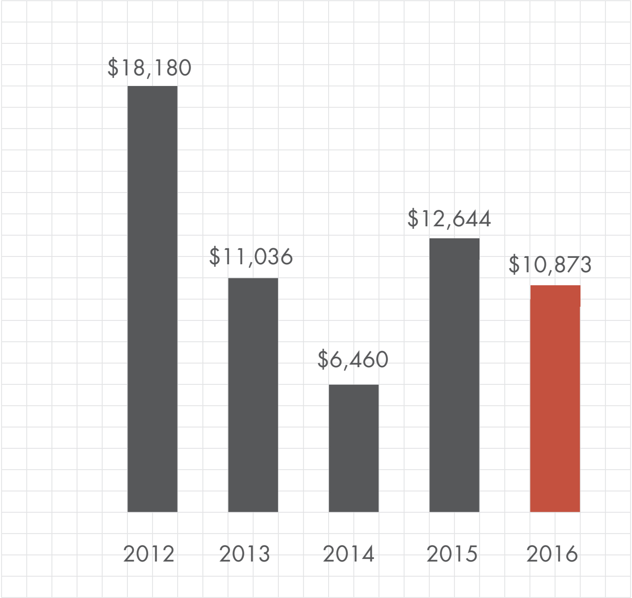
(in thousands of dollars)

GROSS MARGIN %



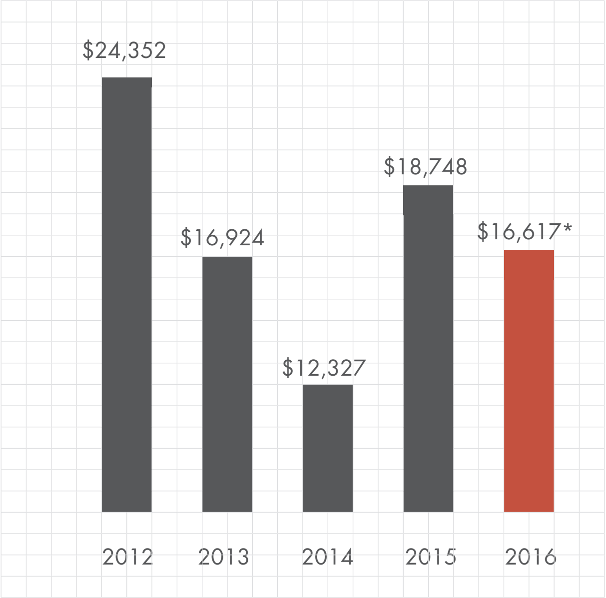
EARNINGS FROM OPERATIONS

(in thousands of dollars)



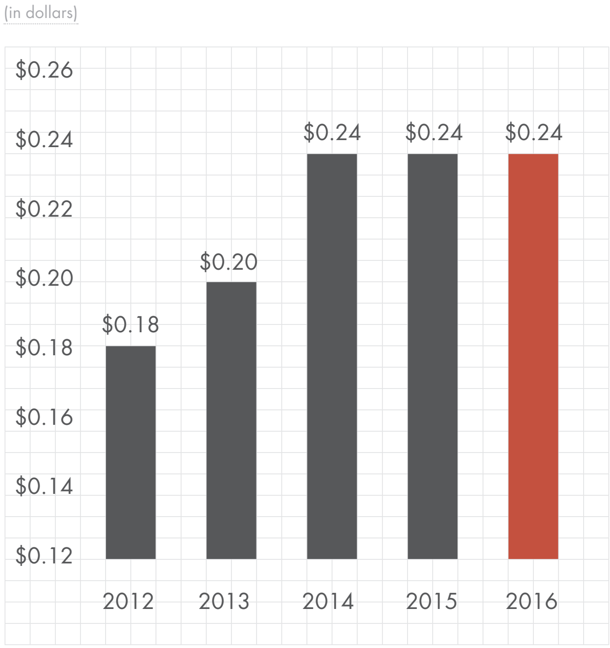
EBITDA

(in thousands of dollars)



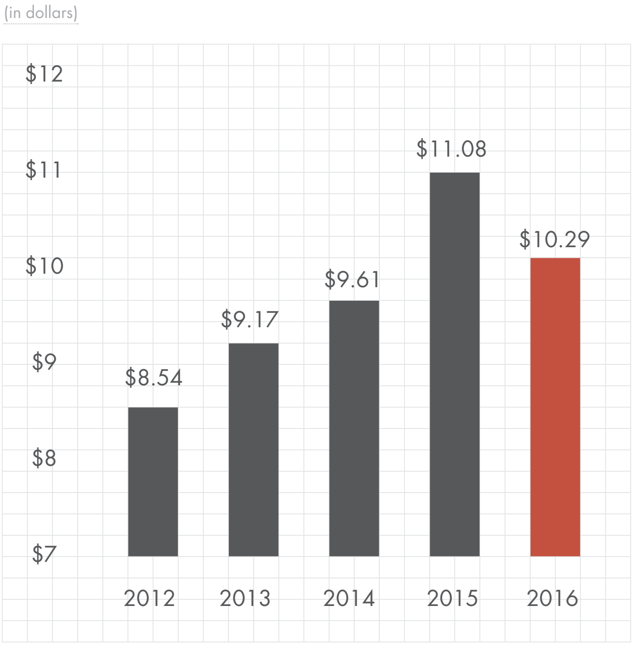
* Adjusted EBITDA

DIVIDEND PER SHARE

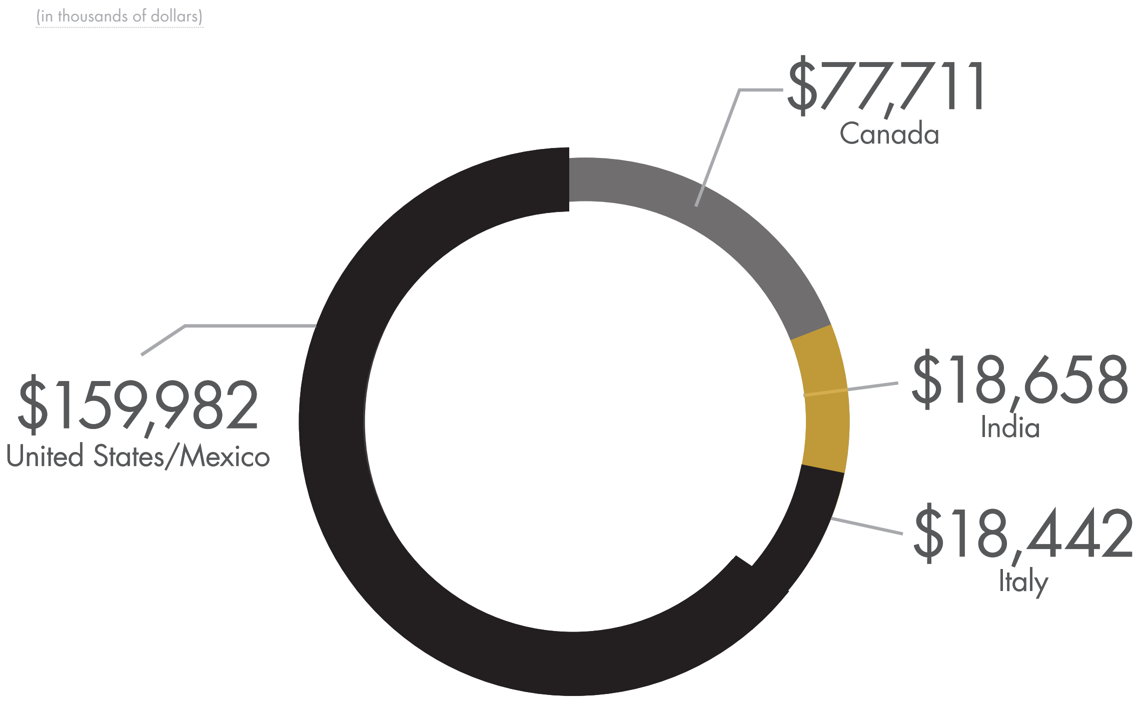


BOOK VALUE PER SHARE

(Excludes non-controlling interests)



GEOGRAPHIC SALES



THE ROAD AHEAD

FELLOW SHAREHOLDER:

Hammond Power Solutions is a solid company and we are indeed very proud of our history as well as our growth and success. We have performed better than most of our competitors due to our diversity in geography, channels, markets, products, and operational strengths.

William G. Hammond
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER
Grandson of founder Oliver Hammond

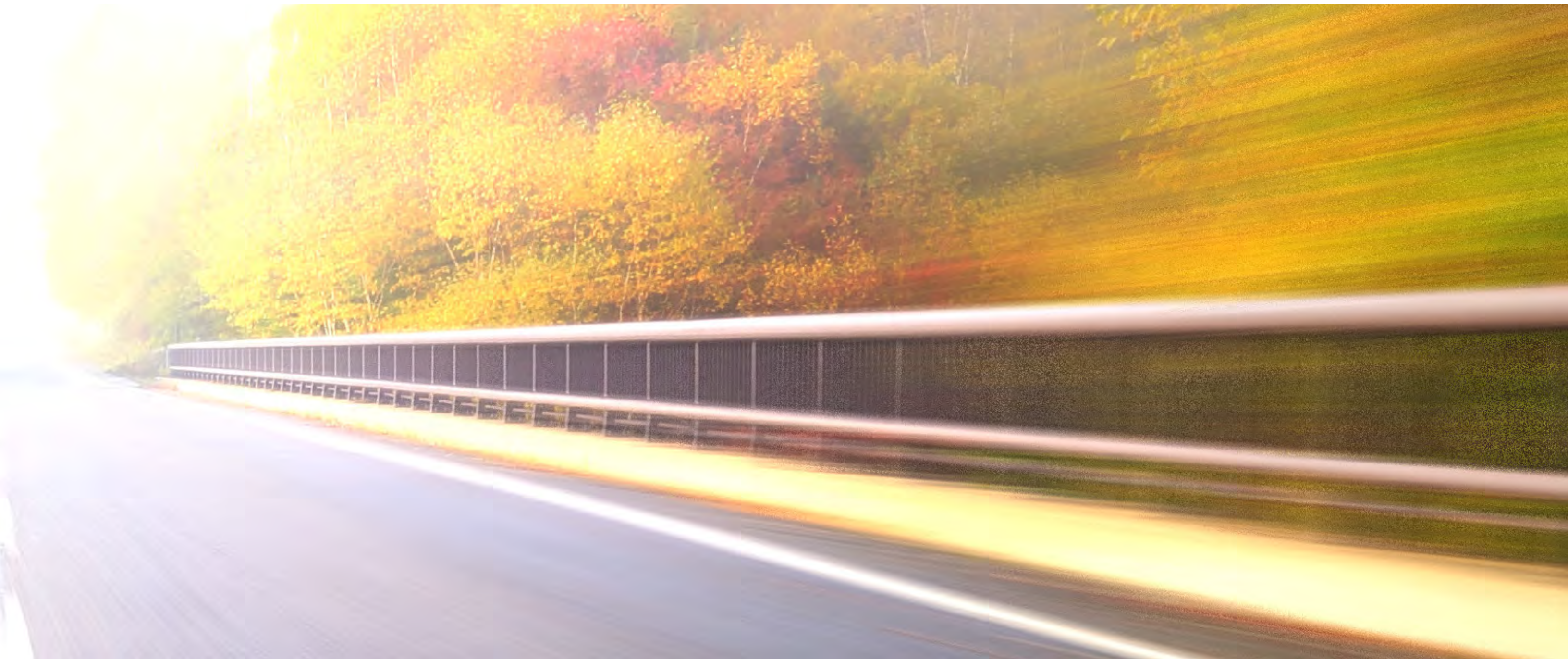
As Hammond Power Solutions Inc. ("HPS") enters its one hundredth year of existence, it does so not only with a strong sense of history and pride, but also with the commitment to build a company that will continue to be successful and experience growth in the years ahead.

When my Grandfather and eldest Uncle created O. S. Oliver and Son on the family farm in 1917, I am certain they had no great vision for what their company could and/or would become. They were very inventive and resourceful individuals who followed their inquisitive minds which took them down a number of different product paths. One of these paths was toward a new technology called tube radios. This eventually led to the fledgling company moving into the transformer business in the mid 1920's and it is at that time that Hammond Manufacturing was formed.

Fast forward to the present. In 2001, Hammond Power Solutions Inc. ("HPS") was spun-off from the original company and since then, has become the largest dry-type transformer manufacturer in North America — a global company with 13 facilities around the world, with over 1,200 employees.

The core values of the four Hammond sons who continued to build the business after their Father passed away in the early 1920's, remain important cornerstones of the HPS organization today – integrity in everything we do, designing and building quality products, a commitment to serve the needs of our customers and the critical importance and value of an engaged employee culture. We firmly believe that these key corporate values have aided significantly in differentiating HPS from our competition, and have helped us develop to the magnitude that we are today. These same values will continue to support that strong and relevant foundation as we strive to be a better organization and to prosper in the decades to come.

Although HPS has weathered many challenging times, the Company has been able to grow market share against multiple competitors due to some relatively unique attributes that we have developed and taken advantage of. As a Canadian company serving a much smaller market, we have had to develop multiple capabilities to design and build diverse products to sell to a broader



range of customers than those transformer manufacturers serving the much larger United States ("U.S.") market. Consequently when we shifted our attention to the U.S., we were able to offer this market the broadest range of custom and standard transformers than any other single competitor. HPS over the last 17 years of building on our Canadian foundation with plant expansions and acquisitions, has strategically and consciously built a core advantage based on diversity – in geography, markets, channels, products and operational competencies that few other dry-type transformer companies possess. We have come a long way as a proud Canadian company from the original start-up in that farmhouse to a highly recognized industry leader with a global footprint, building and acquiring operations in Canada, the United States, Mexico, Italy and India.

