Annual Report 2018

Working together,
we continue to grow.

Hammond Power Solutions Inc.

What's Inside

Our Vision

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

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 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**

Working together, we continue to grow.

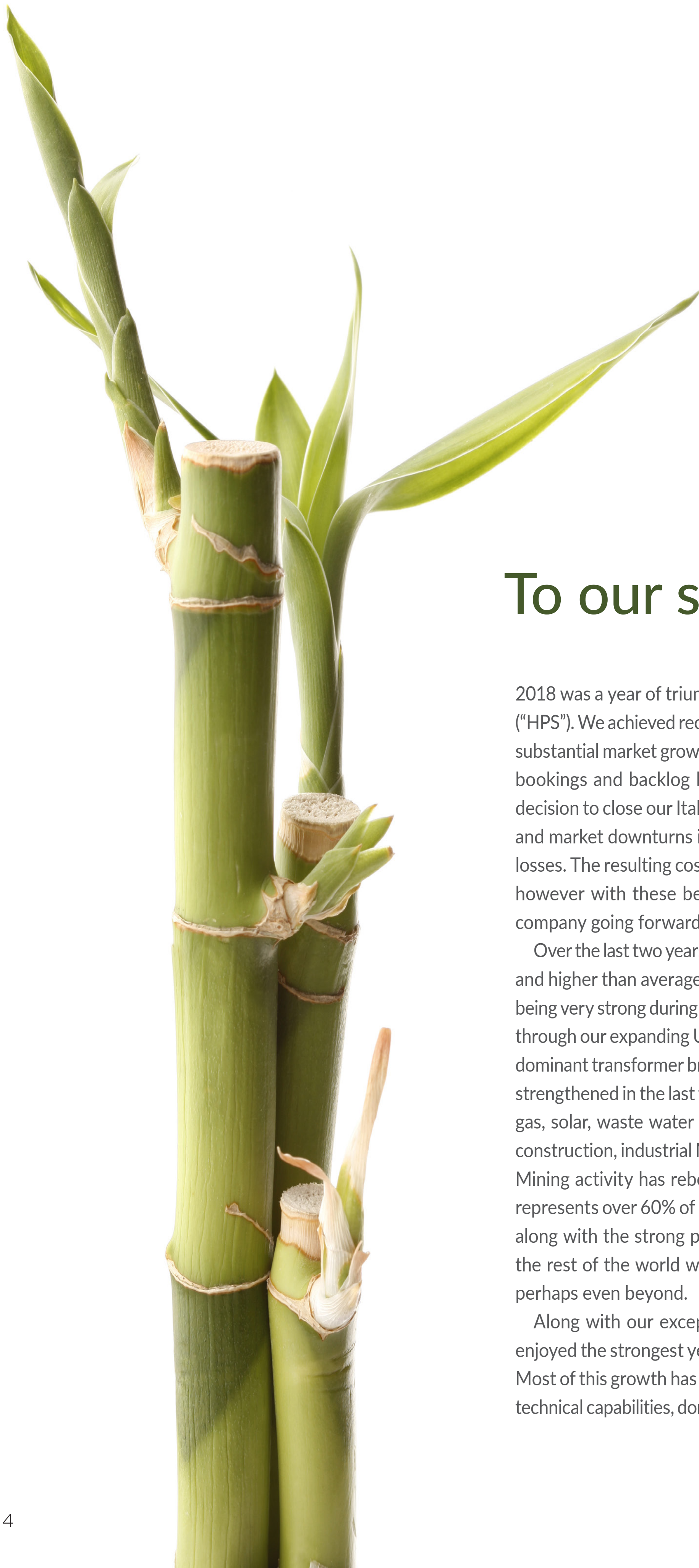
The world economy is an unstable place, but HPS isn't going anywhere, anytime soon.

For over 100 years, HPS has navigated through changing economic developments. Throughout the good times and the not so good times, we have continued to grow, with our feet firmly planted to the ground.

HPS is well positioned to meet the evolving needs of both our traditional markets while becoming a leading player in a growing number of other market sectors. We are a team. And as teams do, we work together to work through our challenges, reframing them as opportunities and developing strategies to address any rapid economic changes.

Our confidence is unwaivered. The future is still ours.

"We don't develop courage by being happy every day. We develop it by surviving difficult times and challenging adversity."



To our shareholders,

2018 was a year of triumphs and setbacks for Hammond Power Solutions ("HPS"). We achieved record-breaking sales in our North American business, substantial market growth in both the U.S. and Canada and unprecedented bookings and backlog levels. We unfortunately made the very difficult decision to close our Italian operation, following several years of economic and market downturns in Europe as well as sizeable and disproportionate losses. The resulting costs of closing our Italian operation are considerable however with these behind us HPS will be a stronger, more profitable company going forward.

Over the last two years Hammond Power Solutions has enjoyed significant and higher than average growth in North America, with the U.S. economy being very strong during this time. We have experienced double digit growth through our expanding U.S. distributor channel and are now considered the dominant transformer brand in the industry. A wide variety of markets have strengthened in the last three years and fuelled our growth including oil and gas, solar, waste water treatment, commercial construction, institutional construction, industrial MRO, petro chemical and data centre construction. Mining activity has rebounded the most since 2015. Given that the U.S. represents over 60% of our total company sales, our growing market share along with the strong performance of the U.S. economy as compared to the rest of the world will drive improving results in the coming year and perhaps even beyond.

Along with our exceptional performance in the U.S. in 2018, we also enjoyed the strongest year of growth in Canada over the last two decades. Most of this growth has come from central Canada as a result of our strong technical capabilities, dominant specification position in public infrastructure

Over the last two years, Hammond Power Solutions has enjoyed significant and higher than average growth in North America with the U.S. economy being very strong during this time.

A wide variety of markets have strengthened in the last three years and fuelled our growth including oil and gas, solar, waste water treatment, commercial construction, institutional construction, industrial MRO, petro chemical and data centre construction.

projects and the strength of our electrical distribution channel. This has also happened at a time of relative weakness in certain parts of our country and in certain sectors. We have recently taken steps to expand and improve our sales coverage, believing that such a weakness will ease as commodity prices stabilize and the industry will find ways to transport oil out of our western provinces by rail car and pipelines.

The closure of Hammond Power Solutions S.p.A. ("HPS Italy") will allow us to put more time and resources into growing our Indian operation, Hammond Power Solutions Private Limited ("HPS India"). Over the last two years our Indian sales in local currency have increased over 24%, however our profits have struggled given the very competitive nature in this part of the world. India is a complex country to do business in but it is projected to become the world's fifth largest economy by 2020 and the second largest after China by 2030.

We recognize that this current economic cycle is showing signs of weakness. Many things are contributing to this slowdown including rising interest rates, fears of the impact of Brexit, the effects of the government shutdown on the U.S. economy and the slowing economy in China, Brazil and Europe. The degree of uncertainty around the world is greater now than it has been since 2012. This was a catalyst for the closure of HPS Italy. HPS will become a much stronger and more profitable company in 2019 and going forward as a result of exiting Europe. Steps taken in 2018 will allow us to reduce our debt while we continue to invest judiciously in North America and India.

Hammond Power Solutions has many attributes that will help us weather these uncertain times including our diversity of geography, channels and markets. We enjoy advantages over our peers in key factors like product breath, manufacturing processes and scale, which have all helped accelerate our market penetration. Even though we do not see any imminent signs of a recession we are taking concrete steps to improve our financial performance and balance sheet, as well as continuing the drive to grow our North American business while the U.S. economy remains buoyant.

As we move into 2019, we are well positioned in the marketplace. I am confident in our ability to continue gaining market share and delivering value for all our stakeholders.

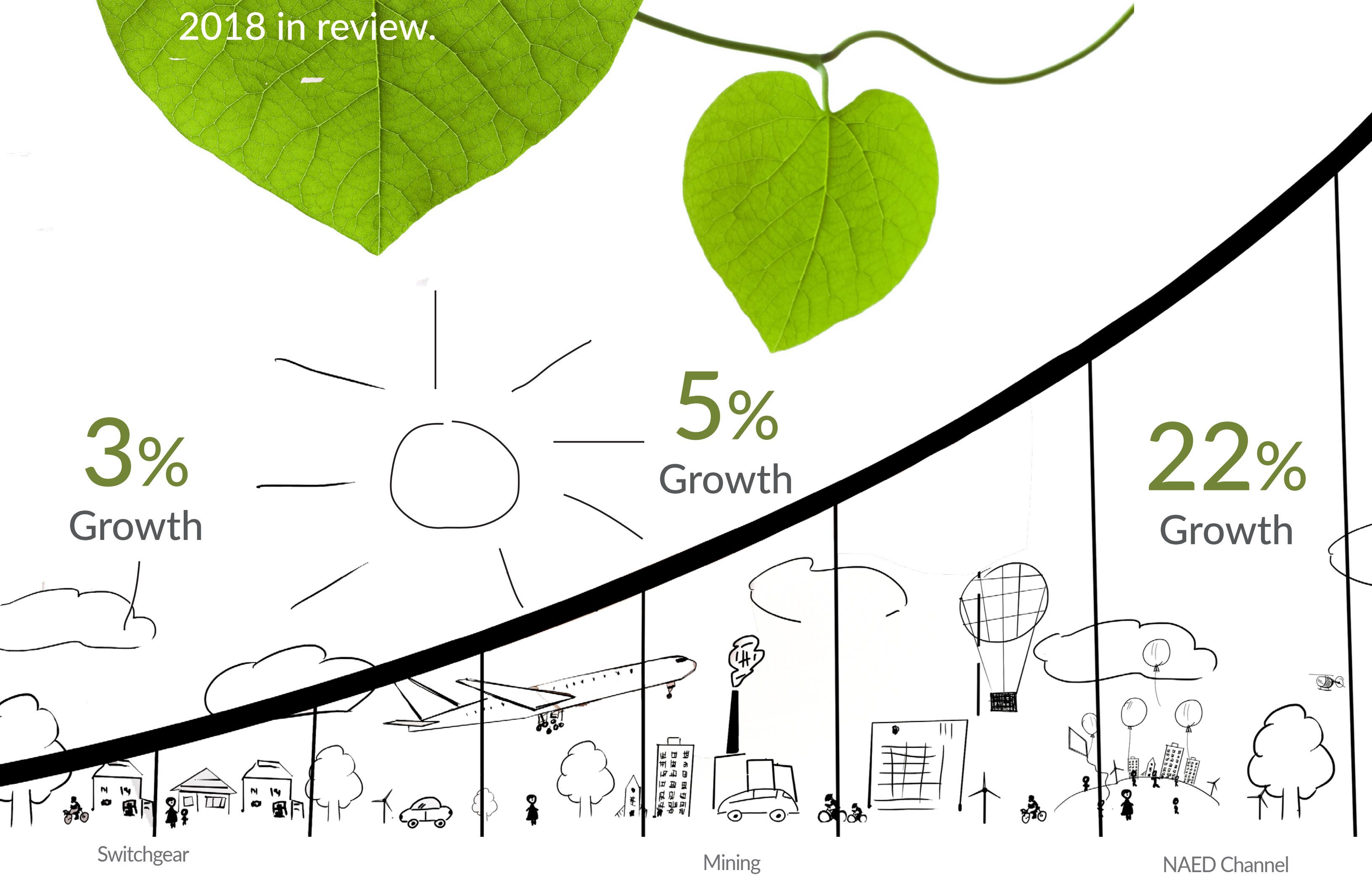
WGH

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

We know our business.

2018 in review.

Along with our exceptional performance in the U.S. in 2018, we also enjoyed the strongest year of growth in Canada over the last two decades.



Product Diversity

HPS has built a reputation as an innovator, introducing new products, technologies, programs and services that address the unique and diverse needs of our customers and their applications.

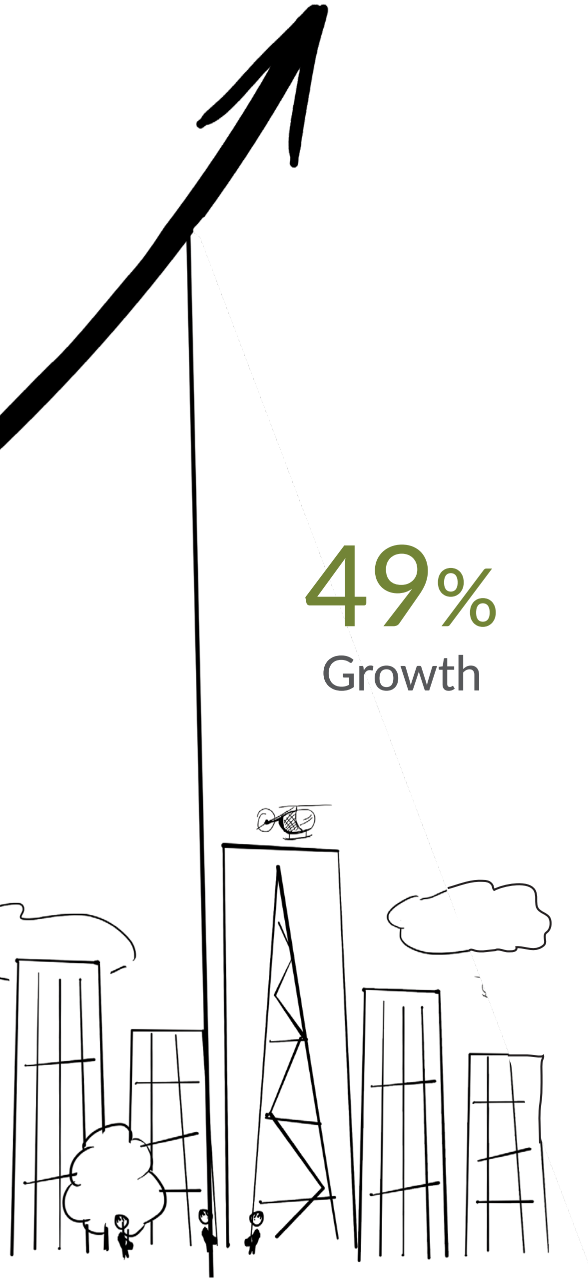
People Power

Built on a strong foundation over 100 years ago we know our success comes from our employees around the globe who are dedicated and committed to continuous improvement, superior customer service and quality, and in bringing to life our vision, values and strategies.

Technology Advancements

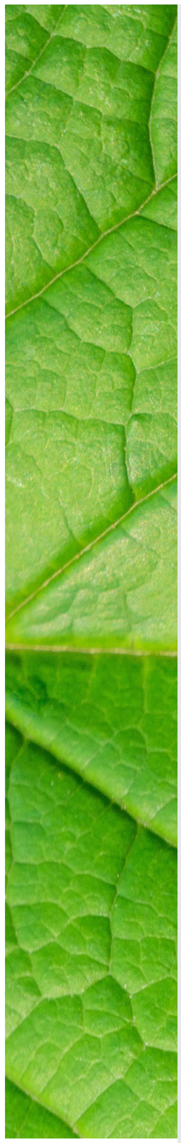
Natural Resources Canada (NRCAN), announced in 2018 that energy efficiency regulations are being amended to prescribe new higher energy efficiency levels for dry-type transformers. These new energy efficiency levels become effective on May 1st, 2019 and are intended to align the minimum energy efficiency levels of dry-type transformers sold in Canada, with the latest regulations prescribed by the U.S. Department of Energy (DOE) that were implemented on January 1st, 2016.

We support this change and are prepared with a complete new line of low and medium voltage transformer products compliant with this new legislation.



49%
Growth

Motor Control



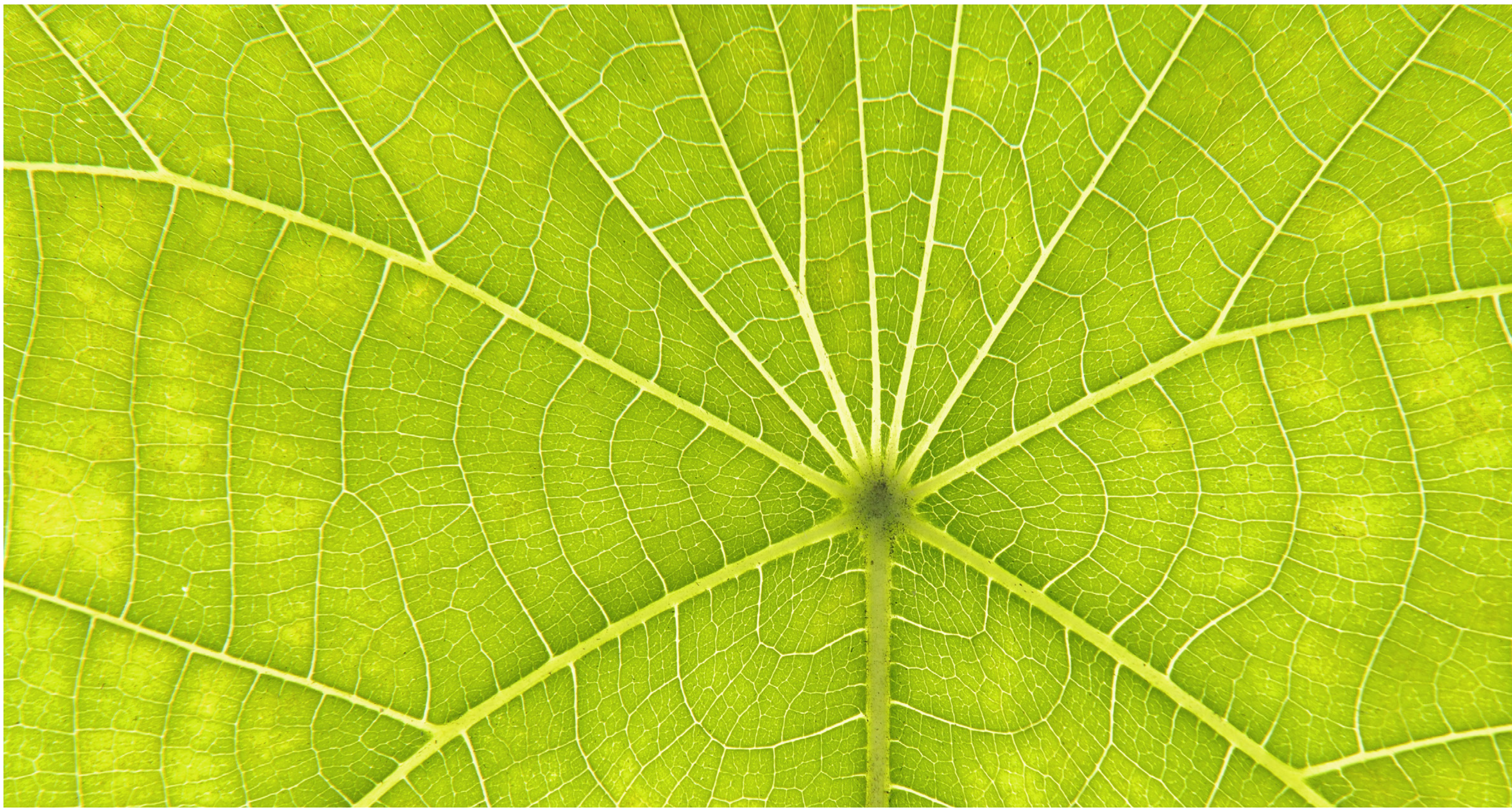
Market Growth

Global Markets

Our North American business is growing at rates we have never seen before and our backlog is hitting record levels. It is clear that our focus through years of expanding our channel, product offering and market penetration is strategic. We have seen a resurgence in markets such as mining, drive systems and energy which have been dormant for several years. A wide variety of markets have also strengthened including oil and gas, solar, waste water treatment, commercial construction, institutional construction, industrial MRO, petro chemical and data centre construction – which have all fuelled our growth.

Our growing global presence gives us the strength that we need to remain diversified in our products, technologies and markets.

The year ahead.



North American Distributor Channel

HPS continues to realize growth in the North American market through its strong NAED and OEM channels. We are growing our market share through distributor conversions and its custom transformer capabilities. The expansion of these segments is also a result of expanded product offerings, organic customer diversity, new customer additions and geographically diverse manufacturing capabilities.

Our largest engine of growth is our U.S. distributor channel – our bigger and better network of national and independent distributors has helped us increase our market share over the last five years and more good things are expected going forward.

