hammond
POWER SOLUTIONS

Q2 Report 2023

For the six months ended July 1, 2023

index

Our purpose

We are passionate people energizing a better world

Our vision To be a leader in the electrification of our world by providing power conversion solutions to our customers while positively impacting social and environmental sustainability.

Our mission We are a talented, aligned, and collaborative team that is agile, engaged, and customer-centric. Our strong culture, technical expertise and reliability of execution allows us to meet our customers' and stakeholders' needs in an exceptional way.

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**

to our Shareholders

Continuing the strong momentum of top line growth and margin performance.

Our second quarter of 2023 has been a noteworthy quarter for Hammond Power Solutions ("HPS") for several very upbeat reasons. Most importantly, we continue to deliver stellar financial results, which is allowing us to re-invest in the expansion of our production capacities and improve our ability to serve the needs of our distributors and customers. Second, we recorded the largest week of bookings in the history of HPS, which bodes well for continuing growth. Third, we hired my successor as Chief Executive Officer, who has the credentials and experience to drive the future growth of our company. Finally, we launched a rebranding of HPS that will help position us better in the electrification of everything today and going forward.

The strong momentum of top line growth and margin performance that started in 2021 is continuing as predicted well into 2023. This growth is coming from a diversified range of geography, markets, channels, and customers. Our sales are up significantly compared to a year ago in the United States, Canada, Mexico, and India; driven by markets like data centres, electric vehicle recharging systems, energy storage, reshoring of manufacturing facilities, hospitals, and mining and solar projects. We continue to expand our network of distributors in both the United States as well as Mexico, which broadens our ability to participate in new opportunities.

We are investing in a significant expansion of our North American operations that will increase our output by almost

HPS Corporate Sustainability

Our passion for sustainability ensures that the world is energized today for future generations to come. We commit to designing energy-efficient products; to shrinking the ecological footprint of our operations; and to developing a workplace which fosters inclusion and innovation.

Our 5 Pillars of Sustainability

1. Economics
2. People
3. Community
4. Environment
5. Continuous Improvement

$250 million over the next several years. This includes a new small products plant in Mexico which will be up and running by mid 2024. All of this will expand our foundation and capabilities to support growth to $1 billion in sales before the end of the decade.

As announced during the quarter, we have hired Adrian Thomas as the new Chief Executive Officer of Hammond Power Solutions. Adrian has a strong background in the electrical industry, previously working for companies such as Schneider, TMEIC and General Electric. I look forward to working with him as I continue as Executive Chair, building on the solid foundation of our company and business model through his leadership and experience.

With our ongoing evolution and the expanding opportunities driven by the electrification of everything, we decided that it was an opportune time to update our internal and external branding for the first time in over 15 years. In the last few years, we have seen significant changes in the way we go to market, the industries we sell to, the products we offer, overall sales growth, how we recruit and retain employees, and our general outlook on our business. To reflect this, we wanted to rebrand HPS beyond just a logo and tagline. Our new branding will message to our customers and investors our product solutions offering, future focused direction, commitment to our employees and to our social and environmental sustainability.

All of this is creating excitement and optimism about the next decade for HPS. We are indeed mindful about the possibility of a slowdown in certain interest rate sensitive markets going into 2024 but remain steadfastly optimistic about our future growth opportunities as the electrification of our world expands even more.

In closing, I would also like to thank all our suppliers and employees who have supported us over the last challenging 18 months. Given our significant growth rate during this time, we have experienced elevated levels of stress across the organization as we try to meet the service needs of our customers, which sometimes gets overlooked in driving our unparalleled financial performance. Our success would not be possible without the tremendous support and passion of our employees and global supply base. Thank you.

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

Management's Discussion and Analysis

Hammond Power Solutions Inc. ("HPS" or the "Company") enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico and India and sells its products around the globe. HPS shares are listed on the Toronto Stock Exchange and trade under the symbol HPS.A.