Hammond Manufacturing and Hammond Power Solutions have faced and endured significant adversity throughout our first 100 years. During this time, we have faced a wide variety of challenges, which have caused the demise of many other companies including:

- The premature death of the Founder;
- Twelve economic contractions including the Great Recession and more recent recession
- World War II when our plants were apparently targeted for sabotage
- Hurricane Hazel which almost flooded our main plant
- Numerous introductions of new technology that obsoleted many types of transformer products;
- Multiple family ownership successions;
- NAFTA which devastated the Canadian-based electrical and electronic industries;
- A dozen acquisitions in the last 40 years, most of which have had a very positive impact on the Company; and,
- Lastly the spin-off from the original company that led to the creation of Hammond Power Solutions in 2001.

The last 10 years have been the most challenging period of time that I have personally experienced in the nearly 40 years as an owner and manager. Many companies would argue that an economic recovery of any magnitude has not really occurred since the Great Recession which supposedly ended in 2009. Business has been up and down since then, depending on the country and market with the last four years being particularly challenging. Unfortunately, the 2016 expected recovery of the global economy, especially in the United States, did not materialize.

Hammond Power Solutions is a solid company and we are indeed very proud of our history as well as our growth and success. We have performed better than most of our competitors due to our diversity and operational strengths. Since 2012 when the global economy entered a new phase of slow growth, we have been challenged to consistently deliver the kind of sustained profitability that we and our shareholders expect. This is why, as we celebrate our 100th anniversary, we will embark on a new journey to rightsize and refocus our business to improve our financial performance. By building on our strong foundation we will develop a stronger organization — one that will flourish for decades to come. •

CONTINUED GROWTH

We have built on this foundation and expanded our capabilities and diversity, recognizing that the world and our markets today are very different from just ten years ago. As we celebrate this important milestone, we look to our future and the opportunities that lie ahead in this century and we continue to build Hammond Power Solutions – from an idea created by a father and son in a farmhouse in Guelph, Ontario – into a global company.

On the threshold of celebrating our 100th anniversary, the global economic roller coaster Hammond Power Solutions Inc. has been riding continued.

A visible rebound the previous year gave us much hope for 2016; but a much slower U.S. economy than was being predicted, unfortunately, dragged us down. The U.S. is by far our largest geographical market, but the uncertainties surrounding the country's presidential election coupled with the bipolar economic, energy and tax policies of the two candidates, had a negative impact on investment decisions throughout the year.

A significant number of projects and investments were delayed until the U.S. election circus was decided in November. According to data collected by the National Electrical Manufacturers' Association ("NEMA"), sales of core electrical products including transformers declined 9.5% in the U.S. compared to 2015. Our own U.S. business was down 7% during this time. NEMA also pointed out that the past nine quarters with the exception of one, have experienced negative year-over-year growth rates in these same products. This is the longest drought in business since the recession ended in 2009 and this slowdown was felt in all of our markets and channels in the U.S.

In 2016, our Canadian sales were up 2%, and our international business expanded by more than 10%. But even with this growth from other countries and regions, we were not able to overcome our decline in U.S. sales, which as the election got closer, resulted in the slowest 4th quarter that HPS has experienced in years.

We anticipated our financial performance in 2016 would be much more positive, however, a number of different factors, some macro and some more operational in nature contributed to our shortfall in both sales and profits. Fundamentally, the global economy and certain markets, in particular, have not recovered since the beginning of the new decade. Most financial analysts

expected the global economy to recover from the last recession and that countries like China, India, Brazil and Russia, in particular, would re-ignite the demand for commodities and manufactured goods. For a variety of reasons, this did not materialize with Brazil and Russia falling into deep recessions and GDP growth falling by 50% in China and India, compared to 2009.

This slowdown had a significant negative impact on the consumption and prices of commodities and processed materials. Even the U.S. has contributed to the commodity slump over the last five years. The rapid expansion in fracking activities resulted in the drilling of over 1,000 wells in various states since 2009 until the Organization for Petroleum Exporting Countries ("OPEC") elected to drive the price of oil down. This move by OPEC was in part to strangle the rising oil and gas competition out of the U.S, which halted almost all-new drilling activity. New environmental laws under President Obama to limit the use of coal in the generation of electricity have shut down much of the mining of this fossil fuel. Falling commodity prices and consumption have hurt the Canadian economy with the provinces of Alberta, Saskatchewan, Northern Ontario and Newfoundland in particular. All of this has caused a large reduction in the demand for mining equipment, material handling equipment, drilling and pumping equipment, underground power systems and anything else needed for the extraction, handling, and transportation of commodities.

As the Great Recession was beginning in 2008, HPS was in the middle of capacity expansions in all of our North American plants as well as launching a new facility in Mexico – all of this justified by the long-term forecasts of our major Original Equipment Manufacturers ("OEM") customers who predicted that the developing world would continue to consume resources and manufactured goods well into this current decade. OEM customers were also looking for improved lead times and near perfect delivery performance to meet their end customer needs.

At the same time, there were few economists and certainly no politicians who were predicting that the economic recovery would be the weakest since the end of World War II, and that we would be entering a prolonged period of slow economic growth caused by the cascading effects of so many factors such as falling global growth, Grexit, Brexit, high unemployment, falling living standards, and more. As a result, over the last four years, we have found ourselves with too much capacity in place to serve our traditional North American markets, all the while waiting for the much-anticipated economic recovery to finally kick in.

Faced with slowing organic growth in our traditional markets in North America, HPS embarked on a plan to expand our sales through new product development as well as geographical expansion through acquisitions.

Manufacturing Facility, Edinburgh Road, Guelph, Ontario 1958

We started by broadening our power transformer offering in order to expand our share of the non-residential construction market in the U.S. We then began a search to acquire one or more European companies that would give us the design and manufacturing experience for cast transformers, something we did not have in North America. These acquisitions and the subsequent transfer of this knowledge would expand our power transformer offering even more and the two Italian companies we acquired would serve as our beachhead into Europe – the third largest economic region in the world. We considered for some time entering the Indian market through acquisition to gain access to the biggest potential international market outside of China. Though not the main reason for our acquisition plans in Europe, we were aware that cast transformer technology would also assist in accelerating our growth in India as well. In 2013 we purchased a transformer company called Pan-Electric Technic ("PETE") in India giving HPS the potential, along with our Italian acquisition to serve markets in Europe, Africa, the Middle East, as well as Australasia and to grow and diversify our sales outside of North America.

In addition to all of the above, we began work on two major projects associated with new U.S. Department of Energy ("DOE") efficiency standards for transformers that became effective on January 1st, 2016. This became a large engineering project due to the breadth of our standard and custom product offering and eventually required the update of over 5,000 transformer designs. Simultaneously, we entered into a joint venture with National Material L.P. to create a state-of-the-art facility which would design and manufacture transformer cores that could be used in our own new energy efficient designs, as well as sell to other transformer companies in North America who may not have the capability or capacity to build similar quality cores. Together we invested over $20 million in new equipment and a facility in Monterrey, Mexico. As a result of our engineering efforts and the creation of this core manufacturing facility, HPS was in a better position than almost all other dry transformer companies to supply products that met the new energy efficiency laws that came into effect at the beginning of 2016.

The implementation of a diverse number of initiatives over the last four years was in an effort to grow our sales and profits both in the short-term and the long-term. Several things, however, happened during the year that caused

Employees, Wellington Street Manufacturing Facility, Guelph 1940

Hammond Family Farmhouse 1920

us to reflect on our business in light of the new economic realities and to take steps to rightsize our cost structures.

North American growth rates although improving, are not going to reach the volumes we anticipated when we expanded our plant capacities after the recession. As a result, in the last 10 months, we have reorganized our senior management structure in North America as well as India, reduced both our hourly and salary staff levels and have taken additional measures to reduce spending.

In Italy where we are dealing with depressed market conditions in offshore oil drilling, alternative energy and marine power, we are taking steps to rightsize our business and focus on the most profitable markets and products. Until recently we have been reluctant to take these actions as we have been waiting for the predicted economic recovery. However, in a world where there seems to be so much out of our control, it is important that we do the best with what we do have control over and these steps will help to reduce our cost structures and improve our profitability.

Corefficient, our new joint venture and business, incurred higher than planned start-up costs in its first full year of operation as sales of manufactured cores to other transformer companies were much lower than forecasted due to the very slow North American economy and the very competitive market conditions. In response to this, we have cut staff and operating costs as well as expanded our resources and efforts to increase sales. We have a number of very interested customers and hence we are hopeful of growing sales in 2017 and beyond.

Despite the challenging economic and competitive environment in all of our geographical markets, we were able to hold overall margins and in some regions like the U.S. actually increase them over 2015. This was the result of a renewed effort to reduce costs through improved productivity, material cost reductions and operational spending reductions.

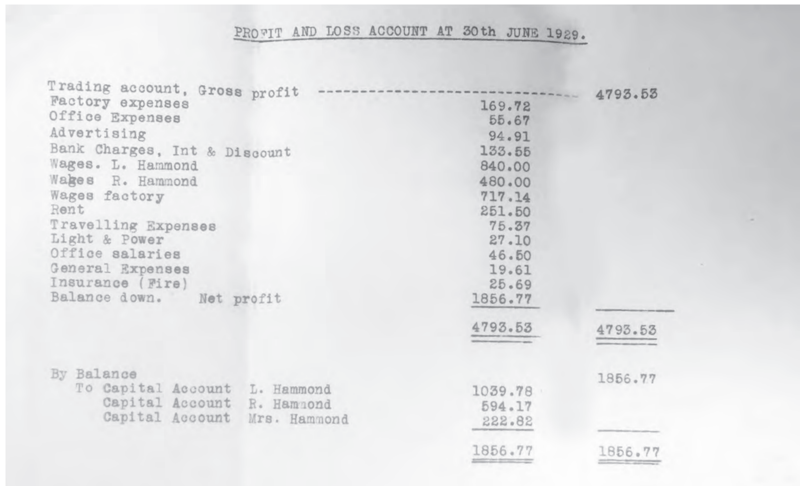
A superior stock position with new DOE designs and higher margins, also contributed to higher profitability, as other transformer companies could not always meet this demand. We achieved this despite the fact that our most profitable industrial markets related to the energy and mining sectors were extremely slow. Our focus over the last five years on building strong customer relationships based on service and long-term commitment will aid to improve our margins and open the doors for opportunities both direct and through our distributor channels when the economy does turn around, as we believe it will in 2017.

There were pockets of positive sales growth around the globe for HPS.

In Europe, during 2016 we expanded our sales coverage in Germany, France, Spain, Scandinavia and Russia all of which helped us grow our cast transformer business. After two years of depressed conditions in Russia (one of our largest markets), due to economic sanctions related to the Crimean conflict, we were able to expand our market coverage and re-ignite our business in this country. Although great uncertainties continue to persist in Europe due to Brexit and upcoming elections in France, Italy and Germany, overall GDP in this region is improving compared to several years ago when Grexit loomed over the Eurozone.

We have also made a concerted effort to expand our sales in the rest of Europe and reduce our dependency on the Italian market, which has suffered through four periods of negative growth since the 2008 recession.

India is another international market where we have increased our market share and sales. Over the last two years, we have expanded our coverage across India as well as Sri Lanka. These activities have increased our



PROFIT AND LOSS ACCOUNT AT 30th JUNE 1929.

Trading account, Gross profit		4793.53
Factory expenses	169.72	
Office Expenses	55.67	
Advertising	94.91	
Bank Charges, Int & Discount	133.55	
Wages. L. Hammond	840.00	
Wages R. Hammond	480.00	
Wages factory	717.14	
Rent	251.50	
Travelling Expenses	75.37	
Light & Power	27.10	
Office salaries	46.50	
General Expenses	19.61	
Insurance (Fire)	25.69	
Balance down. Net profit	1856.77	
	4793.53	4793.53
By Balance		1856.77
To Capital Account L. Hammond	1039.78	
Capital Account R. Hammond	594.17	
Capital Account Mrs. Hammond	222.82	
	1856.77	1856.77

Gang Winders, Manufacturing Guelph 1930

sales in the OEM, alternative energy and utility sectors. These efforts, along with the new branding and marketing of our operations there as HPS, will accelerate our sales in this growing economy in 2017 and in the future.

Even though the U.S. economy was much slower than planned in 2016, we took positive steps in expanding our distributor network to serve the non-residential construction market. We also increased our focus on working more closely with major consulting firms to have HPS specified as a qualified supplier of transformers for upcoming commercial, institutional, data center and industrial projects across the U.S.

As we close the book on a disappointing 2016, we are nonetheless looking forward with optimism into 2017. It's not a coincidence that our bookings surged in the first two months of the New Year. Clearly, companies in the U.S. are optimistic that the pro-business Republican Party will introduce policies and economic programs to stimulate the U.S. economy. There have been announcements about the Keystone pipeline, supporting the coal industry, investment in infrastructure, increased military spending and increased manufacturing investments in the U.S. These initiatives should have both direct and indirect benefits to our business. We have seen the first orders from the mining and oil drilling sectors in three years and bookings for a wide variety of construction projects are already several times higher than we saw in the fourth quarter of 2016.

We are experiencing a broader base of growth from both the industrial and construction markets than we have enjoyed for years and we now have a bigger and better distributor network in place across the U.S. to capture the increased activity across multiple markets that is forecasted in this new pro-business political and regulatory environment.