Joint Venture

HPS' Mexico based joint venture, Corefficient is evidence of investing in the future, in both technology and capacity – enhancing our competitiveness. This joint venture generated a profit in 2018 as a result of increased volumes and adjusting pricing structures.

Corefficient's sales organization has made positive in-roads in the utility transformer market and our projected bookings and forecast are pointing to a stronger 2019.

We have navigated through difficult and fluctuating economic times, increased globalization, adapted to changes in customers and markets and experienced significant advances in technology. We have framed these challenges as opportunities and developed strategies to address these rapid changes.

Enterprise Resource Planning (ERP)

The implementation of our ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, strategic decision making and audit and control. This system has been implemented in the majority of our North American facilities and implementation is near completion in our HPS India operation.

Our Quebec based operation is the last North American location to be converted with implementation scheduled to begin in the second half of 2019 and completed in mid-2020. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

A Review of Operations

2018, in the end, turned out to be a very eventful year for HPS. After seven years of working to gain traction building our Italian operations into a profitable business, we decided to cease operation and exit Europe. Such a decision is never taken lightly or without careful consideration. We fully understand the impact it has in terms of financial costs as well as the human impact on the people affected, however, we firmly believe that it is the right decision in terms of strengthening our financial performance as well as reducing our geopolitical risk going forward.

In 2011 we acquired Euroelettro S.p.A, ("Euroelettro") a small transformer company located in North Eastern Italy. We became aware of this company while bidding on solar power projects in South Western Ontario. At that time, we had also retained an M&A firm headquartered in London, England to assist in sourcing a European manufacturer of cast transformers in an effort to add this technology to our product portfolio. Euroelettro seemed an ideal fit as they not only built cast transformers but over half of their sales were Vacuum Pressure Impregnated ("VPI") transformers. In addition to this, their largest market was the alternative energy market which had been growing significantly not only in Europe but in North America as well. Fifteen months following the acquisition of this company, Greece imploded in a serious financial and political crisis which launched a financial crisis over the rest of Europe. Governments across Europe cut subsidies significantly to the wind and solar industries, causing investment in alternative energy to essentially dry up overnight. Our total European sales dropped in half as a result of this broad recession, affecting especially the solar industry – our largest European market.

During 2012, we were negotiating with Marnate, another small cast transformer company located outside of Milan, Italy. Marnate was a niche manufacturer that not only expanded our cast product range in Europe but also diversified our geographical sales as most of their business was outside of Italy. Italy had been one of the weakest economies in Europe since 2008, hence Marnate looked attractive in several ways and we acquired them in early 2013.

Unfortunately, within a year's time, the already slow European economy took another blow with the Russian financial crisis, brought on by a significant drop in the price of oil and sanctions placed on Russia after their invasion of Eastern Ukraine in 2014. Russia was Marnate's largest market and this crisis caused a drop in sales of 2 million Euros.

Over that time period we were negatively impacted by the loss of key legacy managers from both acquired companies, which created further disruption and impacted our ability to grow sales. We promoted individuals

We are optimistic about the year ahead as we are coming out of 2018 with record levels of bookings and sales.

from within and hired from the outside in an effort to expand our talent and geographical sales. Progress was much slower than expected and we continued to lose money at a higher rate than acceptable. In 2016 and 2017, the European economy gradually improved but at the same time was also becoming even more competitive than before, with a number of aggressive Italian companies along with growing competition from lower cost transformer manufacturers in Eastern Europe, Turkey and even China.

In Quarter 3 of 2017, we merged our two manufacturing plants in order to reduce costs and become profitable. The reaction to this was unexpectedly hostile and we lost a large number of staff. We began an immediate search for replacements however it took longer than expected to find the talent and experience we were looking for to lead HPS Europe into the future. By mid-2018 we believed that we had finally put in place the management team we needed but unfortunately the European economy remained sluggish due to the slowing global economy, concerns over Brexit and disruptive Italian national elections. An expected rebound in sales did not materialize and our momentum seemed to be slowing as uneasiness about the European economy became more elevated. Our projected loss for 2018 was becoming larger and it was becoming less and less likely that we could even achieve breakeven in 2019. As a result of our inability to grow sales, mounting financial losses, intangible asset impairments and further years of losses, we determined that it would be best for HPS to close our Italian operation in order to improve our financial results in 2019 and beyond, as well as to reduce our geopolitical and economic exposure to Europe.

This decision has not ended our strategy to expand selectively on a global basis. For now, it has narrowed our focus outside of the Americas to the large and growing electrical market of India. India is projected to be the fifth largest economy in the world by 2020. By 2025 India's population is predicted to be greater than 1.3 billion people. Even though growth has been explosive in all of the major cities across the country, the country lacks the kind of modern electrical infrastructure that it needs to power economic expansion in the decades ahead. It also lacks public infrastructure like water purification, waste treatment and transit to serve its huge and growing population.

Over the last two years, we have doubled our field sales organization in India in order to cover all of the major regional markets where we believe that we can profitably compete. Our focus in these markets include the rapidly growing segments of alternative energy, high rise condominiums, industrial buildings, cement manufacturers, food processing, oil and gas, petro-chemical and electrical equipment Original Equipment Manufacturers ("OEM"). We are planning to add two new transformer-servicing locations in the eastern half of India. The service business is not only very profitable, but it also creates opportunities to supply replacement transformers when repair is not an option. In all of these markets, we are building our business around the strategies of designing quality products, offering superior service and long term relationships. The Indian transformer market is very competitive and highly fractured as dozens and dozens of small companies try to survive the consolidation that eventually occurs as an economy matures. As a result, we are selective about the markets and customers that we want to do business with as we build a growing and profitable presence in India.

In 2019, we will accelerate the integration of our four plants in Hyderabad, India into the rest of HPS. We are in the process of implementing our corporate Enterprise Resource Planning ("ERP") system in India with most of this completed by the end of the year. This will be the first integrated ERP system installed in this operation and as a result significantly improves our fundamental business systems such as costing, quotations, production loading, purchasing and inventory control. In addition to this, our new reporting structure will engage more of our North American manufacturing, engineering and purchasing resources to help improve our Indian operations. It will also allow easier execution and integration of possible company-wide projects as setting up a global design engineering group in India as well as taking advantage of India's low cost structures to build certain products for North America in our Hyderabad plants.

We have also been enhancing the level of management talent over the last two years following the previous family owners exit from the Indian business. We have applied lessons learned from our Italian challenges which include building an experienced local leadership team that is more integrated in our company processes, with little tolerance for poor financial performance.

One of our other 2018 priorities was to work with our partner Corefficient S. de R.L. de C.V. ("Corefficient") to improve the financial performance of our state-of-the-art transformer core manufacturing joint venture. We are pleased to report that we have made significant progress in restructuring the operations as well as growing the sales to make a profit – the first since the formation of this partnership. Corefficient's sales organization has made positive in-roads in the utility transformer market and our projected bookings and forecast are pointing to a stronger 2019.

Over the last several years, the struggles of our international operations as well as the core manufacturing joint venture have overshadowed the very positive sales and profit growth of our North American businesses. For a second consecutive year our sales grew more than 10% in North America, a growth rate much greater than most of the electrical industry. The greatest growth in dollars came from the much larger U.S. market, however in 2018, Canada enjoyed its best year ever in terms of volume.

Our largest engine of growth is our U.S. distributor channel. Our bigger and better network of national and independent distributors has helped us increase our market share over the last five years and more good things are expected going forward. During the past fifteen months we have improved the quality of our agent network in five territories across the country and have already seen higher rates of growth than 2017. In addition to these changes, we opened up a new regional warehouse in Georgia which has supported a 20% increase in sales in Eastern U.S. This is the newest of eight regional warehouses that we have across North America which gives HPS the best stock availability of any dry transformer company. HPS is now considered to be the dominant and best transformer supplier in the distributor channel for a variety of reasons such as: ease of doing business; our on-line quotation tools; very capable inside and outside sales talent; the strongest agents with the best distributor relationships; our inventory and service; a very positive brand image; quality innovative products; and finally our excellent technical and product training programs.

Our year end booking rates are up almost 20% over 2017 which positions us very positively going into 2019. We expect to add new distributors in the coming year with more than 100 additional branches selling our transformers.

Our strong performance in the U.S. distributor channel helped to offset a slower year of OEM business. We enjoyed a number of large projects in 2017 that were not going to be repeated in 2018. That being said, we saw the drive systems and mining equipment markets grow to the highest levels in over five years. Many of our OEM customers complained about the increase in material costs as a result of higher U.S. tariffs, as well as concern over the slowing Chinese economy and its impact on export opportunities. Resurgence in business across the U.S. oil and gas sector has seen increased activities in drilling, pipeline construction and refinery expansions from Texas to Pennsylvania. Our sales of VPI and cast transformers to the electrical gear manufacturers also expanded in 2018 with continuing spending in capital projects such as data centres, hospitals, warehousing and plant expansions.

As mentioned earlier, as impressive as our U.S. growth has been, our sales in Canada reached the highest levels in the history of HPS. This was achieved despite the ongoing suffering of our western Canadian oil sector. Our dominant specification position as a quality and reliable transformer supplier enabled both of our Canadian brands to win the majority of large institutional projects in Ontario and Quebec as well as a new public transit project in Toronto, a number of large solar projects and a new liquefied natural gas ("LNG") facility in British Columbia. The economy in central Canada benefited from a strong U.S. economy, and the dominance of the electrical distributor channel by our two brands, HPS and Delta, helped us to tap into this growth. We continued to see strong sales to the cannabis industry as companies invested in more greenhouse facilities catching up with the demand created by the legalization of cannabis in Canada in late 2018.

One challenge that both brands experienced in 2018 was the loss of business in the province of Ontario, Canada, due to the irresponsible actions of some competitors who sold transformers that did not meet the energy efficiency standards dictated by the Ontario government. Unlike the U.S. which launched new energy efficiency standards across the entire country, our Federal Government left it up to the provinces to enact new energy efficiency standards in our country. Ontario decided to move on these first at the beginning of 2018. Unfortunately, even though it was legislated the Province did not have the means to police and enforce these new standards. Certain competitors took advantage of this situation and continued to sell older designs that did not meet these new efficiency standards in Ontario. HPS would never defy the law or government standards and as a result, we lost an estimated two to three million dollars in sales until our vocal protests to the Ontario authorities finally caused them to intervene. Fortunately, in late 2018, the remaining provinces agreed to comply with this new energy efficiency standard which comes into effect in May of 2019. This will put all manufacturers on the same footing as the designs to meet these new standards are more expensive than the previous ones. We expect to see our Canadian margins improve in the second half of 2019.

Despite a higher level of volatility in costs, the historic record sales in 2018 and overall performance of our North American plants and employee teams was truly a great achievement. Our business has changed significantly over the last five years as a result of product and channel expansions as well as the decline in some of our traditional North American OEM markets. A larger portion of our business today comes in the form of projects for hospitals, data centres, solar panel arrays, new condominiums, commercial buildings, water treatment facilities, new pipeline pumping stations and so forth.

Projects are often entered without firm delivery dates. Often these dates are moved out due to weather or other delays. When the contractor finally advises a firm delivery date, it may land within a month or so when our plants are already very full. As a result, our plants can see potential swings in load up and down of an average of 20 to 40 percent. This can create serious issues in not only plant efficiencies but also lead times as well as meeting committed shipping dates. Our customers expect a minimum ship-on-time performance of 95 percent, which can be very challenging when project orders make up the majority of our engineered-to-order business and we are growing at higher than expected rates.

During 2018, we were for the most part able to ship at record level volumes and maintain ship-on-time performance over 90 percent due to our unique multiple plant strategy. Over the last 20 years through acquisition and new plant expansion, HPS has been able to develop a manufacturing model where each plant has a primary product mandate but at the same time a degree of production flexibility which allows us to move products and orders from one plant to as many as three or four other manufacturing locations for our distribution and power transformers. This gives us the kind of capacity flexibility that has allowed us to handle periods of unpredictable growth and shipping date changes that are common in the project business while maintaining acceptable levels of service performance. During 2018, we also initiated a major engineering software project to update and standardize our transformer designs. This is a two-year project that will allow us to automate many of our design functions and move these operations to the next level of cloud-based systems. This also creates a variety of benefits including speed of design, uniform quality, cost reductions through standardization, as well as enhancing our flexibility further. Our vision is to someday be able to have a centralized and automated system that will allow us to download designs to be built in our lower cost Indian plants.

None of this would be possible without the talent and support of our employees. Since the establishment of this Company 101 years ago as O.S. Hammond and Son, our employees have always been valued as our most important asset. We firmly believe and operate with the philosophy that our employee culture, as well as our passion for the transformer business at all levels of the organization, sets us apart from the majority of competitors. Ten years ago we created our Transform Program as an important and formal way to engage our employees, stimulate innovation, and offer everyone the opportunity to help make HPS a better and more successful place to work. This program is now active in seven of our North American facilities, with the goal of introducing it in India.

We are more optimistic about our future momentum than at any point in the last decade. The difficult decision to close our operations in Europe is definitely expensive in the short run, but this bold step has eliminated an ongoing drain to our profitability and balance sheet. We are aware that business fundamentals and confidence levels have been eroding over the last year. Unfortunately, the current uncertainty will continue until the Brexit situation is resolved. The current global economic cycle of the last decade is coming to an end adding to the current business and profitability pressures in Europe.

The Company's profitability and financial position improves significantly without the ongoing losses and risks of Europe. Our enhanced earnings should not only drive the appreciation of our stock price but more importantly, this will allow us to reduce our debt levels which in turn puts HPS in a more stable financial state to weather the economic slowdown that is coming at some point in the future.

We are optimistic about the year to come as we are coming out of 2018 with record levels of bookings and sales. The U.S. economy remains resilient and we may be close to some sort of resolution to the trade and tariff wars that are dampening the global economy at the current time. There is obviously great uncertainty around the U.S. elections in November of 2020, but we believe that there is enough positive momentum remaining in this business cycle to drive continued growth in sales and profits into the middle of next year and possibly longer. There is also growing optimism that governments in Canada will find ways to finally expand the movement and export of oil from western Canada, which will increase industrial and commercial spending in Alberta and Saskatchewan for the first time in five years. In addition to this, our expanding U.S. distributor network is helping HPS increase its market penetration and opening up new opportunities for growth that we have not experienced previously. This expanded market and channel footprint will also help us weather an economic slowdown more so than in the past and will serve as a major launch platform when economic growth resumes in the next cycle.

TRANSFORM is our formal driving process of engaging all employees to continuously improve how we meet the needs of our internal and external customers.

We believe in a collaborative approach to social and environmental sustainability.

In 2019 our goal is to minimize our environmental footprint and foster sustainable growth for HPS, our stakeholders and for our community.

The numbers.

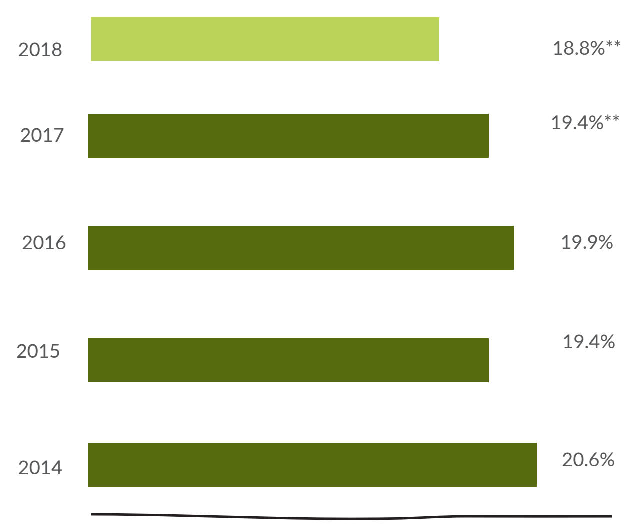
Sales

(in thousands of dollars)

* includes sales from discontinued operations

Selling, General and Administrative Expense

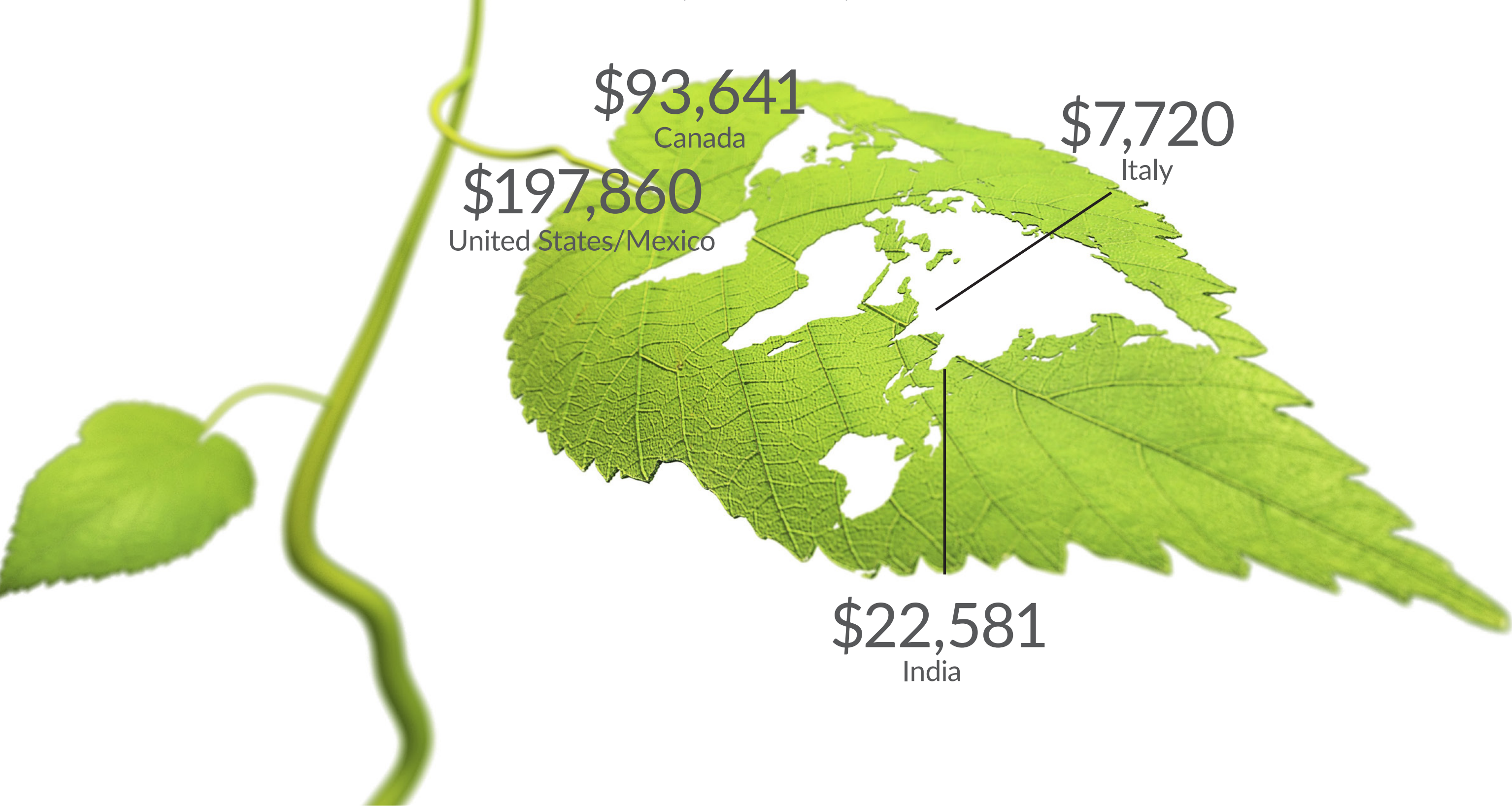
Percentage of Sales



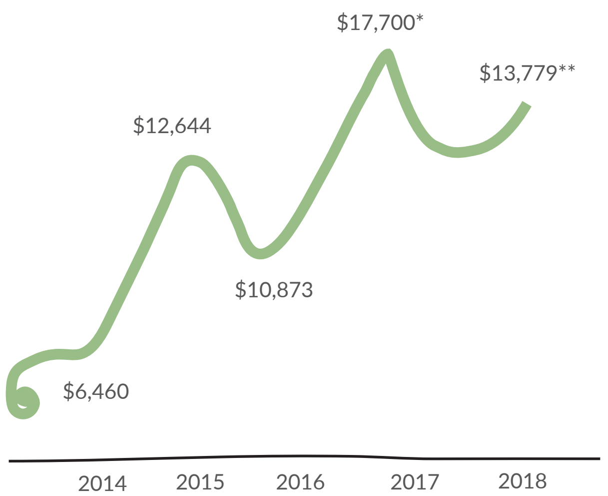
** from continuing operations

Geographic Sales

(in thousands of dollars)



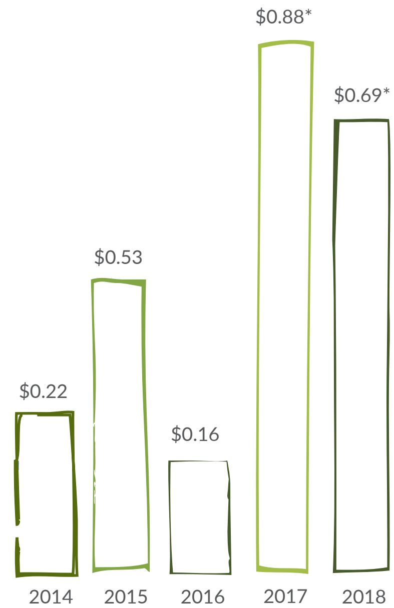
Earnings from Operations
(in thousands of dollars)



* adjusted for restructuring charges and discontinued operations

** adjusted for discontinued operations

Basic Earnings Per Share
(in dollars)



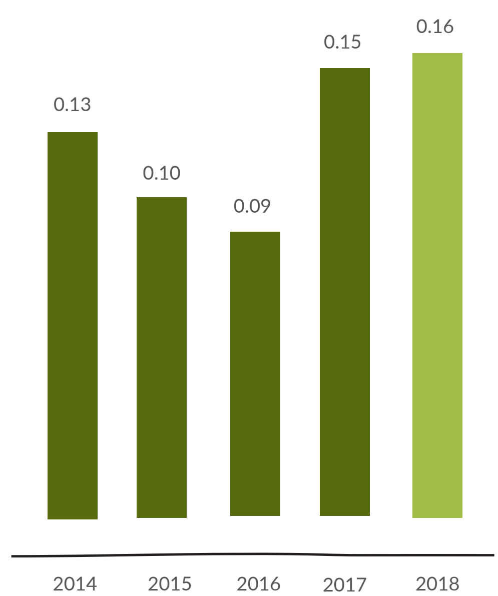
* from continuing operations

EBITDA*
(in thousands of dollars)

* adjusted EBITA

** excludes discontinued operations

Debt* to Equity Ratio



* debt net of cash

Management's Discussion and Analysis

Hammond Power Solutions is a solid company that has performed better than most of our competitors due to our diversity and operational strengths.