Hammond Power Solutions – passionate people energizing a better world.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated financial position and performance for the six months ended July 1, 2023 and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the second quarter of fiscal 2023. This information is based on Management's knowledge as at August 1, 2023. The Company assumes that the reader of this MD&A has access to and has read the audited Annual Consolidated Financial Statements and MD&A of the Company, contained in our 2022 Annual Report and accordingly, the purpose of this document is to provide a second quarter update to the information contained in the fiscal 2022 MD&A. All amounts are reported under International Financial Reporting Standards ("IFRS"). 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 term "earnings from operations" which represents earnings before finance and other costs/(income) and income taxes. "EBITDA" is also used and is defined as earnings before interest, taxes, depreciation, and amortization. Adjusted EBITDA represents EBITDA adjusted for foreign exchange gain or loss. Net cash or net indebtedness is defined as the bank operating lines of credit net of cash and cash equivalents. Net income taxes payable or receivable is defined as current income taxes receivable less current income taxes payable. Operating earnings, EBITDA and Adjusted EBITDA are some of the measures the Company uses to evaluate operational profitability. Net cash or net indebtedness and net income taxes payable or receivable are measures the Company uses to evaluate balance sheet strength. The Company presents EBITDA to show its performance before interest, taxes and depreciation and amortization. Management believes that HPS shareholders and potential investors in HPS use additional GAAP and non-GAAP financial measures, such as operating earnings, net cash or net indebtedness, net income taxes payable/receivable, EBITDA 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 quarters ending July 1, 2023 and July 2, 2022 is contained within this MD&A. Earnings from operations, EBITDA and Adjusted EBITDA should not be construed as a substitute for net earnings determined in accordance with IFRS.

"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 Quarter 2, 2023 consolidated financial statements, which comprise the consolidated statements of financial position as at July 1, 2023 and July 2, 2022, the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the six months ended July 1, 2023 and July 2, 2022, and Notes thereto, have been prepared under IFRS.

Sales

Sales for the quarter-ended July 1, 2023 were at a record level of $172,451, an increase of $34,975 or 25.4% from Quarter 2, 2022 sales of $137,476. Year-to-date 2023 sales increased $78,327 or 29.5% to $343,585 compared to $265,258 in 2022.

Sales in the United States ("U.S.") and Mexico increased by $23,386 or 24.9%, finishing at $117,310 for Quarter 2, 2023 compared to $93,924 in Quarter 2, 2022. Year-to-date U.S. and Mexican sales were $236,114 in 2023 and $177,035 in 2022, an increase of $59,079 or 33.4%. U.S. and Mexican sales, stated in U.S. dollars, were $87,246 in Quarter 2, 2023 compared to Quarter 2, 2022 of $73,624, an increase of $13,622 or 18.5%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were $175,190 in 2023 and $139,248 in 2022, an increase of $35,942 or 25.8%.

Second quarter sales were favourably affected by a 5.4% stronger U.S. dollar ("USD"), $1.00 USD = $1.35 Canadian dollar ("CAD") compared against $1.00 USD =

$1.28 CAD in Quarter 2, 2022. Year-to-date sales have been positively impacted by a 6.0% stronger U.S. dollar - $1.00 USD = $1.35 CAD compared against $1.00 USD = $1.27 CAD in 2022.

Year-to-date, the U.S. market experienced significant sales increases in the North America Electrical Distributor ("NAED") channel as the Company continues to grow sales with existing and new distributors. The Original Equipment Manufacturer ("OEM") channel grew slightly in the quarter and year-to-date, with higher sales supporting electric vehicle ("EV") charging, data centres, variable frequency drives, private branded items and mining.

Sales from the Mesta Electronics Inc. ("Mesta") business are included in U.S. sales. Sales for Mesta for Q2 2023, stated in Canadian dollars, were $5,460 and $3,694 in Quarter 2, 2022, and increase of $1,766 or 47.8%. Year-to-date Mesta sales were $9,734 in 2023 and $5,918 in 2022, an increase of $3,816 or 64.5% contributing to the overall increase in sales. The Mexico markets continued to grow in the quarter and over prior year with sales of $3,987 for the quarter and $5,911 year-to-date.

Canadian sales increased to $45,542 for the quarter, an increase of $8,771 or 23.9% from Quarter 2, 2022 sales of $36,771. Year-to-date Canadian sales were $81,956 in 2023 and $74,925 in 2022, an increase of $7,031 or 9.4%. While the Canadian market has not experienced the same levels of demand as the U.S., the increase in sales is due to strong data centre and utility activity.