A growing U.S. economy will also benefit Canada at some point, though we are warily waiting for more details regarding possible revisions to the North American Free Trade Agreement ("NAFTA") and the possibility of a so-called border tax. Our diversity of manufacturing locations in Canada and Mexico, as well as a plant in the U.S. gives HPS considerable flexibility to deal with the different scenarios that could materialize. I believe that our manufacturing sectors are already too integrated between the three countries to implement any significant changes to NAFTA or additional taxes without harming the U.S. consumer and economy. We will remain cautious until U.S. trade policies are clarified as the

Huricane Hazel, Wellington Street, Guelph October 15, 1954

First Day, Edinburgh Road, Guelph October 28, 1957

year progresses. The recent announcements regarding new pipelines in both Canada and the U.S. and the construction of these pipelines themselves will have a positive impact on Western Canada. HPS is already specified as the preferred transformer supplier on these projects, so we anticipate an increase in business as these pipelines are constructed.

We expect higher sales from our international operations as the global economy improves. Even with the uncertainties surrounding Brexit as well as the outcome of elections in key nations of the Eurozone, our renewed focus on the cast business and expanding our geographical coverage further across all of Europe is expected to improve the financial performance of our European operation.

We are most optimistic about our Indian business where bookings have surged in the last four months to the highest levels this company has ever seen. In many ways, we have just started to penetrate the Indian market on a national basis, and look for very positive growth as electrical infrastructure is expanded and modernized in the years ahead in the fastest growing developing economy in the world. Over the last year, HPS will have participated in four major international electrical shows showcasing our products and capabilities – two in Germany, one in India and Dubai. This is all part of our efforts to increase awareness of the HPS brand globally and to grow our sales out of Europe, India and North America.

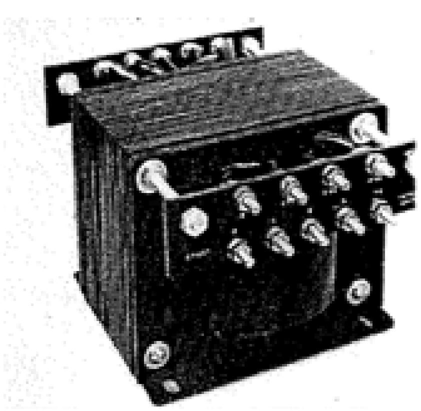
A growing global economy will also increase the consumption and prices of commodities, which will eventually stimulate growth in three important industrial sectors for HPS – energy, mining, and drive systems (used in the drilling and pumping of oil and natural gas). These sectors have been dormant for three years now and we have just begun to see an increase in order activity from customers serving these sectors. We don't anticipate that these sectors will return to the overheated volumes of their past, but even a modest improvement will have a positive impact on our financial results.

Since that peak, we have strategically expanded our activity and business in two other areas – non-residential construction in the U.S. and international markets in Europe and India. Consequently, we believe that HPS is in a better-diversified position to benefit from growth in numerous sectors and countries while at the same time weather the unexpected impacts that the current geopolitical world may have on the global economy.

We have been through many challenges and successes during our first 100 years as a company, in its many forms. The last 16 years as Hammond Power Solutions Inc., has been exhilarating but not without difficulty. Fortunately, we started with a strong foundation of corporate values and operational capabilities that go back many decades. The most important of these values continues to be the effort, engagement and passion of our employees and managers. We are very proud as we look back on the history and accomplishments of the many generations and several lifetimes of our "employee family".

We have built on this foundation and expanded our capabilities and diversity, recognizing that the world and our markets today are very different from just ten years ago. As we celebrate this important milestone, we look to our future and the opportunities that lie ahead in this century and we continue to build Hammond Power Solutions – from an idea created by a father and son in a farmhouse in Guelph, Ontario – into a global company. •

High Voltage Single Phase Transformer (circa 1950)



Multi Tab Transformer (circa 1970)

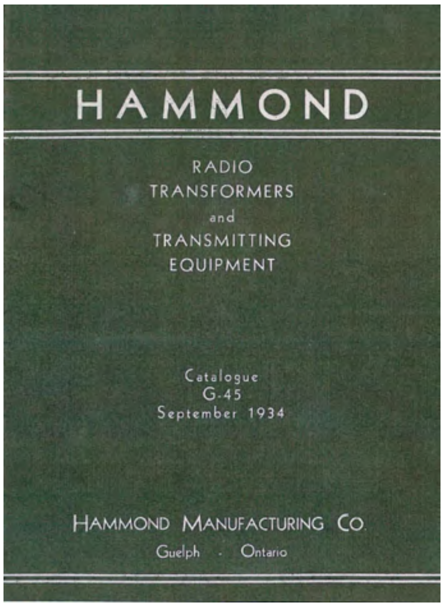
"The history of Hammond Manufacturing Company had its beginning in 1917 when Oliver S. Hammond established a manufacturing enterprise in his workshop measuring about 20 ft. by 30 ft. behind the family home at College Avenue in Guelph."

This excerpt from *The Early History of the Hammond Manufacturing Company – Founded 1917*, highlights the humble beginnings of a company that now has multiple manufacturing facilities throughout Canada, the United States, Mexico, Italy and India and 11 regional distribution centres throughout North America.

Oliver worked as a tool and die/ wood and metal pattern maker by day, and an inventor and small manufacturer by night in his small work shop guiding his sons Len, Roy, Fred and Ken in his entrepreneurial footsteps. The four brothers turned a fascination with early radio sets into Hammond Manufacturing.

The early years of the company were described as *"challenging, exciting, proud, satisfying and at times even worrisome."* The focus was always to provide *high quality products, combined with the finest service giving good value.*

Visionaries like Oliver were integral in the shaping of the future of Canadian manufacturing. His meagre efforts and strong values, set the tone for the next century of business under his name.



Guelph Centennial Welcome Arch, Guelph, Ontario, Canada – 1927

1917 – Manufacture of Pneumatic Vibrators for the Foundry Business. (O.S. Hammond and Son)

1919 – Hammond Model 12 – the first radio in Guelph.

1925 – Son Len Hammond takes over the management of the family radio business.

– Product expansion to 'B' eliminators, trickle chargers, power audio amplifiers, as well as radio transformers

1935 – Land purchased to build the first production facility a 40ft x 80ft building in Guelph, Ontario.

1939 – Components for communication equipment, radar and other wartime research projects.

1941-45 – Plant expansions to keep up with the demand of wartime production and to house 500 employees.

1958 – A new 90,000 sq. ft plant built on 21 acres of land.

1970s – Continued facility expansion

1978 –Rob and Bill Hammond (sons of Fred) assume the positions of President and Vice-President. The company is re-organized into transformers, cabinetry and power supplies.

2001 – The Hammond Transformer Group was spun off to form a new independent public company, Hammond Power Solutions Inc. (Bill Hammond as Chairman and CEO.) Manufacturing a broad range of Dry-Type Electrical Transformers.

Hammond Manufacturing Co. (Rob Hammond as Chairman and CEO) continues to produce the original companies other products – Electrical Enclosures, Racks and Cabinets, Small Enclosures, Electronic Transformers and Outlet Strips.

A 100% Canadian Company, employing Canadian Labour, Canadian Capital, and using Canadian Copper, Insulation. etc.

An original tagline first appearing in the September 1934 Hammond ManufacturingCatalogue

SOLAR AND WIND POWER GENERATION

AUTOTRANSFORMERS

Transformers are critical components in solar energy production and distribution. Historically, transformers have “stepped-up” or “stepped-down” energy from non-renewable sources.

Solar power applications experience steady state loading while its converting power. Then, when the sun’s out, there’s a dampened reaction process and more constant loading on the transformer.

Growing demand and continuing industry consolidation keeps the industry future bright as renewable energy is becoming increasingly cost competitive. Investment and opportunities for growth in this market are as a result of the increasing need to develop renewable energy and respond to stringent environmental regulations. Countries world-wide are relying on alternative energy for generating electricity.

HPS has partnered with renewable energy providers providing them with robust cast coil autotransformer solutions to meet the needs of this growing industry.

COMMERCIAL CONSTRUCTION AND INFRASTRUCTURE

Distribution transformers step higher voltage levels on the utility grid down to lower voltage levels that power lights, equipment and other systems used in commercial, institutional and industrial buildings.

The HPS Sentinel transformers supply the power for elevators, lighting, HVAC, security and all other power loads used within commercial and office buildings.

North American retail, commercial and industrial electricity demand continues to grow along with the number of capital projects in support of infrastructure, hydro generation and distribution.

Distribution transformers account for more than 50% of HPS sales.

Typical Applications include:

- Commercial Buildings
- Institutional Buildings
- Industrial Buildings

DISTRIBUTION TRANSFORMERS

OIL, GAS AND MINING

Encapsulated transformers are used in installations where safety is your priority, efficiency is a concern and the environment, location and application are key.

HPS Titan® series has been designed to operate in harsh environments/hazardous locations where dangerous gases, liquids and dust could lead to serious consequences.

HPS shovel duty transformers are part of a new wave of power regulation that ensures uninterrupted operation while improving dynamic machine performance.

Typical Applications include:

- Institutional
- Commercial
- Industrial
- Petrochemical
- Marine
- Mining

HPS Dry-Type Power Transformers (medium voltage) are regarded for their high level of quality and service reliability that has become synonymous with HPS transformer products.

These units can be offered for a variety of environmental conditions and are built to meet the most onerous duty requirements. In addition to conventional indoor applications, our dry units can be located outdoors, on drilling platforms, in network vaults and in every location where airborne contaminants pose a risk to electrical equipment.

Typical Applications include:

- Power Stations
- Utility Power Generation
- Drilling Platforms
- Network Vaults
- Fenced Electrical Areas

MANAGEMENT S DISCUSSION AND ANALYSIS

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

Christopher R. Huether
CORPORATE SECRETARY & CHIEF FINANCIAL OFFICER

The following is Management’s Discussion and Analysis (“MD&A”) of the Company’s consolidated operating results for the years ended December 31, 2016 and 2015, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2016 and 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This information is based on Management’s knowledge as at March 29, 2017. All amounts in this report are expressed in thousands of Canadian dollars unless otherwise noted. Additional information relating to the Company may be found on SEDAR’s website at www.sedar.com or on the Company’s website at www.hammondpowersolutions.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by law.

ADDITIONAL GAAP AND NON-GAAP MEASURES

This document uses the terms "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation and amortization. Operating earnings and EBITDA are some of the measures the Company uses to evaluate the operational profitability. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings and EBITDA, in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the year-to-date periods ending December 31, 2016, and December 31, 2015, 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 2016 consolidated financial statements, which comprise the statement of financial position as at December 31, 2016 and December 31, 2015, the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2016, and December 31, 2015, and Notes thereto, have been prepared using IFRS.

OVERVIEW

HPS is a company rich in history and achievement. 2017 marks Hammond Power Solutions 100th Anniversary. Throughout the company's duration, we have been 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 driven by its employee's passion and commitment towards the execution of the Company's operational initiatives and strategic vision.

The flat global market combined with economic and political instability continued to adversely impact the electrical industry and HPS in 2016. In the face of 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 operational execution.

HPS has been built on a strong financial base, and has a clear strategic vision for growth and is committed to producing quality, innovative and diverse transformers and related magnetic products. The international companies acquired over the last number of years demonstrate our commitment to sales growth and product diversification. Our increased global footprint has become a gateway to new customers and markets as well as new technology. These strengths are critical contributors to revenue growth and profitability improvement. The joint venture, Corefficient S. de R.L. de C.V. ("Corefficient"), which commenced operations in late 2015, creates vertical integration for our raw material supply line, provides a competitive advantage and will be a contributor to the strategic vision of the Company.

2016 was a challenging year for HPS and was influenced by a number of factors; the insecure economy has created unpredictability in customer volume and timing of purchases, this together with foreign exchange rate fluctuations and volatility had a direct impact on financial results. The financial performance of Corefficient was weaker than anticipated as the joint venture continues to build its trade sales customer base. In the face of these deterrents to financial performance, the Company achieved market share growth, higher margin rates and maintained an overall healthy financial position through the implementation of our operational initiatives and longer-term strategic projects.

HPS continues to focus on sales growth, gross margin and operational improvement, which are 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 and political environment in North America, European market instability and soft electrical market conditions globally, the Company continues to build its product capabilities, cost effectiveness and market presence.

In the face of the negative market trends that have been present for a number of years particularly in the gas, oil and mining extraction industries, HPS remains steadfast in its plan implementation and operational execution and is solidly positioned to take advantage of a recovering global economy.

The industry outlook indicates modest economic gain 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, geopolitical uncertainty particularly in the U.S., the unpredictability of foreign currencies (particularly with the U.S. dollar), resource-based commodity cost uncertainty and the lingering global economic recovery.

HPS continues however, to develop new market opportunities. The Company is aware of the need to plan and build for the future and continues to forcefully confront the profitability pressures it is facing and penetrate the industry. Opportunities will come from organic and new customer sales expansion, product and technology development, cost effectiveness and manufacturing flexibility. Our capabilities are expanded through our multi-national operations which aid in providing expanded market opportunities and allow the Company to deliver solid revenue and profitability increases. HPS remains confident and unwavering that the business base that it has built and shaped, combined with its strategic vision, will support and generate future growth. The Company's commitment to continuous improvement, cost reduction, improved efficiencies and overall cost effectiveness will assist the Company in reaching these goals.

The benefit of HPS 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 fluctuations in the markets and industries of our customers, which has a direct impact on HPS revenue. A portion of our annual sales will continue to be derived from major customer projects (for which the exact timing is difficult to predict), which will influence quarterly sales fluctuations. The Company remains attentive and not complacent, calculating the risks and opportunities that are present, and is unyielding in the execution of its strategies. While there are many challenges for the Company to contend with, there are also many opportunities to be recognized; 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 has a strong balance sheet, resilient liquidity and a committed credit facility available to implement operational plans, investment strategies and support growth initiatives. The combination of a secure financial foundation, strong business fundamentals and strategic vision, positions the Company for growth as well as additional long-term stakeholder value.