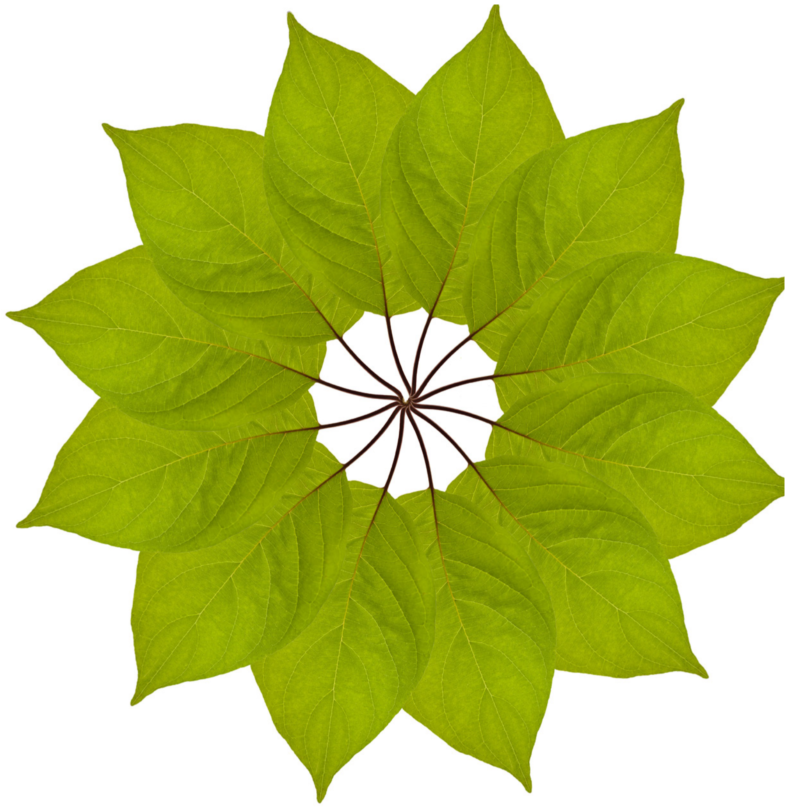
The combination of a secure financial foundation, strong business fundamentals and strategic vision, positions HPS for growth as well as additional long-term stakeholder value.

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 technical and innovative manufacturer serving the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy and India.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the years ended December 31, 2018 and 2017, and should be read in conjunction with the accompanying Consolidated Financial Statements of the Company as at December 31, 2018 and 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This information is based on Management's knowledge as at March 27, 2019. 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. Adjusted EBITDA from continuing operations represents EBITDA from continuing operations adjusted for loss on disposal of product line and restructuring expenses, impairment of goodwill and intangible assets, restructuring charges and foreign exchange gain or loss. Operating earnings, EBITDA and Adjusted 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, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of earnings from operations, EBITDA and Adjusted EBITDA to net earnings for the years ended December 31, 2018 and December 31, 2017 is contained in the MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings 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 2018 consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2018 and December 31, 2017, and Notes thereto, have been prepared under IFRS.

Overview

HPS is positioned as a transformer industry leader providing superior quality, custom engineered and standard product solutions, broad offerings and market access through multiple sales channels. The Company's alignment of its operational initiatives and strategic vision enhances these competitive differentiators. HPS has a well-established market presence and a focus on continued growth through current and new customers and products.

During 2018, we saw signs of economic growth particularly in Canada and the United States ("U.S."), while international markets were somewhat unstable and unpredictable at times. HPS continued to struggle within the European market resulting in the decision to discontinue our Italian operations.

HPS' North American sales volume continues to surge as many electrical markets were stronger than previous years. The Company continued to achieve North American market share growth, particularly through our North American Electrical Distributor ("NAED") channel as well as the oil and gas, motor control, specialty transformer and maintenance, repair and operations ("MRO") markets.

The Company is anchored by a strong financial base and continues to focus on market growth. HPS is committed to producing quality, innovative, diverse transformers and related magnetic products. The Company's international expansion, through both acquisition and partnerships over the last number of years, demonstrates our commitment to sales growth and product diversification. HPS increased global footprint has become a gateway to new technologies, customers and markets. These strengths are the key to future revenue and earnings growth. Despite the closing of our Italian operation, the Company was able to expedite the research and development of its cast resin transformer technology as well as product development, which are now manufactured in several of HPS' facilities. Our transformer core manufacturing joint venture, Corefficient S. de R.L. de C.V. ("Corefficient"), vertically integrates our raw material supply line and provides HPS with a competitive advantage.

2018 was a challenging year financially for HPS, influenced by a number of factors: a stronger North American economy which supported higher sales in 2018; increased organic customer sales, market share growth partially offset by depressed gross margin rates due to competitive pricing pressures; higher selling and distribution costs; and restructuring costs associated with the closure of the Italian operation. The financial performance of Corefficient showed marked improvement as the joint venture increased its revenues by further building its trade sales customer base, higher manufacturing throughput, lower material costs and increased selling prices.

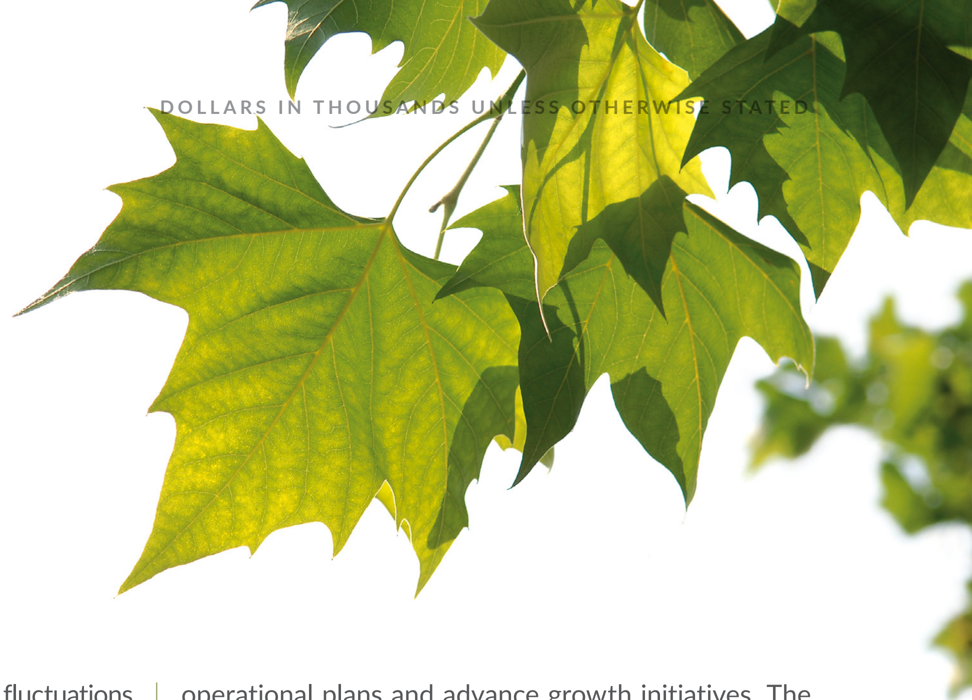
In 2017, the Company restructured the Italian operations, known as Hammond Power Solutions S.p.A. ("HPS Italy") to advance its financial performance. Through the sale of VPI transformer product line, the Company was able to consolidate its manufacturing operations in Italy and reduce excess capacity and workforce costs. Despite these efforts, the Italian operations struggled to generate adequate sales and manufacturing throughput volumes for the remaining operation. As a result of the mounting financial losses of the Italian operation the Company ceased operations and announced the closure of the Italian facility in December 2018. The decision to close the Marnate facility was a very difficult one, however necessary due to the significant mounting losses of the operation. The volatility and instability in the overall European economy, electrical market conditions, pricing pressure and lack of competitiveness were all contributing factors.

These difficult, yet necessary changes position HPS for growth of future financial performance. HPS achieved market share growth and maintained an overall healthy financial position throughout the implementation of operational initiatives and longer-term strategic projects. The Italian operations are disclosed as "discontinued operations" in the 2018 financial statements and highlight the impact the struggling Italian operations had on HPS' performance.

On January 10, 2018, under the terms and conditions of a share purchase agreement, the Company completed the purchase of the remaining 15% economic interest of Hammond Power Solutions Private Limited ("HPS India") from a non-controlling shareholder, for 76,933,000 Indian Rupees (approximately $1,511,000 CAD). This purchase increases HPS' equity ownership of India to 100% which allows the Company to further benefit from the sales growth and profitability of Indian operations while allowing autonomy to make strategic and operational decisions.

The Industry outlook indicates some global economic growth in many sectors. There is optimism of continued market improvement over the next 12 months, particularly in North America and India. HPS maintains a heightened awareness of the geopolitical instability, particularly in the U.S., resource-based commodity cost uncertainty, the unpredictability of foreign currencies and the growing risks to the global economy caused by trade wars and the impacts of tariffs.

In order to deliver strong financial performance, HPS continues to focus on sales growth gross margin generation and operational improvement. Globally in the U.S., Canada and Asia, HPS is well positioned for electrical industry market share growth and continues to be a leader in the markets it serves. The Company continues to build a market presence through product capabilities and cost-effectiveness.



While some sales variability is expected with fluctuations in the markets and industries of our customers which have a direct impact on HPS revenue, there are indications that market activity will be fairly robust. The benefit of HPS not being single market dependent allows for the capitalization of growth in expanding market segments while counterbalancing the impact of cyclical market declines. A portion of annual sales will continue to be derived from major customer projects and will influence quarterly sales fluctuations – for which exact timing continues to be difficult to predict. The Company is not complacent, calculating the risks and opportunities that are present, and unyielding in the execution of our strategies. Sales and order booking rates continue to grow in strategic target markets delivering additional market share penetration, new account development and expansion of organic sales. There are many opportunities to be recognized.

HPS remains confident that our strategic vision merged with our operational strategies will help to generate growth. The Company continues to identify and develop new market opportunities which will come from organic and new customer sales expansion, product and technology development, cost-effectiveness, competitive lead-times and manufacturing flexibility. Management is aware of the need to plan and build for the future and continue to proactively confront the profitability pressures we continue to face. Our capabilities are extended through our multi-national operations which provide expanded market opportunities. The Company's commitment to continuous improvement, cost reduction, improved efficiencies and overall cost-effectiveness will assist in reaching these goals. These strategies will improve and build revenue and profitability trends.

The Company maintains a strong and stable Balance Sheet, excellent liquidity supported by a committed credit facility available to implement investment strategies, operational plans and advance growth initiatives. The combination of a secure financial foundation, strong business fundamentals and a clear strategic vision, positions HPS for growth as well as creating stakeholder value. HPS is not only focussed on future market share and sales growth but also on improving its cost competitiveness. The Company is confident in its strategic vision with a focus on revenue growth, cost reduction, continued efficiency improvements, the development of new technologies and the enhancement of existing products. Through these strengths, the Company will further expand market share and improve financial performance – HPS is positioned well and is confident in its vision.

Sales

Sales from continuing operations in 2018 were $314,082 as compared to sales of $284,635 in 2017, a significant increase of $29,447 or 10.3%.

U.S. market sales (stated in Canadian dollars) were $197,860, an increase of $23,272, or 13.3%, compared to 2017 sales of $174,588. U.S. sales, (stated in U.S. dollars), which have increased from $134,898 in 2017 to $153,173 in 2018, or an increase of $18,275 or 13.5%. The U.S. market experienced significant double-digit increases in the NAED and motor control markets. These gains are partially offset by decreases in the power control market.

Canadian sales were $93,641, an increase of $9,316 or 11.0% as compared to sales of $84,325 in 2017. There has been a noteworthy increase in the NAED market sales of 27% and strong sales in the utilities and mining markets which was somewhat offset by softer sales in the motor control, switchgear and capital equipment over the prior year.

The Company continued to struggle with international operations in 2018. Indian sales decreased 12.2% from $25,722 in 2017 to $22,581 in 2018. The decline in India was due to delays in projects and Original Equipment Manufacturer ("OEM") shipments that were not shipped by the end of the year.

2018 Italian operations experienced a 54.9% decline in sales volume from 2017 – dropping from $17,115 in 2017 to $7,720 in 2018. This decline was due to the inability to grow our market share which was drastically hurt by the volatility and instability in the overall European economy, electrical market conditions, competitive pricing pressures, the loss of key sales personnel and the reduction of sales tied to the sale of the VPI business in November 2017. The European market continued to be a challenge for the 2018 fiscal year and although restructuring efforts were executed at the end of 2017, the sales decline made the Italy market no longer viable. The decision was made at the end of 2018 to cease operations and close our Italian facility. The details of this transaction are further outlined in the restructuring section of the MD&A. The results of the Italian operation are presented as discontinued operations in the financial statements.

Sales were marginally negatively impacted by the weakening of the U.S. dollar relative to the Canadian dollar. The average U.S. to Canadian exchange rate for 2018 was $1.294 versus $1.298 in 2017, a U.S. dollar weakening of 0.3%. The decreased value of the U.S. dollar somewhat conceals the U.S. dollar sales increase for 2018.

Stated by geographic segment, sales from continuing operations in the U.S. were 63.0% (2017 – 61.3%), Canadian sales were 29.8% (2017 – 29.6%) and India sales accounted for 7.2% (2017 – 9.0%) of our total sales.

The Company continues to realize growth in the North American market through its strong NAED and OEM channels. HPS is growing its market share through distributor conversions and its custom transformer capabilities. The expansion of these segments is also a result of expanded product offerings, organic customer diversity, new customer additions and geographically diverse manufacturing capabilities. Our market diversification strategies provide a business hedge, as the Company is not single market or industry dependent.

HPS' commitment to its growth strategy is evidenced by its expanded NAED network, focus on product development, research and development projects, capacity capital expenditure program, vertical integration strategies and recent restructuring activities. Past acquisitions have broadened the Company's manufacturing capabilities, as liquid filled transformer offerings as well as cast resin technology and products are now being manufactured in Canada and India. The Company will continue to grow market share globally as a result of expanded product offerings, the addition of new customers, geographically diverse manufacturing facilities and market influence.

The Company is committed to building its value proposition to our customers through consistent quality, competitive product design, expertise in custom engineered products and product breadth. HPS' restructuring initiatives will ensure that HPS remains competitive and able to respond effectively to customer needs. These factors 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 continued revenue growth.

Order bookings and backlog

Overall, 2018 bookings increased by 7.6% over the prior year. In 2018, direct sales bookings increased by 5.9% and bookings in the distributor channel had an increase of 9.3%. The increase in direct channel sales bookings was attributed to higher order activity in both the North American and Indian markets compared to 2017. Distributor channel sales bookings were strong in both the U.S. and Canadian markets due to the strengthening of demand in a broad base of business activities.

The Company's December 31, 2018 backlog increased by 25.0% as compared to December 31, 2017, due to significant increases in North American booking rates from a rise in project business, orders from Canadian utilities and bookings from customers in the traditional markets of motor control and switchgear.

The combination of the Company's expanded distributor network, strategic sales initiatives and new product offerings are expected to convert into a continued strength in booking rates.

HPS is sensitive to the volatility and changeability of global economies and the impact that this could 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 consolidated gross margin rate from continuing operations in 2018 is 23.2% versus 25.6% in 2017, a decline of 2.4% of sales. The weakening in margin rates can be attributed to selling price pressures, volatile/increasing commodity costs, customer mix and geographic blend. During both 2018 and 2017, foreign currency fluctuations have had a minimal net unfavourable impact on the

gross margin rate. The Company continues to combat competitor short-sighted pricing strategies through its total value-added engineered solutions.

HPS is focused on its selling price realization strategies and achievement of cost reductions in an effort to lift margin rates going forward.

The Company is committed to its growth strategies despite the shorter-term dilutive effect these investments have had on gross margin rates. Increased sales volume will contribute positively to the absorption of factory overheads from higher manufacturing throughput and favourably lifting margin rates. Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. HPS is currently investing in the support of future sales growth and new product development.

The healthy quotation activity, record backlog and positive sales outlook continue to provide optimism going forward. Looking ahead, HPS remains cautiously optimistic as future growth will be realized in some markets along with a decline in others – underscoring the volatility of markets and sales demand. To manage the impact, the Company expanded its distributor footprint in North America and its Indian market presence, implemented cost reductions, invested in new product development and expanded manufacturing capabilities. This diversified geographic approach supports anticipated growth from implemented market strategies and subsequent economic improvement.

HPS is dedicated to identifying and implementing productivity enhancements and cost reductions in the entire organization and we are confident that these actions will increase future margin rates and improve profitability

Selling and distribution expense

Total selling and distribution expenses from continuing operations were $36,003 for 2018 versus $32,816 in 2017, an increase of $3,187 or 9.7%. On a percentage-of-sales basis, total selling and distribution remained consistent at 11.5% of sales in both 2017 and 2018. Increased sales for the year resulted in higher variable selling expenses, namely increased commission expense of $1,204 and a higher freight expense of $2,325.

General and administrative expense

General and administrative expenses from continuing operations in 2018 were $23,153 compared to $22,476 for 2017, an increase of $677 or 3.0%. On a percentage-of-continuing-sales basis, these costs decreased from 7.9% in 2017 to 7.4% in 2018. Abnormal allowance for doubtful accounts provisions primarily related to our international operations resulted in additional expense of $389. The remainder of the increase is primarily due to strategic human capital investment specifically in the areas of sales, engineering and information services as well as a focus on our strategic growth initiatives and enhanced operation profitability.