Year-to-date 2023, HPS estimates an organic sales volume increase of 14.0% (12.0% excluding the deferred India shipment referred to below), versus 2022. The Company has not implemented any price increases since the second quarter of 2022 but is still seeing some benefit from past increases in the quarter. Price increases accounted for 10.0% of the increase in sales 2023 versus 2022.

Indian sales for Quarter 2, 2023 finished at $9,599 versus $6,781 in Quarter 2, 2022, an increase of $2,818 or 41.6%. Year-to-date Indian sales were $25,515 in 2023 and $13,298 in 2022, an increase of $12,217 or 91.9%. Shipments for Quarter 1, 2023 were bolstered due to the recognition of $7,597 of revenue for an order produced and shipped in Quarter 4, 2022 that could not be recognized given sales terms of freight on board ("FOB") destination. Demand in the Indian and Southeast Asian market remains strong in the utility, industrial and renewable sectors.

Quarter 2, 2023 sales stated by geographic segment were derived from U.S. sales of 68.0% (Quarter 2, 2022 – 68.4%) of total sales, Canadian sales of 26.4% (Quarter 2, 2022 – 26.7%) and Indian sales of 5.6% (Quarter 2, 2022 – 4.9%). Year-to-date sales by geographic segment were U.S. sales of 68.7% (2022 – 66.7%) of total sales, Canadian sales of 23.9% (2022 – 28.2%) and Indian sales of 7.4% (2022 – 5.1%).

HPS' focus continues to be dedicated to its growth strategy. The Company's efforts are concentrated on product development, capital expenditures to increase capacity, vertical integration strategies, geographic diversification and our expanded distributor network. Innovative research and development projects are also key components of this strategy. Expanded product offerings, the addition of new customers, geographically diverse manufacturing facilities and market influence will allow the Company to continue to grow market share globally and enable HPS as a leader in its chosen markets.

Backlog

The Company's Quarter 2, 2023 backlog increased by 44.4% as compared to Quarter 2, 2022. The combination of price increases and strong demand later in 2022 and the first half of 2023 contributed to the high backlog increase from prior year. The Company's backlog has increased 5.0% from Quarter 1, 2023 as our quarterly shipments reached record levels. Increased bookings occurred across all of our geographical segments and a number of customer markets. As the backlog continues to be high, product lead times are extended and the timing of shipments in the backlog becomes more uncertain – in some cases extending to later in the year and beyond.

High quotation activity, resilient bookings and a growing backlog support optimism for the future. Looking ahead, HPS remains cautiously optimistic given the many macro-economic trends favouring the electrical industry, including onshoring, public and private investment in renewable energy, infrastructure, electrical vehicle ("E.V.") charging, investment in mining, oil and gas production and semiconductor production, – all of which the Company participates in. Tempering this optimism is the possibility of a general economic decline as a result of continually rising interest rates, which could affect one or more of the sectors noted above. To manage the impact of sector volatility, the Company widened its distributor footprint in North America, expanded its Mexican and Indian market presence, broadened its Power Quality product portfolio, invested in new product development and developed its manufacturing capabilities. A diversified geographic approach supports anticipated growth from implemented market strategies and subsequent economic improvement.

Gross margin

The gross margin rate for Quarter 2, 2023 was 30.9% compared to Quarter 2, 2022 margin rate of 25.7%, an improvement of 5.2% of sales. The year-to-date gross margin rate was 31.4% in 2023 versus 27.1% in 2022, an increase of 4.3%. The gross margin rate is impacted by productivity gains, a result of operating leverage, past price increases, and material procurement initiatives. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. Higher gross margins were achieved in all channels and regions. Gross margins deteriorated slightly from the first quarter, 2022 due to higher inventory provisions and a less favourable customer mix.

The Company's ability to source materials and maintain a continuous supply to meet demand, exacerbated by global logistical disruptions, has a significant impact on sales and margins. The manufacture of transformers requires copper, aluminum and electrical steel. All of these commodities, particularly electrical steel, have seen significant price increases driven mainly by supply constraints. The second half of 2022 and 2023 to date saw the cost of many of these inputs stabilize.