The 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 designs, manufactures and markets, 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 future financial performance. This venture is further evidence of the Company's diversity and dedication to growth.

On March 5, 2016, HPS signed an agreement to acquire the shares of a minority shareholder of PETE-Hammond Power Solutions Private Limited ("PETE") in India, acquiring an additional 15% equity ownership of its transformer business for 172,625,181 Indian Rupees ("INR") (approximately $3,326 CAD). The Company completed the transaction on April 21, 2016. This increases HPS' equity ownership of PETE to 85%, which allows HPS to further benefit from the sales growth and profitability of the India operations.

At December 31, 2016 the Company determined that the recoverable amount of the Italian Cash Generating Unit ("CGU") was lower than its carrying value. Continued losses in the Italian operations resulted in the requirement to record a non-cash impairment charge of 1,000 Euros ($1,417 CAD) against goodwill of this CGU. The fragile economic condition of Italy could influence the ability to realize revenue growth and improve gross margins, which could result in the recognition of additional impairment charges in the future.

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

HPS is strong and positioned well for the future.

SALES

Sales in 2016 were $274,793 as compared to sales of $274,639 in 2015, a slight increase of $154.

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 2016 was $1.325 versus $1.274 in 2015, a U.S. dollar strengthening of 4.0%.

U.S. market sales (stated in Canadian dollars) were $159,982, a decrease of $5,768, or 3.5%, compared to 2015 sales of $165,750. U.S. sales, (stated in U.S. dollars), have decreased from $129,804 in 2015 to $120,756 in 2016, a decrease of $9,048 or 7.0%. The U.S. market attained increases in the power control market, which was offset by decreases in the North American Electrical Distributor ("NAED"), motor control, and switchgear markets.

Canadian sales were $77,711, an increase of $1,647 or 2.2% as compared to sales of $76,064 in 2015, with increases in switchgear, alternative energy and technical service markets. Canadian sales were negatively impacted by softer Original Equipment Manufacturer ("OEM"), mining, capital equipment and utilities markets. The Canadian distribution channel grew market share obtaining increased sales for the year.

The Company also made gains in market growth in its international operations in 2016. International sales increased $4,275 or 13.0%, finishing at $37,100 for the year versus sales of $32,825 in 2015. Despite the continuing weaknesses in the European economy, the Company has had success in increasing its European market share. Our Italian cast coil technology further enhances the Company's ability to serve new customers and expanded markets. The Indian market also delivered increased sales in 2016 through expanded geographic representation and new customer generation.

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 our investment in the Corefficient joint venture. Past acquisitions have broadened the Company's manufacturing capabilities and product offering in cast resin technology as well as expanded the HPS footprint into new geographical markets. 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.

The Company's strategies relating to its expertise in custom engineered products, global presence, product breadth, competitive product design and consistent quality, supported sales growth in several market segments. HPS is also growing its market share through distributor conversions and its custom transformer capabilities.

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 58.2% of our total sales in 2016 versus 60.4% in 2015.

Sales in Canada were 28.3% in 2016 as compared to 27.7% last year and International sales accounted for 13.5% of the Company's overall sales in 2016 compared to 11.9% in 2015.

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 for the Company and important to revenue growth.

ORDER BOOKINGS AND BACKLOG

Overall, 2016 bookings increased by 2.2% over the prior year. In 2016, direct sales bookings increased by 5.1% and bookings in the distributor channel had a slight decrease of 0.9%. The direct channel sales bookings increase was impacted by significant booking increases in India as well as a slight increase in U.S. booking rates due to a rise of project business. The distributor channel sales bookings increased in the U.S., but were lower in the Canadian market, due to lower mining and oil extraction work.

The Company's December 31, 2016 backlog increased by 11.4% as compared to December 31, 2015, due to a surge in Indian bookings and OEM bookings in North America.

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 24.3% achieved in 2016, versus 24.0% in 2015, an improvement of 0.3% of sales. The change in margin rates can be attributed to product and customer mix, pricing gains, geographic blend and cost reductions. Foreign currency fluctuations have also had a net favourable impact on gross margin rates. The achievement of the current gross margin rates is notable, as the Company continues to experience negative selling price pressures due to the available excess capacity currently in the industry.

The Company continues to implement changes to protect the gross margin rate. As a result of stable sales and improvement in the gross margin rate, gross margin dollar contribution increased $1,028 or 1.6% finishing 2016 at $66,910 versus $65,882 in 2015.

HPS 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 difficult economic times. Gross margin rates are supported by the maintenance of market price combined with material procurement and engineering cost reduction initiatives.

There continues to be modest signs of economic improvement, particularly in the U.S., however the markets continue to be somewhat erratic and can have significant impacts on financial results. The limited view economic environment and slow global recovery have negatively impacted margin rates from a price and manufacturing capacity utilization perspective. To mitigate the impact, HPS has continued to advance its geographic footprint, implemented a number of cost reduction activities, invested in new product development and expanded manufacturing capabilities. A diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. In the short-term, the additional fixed costs associated with capacity expansion are dilutive to net margin rates. 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 focused on obtaining lead-time improvements, increased productivity improvements and cost reductions in the entire organization. The Company is confident that these actions will increase margin rates.

SELLING AND DISTRIBUTION EXPENSE

Total selling and distribution expenses were $29,886 for 2016 versus $29,914 in 2015, a small decrease of $28 or 0.1%. When compared on a percentage-of-sales basis, total selling and distribution expenses remained consistent at 10.9% of sales in both 2016 and 2015. The foreign exchange translation of our U.S. denominated expenses compared to the previous year was a $480 increase. The foreign exchange impact is offset by a decrease in variable commission and freight costs.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses in 2016 were $24,734 compared to $23,324 for 2015, an increase of $1,410 or 6.0%. On a percentage-of-sales basis these costs increased from 8.5% in 2015 to 9.0% in 2016. The largest portion of the increase was $250 related to the foreign exchange translation of our U.S. denominated expenses, staff investment of $869 and information technology expenses of $155.

These costs are in support of strategic growth initiatives and 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.

IMPAIRMENT OF GOODWILL

At December 31, 2016, the Company determined that the recoverable amount of the Italian CGU was lower than its carrying value. Continued losses in the Italian operations resulted in the requirement to record a non-cash impairment charge of 1,000 Euros ($1,417 CAD) against goodwill of this CGU.

EARNINGS FROM OPERATIONS

Earnings from operations were $10,873 in 2016, as compared to $12,644 in 2015, a decrease of $1,771 or 14.0%.

The change in earnings from operations is a result of the increase in sales and gross margin contribution offset by an increase in general and administrative expenses and the non-cash impairment charge against goodwill.

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

	2016	2015
Net earnings for the year	$ 1,793	$ 6,320
Add:		
Income tax expense	4,663	4,337
Finance and other costs	4,417	1,987
Earnings from operations	$ 10,873	$ 12,644

INTEREST EXPENSE

The interest expense for the year ended December 31, 2016, finished at $1,067 as compared to $1,047 in 2015, an increase of $20 or 1.9%. The interest expense is comparable to the prior year due to similar operating debt levels, as a result of investment in the joint venture, operational capital expenditures and long-term debt repayments, partially offset by lower working capital requirements. Interest expense includes all bank fees.

FOREIGN EXCHANGE LOSS

The foreign exchange loss in 2016 of $844 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 $4 in 2015. An increase in the foreign exchange loss is related to the increased volatility in the exchange rates during the year where the U.S. dollar gained 4.0% relative to the Canadian dollar. This volatility is managed by HPS' foreign exchange contract hedging program. At December 31, 2016, the Company had outstanding foreign exchange contracts in place for 12,950 EUR and $7,900 U.S., both implemented as a hedge against translation gains and losses on inter-company loans and $36,000 U.S. to hedge the U.S. dollar accounts payable in the Canadian operations of HPS.

EARNINGS BEFORE INCOME TAX

2016 earnings before income taxes decreased to $6,456 as compared to $10,657 in 2015, a decrease of $4,201 or 39.4%. The main contributors to the lower net earnings were an increase in the foreign exchange losses, joint venture startup losses (as the customer base continues to build), and continued Italian entity losses, which resulted in a non-cash impairment charge against goodwill.

INCOME TAXES

Income tax expense for 2016 is $4,663 as compared to $4,337 in 2015, an increase of $326. The consolidated effective tax rate for 2016 increased to 72.2% versus 40.7% last year, a difference of 31.5%. In 2016, a non-cash impairment charge against goodwill and other non-tax-deductible costs, including stock option expense, increased the effective tax expense rate by 19.0%. The increased rate for active business, and manufacturing and processing increased the effective tax rate by 10.4% and losses for which no deferred tax asset was recognized increased the effective rate by 6.4%.

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 2016 Annual Report.

NET EARNINGS

Our 2016 net earnings were $1,793 versus $6,320 in 2015, a decrease of $4,527 or 71.6%. Net earnings were also negatively impacted by a higher effective tax rate when compared to 2015.

EBITDA

EBITDA for the year-ended December 31, 2016 was $14,356 versus $18,748 in 2015, a decrease of $4,392 or 23.4%. Adjusted for foreign exchange loss and non-cash impairment charge against goodwill, adjusted EBITDA for Fiscal 2016 was $16,617 versus $18,752 in Fiscal 2015, a decrease of $2,135 or 11.4%.

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

	2016	2015
Net earnings	$ 1,793	$ 6,320
Add:		
Interest expense	1,067	1,047
Income tax expense	4,663	4,337
Depreciation and amortization	6,833	7,044
EBITDA	$ 14,356	$ 18,748
Add:		
Impairment of goodwill	1,417	–
Foreign exchange of losses	844	4
Adjusted EBITDA	$ 16,617	$ 18,752

SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Fiscal 2016 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 68,722	$ 69,138	$ 62,860	$ 74,073	$ 274,793
Net earnings	$ 884	$ 517	$ 99	$ 293	$ 1,793
Net earnings per share – basic	$ 0.07	$ 0.05	$ 0.01	$ 0.03	$ 0.16
Net earnings per share – diluted	$ 0.07	$ 0.05	$ 0.01	$ 0.03	$ 0.16
Average U.S. to Canadian exchange rate	$ 1.376	$ 1.287	$ 1.306	$ 1.332	$ 1.325

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

Sales during the first half of 2016 increased compared to 2015 as a result of favourable fluctuations in exchanges rates as well as small improvements in general economic conditions. The second half of 2016 resulted in lower quarterly sales associated with the comparable quarters in 2015. Sales in Quarter 4, 2015 were significantly impacted by customer demand for product affected by the U.S. Department of Energy regulation changes that became effective January 1, 2016. Sales in Quarter 1, 2016 were expected to decrease due to the Quarter 4, 2015 customer inventory build, but were favourably impacted by the U.S. exchange rate strengthening and unexpected further demand for DOE compliant product. 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, 2016 FINANCIAL RESULTS

	Quarter ended December 31, 2016	Quarter ended December 31, 2015
Sales	$ 74,073	$ 80,740
Earnings from operations	$ 4,633	$ 6,100
Exchange loss (gain)	$ 643	$ (113)
Net earnings	$ 293	$ 3,351
Earnings per share – basic	$ 0.03	$ 0.27
Earnings per share – diluted	$ 0.03	$ 0.27
Cash provided by operations	$ 17,255	$ 8,887

Sales for the quarter ended December 31, 2016 were $74,073, a decrease of $6,667 or 8.3% from the comparative quarter last year, which is reflective of the impact regulation changes had on the 2015 fourth quarter sales.

Quarter 4, 2016 gross margin dollars decreased by $1,407 compared to Quarter 4, 2015. Gross margin rates increased to 25.9% in Quarter 4, 2016 versus 25.5% in Quarter 4, 2015 as a result of sales mix.

Total selling and distribution expenses amounted to $7,217 in Quarter 4, 2016 versus $8,806 in Quarter 4, 2015, a decrease of $1,589 or 18.0%. The decrease in these expenses is attributable to the decreased sales of the quarter. Selling and distribution expenses as a percentage of sales have declined to 9.7% in 2016 compared to 10.9% in 2015.

The general and administrative expenses for Quarter 4, 2016 totaled $5,895, a modest increase of $232 or 4.1% when compared to Quarter 4, 2015 costs of $5,663. The consistency is a result of prudent and conservative spending.

The foreign exchange loss in Quarter 4, 2016 was $643 compared to a foreign exchange gain of $113 in Quarter 4, 2015. The majority of the Quarter 4, 2016 foreign exchange loss 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 an increase in margin rates and additional gross margin dollars as well as a decrease in selling expenses. These increases were offset by an increase in the general and administrative expenses during the quarter and a non-cash impairment charge against goodwill. At December 31, 2016 the Company determined that the recoverable amount of the Italian CGU was lower than its carrying value. Continued losses in the Italian operations resulted in the requirement to record a non-cash impairment charge of 1,000 Euros ($1,417 CAD) against goodwill of this CGU. Quarter 4, 2016 earnings from operations decreased $1,467 from $6,100 in Quarter 4, 2015 to $4,633 in Quarter 4, 2016.

Quarter 4, 2016 income tax expense was $2,750 on earnings before income taxes of $3,043 (an effective tax rate of 90.4%) as compared to an income tax expense of $1,874 on earnings before income taxes of $5,225 (an effective tax rate of 35.9%) in Quarter 4, 2015, an increase of $876. The higher effective tax rate in 2016 is primarily the result of minimum tax expense, the non-deductible impairment charge against goodwill at Hammond Power Solutions S.p.A. ("HPS Italy") and no recognition of the tax benefit of losses in HPS Italy.