HPS continues to invest in growth while remaining very cognizant of prudent general and administrative expense management.

Earnings from continuing operations

Earnings from continuing operations were $13,779 in 2018, as compared to earnings of $16,884 in 2017, a decrease of $3,105 or 18.4%. The change in earnings from operations is a result of the increase in sales, negatively impacted by decreased gross margin contribution and increased selling and distribution and general and administrative expenses.

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

	2018	2017
Net earnings from continuing operations for the year	$ 8,105	$ 10,273
Add:		
Income tax expense	3,397	5,730
Finance and other costs	2,277	881
Earnings from continued operations	$ 13,779	$ 16,884

Net finance and other costs

Net finance and other costs have increased $1,396 from $881 in 2017 to $2,277 in 2018 with the majority of the change, $1,811, relating to uncertainty over collectability of the note receivable.

Interest expense from continuing operations for the year ended December 31, 2018, finished at $614 as compared to $541 in 2017, an increase of $73 or 13.5%. A rise in interest expense year-over-year was due to the timing of operating debt levels throughout the year, a result of operational capital expenditures, restructuring charges and higher working capital requirements. Interest expense includes all bank fees.

The foreign exchange gain from continuing operations in 2018 of $127, related primarily to the transactional exchange gain of the Company's U.S. dollar trade accounts payable in Canada compared to a foreign exchange gain of $137 in 2017. Stability of the foreign exchange gain for the year is related to the decreased volatility in the exchange rates during the year – primarily the U.S. dollar which declined 0.3% relative to the Canadian dollar in 2018. The ongoing volatility is managed by HPS' foreign exchange contract hedging program. Details of the outstanding contracts as at December 31, 2018, can be found in note 28 in the Notes to Consolidated Financial Statements included in our 2018 Annual Report.

Earnings from continuing operations, before income tax

2018 earnings from continuing operations before income taxes was $11,502 as compared to earnings of $16,003 in 2017, a change of $4,501 or 28.1%. The main contributors to the lower current year net earnings, were gross margin decline, increased selling and distribution expenses and the note receivable provision partially offset by higher sales, positive foreign exchange movements and improved results in the Company's joint venture resulting in the recognition of income during the current year.

Income taxes

Income tax expense from continuing operations for 2018 was $3,397 as compared to $5,730 in 2017, a decrease of $2,333 or 40.7%. The consolidated effective tax rate for 2018 decreased to 35.7% versus 48.4% last year – a difference of 12.7%. In 2018 the effective tax rate was impacted by non-deductible costs, losses for which no deferred tax asset was recognized and a basis difference in a subsidiary. The 2017 rate for active business, manufacturing and processing decreased the effective tax rate by 3.3%.

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 tax purposes is a result of business combination accounting and a different basis of depreciation utilized for tax purposes. Income tax provision is explained further in Note 15 in the Notes to Consolidated Financial Statements included in our 2018 Annual Report.

Net earnings from continuing operations

Net earnings from continuing operations for 2018 finished at $8,105 compared to net earnings of $10,273 in 2017, a decrease of $2,168 or 21.1%. The reduction in earnings is the result of a decreased gross margin rate, increased selling and distribution expenses and the note receivable provision; partially offset by higher sales and improved profitability in our investment in the joint venture, Corefficient.

Discontinued operations and restructuring charges

In support of improving the Company's cost competitiveness and enhancing profitability, HPS executed several strategic restructuring plans during both 2017 and 2018.

In Quarter 1, 2017, the Company implemented a North American cost reduction initiative through the reduction of manufacturing employee costs by $287 and general and administrative expenses of $529. These charges were comprised of severance and benefit costs relating to workforce reductions. The restructuring activities were undertaken to adjust the Company's cost structure and to streamline various support activities in consideration of the current and expected industry market conditions.

In Quarter 4, 2017, HPS sold the property, plant and equipment as well as the intangibles and inventory of the VPI product line of operations in Italy, resulting in

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the recognition of a loss-on-disposal of $1,022. This strategic decision eliminated excess capacity and reduced personnel costs resulting in a further cost reduction of $60 in manufacturing employee costs and $510 in general and administrative costs.

In Quarter 2, 2018, HPS continued cost reductions in our Italian location through workforce reductions and incurred restructuring charges of $560 for the six months ended June 30, 2018.

In Quarter 4, 2018, the Company decided to close our Italian facility and cease operation as the entity struggled to generate adequate sales and profits. The restructuring charges were comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs and write-downs of goodwill, long-lived assets and inventory, totaling $15,925. The closure of the Italian operations has been presented as discontinued operations in the financial statements. The total net loss for 2018 was $21,022. By removing the 2018 restructuring charges of $16,485, the normalized Italian operating loss for 2018 was $4,537. By removing the loss on disposition of the VPI business line, the normalized Italian operating loss for 2017 was $3,137 – a current year increase in the normalized operating loss of $1,400. Low sales volume was the key driver of these losses.

EBITDA

EBITDA from continuing operations for the year-ended December 31, 2018 was $17,915 versus $23,069 in 2017, a decrease of $5,154 or 22.3%. Adjusted for foreign exchange gain/loss, non-cash impairment charge against goodwill, loss on disposition and restructuring charges, adjusted EBITDA for 2018 was $17,788 versus $24,770 in 2017, a decrease of $6,982 or 28.2%.

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

	2018	2017
Net earnings from continuing operations	$ 8,105	$ 10,273
Add:		
Interest expense	614	541
Income tax expense	3,397	5,730
Depreciation and amortization	5,799	6,525
EBITDA from continuing operations	$ 17,915	$ 23,069
Add (subtract) :		
Loss on disposition	–	1,022
Foreign exchange gain	(127)	(137)
Restructuring charges	–	816
Adjusted EBITDA from continuing operations	$ 17,788	$ 24,770

Summary of quarterly financial information (unaudited)

Fiscal 2018 Quarters [1]	Q1	Q2	Q3	Q4	Total
Sales	$ 73,073	$ 77,393	$ 83,153	$ 88,183	$ 321,802
Net earnings (loss)	$ 895	$ (370)	$ 1,391	$ (14,833)	$ (12,917)
Net earnings (loss) per share – basic	$ 0.08	$ (0.03)	$ 0.12	$ (1.27)	$ (1.10)
Net earnings (loss) per share – diluted	$ 0.08	$ (0.03)	$ 0.12	$ (1.27)	$ (1.10)
Average U.S. to Canadian exchange rate	$ 1.2618	$ 1.2895	$ 1.3072	$ 1.3185	$ 1.2943

Fiscal 2017 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 72,362	$ 78,874	$ 74,685	$ 75,829	$ 301,750
Net earnings	$ 1,084	$ 2,842	$ 1,563	$ 625	$ 6,114
Net earnings per share – basic	$ 0.09	$ 0.25	$ 0.14	$ 0.05	$ 0.53
Net earnings per share – diluted	$ 0.09	$ 0.25	$ 0.14	$ 0.04	$ 0.52
Average U.S. to Canadian exchange rate	$ 1.3225	$ 1.3468	$ 1.2531	$ 1.2704	$ 1.2982

(1) balances not restated to reflect discontinued operations.

Quarterly sales for 2018, with the exception of Quarter 2, 2018, increased from the same quarter in 2017 as a result of improvements in general economic conditions and market share growth. Year-to-year quarterly fluctuations in both sales and income are affected by changes in foreign exchange rates, product mix, changing economic conditions and competitive pricing pressures. Margin rate continues to be a challenge while the Company continues to execute on price increases.

The Company perseveres to identify opportunities for savings to control expenses and improve profitability. Year-to-date restructuring charges were $16,485 - $560 in Quarter 2, 2018 and $15,925 in Quarter 4, 2018. The restructuring charges were specific to our Italian operation and comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs and write-downs of goodwill and intangible and other assets.

Fluctuations in exchange rates resulted in a gain in foreign exchange during Quarter 4, 2018 of $95, an improvement of $10 from the prior year gain of $85. Year-to-date there was a foreign exchange gain of $127 in 2018 compared to a gain of $137 in 2017. Reduced volatility of exchange rates had a positive impact on quarterly earnings.

Corefficient had reduced losses for each quarter of 2018 compared to losses in 2017. Year-to-date earnings from the joint venture were $116 in 2018 compared to a loss of $530 in 2017. The improvement in the joint venture performance was a result of elevated sales, higher manufacturing throughput, lower material costs and increased selling prices.

Changing and challenging economic conditions, changes in product mix and competitive pricing pressures have all had an impact on the year-over-year quarterly fluctuations for both sales and income.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Quarter 4, 2018 financial results [2]

	Quarter ended		Quarter ended	
Sales	$	88,183	$	75,829
Restructuring charges	$	15,925	$	570
(Loss) earnings from operations	$	(6,434)	$	3,774
Exchange gain	$	(95)	$	(85)
Loss on disposition	$	–	$	1,022
Net (loss) earnings	$	(14,833)	$	625
(Loss) earnings per share – basic	$	(1.27)	$	0.05
(Loss) earnings per share – diluted	$	(1.27)	$	0.04
Cash provided by operations	$	4,941	$	421

(2) balances not restated to reflect discontinued operations.

Sales for the quarter ended December 31, 2018 were $88,183, an increase of $12,354 or 16.3% from the comparative quarter last year, which is reflective of increased market activity.

Quarter 4, 2018 gross margin dollars increased slightly by $645 compared to Quarter 4, 2017. The gross margin rate decreased to 22.5% in Quarter 4, 2018 versus 25.3% in Quarter 4, 2017 as a result of sales mix and the timing of price increases.

Total selling and distribution expenses amounted to $10,258 in Quarter 4, 2018 versus $9,050 in Quarter 4, 2017, an increase of $1,208 or 13.3%. The increase in these expenses is attributable to increased sales in the quarter. Selling and distribution expenses as a percentage of sales have decreased to 11.6% in 2018 compared to 11.9% in 2017.

General and administrative expenses for Quarter 4, 2018 totaled $5,913 – a slight increase of $120 or 2.1% when compared to Quarter 4, 2017 costs of $5,793. The increase is a result of abnormal bad debt provisions related to outstanding receivables in India. General and administrative expenses as a percentage of sales have decreased to 6.9% in 2018 compared to 7.6% in 2017.

Net finance and other costs include $1,811, related to uncertainty over collectability of the note receivable.

Foreign exchange gain in Quarter 4, 2018 was $95 compared to a foreign exchange gain of $85 in Quarter 4, 2017.

During Quarter 4, 2018, the decision was made to close our Italian plant and cease operations, resulting in restructuring costs of $15,925. The restructuring charges were comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs and write-downs of goodwill and intangible and other assets.

During Quarter 4, 2017 the VPI product line was sold, reducing excess capacity and employment expenses. This transaction resulted in $570 in restructuring charges as well as a loss on disposal of $1,022.

Earnings from operations for the quarter were positively impacted by increased sales, offset by higher selling and distribution expenses, higher general and administrative expense and restructuring charges. Quarter 4, 2018 loss from operations increased $10,208 from earnings of $3,774 in Quarter 4, 2017 to a loss of $6,434 in Quarter 4, 2018.

Quarter 4, 2018 income tax expense was $1,065, on a loss before income taxes of $13,843 (an effective tax rate of 7.7%) as compared to an income tax expense of $2,203 on earnings before income taxes of $2,828 (an effective tax rate of 77.9%) in Quarter 4, 2017 – a decrease of $1,138. The lower effective tax rate in 2018 was primarily the result of the 2018 non-deductible restructuring charges recorded at Hammond Power Solutions S.p.A. (“HPS Italy”) and no recognition of the tax benefit of losses.

Net loss for Quarter 4, 2018 was $14,833 compared to net income of $625 in Quarter 4, 2017, a decrease of $15,533.

Cash provided by operations for Quarter 4, 2018 was $4,941 versus $421 in Quarter 4, 2017, an increase of $4,520. An increase in the cash generated from operations was due primarily to the non-cash items such as the write down of goodwill, intangibles, fixed assets and inventory as well as the recognition of the restructuring provision. Non-cash working capital used by operations decreased from $1,400 in Quarter 4, 2017 to $10 in Quarter 4, 2018.

Operating lines of credit net of cash, finished the year in a net operating debt position of $17,056 as at December 31 2018, an increase of $73 as compared to a net debt balance of $16,983 as at December 31, 2017. The 2018 increased net operating debt position is reflective of increased working capital requirements.

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 2018 was $6,474 versus $1,032 in 2017, an increase in cash generated from operations of $5,442. This increase in cash generated from operating activities was due to decreased working capital usage. Non-cash working capital used cash of $5,552 in 2018 versus $13,999 in 2017, resulting in a decrease of $8,447 from 2017. The change in non-cash working capital of $5,552 for 2018 was primarily a result of increases in accounts receivable and inventory offset by increased accounts payable and foreign exchange adjustments.

Accounts receivable finished the year at $69,010 as compared to $59,170 as at December 31, 2017, an increase of $9,840 – a result of higher Quarter 4 sales in 2018 compared to 2017. 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 $48,636 as at December 31, 2018, versus $38,340 as at December 31, 2017, an increase of $10,296. The higher inventory levels in 2018 were attributed to low inventory levels at the end of 2017 due to a surge in sales in Quarter 4, 2017 as well as the sale of the VPI inventory and a buildup of inventory to satisfy higher 2019 sales volume.

Accounts payable and accrued liabilities increased by $8,901 finishing at $54,326 as at December 31, 2018 compared to $45,425 at the end of 2017. The increase in accounts payable is related to the timing of purchases from and payments to suppliers.

Net income taxes receivable were $506 (income taxes receivable of $953 less income taxes payable of $447) as at December 31, 2018, versus net income taxes receivable of $1,564 (income taxes receivable of $1,701 less income taxes payable of $137) as at December 31, 2017 a change of $1,058.

Cash generated by financing activities was $759 in 2018, compared to cash used of $12,700 in 2017, a change of $13,459. The change in the balance can be attributed to higher advances from bank operating lines in 2018 compared to repayments of bank operating lines in 2017.

Cash used in investing activities in 2018 increased $386 from $2,965 in 2017 to $3,351 in 2018, a result of the purchase of the non-controlling interest in HPS India and no contributions to the joint venture during 2018. There was a decrease in capital spending, both property, plant and equipment, and intangibles of $93 over the prior year, totaling $2,354 in 2018 – compared to $2,447 for 2017. Expanded manufacturing capacity and new product development continue to be areas of capital expenditure spending. In addition there was operational maintenance capital invested at all facilities and manufacturing product mandated projects.

Bank operating lines of credit finished the year at $32,601 as at December 31, 2018, compared to $27,755 as at December 31, 2017 resulting in an increase of $4,846 in the year.

Overall bank lines of credit, net of cash, resulted in net debt of $17,056 as at December 31 2018, an increase of $73 as compared to a net debt balance of $16,983 as at December 31, 2017, primarily reflecting additional working capital requirements.

All bank covenants were met as at December 31, 2018, and the Company was in compliance with its covenants throughout the year.

The Company is well funded, with sufficient cash and debt capacity to fund its operating activities, investments and strategic growth initiatives. The Company has several alternatives to fund future capital requirements, including its existing cash position, credit facility, future operating cash flows and debt financing. The Company continually evaluates these options to ensure that the appropriate mix of capital resources is effectively managed for current and future requirements.

The Company has outstanding capital expenditure commitments of $92 primarily for manufacturing efficiency improvement projects and product development. These ongoing projects are in support of future business development and growth.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Additional details of our change in non-cash working capital can be found in note 26 in the Notes to Consolidated Financial Statements contained in our 2018 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 $40,000 U.S. revolving credit facility and a $10,000 U.S. delayed draw credit facility. This is an unsecured 5-year committed credit agreement that provides financing certainty for the future. This agreement aligns our Canadian and U.S. banking requirements, supports our hedging strategies and provides financing for our operational requirements and capital for our strategic initiatives. The Company has access to a 4,070 EUR facility that matures in May 2019, made up of a 3,750 EUR revolver and 250 EUR overdraft facility, as well as a 70 EUR letter of credit line. HPS India maintains a demand credit facility of 375,000 INR, consisting of a 174,000 INR short-term working capital demand loan facility and a 201,000 INR bank guarantee and letters of credit facility.

Based on exchange rates in effect at December 31, 2018, the combined Canadian dollar equivalent available prior to any utilization of these facilities was $81,862.

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.

	2019	2020	2021	2022	2023	Total
Operating leases	$ 2,262	$ 643	$ 193	$ 131	$ 72	$ 3,301
Accounts payable and accrued liabilities	54,138	–	–	–	–	54,138
Capital expenditure purchase commitments	92	–	–	–	–	92
Operating lines of credit	32,601	–	–	–	–	32,601
Total	$ 89,093	$ 643	$ 193	$ 131	$ 72	$ 90,132

Put option liability

Hammond Power Solutions Private Limited - India

In relation to the non-controlling interest in Hammond Power Solutions Private Limited ("HPS Pvt. Ltd."), HPS held an irrevocable call option exercisable at any time after February 23, 2016, and in certain other circumstances, to purchase the remaining securities of HPS Pvt. Ltd. from the non-controlling interest at fair value. The Company also had 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 HPS Pvt. Ltd. at fair value from the non-controlling interests. The exercise price of the call and put option were at fair value; and therefore the fair value of the instruments were considered nominal. The Company had not recognized the present value of the redemption price of the put option as a liability as at December 31, 2017 as it was not considered material to the consolidated financial statements. During 2018, the Company exercised its call option and purchased the remaining minority interest of HPS Pvt. Ltd. as discussed in note 18 in the Notes to Consolidated Financial Statements contained in our 2018 Annual Report.

Hammond Power Solutions S.p.A. – Italy

As part of the VPI asset purchase agreement, the lease agreement relating to the Meledo, Italy, building includes a put and call sale option related to the leased premises, exercisable within 60 days after September 30, 2023. The call option grants the purchaser an option to purchase the premises for consideration equal to 2,225,000 EUR. The plant purchase price will be reduced by 50% of the monthly rent installments received, to a maximum of 375,000 EUR (approximately $563,000 Canadian dollars). If the purchaser does not execute the call option HPS can exercise its put option which grants HPS an option to sell the plant to the purchaser for consideration equal to the same plant purchase price. If the purchaser rejects the put option, the purchaser will pay 500,000 EUR (approximately $750,000 Canadian dollars) as liquidated damages.

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 22, 2018 to shareholders of record at the close of business on March 15, 2018. The ex-dividend date was March 14, 2018. The Quarter 2 dividend was paid on June 20, 2018 to shareholders of record at the close of business on the 13th day of June 2018. The ex-dividend date was June 12, 2018. The dividend for Quarter 3 was paid on September 27, 2018 to shareholders of record at the close of business on September 20, 2018. The ex-dividend date was September 19, 2018. The Quarter 4 dividend was paid on December 12, 2018 to shareholders of record at the close of business on December 5, 2018. The ex-dividend date was December 4, 2018.

In 2018, the Company has paid a total cash dividend of twenty-four cents ($0.24) per Class A Subordinate Voting Share and twenty-four cents ($0.24) per Class B Common Share.

Normal course issuer bid

On November 5, 2018, the Board of Directors of the Corporation authorized the repurchase of up to 50,000 Class A Subordinate Voting Shares by way of a normal course issuer bid through the facilities of the TSX. Daily purchases will be limited to 1318 Class A Subordinate Voting Shares, other than block purchase exceptions, which is 25% of the average daily trading volume of Class A Subordinate Voting Shares of HPS on the TSX in the preceding six calendar months. The purchases commenced on November 9, 2018 and will terminate no later than November 8, 2019. Purchases will be made in open market transactions on the TSX.

Controls and procedures

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO Framework"). Our internal control system was designed to provide reasonable assurance to our Management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with 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, 2018, 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, 2018 such disclosure controls and procedures were operating effectively.

In 2017 Hammond Power Solutions Inc., the majority shareholder of HPS India raised certain issues and disputes in respect of the methods and manner of management by the non-controlling shareholder who also served as the Managing Director of HPS India. The Company brought forward financial impropriety allegations against the non-controlling shareholder that occurred prior to 2018. The Company engaged a public accounting firm to complete a forensic audit of HPS India and as a result of this audit, the Parties have agreed to settle claims against the minority shareholder. As part of a settlement agreement, the Company received a price reduction in the purchase price of the remaining 15% non-controlling interest's shares completed early in 2018.