The continued increase in sales volumes in 2023, along with similar organic increases in 2022, resulted in some facilities operating close or at capacity. This volume increase resulted in higher fixed overhead leverage and as a result, higher gross margins. The increase in capital spending on property, plant and equipment during the first half of 2023 is to support increased sales and remove capacity limitations on certain products and locations.

Gross margin rates are supported by the maintenance of market prices combined with material procurement and engineering cost reduction initiatives. While the Company has reaped the benefits of higher absorption of factory overheads due to the increased sales volume, we continue to implement a number of cost reduction and expense management initiatives to protect our margin rates. HPS continues to commit resources to its continuous improvement program, which will result in implementing productivity enhancements, cost reductions and lead-time improvements across the entire organization.

Selling and distribution expenses

Total selling and distribution expenses were $18,950 in Quarter 2, 2023 or 11.0% of sales versus $15,288 in Quarter 2, 2022 or 11.1% of sales, an increase of $3,662 but a decrease of 0.1% of sales. Year-to-date selling and distribution expenses were $36,439 or 10.6% of sales in

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2023 compared to $29,759 or 11.2% of sales in 2022, an increase of $6,680 but a decrease of 0.6% of sales. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the large increase in sales.

General and administrative expense

General and administrative expenses were $15,422 or 8.9% of sales for Quarter 2, 2023 compared to Quarter 2, 2022 expenses of $10,051 or 7.3% of sales, an increase of $5,371 and 1.6% of sales. Year-to-date general and administration expenses were $29,757 or 8.7% of sales in 2023 compared to $19,298 or 7.3% of sales in 2022, an increase of $10,459 or 1.4% of sales. Key drivers for the year-over-year increase are as follows:

- The higher share price and additional awards granted in Quarter 1, 2022 has caused the DSU expense to increase $5,645 from prior year;
- Increase in travel expenses contribute an additional $545; and
- Approximately $2,685 of the increase in the current year is associated with strategic investments in people resources and incentive plans.

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

Earnings from operations[1]

Quarter 2, 2023 earnings from operations were $18,957 compared to $10,046 for the same quarter last year, an increase of $8,911. Year-to-date the earnings from operations were $41,580 in 2023 compared to $22,704 in 2022, an increase of $18,876 or 83.1%. The increase in earnings from operations in the quarter and year-to-date are primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses as well as higher income tax expense.

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

	Quarter 2, 2023	Quarter 2, 2022	YTD 2023	YTD 2022
Net earnings	$ 13,333	$ 6,505	$ 29,059	$ 15,074
Add/(Subtract):				
Income tax expense	5,183	2,531	11,349	6,204
Interest expense	495	349	695	612
Foreign exchange (gain) loss	(86)	629	412	753
Share of income of investment in joint venture	–	–	–	(4)
Other	32	32	65	65
Earnings from operations	$ 18,957	$ 10,046	$ 41,580	$ 22,704

[1] Refer to non-GAAP financial measures on page 8 of this quarterly report.

Net finance and other costs

Interest expense for Quarter 2, 2023 was $495, an increase of $146 compared to the Quarter 2, 2022 expense of $349. Year-to-date interest expense was $695 in 2023 and $612 in 2022, an increase of $83. The increased interest in the quarter and year-to-date is due to an increase in bank indebtedness and higher working capital needs. Interest expense includes all bank fees.

The foreign exchange gain in Quarter 2, 2023 was $86 compared to a foreign exchange loss of $629 in Quarter 2, 2022 – a change of $715. Year-to-date the foreign exchange loss was $412 in 2023 compared to $753 in 2022, an increase of $341. The year-to-date loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts receivable and payable. The change of the foreign exchange expenses for the year is related to the volatility in the exchange rates during the year – primarily the U.S. dollar.