Net earnings for Quarter 4, 2016 were $293 compared to $3,351 in Quarter 4, 2015, a decrease of $3,058 or 91.3%.

Cash provided by operations for Quarter 4, 2016 was $17,255 versus $8,887 in Quarter 4, 2015, an increase of $8,368. The increase in the cash generated from operations was primarily due to the changes in non-cash working capital from a generation of cash in the quarter of $10,942 compared to $1,627 during Quarter 4, 2015. The lower Quarter 4, 2016 working capital was primarily a result of accelerated accounts receivable collections.

Operating lines of credit, net of cash, finished the year in a net operating debt position of $11,318 as at December 31 2016, an increase of $2,143 as compared to a net debt balance of $9,175 as at December 31, 2015. The 2016 increased net operating debt position is reflective of the repayment of the long-term debt balance and minority interest purchase being partially offset by cash generated from operations during the year.

Total debt net of cash was $11,318 in 2016 compared to $13,202 in 2015, a decrease in the net debt position of $1,884.

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 2016 was $15,216 versus $16,065 in 2015, a decrease in cash generated from operations of $849. This increase in cash generated from operating activities is due to increased income tax payments and decreased net earnings partially offset by decreased working capital usage. The decreased usage of working capital generated cash of $4,801 in 2016 versus an increase in the investment in working capital of $2,019 in 2015, a positive change of $6,820 from 2015. The change in non-cash working capital of $4,801 for 2016 is a result of decreases in accounts receivable, inventories and accounts payable offset by foreign exchange adjustments.

Accounts receivable finished the year at $49,969 as compared to $61,951 as at December 31, 2015, a decrease of $11,982, a result of higher Quarter 4 sales in 2015 compared to 2016. Due to accelerated payment terms, the Company had an increase in accounts receivable collections in Quarter 4, 2016. The higher receivables balance in 2015 was also attributable to the Department of Energy regulation changes that increased demand for product at the end of the year. The receivable balance has returned to typical historical amounts at December 31, 2016. During 2016, 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 $41,163 as at December 31, 2016, versus $43,549 as at December 31, 2015, a decrease of $2,386. The 2015 inventory levels were attributed to a planned increase in year-end inventory to address the Department of Energy regulation changes, which took effect on January 1, 2016.

Accounts payable and accrued liabilities decreased by $5,376 finishing at $42,789 as at December 31, 2016 compared to $48,165 at the end of 2015. The decrease in accounts payable is related to the timing of purchases from and payments to suppliers.

Net income tax receivable was $598 (income taxes receivable of $1,155 less income tax payable of $557) as at December 31, 2016, versus net income tax payable of $2,427 (income tax payable of $3,089 less income tax receivable of $662) as at December 31, 2015 a change of $3,025.

Cash used in financing activities was $463 in 2016, compared to cash generated of $7,913 in 2015, a change of $8,376. This change was due to the payment of dividends of $2,808 and repayment of long-term debt of $3,929 less increases in bank operating lines.

Cash used in investing activities in 2016 increased $1,377 from $8,764 in 2015 to $10,141 in 2016, a result of an increase in capital investment and purchase of minority interest. There was an increase in capital spending of $202 over the prior year, totaling $2,164 in 2016, compared to $1,962 for 2015. Expanded manufacturing capacity and new product development were areas of capital expenditure spending. In addition there was "normal" maintenance capital invested at all facilities in manufacturing product-mandated projects.

Bank operating lines of credit finished the year at $36,507 as at December 31, 2016, compared to $29,166 as at December 31, 2015 resulting in an increase of $7,341 in the year.

Overall bank lines of credit, net of cash, resulted in net debt of $11,318 as at December 31 2016, an increase of $2,143 as compared to a net debt balance of $9,175 as at December 31, 2015 – primarily reflecting the repayment of the long-term debt balance.

Total debt net of cash was $11,318 in 2016 compared to $13,202 in 2015, a decrease in the net debt position of $1,884.

All bank covenants were met as at December 31, 2016 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 through cash from operations and our existing available credit facility against which, the Company has currently drawn $11,318 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. The Company continually evaluates these options to ensure that the appropriate mix of capital resources is effectively managed for current and future requirements.

The Company has capital expenditure commitments of $148 primarily for completion of certain ongoing projects focused on 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 2016 Annual Report.

CREDIT AGREEMENT

During the second quarter of 2016, the Company entered into an amended credit agreement (which expires in June 2021), consisting of a $35,000 U.S. revolving credit facility, a $5,000 U.S. overdraft facility, a 4,000 EUR overdraft facility, 105,000 INR overdraft facility and a $10,000 U.S. delayed draw credit facility. The Company also has access to 70 EUR and 160,000 INR letters of credit. This new agreement provides an additional $10,000 U.S. of credit to HPS. Based on exchange rates in effect at December 31, 2016, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $78,240.

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

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.

	2017	2018	2019	2020	2021	Total
Operating leases	$ 2,126	$ 1,801	$ 1,563	$ 469	$ 83	$ 6,042
Accounts payable and accrued liabilities	42,789	–	–	–	–	42,789
Capital expenditure purchase commitments	148	–	–	–	–	148
Operating lines of credit	36,507	–	–	–	–	36,507
Total	$ 81,570	$ 1,801	$ 1,563	$ 469	$ 83	$ 85,486

Put option liability

In relation to the non-controlling interest in PETE, HPS has an irrevocable call option exercisable at any time after February 23, 2016 and in certain other circumstances, to purchase the remaining securities of PETE from the non-controlling interest 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, 2016 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 25, 2016 to shareholders of record at the close of business on March 18, 2016. The ex-dividend date was March 16, 2016. The Quarter 2 dividend was paid on June 24, 2016 to shareholders of record at the close of business on June 17, 2016. The ex-dividend date was June 15, 2016. The dividend for Quarter 3 was paid on September 30, 2016 to shareholders of record at the close of business on September 23, 2016. The ex-dividend date was September 21, 2016. The Quarter 4 dividend was paid on December 16, 2016 to shareholders of record at the close of business on December 9, 2016. The ex-dividend date was December 7, 2016.

In 2016, the Company 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 2014 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2014 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, 2016 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, 2016 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 2016, which was completed in the fourth quarter.

As of December 31, 2016, 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, 2016.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

During 2016 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 3, 2017 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 24, 2017 to the shareholders of record at the close of business on March 17, 2017. The ex-dividend date was March 15, 2017.

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:

- U.S. political uncertainty and risk;
- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or stagnation;
- 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:

U.S political uncertainty

The results of the recent U.S. election has created a number of geopolitical risks that are challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. The Company's current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for the Company. The Company's global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships.

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. A significant portion of Company sales and material purchases are denominated in U.S. dollars. 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.

Generally, 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 has 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, priorities, 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 we consider 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 a definite impact on the Company's costs and earnings is the cyclical effects and unprecedented market cost pressures of both copper commodity, and steel pricing in the global markets. This risk is mitigated through strategic supply line agreements and alliances in place with major steel suppliers, to ensure adequate supply and competitive market pricing.

Natural disasters and unpredictable weather

Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present the Company may see short-term effects, 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. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure.

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 2016 Annual Report.

TRANSACTIONS WITH RELATED PARTIES

The Company had transactions with related parties in 2016, as disclosed in note 21 in the Notes to the Consolidated Financial Statements contained in our 2016 Annual Report.

PROPOSED TRANSACTIONS

The Company had no proposed transactions as at December 31, 2016. 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, 2016 the Company had outstanding foreign exchange contracts in place for 12,950 EUR and $7,900 USD both implemented as an economic hedge against translation gains and losses on inter-company loans and $36,000 USD to economically hedge the U.S. dollar accounts payable in the Canadian operations of HPS. The Company had total outstanding foreign exchange contracts in place as at December 31, 2015 for 11,200 EUR, and $7,800 USD as economic hedges against translation gains and losses on inter-company loans, and $25,500 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 2016 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 as well as 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, 2016, 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.

Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Group will adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Transfer of Investment Property

On December 8, 2016, the IASB issued amendments to IAS 40 Investment Property clarifying the principles for transfers into, or out of, investment property in IAS 40 when there has been a change in use. The amendments apply prospectively for annual periods beginning on or after January 1, 2018. Earlier application is permitted. Retrospective application is permitted, but only it if does not involve hindsight.

The amendments clarify that:

- An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; and
- The list of circumstances of when a change in use has occurred is non-exhaustive.

The Group intends to adopt the amendments to IAS 40 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Classification and Measurement of Share-Based Payment Transactions

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-Based Payments clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2017. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

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. On April 12, 2016, the IASB issued Clarification to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

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 Group 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.

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 are also impacted, including the definition of a lease. The Group 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 this standard has yet to be determined.

Annual Improvements to IFRS Standards (2014-2016) Cycle

On December 8, 2016, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Each of the amendments has its own specific transition requirements and effective dates.

Amendments have been made to the following standards:

- Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017; and
- Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Group intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2017 and 2018 as applicable. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Foreign Currency Transactions with Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consolidation. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advanced payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Interpretation clarifies that the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Interpretation may be applied either:

- retrospectively; or
- prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after:
    - the beginning of the reporting period in which the entity first applies the Interpretation; or
    - the beginning of a prior reporting period presented as comparative information in the consolidated financial statements

The Group intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the Interpretation to have a material impact on the consolidated financial statements.

STRATEGIC DIRECTION AND OUTLOOK

2017 marks Hammond Power Solutions 100th anniversary. This is a significant accomplishment and a testament to the strength and perseverance of the Company's ability to navigate the past century. This period of time has seen significant changes in markets, customers, capacity, technology and economic conditions with the last five years alone causing HPS to undergo a significant transformation, including the following changes:

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

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

While the Company has experienced a number of successes, the problematic global economic climate has had a pervasive effect on HPS' profitability. The negative affect of an unpredictable and erratic economy, as well as the variability of raw material commodity costs, manufacturing throughput and market pricing pressures has impacted the Company. Through HPS' strategic projects and operational plans, these deterrents are being managed.

The Company's financial and shorter-term operating performance has been hindered by these negative factors over the past few years; we are however confident, that the strong business fundamentals that have been established will sustain and grow the Company 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 remains 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.

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

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, 100 years of experience, engineering expertise, solid supplier relationships and a broad and unique business perspective, are all key factors to the future success for HPS. Our diverse products, loyal customers and targeted markets are critical to generating future sales growth.

We are aware that there will continue to be fluctuations in several of our markets and our diversified offerings will compensate to mitigate some of this uncertainty. 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 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 investment.

The Company is committed to driving accountability – from revenue creation, market share growth, expense management and cash flow generation, to overall profitability and strategic direction. We are firmly committed to delivering long-term value to our shareholders through escalating improvement in the Company's financial results and remain focused on the success of all stakeholders of the company.

SELECTED ANNUAL AND QUARTERLY INFORMATION

(tabular amounts in thousands of dollars)

ANNUAL INFORMATION

	2012	2013	2014	2015	**2016**
Sales	257,376	242,941	247,756	274,639	274,793
Earnings from operations	18,180	11,036	6,460	12,644	10,873
EBITDA	24,352	16,924	12,327	18,748	14,356
Net earnings	12,611	6,104	2,520	6,320	1,793
Total assets	160,049	186,878	184,291	222,969	205,177
Non-current liabilities	5,424	10,220	9,527	5,454	4,131
Total liabilities	58,404	77,827	69,854	90,668	84,524
Total shareholders' equity attributable to equity holders of the Company	99,387	107,014	112,271	129,665	120,441
Total debt	(990)	(21,104)	(14,833)	(13,202)	(11,318)
Cash provided by operations	21,371	765	18,450	16,065	15,216
Basic earnings per share	1.08	0.52	0.22	0.53	0.16
Diluted earnings per share	1.08	0.52	0.22	0.53	0.16
Dividends declared and paid	2,098	2,328	2,800	2,807	2,808
Average exchange rate (USD$=CAD$)	1.0005	1.029	1.1025	1.274	1.325
Book value per share	8.54	9.17	9.61	11.08	10.29

QUARTERLY INFORMATION

	2015				**2016**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	63,137	65,384	65,378	80,740	68,722	69,138	62,860	74,073
Earnings from operations	1,446	2,623	2,475	6,100	2,677	2,560	1,003	4,633
EBITDA	3,589	3,403	4,163	7,593	3,787	3,601	1,858	5,110
Net earnings	781	1,096	1,092	3,351	884	517	99	293
Total assets	191,972	193,039	206,687	222,969	208,810	203,379	200,896	205,177
Non-current liabilities	5,867	5,857	5,990	5,454	5,740	5,663	5,241	4,131
Total liabilities	70,482	73,347	80,859	90,668	82,534	76,846	79,364	84,524
Total shareholders' equity attributable to equity holders of the Company	119,094	117,283	123,375	129,665	123,910	120,677	121,333	120,441
Total debt	(18,357)	(21,828)	(18,886)	(13,202)	(21,515)	(31,217)	(26,640)	(11,318)
Cash provided (used) by operations	421	460	6,077	9,107	(3,380)	(4,941)	6,282	17,255
Basic earnings per share	0.07	0.09	0.10	0.27	0.07	0.05	0.01	0.03
Diluted earnings per share	0.07	0.09	0.10	0.27	0.07	0.05	0.01	0.03
Dividends declared and paid	702	701	702	702	702	702	702	702
Average exchange rate (USD$=CAD$)	1.235	1.231	1.302	1.329	1.376	1.287	1.306	1.332
Book value per share	10.18	10.03	10.54	11.08	10.59	10.31	10.37	10.29

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.