The Company has aggressively bolstered its internal controls of the operation which now includes the implementation of a new Enterprise Resource Planning System ("ERP") system and additional third party audits.

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 2018, which was completed in the fourth quarter.

As of December 31, 2018 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, 2018.

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

During 2018 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or were reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

Subsequent events

Dividends

On March 4, 2019, the Company declared a quarterly cash dividend of seven cents ($0.07) per Class A subordinate voting shares of HPS and a quarterly cash dividend of seven cents ($0.07) per Class B common shares of HPS payable on March 26, 2019 to shareholders of record at the close of business on March 19, 2019. The ex-dividend date is March 18, 2019.

Risks and uncertainties

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However, as with most businesses, HPS is subject to a number of marketplace, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies. If any of the following risks were to occur they could materially adversely affect HPS' financial condition, liquidity or results of operations.

These risks include:

We may not realize all of the anticipated benefits of our acquisitions, divestures, joint ventures or strategic initiatives, or these benefits may take longer to realize than expected.

In order to be profitable, the Company must successfully execute upon its strategic initiatives and effectively manage the resulting changes in its operations. The Company's assumptions underlying its strategic plans may be subjective, the market may react negatively to these plans, and HPS may not be able to successfully execute these plans, and even if successfully executed, its actions may not be effective or may not lead to the anticipated benefits within the expected time frame.

These strategic initiatives can include acquisitions and joint ventures. To be successful, management will conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete complex transactions and manage post-closing matters such as the integration of acquired startup businesses. Management's due diligence reviews are subject to the completeness and accuracy of disclosures made by third parties. The Company may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation or other liabilities.

Many of the factors that could have an adverse impact will be outside of management's control and could result in increased costs and decreases in the amount of expected revenues and diversion of management's time and attention. Failure to implement an acquisition strategy, including successfully integrating acquired businesses, could have an adverse effect on our business, financial condition and result of operations.

We sell to customers around the world and have global operations and, therefore, are subject to the risks of doing business in many countries.

We do business in a host of countries around the world. Approximately 70% of our sales were to customers outside of Canada. In addition, a number of our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

Our global business translates into conducting business in various currencies, all of which are subject to fluctuations.
HPS' global footprint exposes the Company to currency fluctuations and volatility and, at times, has had a significant impact on the financial results of the Company. The Company's functional currency is the Canadian dollar with its operating results reported in Canadian dollars. A significant portion of Company sales and material purchases are denominated in U.S. dollars. 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, significantly at times. Generally, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results, while a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

HPS has partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output, periodically instituting price increases to help offset negative changes and entering into forward foreign exchange contracts.

Worldwide HPS is subject to, and required to comply with, multiple income and other taxes, regulations and is exposed to uncertain tax liabilities risk.
The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates, which determine taxation expenses, may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. The determination of the consolidated tax provision and liabilities requires significant judgment. Tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities.

We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.
Our business depends on the movement of goods around the world. Natural disasters, pandemics, acts or threats of war or terrorism, international conflicts, political instability and the actions taken by governments could cause damage to or disrupt our business operations, our suppliers or our customers and could create economic instability. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products or make it difficult or impossible to deliver our products.

The U.S. political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.
The results of the last U.S. election have created a number of geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. 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.

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

Our business is highly sensitive to global and regional economic conditions in the industries we serve.
Current global economic conditions influence the Company's focus, direction, strategic initiatives and financial performance. To address the current uncertainty, we are focusing our efforts on projects that will increase our market reach, advance our cost competiveness, expand capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will hold even greater importance in order to respond quickly to both unexpected opportunities and challenges. HPS' management believes that the key to expanding our market share during this economic slowdown is growing our access to a variety of domestic and global markets. This will be achieved through our current and new OEM and distributor channels.

The disruption to businesses that can come from unpredictable weather can have an impact on sales volume as customer projects can be delayed or cancelled.
Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present, the Company may see short-term effects of such occurrences due to their unpredictability. This may impact delivery and capacity requirements.

The business practice of extending credit to customers can lead to a risk of uncollectability.
A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk. This risk is partially mitigated by managements credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure.

Market supply and demand impact on 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.

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 2018 Annual Report.

Transactions with related parties

The Company had transactions with related parties in 2018, as disclosed in note 24 in the Notes to the Consolidated Financial Statements contained in our 2018 Annual Report.

Proposed transactions

The Company had no proposed transactions as at December 31, 2018. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, long-term lease receivable, note receivable, bank operating lines of credit, accounts payable and accrued liabilities and the following derivative instruments:

At December 31, 2018, the Company had outstanding foreign exchange contracts in place for 16,200 EUR, \$11,000 USD and 130,000 INR – which were implemented as an economic hedge against translation gains and losses on inter-company loans and \$45,000 USD to economically hedge the U.S. dollar denominated accounts payable in the Canadian operations of HPS. The Company had total outstanding foreign exchange contracts in place as at December 31, 2017 for 13,500 EUR, and \$10,000 USD as economic hedges against translation gains and losses on inter-company loans and \$41,000 USD to economically hedge the U.S. dollar denominated accounts payable in the Canadian operations.

Further details regarding the Company's financial instruments and the associated risks are disclosed in note 28 in the Notes to the Consolidated Financial Statements contained in our 2018 Annual Report.

Critical accounting estimates

The preparation of the Company's consolidated financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances.

Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The Company assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

The Group has recorded restructuring charges during 2018 and 2017. The restructuring provision is comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs. While management has made reasonable efforts to estimate these costs, actuals could differ materially from what has been accrued. For details of the restructuring charges, refer to note 23 to the Consolidated Financial Statements.

Outstanding share data

Details of the Company's outstanding share data as of December 31, 2018, are as follows:

8,962,424	Class A Shares
2,778,300	Class B Common Shares
11,740,724	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.

Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities from all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The Company will be applying the practical expedient to 'grandfather' their previous assessment of which existing contracts are, or contain, a lease. By applying this expedient the Company will apply IFRS 16 to leases previously identified in accordance with IAS 17 and IFRIC 4 when determining whether an arrangement contains a lease. This expedient only applies to the identification of leases on the date of initial application and does not apply to reassesses whether an arrangement is or contains a lease if the terms and conditions of the agreement are modified subsequently.

The Company has elected to apply the following accounting policy exemptions:

- Short term leases less than 12 months – election available by asset class
- Leases of low-value items – under $5,000 – election can be applied on a lease by lease basis

The modified retrospective approach will be applied when implementing this standard. This approach calculates the lease assets and lease liabilities and recognizes an equity adjustment at January 1, 2019 and does not restate prior-period financial information.

The Company has identified a complete inventory of contracts impacted by this standard; has selected, installed and tested third party software to control and manage the lease assets; the lease data has been entered into the system and transition adjustments are being finalized.

Uncertainty over Income Tax Treatments

On June 7, 2017 the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better prediction of the resolution;
- An entity to determine if it is probable that the tax authorities will accept uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Group intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations that seeks to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or as a group of similar identifiable assets. If the preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the adoption of the Amendments to have a material impact on the consolidated financial statements.

Strategic direction and outlook

HPS has undergone significant growth and expansion over the past few years:

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

Hammond Power Solutions has a history of strength, perseverance and resilience. The Company has navigated through difficult and fluctuating economic times, increased globalization, adapted to changes in customers and markets and has experienced significant advances in technology. HPS has framed these challenges as opportunities and developed strategies to address these rapid changes.

HPS is aware that the global economy is vital to maintaining competitiveness and market share growth. The International expansion into India and Italy has allowed the Company to expand product offerings and opened up additional markets and customers that were previously not accessible. These acquisitions also provided HPS with cast resin technology, which has introduced new markets.

At the end of 2018 the decision was made to close the HPS Italy and cease operations due to low sales volume and inability to cover fixed costs related to these operations. The closure resulted in restructuring charges of $15,925 – consisting of severance and benefit costs related to workforce reductions, closure and cancellation costs and write-downs of goodwill, intangible and other assets. This decision will position the company for stronger financial performance in the future.

The Company has modern manufacturing facilities throughout the world and this continues to be enhanced through our committed capital investment. The Mexico based joint venture, Corefficient, is evidence of investing in the future, in both technology and capacity, which enhances our competitiveness. The joint venture generated a profit in 2018 as a result of increased volumes and adjusting pricing structures. The improved profitability is expected to continue to progress going forward.

The implementation of the ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, strategic decision making and audit and control. This system has been implemented in the majority of the North American facilities and recently has been implemented in our HPS India operation. There is only one remaining Canadian operation that will be converted to our ERP platform, with implementation scheduled to begin in the second half of 2019 and completed in mid-2020. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

HPS continues to focus on customer service and growth – expanding existing relationships as well as exploring new opportunities. Past regulatory requirements to comply with the U.S. Department of Energy ("DOE") regulations and the upcoming Canadian efficiency standard changes ("NRCan") has created opportunities for the Company to deliver energy efficient, regulatory compliant transformers fulfilling the needs of our customers. These regulation changes have resulted in new product development and manufacturing techniques.

While the Company has experienced a number of successes and challenges, the global economic climate, as well as the variability of raw material commodity costs, fluctuating manufacturing throughput and market pricing pressures has impacted the Company. Through HPS' strategic projects and operational plans these deterrents are being prudently managed.

The Company is confronting these challenges and continuously building our competitive and strategic advantage by focusing on:

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- Broadened 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.

These strengths position the Company to meet the evolving and dynamic needs of our traditional markets while becoming a leading player in a number of growing market sectors. Our diverse products, loyal customers and targeted markets are critical to generating future sales growth.

HPS continues to have a strong reputation of being an industry leader and is both operationally and financially strong. Historically the Company has navigated through long-term economic uncertainty and management continues to remain confident in the vision of the future. HPS is well positioned to meet the evolving needs of both our traditional markets while becoming a leading player in a growing number of other market sectors. The Company continues to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility. The combination of our resilience, drive, decades of experience, commitment, engineering expertise, solid supplier relationships and a broad and unique business perspective gained through our diverse products, customers and markets are all key success factors critical to the success of the Company.

The Company's strategic vision and operational initiatives have supported Hammond Power Solutions' industry leadership, operational strength and financial stability.

The Company will deliver solid financial performance, provide a sustainable return to our shareholders, maintain the Balance Sheet strength of the Company and deliver long-term value to all stakeholders.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

Annual Information [3]	2014	2015	2016	2017	2018
Sales	247,756	274,639	274,793	301,750	321,802
Earnings (loss) from operations	6,460	12,644	10,873	14,470	(8,245)
EBITDA	12,327	18,748	14,356	19,633	17,915
Net earnings (loss)	2,520	6,320	1,793	6,114	(12,917)
Total assets	184,291	222,969	205,177	192,449	205,527
Non-current liabilities	9,527	5,454	4,131	3,641	2,528
Total liabilities	69,854	90,668	84,524	77,438	96,793
Total shareholders' equity attributable to equity holders of the Company	112,271	129,665	120,441	114,848	108,734
Net debt	(14,833)	(13,202)	(11,318)	(16,983)	(17,056)
Cash provided by operations	18,450	16,065	15,216	1,032	6,474
Basic earnings (loss) per share	0.22	0.53	0.16	0.53	(1.10)
Diluted earnings (loss) per share	0.22	0.53	0.16	0.52	(1.10)
Dividends declared and paid	2,800	2,807	2,808	2,809	2,818
Average exchange rate (USD$=CAD$)	1.1025	1.274	1.325	1.298	1.294
Book value per share	9.61	11.08	10.29	9.80	9.26

	2017				2018			
Quarterly Information [3]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	72,362	78,874	74,685	75,829	73,073	77,393	83,153	88,183
Earnings from operations	2,405	4,953	3,338	3,774	1,973	1,561	2,296	7,949
EBITDA	3,902	6,273	4,903	4,555	3,631	2,184	3,879	8,221
Net earnings (loss)	1,084	2,842	1,563	625	895	(370)	1,391	(14,833)
Total assets	204,371	197,887	194,147	192,449	197,187	202,635	200,954	205,527
Non-current liabilities	4,549	4,291	4,198	3,641	3,429	3,383	3,291	2,528
Total liabilities	81,639	76,252	80,478	77,438	77,829	83,210	83,253	96,793
Total shareholders' equity attributable to equity holders of the Company	122,732	121,288	116,491	114,848	119,358	119,425	117,701	108,734
Net debt	(21,475)	(20,416)	(16,407)	(16,983)	(21,483)	(21,578)	(20,502)	(17,056)
Cash (used) provided by operations	(7,622)	2,315	5,918	421	(1,907)	972	2,468	4,941
Basic earnings (loss) per share	0.09	0.25	0.14	0.05	0.08	(0.03)	0.12	(1.27)
Diluted earnings (loss) per share	0.09	0.25	0.14	0.04	0.08	(0.03)	0.12	(1.27)
Dividends declared and paid	702	702	702	703	704	704	704	706
Average exchange rate (USD$=CAD$)	1.323	1.347	1.253	1.270	1.262	1.290	1.307	1.319
Book value per share	10.46	10.37	9.96	9.80	10.18	10.16	10.02	9.26

(3) balances not restated to reflect discontinued operations

Management’s Responsibility for Financial Statements

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

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

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

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

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

Christopher R. Huether
Corporate Secretary
& Chief Financial Officer

March 27, 2019

To the Shareholders of Hammond Power Solutions

Opinion
We have audited the consolidated financial statements of Hammond Power Solutions Inc. ("the Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report 2018".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the Annual Report 2018, filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants
The engagement partner of the audit resulting in this auditors report is Thomas E. Mennill

March 27, 2019
Waterloo, Canada

Consolidated Statements of Financial Position

(in thousands of dollars)

	As at December 31, 2018	As at December 31, 2017
Current assets		
Cash and cash equivalents	$ 15,545	$ 10,772
Accounts receivable (note 4)	69,010	59,170
Inventories (note 5)	48,636	38,340
Income taxes receivable	953	1,701
Prepaid expenses and other assets (note 6)	4,082	3,419
Total current assets	138,226	113,402
Non-current assets		
Long-term lease and note receivable (note 7)	3,604	4,605
Property, plant and equipment (note 8)	29,038	32,276
Investment in properties (note 9)	1,044	1,044
Investment in joint venture (note 10)	13,302	12,158
Deferred tax assets (note 15)	1,042	776
Intangible assets (note 11)	7,310	11,166
Goodwill (notes 11 and 12)	11,961	17,022
Total non-current assets	67,301	79,047
Total assets	$ 205,527	$ 192,449
Liabilities		
Current liabilities		
Bank operating lines of credit (note 13)	$ 32,601	$ 27,755
Accounts payable and accrued liabilities (notes 16, 19 and 28)	54,326	45,425
Income tax liabilities	447	137
Provisions (note 20)	6,891	480
Total current liabilities	$ 94,265	$ 73,797
Non-current liabilities		
Provisions (note 20)	396	299
Deferred tax liabilities (note 15)	2,132	3,342
Total non-current liabilities	2,528	3,641
Total liabilities	$ 96,793	$ 77,438
Shareholders' Equity		
Share capital (note 16)	14,217	13,986
Contributed surplus	2,559	2,600
Accumulated other comprehensive income	12,740	1,916
Retained earnings	79,218	96,346
Total shareholders' equity attributable to equity holders of the Company	$ 108,734	$ 114,848
Non-controlling interest	–	163
Total shareholder's equity	108,734	115,011
Commitments (note 14)		
Subsequent events (note 31)		
Total liabilities and shareholders' equity	$ 205,527	$ 192,449

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 Operations

Years ended December 31, 2018 and 2017 (in thousands of dollars except for per share)

		2018		2017
Sales (note 21)	$	314,082	$	284,635
Cost of sales (note 5)		241,147		211,643
Gross margin		72,935		72,992
Selling and distribution		36,003		32,816
General and administrative		23,153		22,476
Restructuring charges (note 23)		-		816
	$	59,156	$	56,108
Earnings from operations		13,779		16,884
Finance and other costs				
Interest expense		614		541
Foreign exchange gain		(127)		(137)
Share of (income) loss of investment in joint venture, net of tax (note 10)		(116)		530
Provision for loss on note receivable (note 7)		1,811		–
Other		95		(53)
Net finance and other costs		2,277		881
Earnings before income taxes		11,502		16,003
Income tax expense (recovery) (note 15):				
Current		4,768		5,734
Deferred		(1,371)		(4)
		3,397		5,730
Net earnings from continuing operations	$	8,105	$	10,273
Loss from discontinued operations, net of tax (note 22)		(21,022)		(4,159)
Net (loss) earnings		(12,917)		6,114
Net loss attributable to non-controlling interest		–		(40)
Net (loss) earnings attributable to the equity holders of the Company		(12,917)		6,154
Net (loss) earnings	$	(12,917)	$	6,114
Earnings per share (note 17)				
Basic earnings (loss) per share	$	(1.10)	$	0.53
Diluted earnings (loss) per share	$	(1.10)	$	0.52
Basic earnings per share from continuing operations	$	0.69	$	0.88
Diluted earnings per share from continuing operations	$	0.69	$	0.88

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Loss

Years ended December 31, 2018 and 2017 (in thousands of dollars)

	2018	2017
Net (loss) earnings	$ (12,917)	$ 6,114
Other comprehensive income		
Items that will be recognized within profit and loss:		
Foreign currency translation differences for foreign operations	9,492	(10,890)
Foreign currency translation differences for discontinued operations	1,323	1,805
Other comprehensive income (loss), net of income tax	10,815	(9,085)
Total comprehensive loss	$ (2,102)	$ (2,971)
Total comprehensive loss attributable to equity holders of the Company	(2,102)	(2,922)
Total comprehensive loss attributable to non-controlling interest	–	(49)
	$ (2,102)	$ (2,971)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

Years ended December 31, 2018 and 2017 (in thousands of dollars)

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2017	$ 13,843	$ 2,605	$ 10,992	$ 93,001	$ 212	$ 120,653
Total comprehensive (loss) income for the period						
Net earnings (loss)	–	–	–	6,154	(40)	6,114
Other comprehensive loss						
Foreign currency translation differences related to joint venture (note 10)	–	–	(1,210)	–	–	(1,210)
Foreign currency translation differences	–	–	(7,866)	–	(9)	(7,875)
Total other comprehensive loss	–	–	(9,076)	–	(9)	(9,085)
Total comprehensive loss for the period	–	–	(9,076)	6,154	(49)	(2,971)
Transactions with owners, recorded directly in equity						
Dividends to equity holders (note 16)	–	–	–	(2,809)	–	(2,809)
Stock options exercised (note 16)	143	(19)	–	–	–	124
Share-based payment transactions (note 16)	–	14	–	–	–	14
Total transactions with owners	143	(5)	–	(2,809)	–	(2,671)
Balance at December 31, 2017	$ 13,986	$ 2,600	$ 1,916	$ 96,346	$ 163	$ 115,011
Total comprehensive income (loss) for the period						
Net loss	–	–	–	(12,917)	–	(12,917)
Other comprehensive loss						
Foreign currency translation differences related to the joint venture (note 10)	–	–	1,028	–	–	1,028
Foreign currency translation differences	–	–	9,787	–	–	9,787
Total other comprehensive income	–	–	10,815	–	–	10,815
Total comprehensive loss for the period	–	–	10,815	(12,917)	–	(2,102)
Transactions with owners, recorded directly in equity						
Non-controlling interest (note 18)	–	–	9	(1,357)	(163)	(1,511)
Dividends to equity holders (note 16)	–	–	–	(2,818)	–	(2,818)
Stock options exercised (note 16)	245	(38)	–	–	–	207
Repurchase of shares (note 16)	(14)	(3)	–	(36)	–	(53)
Total transactions with owners	231	(41)	9	(4,211)	(163)	(4,175)
Balance at December 31, 2018	$ 14,217	$ 2,559	$ 12,740	$ 79,218	$ –	$ 108,734

*AOCI – Accumulated other comprehensive income

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017 (in thousands of dollars)

	2018	2017
Cash flows from operating activities		
Net (loss) earnings	$ (12,917)	$ 6,114
Adjustments for:		
Share of (income) loss of investment in joint venture	(116)	530
Depreciation of property, plant and equipment	4,438	5,100
Amortization of intangible assets	1,361	1,425
Write down of goodwill, property, plant and equipment, intangible assets and inventory (notes 5, 8, 11 and 12)	9,693	–
Write down of note receivable (note 7)	1,811	–
Gain on disposal of property, plant and equipment	(5)	–
Provisions	7,068	(83)
Interest expense	1,423	1,263
Loss on disposition	–	1,022
Income tax expense	3,397	5,731
Unrealized (gain) loss on derivatives	(1,897)	331
Share-based compensation expense	109	298
	14,365	21,731
Change in non-cash working capital (note 26)	(5,552)	(13,999)
Cash generated from operating activities	8,813	7,732
Income tax paid	(2,339)	(6,700)
Net cash provided from operating activities	6,474	1,032
Cash flows from investing activities		
Investment in joint venture (note 10)	–	(626)
Purchase of non-controlling interest (note 18)	(1,511)	–
Proceeds on disposal of property, plant and equipment	117	33
Repayment of note and lease receivable	397	75
Acquisition of property, plant and equipment	(1,888)	(2,319)
Acquisition of intangible assets	(466)	(128)
Cash used in investing activities	(3,351)	(2,965)
Cash flows from financing activities		
Proceeds from issue of share capital	207	124
Cash dividends paid	(2,818)	(2,809)
Advances (repayment) of bank operating lines of credit	4,846	(8,752)
Share repurchase (note 16)	(53)	–
Interest paid	(1,423)	(1,263)
Cash generated by (used in) financing activities	759	(12,700)
Foreign exchange on cash and cash equivalents held in a foreign currency	891	216
Increase (decrease) in cash and cash equivalents	4,773	(14,417)
Cash and cash equivalents at beginning of period	10,772	25,189
Cash and cash equivalents at end of period	$ 15,545	$ 10,772

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

1. Reporting entity

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

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Group has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy and India, the latter being Hammond Power Solutions Private Limited, a subsidiary in which the Company now holds 100% equity ownership. The Company also holds a 55% economic 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 27, 2019.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for inventories carried at net realizable value, derivative financial instruments and share based payments which are measured at fair value, and the initial present value of finance leases receivable which are determined using cash flows implicit in the lease and a discount rate reflecting the interest rate implicit in the lease.