As at July 1, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 Euros ("EUR") and $35,316 USD. Both of these were implemented as an economic hedge against translation gains and losses on inter-company loans and outstanding forward exchange contracts for $36,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Income taxes

Quarter 2, 2023 income tax expense was $5,183 compared to $2,531 in Quarter 2, 2022 an increase of $2,652 or 104.8%. Year-to-date income tax expenses was $11,349 in 2023 compared to $6,204 in 2022, an increase of $5,145 or 82.9% .

The consolidated effective tax rate[1] for both Quarter 2, 2023 and Quarter, 2, 2022 was 28.0%. Year-to-date the effective tax rates were 28.1% in 2023 and 29.2% in 2022, a decrease of 1.1%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company as income is generated from different geographical tax jurisdictions and is subject to diverse tax rates and regulations.

The Company's deferred tax assets and liabilities are related to temporary differences in various tax jurisdictions, primarily reserves and allowances, which are not deductible in the current year. A difference in the carrying value of property, plant and equipment and intangible assets for accounting purposes and for tax purposes is a result of business combination accounting and a different basis of depreciation utilized for tax purposes.

Net earnings

Net earnings for Quarter 2, 2023 finished at $13,333 compared to net earnings of $6,505 in Quarter 2, 2022, an increase of $6,828. The increase in the quarterly earnings from operations is primarily a result of significant increases in sales and gross margin dollars offset by higher selling, distribution, general and administrative expenses as well as higher income tax expense.

Earnings per share

Basic earnings per share were $1.12 for Quarter 2, 2023 versus $0.55 in Quarter 2, 2022, an increase of $0.57. Year-to-date the basic earnings per share were $2.44 in 2023 compared to $1.27 in 2022, an increase of $1.17.

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

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EBITDA

EBITDA for Quarter 2, 2023 was $21,444 versus $12,225 in Quarter 2, 2022, an increase of $9,219 or 75.4%. Year-to-date EBITDA was $45,589 in 2023 compared to $26,683 in 2022, an increase of $18,906 or 70.9%. Adjusted for foreign exchange gains and loss, adjusted EBITDA for Quarter 2, 2023 was $21,358 versus $12,854 in Quarter 2, 2022, an increase of $8,504 or 66.2%. Year-to-date adjusted EBITDA was $46,001 in 2023 and $27,436 in 2022, an increase of $18,565 or 67.7%.

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

	Quarter 2, 2023	Quarter 2, 2022	YTD 2023	YTD 2022
Net earnings	$ 13,333	$ 6,505	$ 29,059	$ 15,074
Add:				
Interest expense	495	349	695	612
Income tax expense	5,183	2,531	11,349	6,204
Depreciation and amortization	2,433	2,840	4,486	4,793
EBITDA	$ 21,444	$ 12,225	$ 45,589	$ 26,683
Add:				
Foreign exchange (gain) loss	(86)	629	412	753
Adjusted EBITDA	$ 21,358	$ 12,854	$ 46,001	$ 27,436

Summary of quarterly financial information (unaudited)

Fiscal 2023 Quarter	Q1, 2023	Q2, 2023	YTD Total
Sales	$ 171,134	$ 172,451	$ 343,585
Net earnings	$ 15,726	$ 13,333	$ 29,059
Net earnings per share – basic	$ 1.32	$ 1.12	$ 2.44
Net earnings per share – diluted	$ 1.32	$ 1.12	$ 2.44
Average U.S. to Canadian exchange rate	$ 1.348	$ 1.345	$ 1.347

Fiscal 2022 Quarters	Q1, 2022	Q2, 2022	Q3, 2022	Q4, 2022	Total
Sales	$ 127,782	$ 137,476	$ 148,953	$ 144,253	$ 558,464
Net earnings	$ 8,569	$ 6,505	$ 11,531	$ 18,223	$ 44,828
Net earnings per share – basic	$ 0.72	$ 0.55	$ 0.97	$ 1.55	$ 3.79
Net earnings per share – diluted	$ 0.72	$ 0.55	$ 0.97	$ 1.53	$ 3.77
Average U.S. to Canadian exchange rate	$ 1.267	$ 1.276	$ 1.305	$ 1.358	$ 1.301

HPS sales have increased quarter-over-quarter for the past two years, except for Quarter 4, 2022, with quarterly sales continuing to accelerate with Quarter 2, 2023 sales higher than any quarter in 2022. The Quarter 4, 2022 drop was related to a large India order that was shipped but unable to be recognized until Quarter 1, 2023 given the sales terms of freight on board destination. The increase in sales over the past ten quarters is a function of increased pricing, higher volume and additional sales related to Mesta and Mexico. There has been an upward trend over the past ten quarters due to an overall improvement in general economic activity. Sales have also been positively impacted by the stronger U.S. dollar exchange.