WGH

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

Christopher R. Huether
Corporate Secretary
& Chief Financial Officer

March 29, 2017

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, 2016 and December 31, 2015, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
March 29, 2017
Waterloo, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)

	As at	
	December 31, 2016	December 31, 2015
Current assets		
Cash and cash equivalents	$ 25,189	$ 19,991
Accounts receivable (note 4)	49,969	61,951
Inventories (note 5)	41,163	43,549
Income taxes recoverable	1,155	662
Prepaid expenses and other assets (note 6)	1,826	2,186
Total current assets	119,302	128,339
Non-current assets		
Property, plant and equipment (note 7)	40,510	45,225
Investment in properties (note 8)	1,044	1,044
Investment in joint venture (note 9)	13,272	13,162
Deferred tax assets (note 15)	1,548	1,735
Intangible assets (note 10)	12,281	13,858
Goodwill (notes 10 and 11)	17,220	19,606
Total non-current assets	85,875	94,630
TOTAL ASSETS	$ 205,177	$ 222,969
LIABILITIES		
Current liabilities		
Bank operating lines of credit (note 12)	$ 36,507	$ 29,166
Accounts payable and accrued liabilities (note 19)	42,789	48,165
Income tax liabilities	557	3,089
Provisions (note 20)	540	506
Derivative liabilities (note 25)	–	261
Current portion of long-term debt (note 13)	–	4,027
Total current liabilities	$ 80,393	$ 85,214
NON-CURRENT LIABILITIES		
Employee future benefits (note 19)	–	389
Provisions (note 20)	100	100
Deferred tax liabilities (note 15)	4,031	4,965
Total non-current liabilities	4,131	5,454
TOTAL LIABILITIES	$ 84,524	$ 90,668
SHAREHOLDERS' EQUITY		
Share capital (note 16)	13,843	13,843
Contributed surplus	2,605	2,434
Accumulated other comprehensive income	10,992	18,492
Retained earnings	93,001	94,896
Total shareholders' equity attributable to equity holders of the Company	$ 120,441	$ 129,665
Non-controlling interests	212	2,636
TOTAL SHAREHOLDER'S EQUITY	120,653	132,301
Commitments and contingencies (note 14)		
Subsequent events (note 28)		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 205,177	$ 222,969

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, 2016 and 2015 (in thousands of dollars, except for per share amounts)

	2016	2015
Sales	$ 274,793	$ 274,639
Cost of sales (note 5)	207,883	208,757
Gross margin	66,910	65,882
Selling and distribution	29,886	29,914
General and administrative	24,734	23,324
Impairment of goodwill (note 10 and 11)	1,417	–
Earnings from operations	10,873	12,644
FINANCE AND OTHER COSTS		
Interest expense (note 13)	1,067	1,047
Foreign exchange loss	844	4
Share of loss of investment in joint venture net of tax (note 9)	2,400	848
Other	106	88
Net finance and other costs	4,417	1,987
EARNINGS BEFORE INCOME TAXES	6,456	10,657
Income tax expense (recovery) (note 15):		
Current	5,392	5,671
Deferred	(729)	(1,334)
	4,663	4,337
Net earnings	$ 1,793	$ 6,320
Net (loss) earnings attributable to non-controlling interest	(30)	153
Net earnings attributable to the equity holders of the Company	1,823	6,167
Net earnings	$ 1,793	$ 6,320
EARNINGS PER SHARE (NOTE 17)		
Basic earnings per share	$ 0.16	$ 0.53
Diluted earnings per share	$ 0.16	$ 0.53

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2016 and 2015 (in thousands of dollars)

	2016	2015
Net earnings	$ 1,793	$ 6,320
OTHER COMPREHENSIVE INCOME		
Item that will be recognized within profit and loss:		
Foreign currency translation differences for foreign operations	(7,478)	14,196
Items that will not be recognized within profit and loss:		
Defined benefit plan actuarial gain	–	22
Income tax expense on comprehensive income (note 15)	–	(5)
	–	17
Other comprehensive (loss) income for the period, net of income tax	(7,478)	14,213
Total comprehensive (loss) income for the period	$ (5,685)	$ 20,533
Total comprehensive income attributable to equity holders of the Company	(5,552)	20,063
Total comprehensive income attributable to non-controlling interest	(133)	470
	$ (5,685)	$ 20,533

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, 2016 and 2015 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2015	$ 13,800	$ 2,399	$ 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 losses 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
Share 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
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD						
Net earnings	–	–	–	1,823	(30)	1,793
OTHER COMPREHENSIVE INCOME						
Foreign currency translation differences related to the joint venture (note 9)	–	–	(2,158)	–	–	(2,158)
Foreign currency translation differences	–	–	(5,217)	–	(103)	(5,320)
Total other comprehensive loss	–	–	(7,375)	–	(103)	(7,478)
Total comprehensive (loss) income for the period	–	–	(7,375)	1,823	(133)	(5,685)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY						
Non-controlling interest (note 18)	–	–	(125)	(910)	(2,291)	(3,326)
Dividends to equity holders (note 16)	–	–	–	(2,808)	–	(2,808)
Share-based payment transactions (note 16)	–	171	–	–	–	171
Total transactions with owners	–	171	(125)	(3,718)	(2,291)	(5,963)
BALANCE AT DECEMBER 31, 2016	$ 13,843	$ 2,605	$ 10,992	$ 93,001	$ 212	$ 120,653

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015 (in thousands of dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 1,793	$ 6,320
Adjustments for:		
Impairment of goodwill (note 10 and 11)	1,417	–
Share of loss of investment in joint venture	2,400	848
Depreciation of property, plant and equipment	5,438	5,718
Amortization of intangible assets	1,395	1,326
Provisions	34	119
Interest expense	1,067	1,047
Loss on disposal of property, plant and equipment	10	–
Income tax expense	4,663	4,337
Unrealized gain (loss) on derivatives	104	(248)
Payment of accrued pension benefit obligation	(389)	–
Accrued pension benefit obligation	–	95
Stock-based compensation expense	171	108
	18,103	19,670
Change in non-cash working capital (note 23)	4,801	(2,019)
Cash generated from operating activities	22,904	17,651
Income tax paid	(7,688)	(1,586)
Net cash provided from operating activities	15,216	16,065
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in joint venture (note 9)	(4,580)	(6,639)
Purchase of non-controlling interest (note18)	(3,326)	–
Proceeds on disposal of property, plant and equipment	210	–
Acquisition of property, plant and equipment	(2,164)	(1,962)
Acquisition of intangible assets	(281)	(163)
Cash used in investing activities	(10,141)	(8,764)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	–	30
Cash dividends paid	(2,808)	(2,807)
Advances from bank operating lines of credit	7,341	11,988
Repayment of long-term debt	(3,929)	(251)
Interest paid	(1,067)	(1,047)
Cash (used in) generated by financing activities	(463)	7,913
Foreign exchange on cash and cash equivalents held in a foreign currency	586	(1,679)
Increase in cash and cash equivalents	5,198	13,535
Cash and cash equivalents at beginning of period	19,991	6,456
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 25,189	$ 19,991

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 Group has manufacturing plants in Canada, the 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 an 85% equity ownership. The Company holds a 55% partnership interest in a joint venture located in Mexico called Corefficient de R.L. de C.V. ("Corefficient").

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and were approved by the Board of Directors on March 29, 2017.

(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.

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

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)

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

(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.p.A. and an 85% (2015 – 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 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 and long-term debt. Subsequent to initial measurement, other liabilities are carried at amortized cost using the effective interest rate method.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

(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. 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-progress 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 cash generating unit (CGU) level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value, less cost of disposal. 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 CGU's 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, 2016.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

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

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

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, are recognized as an employee benefit expense in profit or loss in the periods in which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 Group'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 Group 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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

(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

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 Group adopted the amendments to IFRS 11 in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not have a material impact on the consolidated financial statements.

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 Group adopted these amendments in its consolidated financial statements for the year commencing January 1, 2016. The adoption of this amendment did not 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;
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting;

The Group adopted these amendments in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not 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 Group adopted these amendments in its consolidated financial statements for the year commencing January 1, 2016. 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.

Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Group will adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Transfer of Investment Property

On December 8, 2016, the IASB issued amendments to IAS 40 Investment Property clarifying the principles for transfers into, or out of, investment property in IAS 40 when there has been a change in use. The amendments apply prospectively for annual periods beginning on or after January 1, 2018. Earlier application is permitted. Retrospective application is permitted, but only it if does not involve hindsight.

The amendments clarify that:

- An entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; and
- The list of circumstances of when a change in use has occurred is non-exhaustive.

The Group intends to adopt the amendments to IAS 40 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Classification and Measurement of Share-Based Payment Transactions

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-Based Payments clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2017. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

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. On April 12, 2016, the IASB issued Clarification to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

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 Group 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.

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 are also impacted, including the definition of a lease. The Group 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 this standard has yet to be determined.

Annual Improvements to IFRS Standards (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Each of the amendments has its own specific transition requirements and effective dates.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

Amendments have been made to the following standards:

- Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017; and
- Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Group intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2017 or 2018 as applicable. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Foreign Currency Transactions with Advance Consideration

On December 8, 2016 the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consolidation. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advanced payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Interpretation clarifies that the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Interpretation may be applied either:

- retrospectively; or
- prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after:
  - o the beginning of the reporting period in which the entity first applies the Interpretation; or
  - o the beginning of a prior reporting period presented as comparative information in the consolidated financial statements

The Group intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the Interpretation to have a material impact on the consolidated financial statements.

4. ACCOUNTS RECEIVABLE

	December 31, 2016	December 31, 2015
Trade accounts receivable	$ 45,945	$ 57,664
Other receivables	4,024	4,287
	$ 49,969	$ 61,951

Trade accounts receivable is presented net of an allowance for doubtful accounts of $1,127,000 (December 31, 2015 - $1,525,000).

5. INVENTORIES

	December 31, 2016	December 31, 2015
Raw materials	$ 18,890	$ 21,559
Work in progress	3,072	4,152
Finished goods	19,201	17,838
	$ 41,163	$ 43,549

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

Raw materials and changes in finished goods, and work in progress recognized as cost of sales during the year amounted to $206,658,000 (2015 – $207,509,000). In addition, during the year, write-downs in the amount of $6,000 were recognized (2015 – reversal of previous write-down of $17,000). Inventories carried at net realisable value as at December 31, 2016 were $825,000 (December 31, 2015 - $695,000).

6. PREPAID AND OTHER ASSETS

	December 31, 2016	December 31, 2015
Prepaid expenses	$ 1,782	$ 1,782
Derivative assets	39	404
	$ 1,826	$ 2,186

7. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Building	Leaseholds & Improvements	Machinery & Equipment	Office	Construction In Progress	Total
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
Balance at January 1, 2016	$ 6,826	$27,806	$ 1,502	$56,160	$ 9,922	$ 201	$ 102,417
Additions	–	597	171	992	348	56	2,164
Disposals	–	(11)	–	(390)	(43)	–	(444)
Effect of movements in exchange rates	(175)	(581)	(227)	(1,624)	(202)	(4)	(2,813)
Balance at December 31, 2016	$ 6,651	$27,811	$ 1,446	$55,138	$10,025	$ 253	$ 101,324
DEPRECIATION							
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
Balance at January 1, 2016	$ –	$ 9,948	$ 1,029	$37,429	$ 8,786	$ –	$ 57,192
Depreciation for the year	–	1,078	109	3,840	411	–	5,438
Disposals	–	–	–	(182)	(42)	–	(224)
Effect of movements in exchange rates	–	(297)	(14)	(1,133)	(148)	–	(1,592)
Balance at December 31, 2016	$ –	$ 10,729	$ 1,124	$39,954	$ 9,007	$ –	$ 60,814
CARRYING AMOUNTS							
At December 31, 2015	$ 6,826	$17,858	$ 473	$18,731	$ 1,137	$ 201	$ 45,225
At December 31, 2016	$ 6,651	$17,082	$ 322	$15,184	$ 1,018	$ 253	$ 40,510

Depreciation is recorded in the statement of earnings as follows: cost of sales $5,109,000 (2015 – $5,359,000), selling and distribution $16,000 (2015 – $16,000), and general and administrative $313,000 (2015 – $343,000).

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 2016 or 2015. The property is carried at cost. The estimated fair value of the property as at

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

December 31, 2016 is $1,150,000 (2015 – $1,150,000). The fair value was determined based on independent available market evidence. The Group's share of ongoing legal, consulting and remediation costs during the year was $106,000 (2015 – $92,000).

On August 2, 2014 the Group 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 was subject to several due diligence conditions being satisfied and has subsequently expired.

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, 2016	December 31, 2015
Cost of investment in joint venture	$ 18,678	$ 14,010
Cumulative share of loss in investment in joint venture, net of tax	(3,248)	(848)
Foreign currency translation differences related to the joint venture	(2,158)	–
	$ 13,272	$ 13,162

During the year the Company made additional contributions of $4,580,000 (2015 - $9,512,000), and recognized its share of the loss of $2,400,000.