(c) Functional and presentation currency

The functional currency of the Group's entities is the currency of their primary economic environment.

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar, being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income in the cumulative translation account within accumulated other comprehensive income.

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

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

(d) Use of estimates and judgments

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

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

(i) Critical judgments in applying accounting policies

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

Cash generating units

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

Operating segments

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

(ii) Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next twelve months.

Recoverability of goodwill and intangible assets

The Group tests annually or more frequently if necessary, whether goodwill or other long-lived assets have suffered any impairment in accordance with the accounting policy provided in note 3(h). Performing impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. 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 impairment test. For assumptions relating to impairment testing, refer to note 12.

Restructuring provision

The Group has recorded restructuring charges during 2018 and 2017. The restructuring provision is comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs. While management has made reasonable efforts to estimate these costs, actuals could differ materially from what has been accrued. For details of the restructuring charges, refer to note 23.

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

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, Hammond Power Solutions S.p.A., and a now 100% owned subsidiary Hammond Power Solutions 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

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Group becomes a party to the financial instrument or derivative contract.

The Group classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Group reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Group has applied the following classifications:

- Cash and cash equivalents, accounts receivable and long-term lease and note receivable are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.
- Accounts payable, accrued liabilities and bank operating lines of credit are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of operations, as applicable.
- Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair

value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated. The Group has not historically designated such items as hedging instruments and accordingly changes in fair value are recorded through the statement of operations.

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of the subsequent accounting periods.

The Group assesses all information available, including, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Corporation compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Corporation applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables.

(c) Cash and cash equivalents

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

(d) Property, plant and equipment

Property, plant and equipment are shown in the statement of financial position at their historical cost. 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. 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.

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

(e) Intangible assets other than goodwill

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

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

(f) Research and development expenses

Research expenses are recognized as expenses in the financial period incurred.

Development expenses are recognized as an intangible asset if the Group can demonstrate the technical feasibility of making the intangible asset ready for commissioning or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of the appropriate resources (technical, financial or other) to complete development and use or sell the intangible asset; and its ability to provide a reliable estimate of expenses attributable to the intangible asset during its development.

(g) Goodwill

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

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

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

The impairment tests are performed at the cash generating unit (CGU) level. The Group defines its CGUs based on the way it monitors and derives economic benefits from the acquired goodwill and intangibles. The impairment tests are performed by comparing the carrying value of the assets of these CGUs with the greater of its value in use and its fair value, less costs to sell. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate. The cash flows correspond to estimates made by Group Management in financial and strategic business plans covering a period of five years. They are then projected beyond five years using a steady or declining growth rate given that the Group businesses are of a long-term nature. The Group assesses the uncertainty of these estimates by conducting sensitivity analyses. The discount rate used approximates the CGUs weighted average cost of capital. The business risk is included in the determination of the cash flows.

An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual goodwill impairment tests at December 31, 2018.

(h) 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.

(i) 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 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.

(j) Inventories

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

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

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

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

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

The Group periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. Consideration is given at each Statement of Financial Position date to determine whether there is any indication of impairment of the carrying amounts of the Group's property, plant and equipment and finite life intangible assets. The Group reviews for impairment of long-lived assets, or asset groups, held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

The recoverable amount is the greater of the fair value less cost 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.

(l) Share-based payment transactions

Stock Option Plan

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.

Deferred Share Unit Plan

The Company implemented a deferred share unit plan (the "DSU Plan") for its senior-executive management and Directors. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. DSUs are increased by the dividend rate on a quarterly basis.

Under IFRS, DSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a Redemption Event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. As such, the Group recognizes the expense and the liability to pay for eventual redemption when the DSUs are issued. Thereafter, the Company re-measures the fair-value of the liability at the end of each reporting date and the date of settlement, with the difference recognized in income or expense for the period. The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date. The DSU liability is included in accrued liabilities.

(m) Provisions

Provisions comprise liabilities of uncertain timing or amounts that arise from restructuring plans, environmental, litigation, commercial or other risks. Provisions are recognized when there exists a legal or constructive obligation stemming from a past event and when the future cash outflows can be reliably estimated. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. A restructuring provision relating to a sale or termination of a line of business, the closure of business locations in a country or region, changes in management structure or fundamental reorganizations that have a material effect of the nature or focus of the Company's operations are recognized when the company has a detailed, formal plan for the restructuring that identifies:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees affected;
- the expenditures that will be undertaken; and
- when the plan will be implanted.

Notwithstanding the above, no provision is recorded until such time a valid expectation by those affected by the plan has been raised.

(n) Revenue

Effective January 1, 2018, the Group adopted IFRS 15, Revenues from Contracts with Customers. IFRS 15 introduces a 5-step approach when recognizing revenue:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. The Group typically satisfies its performance obligation upon shipment of its transformers. Any required testing or compliance requirements will have been satisfied prior to shipment of the transformer.

Payment is typically due within 30 days of shipment, with limited customers being granted extended terms of up to 60 days, and consideration is generally fixed and does not contain any significant financing components. The Group has a return policy for credit on standard stocked items and no custom build product can be returned. Historically returns have been minimal and are expected to continue to remain low. The Group's product is purchased with a standard warranty and there is no option to purchase any additional warranty coverage.

A contract asset represents Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, in that only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group 's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

Incremental costs to obtain a contract are typically short-term in nature and the Group applies the practical expedient permitted under IFRS 15 to recognize such costs as an expense when incurred if the amortization of the asset that the Group would have otherwise recognized is less than one year.

Transition to IFRS 15 and accounting policies previously applied

As described in note 3(s), the Group has applied IFRS 15 using the modified retrospective method, without restatement of comparative figures when initially applying IFRS 15 at January 1, 2018

(o) Income taxes

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

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

(p) Employee benefits

The 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.

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.

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(q) Finance income and finance costs

Finance income and finance costs comprise interest income, interest expense on borrowings, changes in fair value of financial instruments measured at fair value through profit and loss, foreign currency losses, the Group's share of income or losses arising from its investment in joint ventures and other finance costs.

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

(r) Earnings per share

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

(s) New accounting pronouncements adopted during the period

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 adopted the amendments to IFRS 2 in its consolidated financial statements for the annual period ending December 31, 2018. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard is effective for annual and interim 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.

Transition considerations

IFRS 15 can be applied using one of the following two methods: retrospectively to each prior reporting period presented in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, or retrospectively with the cumulative effect of initially applying IFRS 15 recognized in opening retained earnings at the date of initial application (the "modified retrospective method"). The Group decided to adopt IFRS 15 using the modified retrospective method, without restatement of comparative figures.

IFRS 15 provides for certain optional practical expedients, including upon the initial adoption of the standard. The Group applied the following practical expedients upon adoption of IFRS 15 on January 1, 2018:

- Completed contract - the Group applied IFRS 15 retrospectively only to contracts that were not completed contracts as at January 1, 2018. There were no material uncompleted contracts at January 1, 2018.
- Contract modifications - the Group did not apply IFRS 15 retrospectively to contract modifications that occurred before January 1, 2018.

The adoption of IFRS 15 did not have a material impact on the consolidated financial statements.

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 and interim 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 the 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.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt instrument; FVOCI – equity instrument; or fair value through profit and loss ("FVTPL"). The classification of financial instruments under IFRS 9 is generally based on the business model in which a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Group has determined that the additional allowance for impairment as a result of the application of IFRS 9's impairment requirements at January 1, 2018 is immaterial.

The Group has adopted IFRS 9 (2014) in its consolidated financial statements for the period ending December 31, 2018. There were no changes to recognized amounts as a result of the application of the classification categories under IFRS 9, or the application of the expected credit loss model. The impact of IFRS 9 on the classification and measurement of financial assets is set out in note 28.

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 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 has adopted the Interpretation in its consolidated financial statements for the annual period ending December 31, 2018. The Group will apply the Interpretation prospectively to all assets, expenses and income initially recognized on or after January 1, 2018. The adoption of the interpretation did not have a material impact on the consolidated financial statements.

(t) New accounting pronouncements

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

Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities from all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The Company will be applying the practical expedient to 'grandfather' their previous assessment of which existing contracts are, or contain, a lease. By applying this expedient the Company will apply IFRS 16 to leases previously identified in accordance with IAS 17 and IFRIC 4 when determining whether an arrangement contains a lease. This expedient only applies to the identification of leases on the date of initial application and does not apply to reassesses whether an arrangement is or contains a lease if the terms and conditions of the agreement are modified subsequently.

The Company has elected to apply the following accounting policy exemptions:

- Short term leases less than 12 months – election available by asset class; and
- Leases of low-value items – under $5,000 – election can be applied on a lease by lease basis.

The modified retrospective approach will be applied when implementing this standard. This approach calculates the lease assets and lease liabilities and recognizes an equity adjustment at January 1, 2019 and does not restate prior-period financial information. The Group will be recording a right of use asset for the Company's premises and other leases and a corresponding lease obligation. The previously recorded rent expense will now be included in the Statement of Operations as depreciation and interest expense.

The Company has identified a complete inventory of contracts impacted by this standard; has selected, installed and tested third party software to control and manage the lease assets; the lease data has been entered into the system and transition adjustments are being finalized.

Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better prediction of the resolution;
- An entity to determine if it is probable that the tax authorities will accept uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the

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most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Group intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seeks to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or as a group of similar identifiable assets. If the preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the adoption of the Amendments to have a material impact on the consolidated financial statements.

4. Accounts receivable

	December 31, 2018	December 31, 2017
Trade accounts receivable	$ 64,119	$ 54,236
Other receivables	4,891	4,934
	$ 69,010	$ 59,170

Trade accounts receivable is presented net of an allowance for doubtful accounts of $2,481,000 (December 31, 2017 – $1,961,000).

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

	December 31, 2018	December 31, 2017
Opening balance	$ 1,961	$ 1,127
Additional allowances	724	1,080
Writeoffs	(108)	(393)
Adjustments	(96)	147
	$ 2,481	$ 1,961

5. Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 22,145	$ 18,237
Work in progress	2,799	2,974
Finished goods	23,692	17,129
	$ 48,636	$ 38,340

Raw materials and changes in finished goods, and work in progress recognized as cost of sales during the year amounted to $247,990,000 (2017 – $226,090,000), of which $7,965,000 (2017 - $15,702,000) is included in discontinued operations. In addition, during the year, write-downs in the amount of $677,000 were recognized (2017 – reversal of previous write-down of $46,000), of which $609,000 (2017 - $nil) is included in discontinued operations. Inventories carried at net realisable value as at December 31, 2018 were $740,000 (December 31, 2017 – $341,000).

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6. Prepaid and other assets

	December 31, 2018	December 31, 2017
Prepaid expenses	$ 2,056	$ 2,252
Derivative assets	1,793	–
Current portion of long-term lease and note receivable (note 7)	233	1,167
	$ 4,082	$ 3,419

7. Long-term lease and note receivable and disposal of VPI product line

On October 31, 2017, the Group sold the assets and disposed of certain liabilities of its VPI transformers product line located in Italy. Consideration due to the Group in connection with the transaction includes a note receivable in the amount of 1,288,000 EUR (approximately $1,938,000 Canadian dollars). Concurrent with the disposal of the VPI product line, the Group entered into a lease agreement ("agreement") for one of its manufacturing facilities in Italy, under which the purchaser will have the use of the plant, which includes both the land and the building. The lease agreement calls for monthly rent installments of 13,000 EUR (approximately $19,000 Canadian dollars) over the term of the lease to 2023. Consideration in connection with this transaction was allocated as follows:

	Canadian dollar values
Note receivable	$ 1,938
Lease receivable	3,908
Total consideration	$ 5,846
Inventory	$ 954
Property, plant and equipment	5,913
Goodwill	452
Pension	(323)
Other employee liabilities	(128)
Total assets sold	$ 6,868
Loss on disposition	$ 1,022

The lease receivable is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the lease inception date, determined to be 1.15%. Unless one of the Parties sends to the other a twelve month prior written notice of termination, at the end of each six year term, the agreement will be automatically renewed by an equal period.

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As at December 31, 2018 consideration receivable consists of:

	December 31, 2018	December 31, 2017
Lease receivable of 2,454 EUR (2017 – 2,597 EUR), with monthly lease payments of 13 EUR, bearing interest of 1.15% per annum. Gross cash entitlement:	$ 4,018	$ 4,138
Less: unearned finance income	(181)	(230)
Net lease receivable	3,837	3,908
Note receivable of 1,158 EUR, repayment schedule of 496 due immediately, 662 EUR October 31, 2019, non-interest bearing, secured by the property, plant and equipment of the VPI business (2017 – note receivable of 1,238 EUR repayment schedule of 263 EUR April 30, 2018; 363 EUR October 31, 2018; 612 EUR October 31, 2019, non-interest bearing, secured by the property, plant and equipment of the VPI business)	1,811	1,864
Less: Allowance for doubtful accounts	(1,811)	–
	$ 3,837	$ 5,772
Less current portion	233	1,167
	$ 3,604	$ 4,605

The aggregate amount of principal payments to be received in each of the next five years is as follows:

2019	233
2020	233
2021	233
2022	233
2023	2,905
	$ 3,837

Put and call option

The lease agreement includes a put and call option related to the leased premises, exercisable within 60 days after September 30, 2023. The call option grants the purchaser an option to purchase the premises for consideration equal to 2,225,000 EUR. The put option grants HPS an option to sell the plant to the purchaser for consideration equal to the initial plant purchase price of 2,225,000 EUR. Under both the call and put option, the plant purchase price will be reduced by 50% of the monthly rent installments received, to a maximum of 375,000 EUR (approximately $563,000 Canadian dollars). If the purchaser fails to execute the put option, the purchaser will pay 500,000 EUR (approximately $750,000 Canadian dollars) in damages.

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8. Property, plant and equipment

	Land	Building	Leaseholds & Improvements	Machinery & Equipment	Office	Construction In Progress	Total
Cost							
Balance at January 1, 2017	$ 6,651	$ 27,811	$ 1,446	$55,138	$10,025	$ 253	$ 101,324
Additions	–	94	41	1,727	478	(21)	2,319
Disposals	(1,939)	(5,391)	(87)	(2,357)	(45)	–	(9,819)
Effect of movements in exchange rates	156	(1,612)	(53)	1,611	(9)	–	93
Balance at December 31, 2017	$ 4,868	$ 20,902	$ 1,347	$56,119	$10,449	$ 232	$ 93,917
Balance at January 1, 2017	$ 4,868	$ 20,902	$ 1,347	$ 56,119	$ 10,449	$ 232	$ 93,917
Additions	–	181	46	1,254	363	44	1,888
Disposals	–	–	–	(224)	–	–	(224)
Effect of movements in exchange rates	24	124	127	1,809	160	–	2,244
Balance at December 31, 2018	$ 4,892	$21,207	$ 1,520	$58,958	$10,972	$ 276	$ 97,825
Accumulated Depreciation							
Balance at January 1, 2017	$ –	$10,729	$ 1,124	$39,954	$ 9,007	$ –	$ 60,814
Depreciation for the year	–	1,123	119	3,501	357	–	5,100
Disposals	–	(1,785)	(97)	(1,910)	(40)	–	(3,832)
Effect of movements in exchange rates	–	(22)	(52)	(354)	(13)	–	(441)
Balance at December 31, 2017	$ –	$ 10,045	$ 1,094	$41,191	$ 9,311	$ –	$ 61,641
Balance at January 1, 2018	$ –	$10,045	$ 1,094	$41,191	$ 9,311	$ –	$ 61,641
Depreciation for the year	–	1,044	116	2,919	359	–	4,438
Disposals/Impairment	–	457	–	498	–	–	955
Effect of movements in exchange rates	–	23	107	1,487	136	–	1,753
Balance at December 31, 2018	$ –	$ 11,569	$ 1,317	$46,095	$ 9,806	$ –	$ 68,787
Carrying amounts							
At December 31, 2017	$ 4,868	$10,857	$ 253	$14,928	$ 1,138	$ 232	$ 32,276
At December 31, 2018	$ 4,892	$ 9,638	$ 203	$12,863	$ 1,166	$ 276	$ 29,038

As a result of the closure of Hammond Power Solutions S.p.A., see note 22, an impairment charge of $457,000 related to the building and $610,000 related to the machinery and equipment has been recorded and included in discontinued operations.

Depreciation is recorded in the statement of earnings as follows: cost of sales $3,494,000 (2017 – $3,817,000), selling and distribution $9,000 (2017 – $15,000), general and administrative $274,000 (2016 – $338,000) and discontinued operations $661,000 (2017 - $928,000).

9. 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 2018 or 2017. The property is carried at cost. The estimated fair value of the property as at December 31, 2018 is $1,150,000 (2017 – $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 $104,303 (2017 – $52,000).

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

10. Investment in joint venture

The Company has a 55% economic 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 distributions of dividends and returns of capital from Corefficient are subject to unanimous Corefficient shareholder approval. Accordingly, the Company jointly controls Corefficient and has treated its investment 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, 2018	December 31, 2017
Cost of investment in joint venture	$ 19,304	$ 19,304
Cumulative share of loss in investment in joint venture, net of tax	(3,662)	(3,778)
Foreign currency translation differences related to the joint venture	(2,340)	(3,368)
	$ 13,302	$ 12,158

During the year the Company made no additional contributions (2017 – $626,000) and recognized its share of the income of $116,000 (2017 – share of the loss of $530,000).

Selected financial information relating to Corefficient is as follows:

	December 31, 2018	December 31, 2017
Cash	$ 1,206	$ 2,261
Trade and other receivables	8,405	5,546
Inventories	1,403	1,050
Other current assets	429	162
Total current assets	$ 11,443	$ 9,019
Non-current assets	17,545	16,487
Total assets	$ 28,988	$ 25,506
Current liabilities	$ 5,070	$ 3,671
Non-current liabilities	–	–
Total liabilities	$ 5,070	$ 3,671

	2018	2017
Revenue	$ 33,043	$ 18,982
Income (loss) for the year	211	(1,619)

The loss for the year ended December 31, 2018 includes depreciation and amortization expense of $1,871,000 (2017 – $1,876,000), interest income of $87,000 (2017 – expense of $204,000) and an income tax recovery of $7,000 (2017 – $825,000) related to Corefficient.

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

11. Intangible assets and goodwill

Intangible assets		Technology		Customer lists relationships and branding		Externally acquired software		Total
Cost								
Balance at January 1, 2017	$	6,388	$	8,875	$	5,802	$	21,065
Additions		–		–		128		128
Effect of movements in exchange rates		189		78		(4)		263
Balance at December 31, 2017	$	6,577	$	8,953	$	5,926	$	21,456
Balance at January 1, 2018	$	6,577	$	8,953	$	5,926	$	21,456
Additions		–		–		466		466
Effect of movements in exchange rates		23		4		24		51
Balance at December 31, 2018	$	6,600	$	8,957	$	6,416	$	21,973
Accumulated Amortization								
Balance at January 1, 2017	$	1,534	$	4,550	$	2,700	$	8,784
Amortization for the year		326		648		451		1,425
Effect of movements in exchange rates		46		48		(13)		81
Balance at December 31, 2017	$	1,906	$	5,246	$	3,138	$	10,290
Balance at January 1, 2018	$	1,906	$	5,246	$	3,138	$	10,290
Amortization for the year		319		572		470		1,361
Impairment (note 23)		2,388		575		–		2,963
Effect of movements in exchange rates		18		11		20		49
Balance at December 31, 2018	$	4,631	$	6,404	$	3,628	$	14,663
Carrying amounts								
At December 31, 2017	$	4,671	$	3,707	$	2,788	$	11,166
At December 31, 2018	$	1,969	$	2,553	$	2,788	$	7,310

Amortization of $334,000 (2017 – $330,000) has been recognized in cost of sales, $137,000 (2017 – $141,000) has been recognized in selling and distribution, $561,000 (2017 – $553,000) has been recognized in general and administrative and $329,000 (2017 - $401,000) has been recorded within discontinued operations.

As a result of the closure of Hammond Power Solutions S.p.A., an impairment charge of $2,388,000 related to the technology intangible assets and $575,000 related to the customer relationships intangible assets has been recorded and included in discontinued operations, see note 22.

None of the intangible assets has been internally developed.

Research and development expenses of $1,117,000 (2017 – $1,303,000) have been recognized in cost of sales in the consolidated statements of earnings. No research and development costs have been capitalized (2017 – $nil).

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Goodwill	December 31, 2018	December 31, 2017
Opening balance	$ 17,022	$ 17,220
Impairment (note 12)	(5,053)	–
Disposal (note 7)	–	(452)
Effect of movements of exchange rates	(8)	254
Ending balance	$ 11,961	$ 17,022

12. 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 2018 annual impairment assessment, the Company did not identify any triggering events during the course of 2018 indicating that the carrying amount of its assets and CGUs may not be recoverable.

Impairment testing for cash-generating units containing goodwill

For its 2018 annual impairment assessment of CGUs containing goodwill the Company used cash flow projections based primarily on its plan for the following year, and 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 11.9% – 18.7% (2017 11.3% – 18.7%) 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 5.0% – 30.1% (2017 - (11)% – 23%) depending on location, the CGUs 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% (2017 2% – 10%), 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.

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 (2017 – $2,180,000), Hammond Power Solutions Private Limited $9,781,000 (2017 – $9,852,000) and HPS S.p.A. $nil (2017 – $4,990,000).

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Upon completion of the 2018 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 at December 31, 2018. Given the closure of the Italian operation all goodwill related to this CGU was written off.

The Group's annual budgeting process occurs in the fourth quarter of the fiscal year. Through the budgeting process it became apparent that reduced customer demand and challenging European market conditions would persist. As a result, the Company implemented a plan to close the Italian facilities and cease operations. Concurrent with this decision, the Group performed an impairment test which resulted in the write-off of all goodwill and intangible assets associated with the Italian cash generating unit, and a write-down of property plant and equipment to its estimated fair value less costs to sell. In addition, inventory was written down to its net realizable value. See notes 22 and 23.

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. 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.

13. Bank operating lines of credit

The Group's North American current banking agreement, which expires in June 2021, consists of a $40,000,000 U.S. revolving credit facility and a $10,000,000 U.S. delayed draw credit facility. The delayed draw facility does not charge any fees on the unutilized balance. The use of the delayed draw facility needs to be approved by the bank. The draw is available in a minimum of two tranches of $5,000,000 U.S. each. The facilities are unsecured.

The delayed draw credit facility was unutilized at December 31, 2018 and December 31, 2017. Under the terms of the facility, the Group pays a commitment fee at rates ranging from 0.30% to 0.40% payable quarterly in arrears, on the daily amount of the unused portion of the revolving North American commitment.

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 Canadian Dollar Offered Rate ("CDOR") plus 1.25% to 1.75%, and from U.S. base rate minus 1.50% to U.S. base rate minus 1.00% for the U.S. dollar denominated revolving credit lines or, if designated, the bank's London Inter-bank Offered Rate ("LIBOR") plus 1.25% to 1.75%.

The Group also has a 4,070,000 unsecured Euro facility that matures May 2019 and may be renewed in writing each year to extend the maturity date for the facility for a further 365 days, subject to approval from the lender. The facility is made up of a 3,750,000 Euro revolver and 250,000 Euro overdraft facility, as well as a 70,000 Euro letter of credit line. The revolver facility bears interest at Euribor plus margin of 1.75% (Euribor on Dec 31, 2017 – 0.373%).

Hammond Power Solutions Private Limited maintains an additional demand credit facility for an unsecured working capital loan up to 375,000,000 INR (2017 – 375,000,000 INR) consisting of the sub-facilities of an 174,000,000 INR (2017 – 178,000,000 INR) short-term working capital demand loan, a 201,000,000 INR (2017 – 189,000,000 INR) facility for bank guarantees and did not have any letters of credit at December 31, 2018 (2017 – 8,000,000 INR) facility for bill discounting export facility. The demand loan bears interest at a MCLR + 2.5% and the bank guarantees are at a rate of 1.0%. As at December 31, 2018, there was $1,146,000 Canadian dollar equivalent of Rupees drawn against the working capital demand loan (2017 – $2,825,000). At December 31, 2018 there was 164,000,000 INR (2017 – 146,000,000 INR) drawings against the bank guarantees. There was no drawings against the bill discounting facility.

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Based on exchange rates in effect at December 31, 2018, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $81,862,000 (2017 – $76,216,000).

As at December 31, 2018, the Canadian dollar equivalent outstanding under the U.S. dollar revolving credit line was $26,568,000 (2017 – $20,226,000). As well, $4,887,000 (2017 – $4,704,000) Canadian dollar equivalent of Euros was outstanding under the Euro facility, and $1,146,000 (2017 – $2,825,000) Canadian dollar equivalent of Indian rupees under the Rupee facility. Amounts drawn on the facility have been recognized as current liabilities based on the Company's anticipated repayment plans.

14. Commitments

The Group 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, 2018	December 31, 2017
Less than 1 year	$ 2,262	$ 2,094
2 to 5 years	$ 1,039	$ 2,488

Operating lease payments recognized as an expense during the year were $2,438,000 (2017 – $1,891,000).

	December 31, 2018	December 31, 2017
Capital expenditure commitments	$ 92	$ 20

15. Income taxes

Income tax expense

	2018	2017
Current tax expense		
Current period	$ 4,768	$ 5,734
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(1,371)	(257)
Increase in tax rate	–	253
	(1,371)	(4)
Total income tax expense	$ 3,397	$ 5,730

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Reconciliation of effective tax rate

	2018	2018	2017	2017
Net earnings		$ (12,917)		$ 6,114
Income tax expense		3,397		5,730
Earnings before income taxes		$ (9,520)		$ 11,844
Income tax using the Company's domestic tax rate	39.50%	(3,760)	39.50%	4,678
Effect of tax rates in foreign jurisdictions	(17.47%)	1,663	2.15%	255
Increase in tax rate	–%	–	2.49%	295
Non-deductible expenses/non-taxable income	(43.47%)	4,138	0.66%	78
Increased (reduced) rate for active business and manufacturing and processing	0.14%	(13)	(3.26%)	(386)
Losses for which no deferred tax asset was recognized	(67.31%)	6,408	4.32%	512
Basis difference in subsidiary	52.33%	(4,982)	–	–
Other	0.60%	(57)	2.52%	298
	(35.68%)	$ 3,397	48.38%	$ 5,730

Unrecognized temporary differences

At December 31, 2018, pre-tax temporary differences of $106,693,000 (2017 – $72,063,000) 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:

	2018	2017
Tax losses	$ 13,643	$ 6,190
Basis difference in subsidiary	36,527	–
Financial interests deductible in a future period	1,694	1,017
	$ 51,864	$ 7,207

The tax losses and financial interests deductible carry forward indefinitely and relate to HPS S.p.A and Continental Transformers s.r.l. The basis difference in subsidiary will provide a capital loss that carries forward indefinitely and relates to Hammond Power Solutions Inc. The benefit of these items has not been reflected in the consolidated financial statements as it is uncertain as to whether the Company will be able to utilize the deductions.

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2018	**2017**	**2018**	**2017**
Property, plant and equipment	$ 785	$ 731	$ (2,796)	$ (3,173)
Intangible assets	13	13	(895)	(1,930)
Scientific research and experimental development	9	57	(68)	(103)
Inventories	234	311	–	–
Long-term lease and note receivable	–	–	(3,245)	(1,090)
Loans and borrowings	–	–	–	–
Employee benefits	159	71	(145)	(129)
Unrealized losses (gains) on forward contracts and foreign-currency denominated loans payable/receivable	752	410	–	(198)
Provisions and tax reserves	1,782	1,514	(3)	–
Tax loss carry-forwards	858	950	–	–
Charitable donation carry-forwards	3	–	–	–
Basis difference in subsidiary	1,467	–		
Tax assets (liabilities)	6,062	4,057	(7,152)	(6,623)
Set off of tax	(5,020)	(3,281)	5,020	3,281
Net tax assets (liabilities)	$ 1,042	$ 776	$ (2,132)	$ (3,342)

Movement in temporary differences during the year

	Balance December 31, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance December 31, 2018
Property, plant and equipment	$ 2,442	$ (431)	$ –	$ 2,011
Intangible assets	1,917	(1,035)	–	882
Scientific research and experimental development	46	13	–	59
Inventories	(311)	77	–	(234)
Long-term lease and note receivable	1,090	2,155	–	3,245
Employee benefits	58		–	–
Unrealized gains on forward contracts and foreign-denominated loans payable/receivable	(212)	(540)	–	(752)
Provisions and tax reserves	(1,514)	(265)	–	(1,779)
Tax loss carry-forwards	(950)	92	–	(858)
Basis difference in subsidiary	–	(1,467)	–	(1,467)
Charitable donation carry-forwards	–	(3)	–	(3)
	$ 2,566	(1,476)	$ –	$ 1,090
Foreign exchange		$ 105		
Income tax expense		$ (1,371)		

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Movement in temporary differences during the year

	Balance December 31, 2016	Recognized in profit or loss	Recognized in other	Balance December 31, 2017
Property, plant and equipment	$ 4,642	$ (2,200)	$ –	$ 2,442
Intangible assets	2,365	(448)	–	1,917
Scientific research and experimental development	19	27	–	46
Inventories	(235)	(76)	–	(311)
Long-term lease and note receivable	–	1,090	–	1,090
Loans and borrowings	(546)	546		–
Employee benefits	126	(68)	–	58
Unrealized gains (losses) on forward contracts and foreign-denominated loans payable/receivable	(1,110)	898	–	(212)
Provisions	(1,277)	(237)	–	(1,514)
Tax loss carry-forwards	(1,487)	537	–	(950)
Charitable donation carry-forwards	(14)	14	–	–
	$ 2,483	$ 83	$ –	$ 2,566
Foreign exchange		$ (87)		
Income tax expense		$ (4)		

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, 2018	December 31, 2017
8,962,424	Class A subordinate voting shares (2017 – 8,941,624)	$ 14,210	$ 13,979
2,778,300	Class B common shares (2017 – 2,778,300)	7	7
11,740,724	Total A and B shares (2017 – 11,699,924)	$ 14,217	$ 13,986

During the year ended December 31, 2018, 30,000 Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $207,000 and a transfer of $38,000 from contributed surplus. During the year ended December 31, 2017, 20,000 Class A shares were issued upon exercise of stock options, resulting in cash proceeds of $124,000 and a transfer of $19,000 from contributed surplus.

During 2018, the company purchased and cancelled 9,200 Class A shares under a normal course issuer bid at a cost of $53,000 of which $14,000, $3,000, $36,000 was applied against share capital, contributed surplus and retained earnings respectively. The normal course issuer bid was approved by the Board of Directors on November 9, 2018 and authorized the repurchase of up to 50,000 Class A shares. Shares purchased under the normal course issuer bid will terminate no later than November 8, 2019.

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

There were no shares repurchased during 2017.

The following dividends were declared and paid by the Company:

	December 31, 2018	December 31, 2017
24 cents per Class A subordinate voting shares (2017 – 24 cents)	$ 2,151	$ 2,142
24 cents per Class B common shares (2017 – 24 cents)	667	667
	$ 2,818	$ 2,809

(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.

There were no options granted for the year ended December 31, 2018, as well as the year ended December 31, 2017.

Options outstanding and exercisable as at December 31, 2017:

	December 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	694,000	$ 9.01	844,000	$ 8.98
Granted	–	–	–	–
Exercised	(30,000)	6.92	(20,000)	6.20
Cancelled	–	–	(40,000)	6.31
Expired	(155,000)	11.70	(90,000)	10.55
Outstanding, end of year	509,000	$ 8.32	694,000	$ 9.01

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

	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
$ 9.74	119,000	0.2	$ 9.74	119,000	$ 9.74
10.00	140,000	1.2	10.00	140,000	10.00
7.50	80,000	2.2	7.50	80,000	7.50
6.62	70,000	3.2	6.62	70,000	6.62
6.20	100,000	4.2	6.20	100,000	6.20
	509,000	2.0	$ 8.32	509,000	$ 8.30

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 vest evenly over two or three years from the grant date, with one-half of the grant vesting immediately for grants with a two-year vesting period, and one-third of the grant vesting immediately for grants with a three-year vesting period.

The contractual life of the options granted below is seven years from the grant date.

Option Grant Date	Number of Options	Recipients
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	80,000	Board of Directors, Officers and Senior Management
March 12, 2015	70,000	Board of Directors and Officers
March 10, 2016	100,000	Board of Directors and Officers
Total stock options outstanding	509,000	

(c) Deferred Share Units

During 2017, the Company enacted deferred share unit plan (the "DSU Plan") in order to issue deferred share units ("DSU's") to non-employee directors and senior-executives (collectively, "participants") of HPS. The DSU Plan was adopted to allow participants the opportunity to defer compensation and encourage a sense of ownership in HPS. Under the DSU Plan, participants may elect to defer compensation and receive DSU's equal to the value of the deferred compensation. The first DSU's were issued in March 2017. The number of DSU's was determined by dividing the amount of deferred compensation by the Fair Market Value of DSU's, defined in the DSU Plan as the weighted average closing price of HPS shares for the five business days immediately preceding the relevant date. Upon the occurrence of the Redemption Event, which could include ceasing to hold any position in the Company and/or any Subsidiary or upon death of the participant, the affected participant will be entitled to receive a lump sum cash payment, net of applicable withholding taxes, equal to the product of number of DSU's held by that participant and the Fair Market Value on the date of the Redemption Event. The DSU's do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. Under the DSU Plan, outstanding DSU's as at the record date are increased by the dividend rate whenever dividends are paid to shareholders.

The DSU's issued are not performance based.

The movement in DSU's for the year ended December 31, 2018 is as follows:

	Number of DSU's	Closing Share Price	
Balance at January 1, 2018	32,578	$	9.16
DSU's Issued	36,573		9.05
Balance at December 31, 2017	69,151	$	5.70

An expense of $109,000 (2017 - $285,000) was recorded in general and administrative expenses. The liability of $394,000 (2017 - $285,000) related to these DSU's is included in accounts payable and accrued liabilities. .

17. Earnings per share

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

		2018		2017
Basic earnings per share from continuing operations	$	0.69	$	0.88
Calculated as:				
Net Earnings attributable to the equity holders of the Company from continuing operations	$	8,105	$	10,273
Weighted average number of shares outstanding		11,742,624		11,707,424
Fully diluted earnings per share from continuing operations	$	0.69	$	0.88
Calculated as:				
Net Earnings attributable to the equity holders of the Company from continuing operations	$	8,105	$	10,273
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares		11,783,650		11,732,982
Reconciliation of weighted average number of shares outstanding:				
Weighted average number of shares outstanding used to calculate basic earnings per share		11,742,624		11,707,424
Adjustment for dilutive effect of stock option plan		41,026		25,558
Weighted average number of shares outstanding used to calculate diluted earnings per share		11,783,650		11,732,982

As at December 31, 2018, 259,000 options (2017 – 499,000) are excluded from the diluted average number of shares calculation as their effect would have been anti-dilutive.

The computations for basic and diluted loss per share from discontinued operations are as follows:

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

(earnings in thousands of dollars)

	2018	2017
Basic earnings per share from discontinued operations	$ (1.79)	$ (0.36)
Calculated as:		
Net Earnings attributable to the equity holders of the Company from discontinued operations	$ (21,022)	$ (4,159)
Weighted average number of shares outstanding	11,742,624	11,707,424
Fully diluted earnings per share from discontinued operations	$ (1.79)	$ (0.36)
Calculated as:		
Net Earnings attributable to the equity holders of the Company from discontinued operations	$ (21,022)	$ (4,159)
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares	11,742,624	11,707.424
Reconciliation of weighted average number of shares outstanding:		
Weighted average number of shares outstanding used to calculate basic earnings per share	11,742,624	11,707,424
Adjustment for dilutive effect of stock option plan	–	–
Weighted average number of shares outstanding used to calculate diluted earnings per share	11,742,624	11,707,424

	2018	2017
Basic (loss) earnings per share	$ (1.10)	$ 0.53
Calculated as:		
Net Earnings attributable to the equity holders of the Company	$ (12,917)	$ 6,154
Weighted average number of shares outstanding	11,742,624	11,707,424
Fully diluted earnings per share	$ (1.10)	$ 0.52
Calculated as:		
Net Earnings attributable to the equity holders of the Company	$ (12,917)	$ 6,154
Weighted average number of shares outstanding including effects of dilutive potential ordinary shares	11,742,624	11,732,982
Reconciliation of weighted average number of shares outstanding:		
Weighted average number of shares outstanding used to calculate basic earnings per share	11,742,624	11,707,424
Adjustment for dilutive effect of stock option plan	–	25,558
Weighted average number of shares outstanding used to calculate diluted earnings per share	11,742,624	11,732,982

18. Non-controlling interest

Purchase of non-controlling Interest

On January 10, 2018, the terms and conditions under an agreement to acquire the remaining 15% economic interest of Hammond Power Solutions Private Limited from a minority shareholder, which included the mutually agreed upon resignation from the Board of the minority shareholder, at a discounted amount of 76,933,000 INR (approximately $1,511,000 Canadian dollars) were fulfilled, resulting in the Company's equity ownership in Hammond Power Solutions Private Limited becoming 100%.

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19. Pension plans

(a) Defined contribution plan:

The Group has defined contribution pension plans that are available to virtually all of its Canadian employees with eligible employee contributions based on 2.00% – 6.75% of annual earnings. The Group's contributions of $1,457,000 (2017 – $1,348,000) matches the employee contributions. The Group's contributions related to its defined contribution pension plans are recorded as follows: $1,084,000 (2017 – $1,007,000) in cost of sales, $183,000 (2017 – $168,000) in selling and distribution, and $190,000 (2017 – $173,000) 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 does increase based on an inflationary component. The Group accounts for the related projected benefit obligation at its present value. As at December 31, 2018 the obligation, recorded within accounts payable and accrued liabilities, was $566,000 (2017 – $700,000). During the year, the expense recognized related to this obligation was $173,000 (2017 – $158,000) which is included in discontinued operations. In connection with the disposal of the VPI product line in 2017, the purchaser assumed an obligation in respect of this liability in the amount of $323,000.