Selected financial information relating to Corefficient is as follows:

	December 31, 2016	December 31, 2015
Cash	$ 800	$ 108
Trade and other receivables	5,486	7,287
Inventories	575	490
Other current assets	985	54
Total current assets	$ 7,846	$ 7,939
Non-current assets	18,484	21,467
TOTAL ASSETS	$ 26,330	$ 29,406
Current liabilities	$ 2,357	$ 4,693
Non-current liabilities	–	–
TOTAL LIABILITIES	$ 2,357	$ 4,693

	2016	2015
Revenue	$ 14,982	$ 485
Loss for the year	3,394	1,542

The loss for the year ended December 31, 2016 includes depreciation and amortization expense of $1,836,000 (2015 – $159,000), interest expense of $6,000 (2015 – $1,000) and an income tax recovery of $1,359,000 (2015 — $533,000) related to Corefficient.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

10. INTANGIBLE ASSETS AND GOODWILL

Intangible assets		Technology		Customer lists relationships and branding		Externally acquired software		Total
COST								
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
Balance at January 1, 2016	$	6,752	$	9,089	$	5,588	$	21,429
Additions		–		–		281		281
Effect of movements in exchange rates		(364)		(214)		(67)		(645)
Balance at December 31, 2016	$	6,388	$	8,875	$	5,802	$	21,065
AMORTIZATION								
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
Balance at January 1, 2016	$	1,286	$	3,965	$	2,320	$	7,571
Amortization for the year		325		659		411		1,395
Effect of movements in exchange rates		(77)		(74)		(31)		(182)
Balance at December 31, 2016	$	1,534	$	4,550	$	2,700	$	8,784
CARRYING AMOUNTS								
At December 31, 2015	$	5,466	$	5,124	$	3,268	$	13,858
At December 31, 2016	$	4,854	$	4,325	$	3,102	$	12,281

Amortization of $304,000 (2015 – $266,000) has been recognized in cost of sales, $192,000 (2015 – $192,000) has been recognized in selling and distribution and $899,000 (2015 – $868,000) has been recognized in general and administrative.

None of the intangible assets have been internally developed.

Research and development expenses of $1,219,000 (2015 – $1,265,000) have been recognized in the statements of earnings. No research and development costs have been capitalized (2015 – $nil).

GOODWILL		**December 31, 2016**		December 31, 2015
Opening balance	$	19,606	$	17,889
Impairment (note 11)		(1,417)		–
Effect of movements of exchange rates		(969)		1,717
Ending balance	$	17,220	$	19,606

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.

The Company conducts its annual impairment assessment of goodwill, intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. The Company recognizes an impairment loss when the carrying amount of an asset or CGU exceeds its recoverable amount, which is measured at the greater of its value in use and fair value less costs of disposal.

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. Prior to the Company's 2016 annual impairment assessment, the Company did not identify any triggering events during the course of 2016 indicating that the carrying amount of its assets and CGUs may not be recoverable. For its 2016 annual impairment assessment of goodwill, intangible assets and property, plant and equipment, the Company used cash flow projections based primarily on its plan for the following year, as well as projections for the ensuing four year period. The Company's plan for the following year is primarily based on financial projections submitted by its subsidiaries in the fourth quarter of each year, together with inputs from customer teams. This plan is subjected to reviews by various levels of management as part of its annual planning cycle, and is approved by the Board of Directors. The values used in the cash flow projections are based on historical sales, internal growth rate assumptions, and available market data. Assumptions used in cash flow projections are based on improving economic conditions as evidenced by recent GDP growth statistics.

Based on these projections, a five year present value cash flow projection was completed and discounted using discount rates specific to each CGU ranging from 12.5% – 18.8% (2015: 8% – 19%) depending on the location of the entity. Through the five year cash flow projections, the Company's model also incorporated annual sales growth (decline) rates in the range of –2% – 38% (2015: 5% – 43%) 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% (2015: 2% – 8%), depending on the geography of the manufacturing unit. This was then compared to the carrying value of the CGU 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 ("CGUs") and their respective goodwill balances are as follows: Delta Transformers Inc. $2,180,000 (2015 – $2,180,000), Pan-Electro Technic Enterprises Private Limited $9,917,000 (2015 – $10,489,000) and HPS S.p.A. $5,123,000 (2015 – $6,937,000).

Upon completion of the 2016 annual impairment assessment of goodwill it was determined that the recoverable amount of the CGUs, other than HPS S.p.A., exceeded their respective carrying values and no impairment existed for such CGUs at December 31, 2016.

In conducting its annual impairment test for the year ended December 31, 2016, management determined the recoverable amount, using the value in use method, of HPS S.p.A. to be $24,445,000, which was less than the CGU's carrying amount by $1,417,000, primarily due to reduced customer demand and challenging European market conditions. Accordingly, for the year ended December 31, 2016, a goodwill impairment charge of $1,417,000 (December 31, 2015 - $Nil) was recorded on the "Impairment of goodwill" line in the Consolidated Statements of Earnings. Key assumptions utilized in the determination of the recoverable amount, and to which the recoverable amount is most sensitive, included projected growth in revenue in 2017 of 29%, followed by growth rates ranging from 13% - 15% through the remainder of the five year projection period and a steady growth rate of 5.0% (2015 – 5.0%) thereafter, anticipated gross margin rates ranging from 18% - 21% throughout the projection period, and selling, general and administrative costs ranging from 10% - 15% as a percentage of revenue throughout the projection period. Projected cash flows were discounted using a discount rate of 18.8% (2015 – 17.5%).

Management's approach to determining anticipated sales levels includes consideration of current bookings, consultation with its salesforce and historical results. The Company's process for determining anticipated gross margin rates includes consideration of current pricing information from suppliers and historical gross margin rates realized by the Company. Anticipated gross margin rates are reflective of those that have been achieved in the past by the Italian CGU. Selling, general and administrative costs are determined with reference to past results and incorporate planned initiatives the Company may take to manage costs and achieve planned results.

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 materially exceed their recoverable amounts.

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

12. BANK OPERATING LINES OF CREDIT

The Group entered into a new banking agreement during the year, which expires in June, 2021, consisting of a $35,000,000 U.S. revolving credit facility, a $5,000,000 U.S. overdraft facility, a 4,000,000 Euro overdraft facility, a 105,000,000 Indian rupees overdraft facility and a $10,000,000 U.S. delayed draw credit facility. The Group also has access to 70,000 Euro and 165,000,000 Indian rupees letters of credit. Based on exchange rates in effect at December 31, 2016, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $78,240,000. 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%.

During the year ended December 31, 2015 the Group's facilities, which expired on March 22, 2017, consisted of a $25,000,000 U.S. revolving credit facility, a $5,000,000 U.S. overdraft facility, a 4,000,000 Euro overdraft facility, 110,000,000 Indian rupees overdraft facility and a $10,000,000 U.S. delayed draw credit facility. The Group also had access to 70,000 Euro and 160,000,000 Indian rupees 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.

As at December 31, 2016, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit line was $29,131,000 (2015 – $22,156,000) As well, $4,888,000 (2015 - $5,185,000) Canadian dollar equivalent of Euros was outstanding under the Euro overdraft facility, and $2,488,000 (2015 – $1,825,000) Canadian dollar equivalent of Indian rupees. The delayed draw credit facility was unutilized at December 31, 2016 and December 31, 2015. 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 $6,300,000 U.S. (2015 – $4,800,000 U.S.) consisting of the sub-facilities of an 160,000,000 INR (2015 – 85,000,000 INR) short-term working capital demand loan, a 130,000,000 INR (2015 – 190,000,000 INR) facility for bank guarantees and letters of credit and 25,000,000 INR (2015 – 25,000,000 INR) facility for bill discounting. The demand loan bears interest at a 9.25% base rate + 3% (2015 – 9.25% base rate + 3%) and the bank guarantees are at a rate of 1.50% (2015 – 1.50%). As at December 31, 2016, there was $871,000 Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2015 - $0). There were no drawings against the bank guarantees, the letter of credit facilities or the bill discounting facility.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

13. LONG-TERM DEBT

The note payable for 2,650,000 EUR was secured by certain of the land and buildings of HPS S.p.A.

	December 31, 2016	December 31, 2015
Term loan repayable in monthly payments of $15,100, non-interest bearing, unsecured, maturing April 1, 2016	$ –	$ 44
Note payable of 2,659,000 EUR, with monthly interest only payments of €10,000 EUR, bearing interest at 4.5%, principal payment was made December 2016.	–	3,983
	–	4,027
Less current portion of long-term debt	–	4,027
	$ –	$ –

Interest expense is comprised of the following:

	2016	2015
Long-term debt	$ 131	$ 170
Short-term interest, bank fees and other	936	877
	$ 1,067	$ 1,047

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, 2016	December 31, 2015
Less than 1 year	$ 2,126	$ 1,983
2 to 5 years	$ 3,916	$ 2,935

Operating lease payments recognized as an expense during the year were $1,736,000 (2015- $3,191,000).

	December 31, 2016	December 31, 2015
Capital expenditure commitments	$ 148	$ 1,128

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

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

	2016	2015
CURRENT TAX EXPENSE		
Current period	$ 5,392	$ 5,671
DEFERRED TAX EXPENSE (RECOVERY)		
Origination and reversal of temporary differences	(723)	(1,335)
Increase in tax rate	(6)	1
	(729)	(1,334)
Total income tax expense	$ 4,663	$ 4,337

Reconciliation of effective tax rate

	2016	2016	2015	2015
Net earnings		$ 1,793		$ 6,320
Income tax expense		4,663		4,337
Earnings before income taxes		$ 6,456		$ 10,657
Income tax using the Company's domestic tax rate	39.50%	2,550	39.50%	4,210
Effect of tax rates in foreign jurisdictions	(1.01%)	(65)	(4.44%)	(474)
Increase in tax rate	(0.09%)	(6)	0.00%	–
Non-deductible expenses/non-taxable income	19.02%	1,228	4.99%	532
Increased rate for active business and manufacturing and processing	10.38%	670	0.37%	39
Losses for which no deferred tax asset was recognized	6.44%	416	–	–
Other	(2.01%)	(130)	0.28%	30
	72.23%	$ 4,663	40.70%	$ 4,337

Unrecognized temporary differences

At December 31, 2016, pre-tax temporary differences of $77,455,000 (2015 - $78,094,000) 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:

	2016	2015
Tax losses	$ 3,705	$ 2,376
Financial interests deductible in a future period	957	1,016
	$ 4,662	$ 3,392

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

The tax losses carry forward indefinitely and relate to HPS S.p.A. 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	
	2016	2015	**2016**	2015
Property, plant and equipment	$ 205	$ 209	$ (4,847)	$ (6,525)
Intangible assets	14	15	(2,379)	(2,740)
Scientific research and experimental development	43	14	(62)	(47)
Inventories	243	239	(8)	(8)
Loans and borrowings	546	1,830	–	–
Employee benefits	–	155	(126)	–
Unrealized losses (gains) on forward contracts and foreign-currency denominated loans payable/receivable	1,217	1,231	(107)	(291)
Provisions and tax reserves	1,297	1,288	(20)	(21)
Tax loss carry-forwards	1,487	1,547	–	–
Charitable donation carry-forwards	14	2	–	–
Tax assets (liabilities)	5,066	6,530	(7,549)	(9,760)
Set off of tax	(3,518)	(4,795)	3,518	4,795
Net tax assets (liabilities)	$ 1,548	$ 1,735	$ (4,031)	$ (4,965)

Movement in temporary differences during the year

	Balance December 31, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2016
Property, plant and equipment	$ 6,316	$ (1,674)	$ –	$ 4,462
Intangible assets	2,725	(360)	–	2,365
Scientific research and experimental development	33	(14)	–	19
Inventories	(231)	(4)	–	(235)
Loans and borrowings	(1,830)	1,284	–	(546)
Employee benefits	(27)	153	5	126
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(940)	(170)	–	(1,110)
Provisions and tax reserves	(1,267)	(10)	–	(1,277)
Tax loss carry-forwards	(1,547)	(60)	–	(1,487)
Charitable donation carry-forwards	(2)	(12)		(14)
	$ 3,230	$ (747)	$ 5	$ 2,483
Foreign exchange		$ 18		
Income tax expense		$ (729)		

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

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 (losses) on forward contracts and foreign-denominated loans payable/receivable	(401)	(539)	–	(940)
Provisions	(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)		

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, 2016	December 31, 2015
8,921,624	Class A subordinate voting shares (2015 – 8,921,624)	$ 13,836	$ 13,836
2,778,300	Class B common shares (2015 – 2,778,300)	7	7
11,699,924	Total A and B shares (2015 – 11,699,924)	$ 13,843	$ 13,843

There were no stock options exercised during the year ended December 31, 2016. During the year ended December 31, 2015, 5,000 Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $30,000 and a transfer of $13,000 from contributed surplus.

The following dividends were declared and paid by the Company:

	December 31, 2016	December 31, 2015
24 cents per Class A subordinate voting shares (2015 – 24 cents)	$ 2,141	$ 2,140
24 cents per Class B common shares (2015 – 24 cents)	667	667
	$ 2,808	$ 2,807

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

(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 160,000 options (2015 – 95,000), of which 115,000 vested immediately (2015 – 55,000) and the remaining 45,000 vest evenly through 2017 and during the first quarter of 2018. Also during the year, 20,000 options which were granted in 2015 vested. Stock-based compensation recognized and the amount credited to contributed surplus during the year is $171,000 and relates to 2016 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 2015 amounted to $108,000. The weighted average grant date fair value of options granted in 2016 is $0.96 (2015 – $1.26).

Options outstanding and exercisable as at December 31, 2016:

	December 31, 2016			December 31, 2015		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding, beginning of year	709,000	$	9.50	666,500	$	10.18
Granted	160,000		6.20	95,000		6.62
Exercised	–		–	(5,000)		5.91
Expired	(25,000)		5.91	(47,500)		13.64
Outstanding, end of year	844,000	$	8.98	709,000	$	9.50

			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
$	10.55	90,000	0.2	$	10.55	90,000	$	10.55
	11.70	155,000	1.2		11.70	155,000		11.70
	9.74	119,000	2.2		9.74	119,000		9.74
	10.00	140,000	3.2		10.00	140,000		10.00
	7.50	85,000	4.2		7.50	85,000		7.50
	6.62	95,000	5.2		6.62	75,000		6.62
	6.20	160,000	6.2		6.20	115,000		6.20
		844,000	3.3	$	8.98	779,000	$	9.20

Subsequent to December 31, 2016 40,000 options were cancelled related to the termination of an Officer of the Company.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

Terms and conditions of the stock option plan

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

Option Grant Date	Number of Options	Recipients
March 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
March 10, 2016	160,000	Board of Directors and Officers
Total stock options outstanding	844,000	

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:

	2016	2015
Fair value of share options and assumptions		
Fair value at grant date	$ 0.96	$ 1.26
Share price at grant date	$ 6.20	$ 6.62
Exercise price	$ 6.20	$ 6.62
Expected volatility (weighted average volatility)	39.4%	41.3%
Option life (expected weighted average life)	3.8 years	3.8 years
Expected dividends	3.90%	3.60%
Risk-free interest rate (based on government bonds)	1.44%	1.60%
Forfeiture rate	1.29%	1.45%

17. EARNINGS PER SHARE

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

	2016	2015
Basic earnings per share	$ 0.16	$ 0.53
Calculated as:		
Net Earnings attributable to the equity holders of the Company	$ 1,823	$ 6,167
Weighted average number of shares outstanding	11,699,424	11,697,424
Fully diluted earnings per share	$ 0.16	$ 0.53
Calculated as:		
Net Earnings attributable to the equity holders of the Company	$ 1,823	$ 6,167
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares	11,705,622	11,719,953
Reconciliation of weighted average number of shares outstanding:		
Weighted average number of shares outstanding used to calculate basic earnings per share	11,699,924	11,697,424
Adjustment for dilutive effect of stock option plan	5,698	22,529
Weighted average number of shares outstanding used to calculate diluted earnings per share	11,705,622	11,719,953

As at December 31, 2016, 844,000 options (2015 – 684,000) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

18. NON-CONTROLLING INTEREST

Put and call option

HPS has an irrevocable call option in relation to the non-controlling interest in PETE, exercisable at any time after February 23, 2016, and in certain other circumstances, to purchase the remaining securities of PETE from the non-controlling interest at fair value. HPS 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 interest. 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, 2016 as it is not considered material to the consolidated financial statements.

Purchase of non-controlling Interest

On March 5, 2016, HPS signed an agreement to acquire the shares of K. Linga Reddy, a minority shareholder of PETE in India, acquiring an additional 15% equity ownership for 172,625,181 Indian Rupees ($3,326,000 CAD). The Company completed the transaction on April 21, 2016. This increases HPS' equity ownership of PETE to 85%. The impact of this transaction was a reduction in minority interest in the amount of $2,291,000 a decrease in accumulated other comprehensive income in the amount of $125,000 and a reduction in retained earnings in the amount of $910,000.

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 $1,323,000 (2015 – $1,338,000) matches the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $985,000 (2015 – $999,000) in cost of sales, $167,000 (2015 – $165,000) in selling and distribution, and $171,000 (2015 – $174,000) in general and administrative.

(b) Defined benefit plans:

In connection with its Italian operations, the Group 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 it does increase based on an inflationary component. The Group accounts for the related projected benefit obligation at its present value. As at December 31, 2016 the obligation, recorded within accounts payable and accrued liabilities, was $1,268,000 (2015 – $1,291,000). During the year, the expense recognized related to this obligation was $178,000 (2015 – $157,000), of which $77,000 (2015 – $91,000) is included within cost of sales, $38,000 (2015 – $18,000) in selling and distribution and $63,000 (2015 – $48,000) in general and administrative.

In addition, the Group maintained a contributory, defined benefit pension plan covering all of its former hourly employees in Baraboo, Wisconsin. During 2016 this plan was closed and the liability was paid in full. The final payment amount was approximately $301,000, the liability extinguished, $389,000, and the difference in the amount of $88,000, was recognized in income.

In previous years, the Group measured its accrued pension benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

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

	2016	2015
Present value of unfunded obligations	$ –	$ –
Present value of funded obligations	–	879
Total present value of obligations	–	879
Fair value of plan assets	–	490
Recognized liability for defined benefit obligations	$ –	$ 389

20. PROVISIONS

	Warranties	Site restoration	Total
Balance at January 1, 2015	309	178	487
Provisions made during the period	314	130	444
Provisions used during the period	(195)	(130)	(325)
Balance at December 31, 2015	$ 428	$ 178	$ 606
Balance at January 1, 2016	428	178	606
Provisions made during the period	469	130	599
Provisions used during the period	(435)	(130)	(565)
Balance at December 31, 2016	$ 462	$ 178	$ 640
Current portion	$ 462	$ 78	$ 540
Non-current portion	$ –	$ 100	$ 100

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2016 and December 31, 2015. The provision is based on estimates made from historical warranty data associated with similar products and claims experience. The Group expects to incur most of the liability over the next year.

Site restoration

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

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

21. RELATED PARTY TRANSACTIONS

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2015 – 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 1,055,287 (2015 – 1,052,953) Class A subordinate voting shares of the Company, representing approximately 11.8% (2015 – 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 $919,738 (2015 – $919,135).

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	**2016**	2015	Relationship
Purchase of goods and services	(i)	$ 805	$ 1,088	Companies in which key management personnel and/or their relatives have significant influence.

		2016	2015	Relationship
Amounts owed by related parties		$ 1,962	$ 1,133	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 $245,000 (2015 – $298,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as Vice Chairman. 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 $30,000 (2015 – $43,000) which is owed to this company.

(i) During the year ended December 31, 2016, HPS has paid $10,000 (2015 - $21,000) in connection with rental agreements for office space and an apartment with K. Ravi Reddy, the minority shareholder of PETE-Hammond Power Solutions Private Limited in India. The remainder of this balance relates to the purchase of raw materials, components and finished goods. The 2015 rent payment was made to both minority shareholders K. Ling Reddy and K. Ravi Reddy.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

Key management personnel compensation

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

		2016		2015
Salaries and benefits	$	2,487	$	2,292
Share-based awards		171		107
	$	2,658	$	2,399

During the year, the Group made contributions of $102,000 (2015 – $107,000) to the defined contribution pension plan relating to employment service of key management personnel. An equivalent amount was contributed by key management personnel.

22. PERSONNEL EXPENSES

		2016		2015
Wages and salaries	$	45,314	$	44,179
Group portion of government pension and employment pension and employment benefits		12,147		11,634
Contributions to defined contribution plans		1,323		1,338
Expenses related to defined benefit plans		–		189
	$	58,784	$	57,340

23. CHANGE IN OPERATING WORKING CAPITAL

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

		2016		2015
Accounts receivable	$	11,982	$	(14,570)
Inventories		2,386		(5,588)
Prepaid expenses		(5)		(175)
Accounts payable and accrued liabilities		(5,376)		7,251
Foreign exchange		(4,186)		11,063
	$	4,801	$	(2,019)

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.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

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		2016		2015
SALES				
Canada	$	77,711	$	76,064
United States and Mexico		159,982		165,750
Italy		18,442		17,668
India		18,658		15,157
	$	274,793	$	274,639
PROPERTY, PLANT AND EQUIPMENT – NET				
Canada	$	20,942	$	22,491
United States and Mexico		4,839		6,271
Italy		12,319		13,626
India		2,410		2,837
	$	40,510	$	45,225
INVESTMENT IN PROPERTIES				
Canada	$	1,044	$	1,044
INVESTMENT IN JOINT VENTURE				
Mexico	$	13,272	$	13,162
INTANGIBLES, NET				
Canada	$	4,995	$	5,436
Italy		3,532		4,139
India		3,754		4,283
	$	12,281	$	13,858
GOODWILL				
Canada	$	2,180	$	2,180
Italy		5,123		6,937
India		9,917		10,489
	$	17,220	$	19,606

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 2016 or 2015.

The Group's financial instruments measured at fair value, consist of foreign exchange forward contracts with a fair value of an asset of $39,000 (2015 – net asset of $143,000) 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 2016 or 2015.

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 Group's prior year long term debt was 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 was $44,000. The 2015 fair value of the Euro note payable for 2,650,000 EUR approximated its carrying value as there had 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 Group for the same or similar debt instruments. The fair value of the Group's long-term debt was determined using a discount rate of 6.8%. There was no outstanding long-term debt at December 31, 2016.

Derivative instruments

The Group has entered into forward foreign exchange contracts in order to reduce the Company's exposure to changes in the exchange rate of the U.S. dollar, Euro, Mexican Peso and Rupee as compared to the Canadian dollar ("CAD"). At December 31, 2016, the Company had outstanding forward foreign exchange contracts to buy U.S. $36,000,000 in CAD, sell 7,350,000 EUR in U.S., sell 5,600,000 EUR in CAD and sell U.S. $7,900,000 for Mexican Pesos, at rates of 1.41920, 1.05860, 1.34210 and 20.69450 respectively – all with maturity dates in January 2017. At December 31, 2015, the Company had outstanding forward foreign exchange contracts to buy U.S. $25,500,000 in CAD, sell 7,000,000 EUR in U.S., sell 4,200,000 EUR in CAD 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. As at December 31, 2016 the Group has recognized a net unrealized gain of $39,000 (2015 – gain of $143,000) representing the fair value of these forward foreign exchange contracts.

Financial risk management

The Group is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, interest rate risk and commodity price risk) 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.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

Currency risk

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

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

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Cash	$ 15,040	$ 12,223	1,055	344	€ 1,134	€ 50	2,326	12,355
Accounts receivable	16,981	22,462	25,662	30,513	3,315	4,580	354,101	144,297
Bank operating lines of credit	3,743	3,793	–	–	3,488	3,450	125,839	87,261
Accounts payable	10,496	10,767	7,098	8,887	2,485	3,582	223,051	170,053
Long-term debt	–	–	–	–	–	2,650	–	–
Net exposure	$ 17,782	$ 20,125	19,619	21,970	€ (1,524)	€ (5,052)	7,537	(100,662)

A one cent ($0.01) decline in the Canadian dollar against the U.S. dollar as at December 31, 2016, would have decreased net earnings by $107,000 and increased equity by $236,000. This analysis assumes that all other variables, in particular interest rates, remained constant. Inversely, a 1 cent increase in the Canadian dollar against the U.S. dollar as at December 31, 2016, 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, 2016, would have decreased net earnings by $51,000 and decreased equity by $22,000. Inversely, a one cent increase ($0.01) in the Canadian dollar against the Euro as at December 31, 2016, 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, 2016, would have increased net earnings and equity by $1,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2016, 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, 2016, would have decreased net earnings by $2,000 and increased equity by $14,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2016, would have had an equal but opposite effect.

Credit risk

Credit risk arises from the possibility that the Group's customers and counter parties may experience difficulty and be unable to fulfill their contractual obligations. The Group manages this risk by applying credit procedures, whereby analyses are performed to control the granting of credit to its customer and counter-parties based on their credit rating. As at December 31, 2016, the Group's accounts receivable are not subject to significant concentrations of credit risk. The Company's maximum exposure to credit risk associated with the Group's financial instruments is limited to their carrying amount.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

During the year, the allowance for doubtful trade accounts receivables decreased $398,000 (2015 – increased $614,000), 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, 2016		December 31, 2015	
	Gross	Allowance	Gross	Allowance
Not past due	$ 16,716	$ –	$ 35,099	$ –
Past due 0-30 days	10,898	–	19,302	–
Past due 31-120 days	20,937	–	8,064	514
Past due more than 120 days	2,545	1,127	1,011	1,011
	$ 51,096	$ 1,127	$ 63,476	$ 1,525

Credit risk

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

	Carrying Amount	
	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 25,189	$ 19,991
Accounts receivable	49,969	61,951
Derivative asset	39	404
	$ 75,197	$ 82,346

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

	Carrying Amount	
	December 31, 2016	December 31, 2015
Canada	$ 12,695	$ 14,863
United States	22,741	34,306
Mexico	1,671	2,403
Italy	4,368	5,751
India	8,494	4,628
	$ 49,969	$ 61,951

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, 2016, would increase or decrease net earnings by approximately $354,000 (2015 – $302,000) respectively.

For the years ended December 31, 2016 and 2015 (tabular amounts in thousands of dollars, except for per share amounts)

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, 2016	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 36,507	$ 36,507	$ –	$ –
Accounts payable and accrued liabilities	42,789	42,789	–	–
	$ 79,296	$ 79,296	$ –	$ –

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	$ –	$ –

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, 2016.

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

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 25,189	$ 19,991
Bank operating lines of credit	(36,507)	(29,166)
Long-term debt	–	(4,027)
Share capital	13,843	13,843
Contributed surplus	2,605	2,434
Retained earnings	93,001	94,896
	$ 98,131	$ 97,971

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.

28. Subsequent events

Dividends

On March 3, 2017, 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 24, 2017 to shareholders of record, at the close of business on March 17, 2017. The ex-dividend date is March 15, 2017.

Canada
Hammond Power Solutions Inc.

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

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.

795 Industriel Boul.
Granby, Quebec J2G 9A1

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

India
PETE – Hammond Power Solutions Private Limited

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

Italy
Hammond Power Solutions S.p.A.

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

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

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

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

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

Mexico
Corefficient, S. de R.L. de C.V.

Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

United States
Hammond Power Solutions, Inc.

1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

Corporate Officers and Directors

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

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
Director

* Corporate Governance Committee
+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

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

Auditors

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

Legal Representation

Borden Ladner Gervais LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, Ontario
Canada M5H 4E3

Banking Institution

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

Investor Relations

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

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

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

Find out our story at HammondPowerSolutions.com