20. Provisions

	Warranties	Site restoration	Benefits	Restructuring	Total
Balance at January 1, 2017	$ 462	$ 178	$ 74	$ –	$ 714
Provisions made during the period	480	130	246	–	856
Provisions used during the period	(563)	(130)	(98)	–	(791)
Balance at December 31, 2017	$379	$ 178	$ 222	$ –	$ 779
Balance at January 1, 2018	$ 379	$ 178	$ 222	$ –	$ 779
Provisions made during the period	622	104	220	6,792	7,738
Provisions used during the period	(420)	(104)	(146)	(560)	(1,230)
Balance at December 31, 2018	$ 581	$ 178	$ 296	$ 6,232	$ 7,287
Current portion	$ 581	$ 78	$ –	$ 6,232	$ 6,891
Non-current portion	$ –	$ 100	$ 296	$ –	$ 396

Warranties

The provision for warranties relates mainly to transformers sold during the years ended December 31, 2018 and December 31, 2017. 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.

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Site restoration

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

Benefits

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

Restructuring charges

The restructuring charges relate to estimated severance, termination benefits and closure costs in respect of the closure of the Italian operations. Such costs are anticipated to be settled within the following year. See note 23 for details.

21. Sales

	2018	2017
Canada	$ 93,641	$ 84,325
United States and Mexico	197,860	174,588
India	22,581	25,722
	314,082	284,635
Italy – discontinued operations	7,720	17,115
	$ 321,802	$ 301,750

As at December 31, 2018 the Company had contract liabilities of $280,000 (2017 – $459,000) included in accounts payable and accrued liabilities.

22. Discontinued operations

In December 2018, the Company decided to close the Italian operations due to low sales volume and a weak economy. The Italian operation was not previously classified as a discontinued operation. The comparative consolidated statements of operations and comprehensive loss have been represented to show the discontinued operation separately from continuing operations

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

	2018	2017
Revenue	$ 7,720	$ 17,115
Cost of sales	7,965	15,702
Gross margin (loss)	(245)	1,413
Selling and distribution	1,038	1,304
General and administrative	2,445	1,952
Impairment of goodwill, intangibles and plant and equipment (note 23)	9,693	–
Restructuring charges (note 23)	6,792	570
Loss from operations	(20,213)	(2,413)
Interest expense	809	724
Loss on disposition	–	1,022
Loss from discontinued operations before tax	(21,022)	(4,159)
Income tax	–	–
Loss from discontinued operations, net of tax	$ (21,022)	$ 4,159

Earnings per share

	2018	2017
Basic loss per share from discontinued operations	$ (1.79)	$ (0.36)
Diluted loss per share from discontinued operations	$ (1.79)	$ (0.36)

Cash flows from discontinued operations

	2018	2017
Net cash generated by (used in) operating activities	$ 2,334	$ (370)
Net cash used in investing activities	(401)	(136)
Net cash used in financing activities	(809)	(724)

23. Restructuring charges

For the year ended December 31, 2018, the Company decided to close the Italian operation as the entity struggled to generate adequate sales and profits. The restructuring charges were comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs and impairments of goodwill and intangible assets, totaling $16,485. The restructuring activities were undertaken to adjust the Company's cost structure and streamline various support

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

activities in consideration of the current and expected industry market conditions. These charges are reported in the discontinued operations within the consolidated statements of operations.

The following table highlights the amounts charged to expense for the twelve month period ending December 31, 2018:

		Restructuring Charges
Employee termination benefits	$	5,116
Cancellation and closure costs		1,676
		6,792
Write down of inventory		609
Write down of property, plant and equipment		1,067
Impairment of goodwill		5,054
Impairment of intangible assets		2,963
	$	16,485

As of December 31, 2018, $560,000 of the employee termination benefits had been paid. The remainder of the employee termination benefits and the cancellation and closure costs have been included in provisions in the amount of $6,808,000.

For the year ended December 31, 2017 the Company incurred restructuring charges of $1,386,000, $570,000 of which is included in discontinued operations. These charges were comprised of severance and benefit costs relating to workforce reductions. A balance of $329,000 was outstanding at December 31, 2017 and subsequently paid during 2018.

24. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2017 – 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 1,060,624 (2017 – 1,057,918) Class A subordinate voting shares of the Company, representing approximately 11.8% (2017 – 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 $921,000 (2017 – $920,000).

Transactions with key management personnel

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.

During the year, the Group purchased $322,000 (2017 – $229,000) 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 $39,000 (2017 – $30,000) which is owed to this company.

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:

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	2018	2017
Salaries and benefits	$ 2,758	$ 2,213
Share-based awards	318	299
	$ 3,076	$ 2,512

During the year, the Group made contributions of $52,000 (2017 – $51,000) to the defined contribution pension plan relating to employment service of key management personnel. An equivalent amount was contributed by key management personnel.

25. Personnel expenses

	2018	2017
Wages and salaries	$ 53,969	$ 51,757
Group portion of government pension and employment pension and employment benefits	15,031	14,623
Contributions to defined contribution plans	1,457	1,348
	$ 70,457	$ 67,728

26. Change in operating working capital

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

	2018	2017
Accounts receivable	$ (9,840)	$ (9,201)
Inventories	(10,906)	1,869
Prepaid expenses and other assets	196	(465)
Accounts payable and accrued liabilities	8,896	2,732
Foreign exchange	6,102	(8,934)
	$ (5,552)	$ (13,999)

27. 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.

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Geographic Segments		**2018**		2017
Sales				
Canada	$	93,641	$	84,325
United States and Mexico		197,860		174,479
India		22,581		25,722
		314,082	$	284,526
Italy – discontinued operations		7,720		17,224
	$	321,802	$	301,750
Property, plant and equipment – net				
Canada	$	17,964	$	19,628
United States and Mexico		3,229		3,689
Italy		5,285		6,370
India		2,560		2,589
	$	29,038	$	32,276
Investment in properties				
Canada	$	1,044	$	1,044
Investment in joint venture				
Mexico	$	13,302	$	12,158
Intangibles, net				
Canada	$	4,065	$	4,390
Italy		86		3,339
India		3,159		3,437
	$	7,310	$	11,166
Goodwill				
Canada	$	2,180	$	2,180
Italy		–		4,990
India		9,781		9,852
	$	11,961	$	17,022

28. Financial instruments

Fair value

The fair value of the Group's financial instruments are measured at fair value and have been segregated into three levels:

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities; Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly; Fair value of assets and liabilities included in Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

The Group's financial instruments measured at fair value consist of foreign exchange forward contracts with a fair value of a net asset of $1,605,000 (2017 – net liability of $292,000) 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 2018 or 2017.

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 note receivable is valued at the present value of the future receipts and has a fair value of $nil due to collection concerns. The lease receivable is valued at the present value of the future receipts which approximates the fair value.

Derivative instruments

The Group has entered into forward foreign exchange contracts in order to reduce the Company's exposure to changes in the exchange rate of the U.S. dollar, Euro, Mexican Peso and Indian Rupee as compared to the Canadian dollar. At December 31, 2018, the Company had outstanding forward foreign exchange contracts to buy and sell the following contracts, all with maturity dates in January 2019.

Buy/Sell	Buy Currency	Selling Currency	Amount of Buy Currency	Traded Rate
BUY	EUR	CAD	8,300,000	1.5642
BUY	EUR	USD	7,900,000	1.1460
BUY	USD	CAD	45,000,000	1.3256
BUY	USD	CAD	45,000,000	1.3645
BUY	USD	INR	1,831,089	70.9960
BUY	USD	INR	1,857,939	69.9700
BUY	USD	Peso	11,452,237	19.6607
Buy/Sell	**Sell Currency**	**Buying Currency**	**Amount of Sell Currency**	**Traded Rate**
SELL	USD	Peso	11,000,000	20.46900
SELL	USD	Peso	11,000,000	19.7201
SELL	EUR	CAD	8,300,000	1.4996
SELL	EUR	CAD	8,300,000	1.5654
SELL	EUR	USD	7,900,000	1.1342
SELL	EUR	USD	7,900,000	1.1471
SELL	USD	CAD	45,000,000	1.3646
SELL	USD	INR	1,863,265	69.7700

At December 31, 2017, the Company had outstanding forward foreign exchange contracts to buy $36,000,000 U.S. in CAD, sell 7,350,000 EUR in U.S., sell 5,600,000 EUR in CAD and sell $7,900,000 U.S. for Mexican Pesos at rates of 1.41920, 1.05860, 1.34210 and 20.69450 respectively, all with maturity dates in January 2017.

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As at December 31, 2018 the Group has recognized a net unrealized gain of $1,605,000 (2017 – loss of $292,000) representing the fair value of these forward foreign exchange contracts, comprised of an asset of $1,793,000 included with prepaid expenses and other assets, and a liability of $188,000 included within accounts payable and accrued liabilities (2017 – obligation recognized in accounts payable and accrued liabilities).

Financial risk management

The Group is exposed to a variety of financial risks by virtue of its activities: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. There were no changes to types of risk arising from the Group's financial instruments from the previous period.

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

Currency risk

The Group operates internationally and is exposed to foreign exchange risk from various currencies, primarily U.S. dollars, Mexican Pesos, Euros and Indian Rupees. 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, 2018:

	U.S. Dollars		Mexican Pesos		Euros		Indian Rupees	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Cash	$ 8,566	$ 7,766	482	871	€ 942	€ 291	1,148	2,211
Accounts receivable	26,400	23,813	20,401	19,576	1,486	2,907	522,059	277,939
Note receivable	–	–	–	–	–	1,238	–	–
Long-term lease receivable	–	–	–	–	2,454	2,597	–	–
Bank operating lines of credit	8,024	3,346	–	–	3,146	3,218	58,751	143,852
Accounts payable	17,568	13,184	8,138	8,466	1,292	2,341	282,830	154,652
Net exposure	$ 9,374	$ 15,049	12,745	11,981	€ 444	€ 1,474	181,626	(18,354)

A one cent ($0.01) decline in the Canadian dollar against the U.S dollar as at December 31, 2018 would have decreased net earnings by $176,000 and increased equity by $121,000. This analysis assumes that all other variables, in particular interest rates, remained constant. Inversely, a one cent increase in the Canadian dollar against the U.S. dollar as at December 31, 2018 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, 2018 would have decreased net earnings by $48,000 and increased equity by $7,000. Inversely, a one cent increase ($0.01) in the Canadian dollar against the Euro as at December 31, 2018 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, 2018 would have increased net earnings and equity by $34,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Indian Rupee as at December 31, 2018 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, 2018 would have decreased net earnings by $1,000 and increased equity by $9,000. Inversely, a one cent ($0.01) increase in the Canadian dollar against the Peso as at December 31, 2018 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 counterparties based on their credit rating. As at December 31, 2018, the Group's accounts receivable are not subject to significant concentrations of credit risk. Both the long-term lease receivable and note receivable are subject to credit risk. The risk of the long-term lease is mitigated by the security of the related plant and the note receivable is secured by the VPI assets that were purchased. The Company's maximum exposure to credit risk associated with the Group's financial instruments is limited to their carrying amount.

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

Management has a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from executive management.

The Group limits its exposure to credit risk from trade receivables by establishing a reasonable payment period. Many of the Group's customers have been transacting with the Group for a number of years, and none of these customers' balances have been written off or are credit-impaired at the reporting date.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

An allowance account for accounts receivable is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts are considered to be uncollectible and are written off against the specific accounts receivable amount attributable to a customer. The number of days outstanding of an individual receivable balance is the key indicator for determining whether an account is at risk of being impaired.

Expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses or full lifetime expected credit losses. The Group has used past due information to determine that there have been no significant increases in credit risk since initial recognition. There are balances in excess of 30 days past due, but the Group does not presume that credit risk has increased given the characteristics of the Group's customers, the industries in which they operate, the customer payment track records and the nature of the products the Group sells.

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During the year, the allowance for doubtful trade accounts receivables increased $520,000 (2017 –$834,000), 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, 2018		December 31, 2017	
Not past due	$ 37,090	$ –	$ 42,821	$ –
Past due 0-30 days	18,743	–	8,313	–
Past due 31-120 days	10,853	–	6,660	–
Past due more than 120 days	4,805	2,481	3,337	1,961
	$ 71,491	$ 2,481	$ 61,131	$ 1,961

Credit risk

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

	Carrying Amount	
	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 15,545	$ 10,772
Accounts receivable	69,010	59,170
Derivative asset	1,793	–
Note receivable	–	1,864
Lease receivable	3,604	3,908
	$ 89,952	$ 75,714

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

	Carrying Amount	
	December 31, 2018	December 31, 2017
Canada	$ 18,421	$ 16,576
United States	36,094	29,520
Mexico	1,335	1,249
Italy	2,450	10,363
India	10,710	7,234
	$ 69,010	$ 64,942

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Group to cash flow interest rate risk. Changes in market interest rates also directly affect cash flows associated with the Group's bank operating lines of credit that bear interest at floating interest rates.

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The Group manages its interest rate risk by minimizing the bank operating lines of credit balances by applying excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis as well as actively monitoring interest rates. A 1% increase or decrease in interest rates as at December 31, 2018 would increase or decrease net earnings by approximately $326,000 (2017 – $278,000) respectively.

Commodity price risk

A large component of the Group's cost of sales is comprised of copper and steel, the costs of which can vary significantly with movements in demand for these resources and other macroeconomic factors. To manage its exposure to changes in commodity prices, the Group will enter into long-term supply contracts with certain suppliers, and from time to time will enter into forward commodity purchase contracts. As at December 31, 2018, no forward commodity purchase contracts were outstanding (2017 – none).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they become due.

The Group manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior Management is also actively involved in the review and approval of planned expenditures.

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

December 31, 2018	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 32,601	$ –	$ –	$ 32,601
Accounts payable and accrued liabilities	54,138	54,138	–	–
Derivative liabilities	188	188		
	$ 86,927	$ 54,326	$ –	$ 32,601

December 31, 2017	Carrying amount	1 year or less	1-2 years	2-5 years
Bank operating lines of credit	$ 27,755	$ –	$ –	$ 27,755
Accounts payable and accrued liabilities	45,425	45,425	–	–
	$ 73,180	$ 45,425	$ –	$ 27,755

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

	Liabilities	Equity		
	Bank Operating Lines of Credit	Share Capital	Retained Earnings	Total
Balance January 1, 2018	$ 27,755	$ 13,986	$ 96,346	$ 138,087
Advances of bank operating lines of credit	4,846	–	–	4,846
Interest payments	(1,423)	–	–	(1,423)
Proceeds from issue of share capital	–	207	–	207
Share repurchase	–	(17)	(36)	(53)
Cash dividends paid	–	–	(2,818)	(2,818)
Total changes from financing cash flows	$ 3,423	$ 190	$ (2,854)	$ 759
Other changes				
Liability-related				
Interest expense	1,423	–	–	1,423
Total liability-related other changes	$ 1,423	$ –	$ –	$ 1,423
Equity-related				
Purchase of non-controlling interest	–	–	(1,357)	(1,357)
Share repurchase	–	3	–	3
Exercise of stock options	–	38	–	38
Net loss	–	–	(12,917)	(12,917)
Total equity-related other changes	$ –	$ 41	$ (14,274)	$ (14,233)
Balance December 31, 2018	$ 32,601	$ 14,217	$ 79,218	$ 126,036

	Bank Operating Lines of Credit	Share Capital	Retained Earnings	Total
Balance January 1, 2017	$ 36,507	$ 13,843	$ 93,001	$ 143,351
Advances of bank operating lines of credit	(8,752)	–	–	(8,752)
Interest payments	(1,263)	–	–	(1,263)
Proceeds from issue of share capital	–	124	–	124
Cash dividends paid	–	–	(2,809)	(2,809)
Total changes from financing cash flows	$ (10,015)	$ 124	$ (2,809)	$ (12,700)
Other changes				
Liability-related				
Interest expense	1,263	–	–	1,263
Total liability-related other changes	$ 1,263	$ –	$ –	$ 1,263

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

Equity-related				
Exercise of stock options	–	19	–	19
Net income	–	–	6,154	6,154
Total equity-related other changes	$ –	$ 19	$ 6,154	$ 6,173
Balance December 31, 2017	$ 27,755	$ 13,986	$ 96,346	$ 138,087

Designation and carrying amount:

Note the following comparison of designation and carrying amount under IFRS 9 versus IAS 39 at December 31, 2018:

Financial Instruments	Designated Category (IFRS 9)	Carrying Value (IFRS 9)	Designated Category (IAS 39)	Carrying Value (IAS 39)
Cash	Amortized Cost	15,545	Loans and receivables	15,545
Trade and other receivables	Amortized Cost	69,010	Loans and receivables	69,010
Note receivable	Amortized Cost	-	Loans and receivables	-
Lease receivable	Amortized Cost	3,837	Loans and receivables	3,837
Derivative financial instruments included in assets	FVTPL	1,793	FVTPL	1,793
Bank operating lines of credit	Amortized Cost	(32,601)	Other liabilities	(32,601)
Trade and other payables	Amortized Cost	(54,138)	Other liabilities	(54,138)
Derivative financial instruments included in liabilities	FVTPL	(188)	FVTPL	(188)

29. 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, 2018.

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 15,545	$ 10,772
Bank operating lines of credit	(32,601)	(27,755)
Share capital	14,217	13,986
Contributed surplus	2,559	2,600
Retained earnings	79,218	96,346
	$ 78,938	$ 95,949

For the years ended December 31, 2018 and 2017 (tabular amounts in thousands of dollars, except share and per share amounts)

30. 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 assets

The fair value of the non-derivative financial assets recognized in connection with the disposal of the VPI product line and determined for disclosure purposes is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(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).

The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading days immediately preceding the relevant date.

(d) Investment property

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

(e) Property, plant and equipment carried at fair value less cost to sell

The fair value of the Italian property, plant and equipment carried at fair value less cost to sell was determined based on external independent valuations and management's best estimate of recoverable amounts.

31. Subsequent events

Dividends

On March 4, 2019, the Company declared a quarterly cash dividend of seven cents ($0.07) per Class A subordinate voting shares of HPS and a quarterly cash dividend of seven cents ($0.07) per Class B common shares of HPS payable on March 26, 2019 to shareholders of record at the close of business on March 19, 2019. The ex-dividend date is March 18, 2019.

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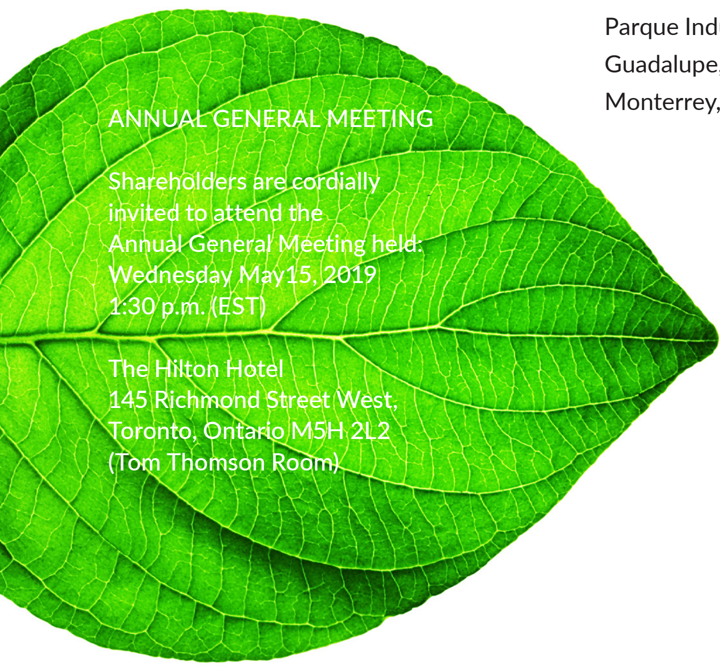

ANNUAL GENERAL MEETING

Shareholders are cordially
invited to attend the
Annual General Meeting held:
Wednesday May15, 2019
1:30 p.m. (EST)

The Hilton Hotel
145 Richmond Street West,
Toronto, Ontario M5H 2L2
(Tom Thomson Room)

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

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Waterloo, Ontario N2J 5A3

Legal Representation

Cassels, Brock and Blackwell LLP
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Toronto, Ontario M5H 3C2

Banking Institution

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

Investor Relations

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

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


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