Gross margin rates for the quarter have increased from the same quarter last year. This margin rate improvement is attributed to sales mix and market specific pricing. Higher sales have translated into additional profits as the additional volumes absorb more factory expenses than in prior years.

Capital resources and liquidity

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

Cash generated by operating activities for Quarter 2, 2023 was $12,295 versus $14,623 in Quarter 2, 2022, a decrease in cash generated of $2,328. Year-to-date the net cash generated by operating activities was $1,829 in 2023 compared to $15,160 in 2022, a decrease of $13,331. This decrease in operating cash flow is the result of an increase in cash used for working capital and tax payments offset by an increase in net earnings.

In Quarter 2, 2023, non-cash working capital used cash of $3,758 compared to cash generation of $8,168 for the same quarter last year, a decrease of $11,926. Year-to-date, non-cash working capital used cash of $34,314 in 2023 compared to $4,112 in 2022, an increase of $30,202. The working capital changes are primarily related to a significant increase in accounts receivable as a result of increasing sales.

Total cash generated by financing activities was $2,482 in the second quarter of 2023, compared to cash used of $2,719 in the same period in 2022. Year-to-date the cash generated by financing activities was $6,543 in 2023 and cash used of $3,085 in 2022. The key driver of this change is the higher advances of bank operating lines in the current year.

Cash used in investing activities increased year-over-year with cash used of $4,309 in Quarter 2, 2023 from $1,596 in Quarter 2, 2022, an increase of $2,713. Year-to-date cash used in investing activities was $6,323 in 2023 and $3,123 in 2022, an increase of $3,200. Capital expenditures were $4,309 in Quarter 2, 2023 compared to $1,304 for Quarter 2, 2022, an increase of $3,005. Year-to-date capital expenditures were $6,319 in 2023 and $2,877 in 2022. The previously announced investments in increased capacity are beginning to increase capital expenditures as the year progresses. HPS also purchased the building that housed the Mesta operations in the second quarter.

Bank operating lines of credit have decreased from prior year levels finishing Quarter 2, 2023 at $18,004 compared to $20,241 at the end of Quarter 2, 2022, a decrease of $2,237. The bank operating lines of credit have increased $11,850 since the year-end balance of $6,154. The increase in the bank operating lines of credit during 2023 is due to increased working capital usage and increased capital expenditures.

The Company's overall net operating cash balance was $11,717[1], a decrease of $10,255 from the net operating cash balance of $21,972[2] at December 31, 2022. The Quarter 2, 2022 net operating cash balance was $9,542[3], a change of $2,175 as of Quarter 2, 2023.

All bank covenants continue to be met as at July 1, 2023.

The Company will utilize its cash generated from operations combined with the existing available credit facilities

[1] Overall net operating cash balance is the cash and cash equivalents of $29,721 net of the bank operating lines of credit of $18,004.

[2] Overall net operating cash balance is the cash and cash equivalents of $28,126 net of bank operating lines of credit of $6,154.

[3] Overall net operating cash balance is the net of the bank operating lines of credit of $20,241 net of cash and cash equivalents of $29,783

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to finance ongoing business operational cash requirements for working capital, capital expenditures and investing activities going forward.

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.

	2023	2024	2025	2026	2027 & Thereafter	Total
Accounts payable and accrued liabilities	$ 93,841	–	–	–	–	$ 93,841
Capital expenditure purchase commitments	6,820	–	–	–	–	6,820
Bank operating lines	18,004	–	–	–	–	18,004
Lease liabilities	3,938	3,579	2,237	1,273	292	11,319
Contingent liabilities	1,166	1,310	–	–	–	2,476
Total	$ 123,769	$ 4,889	$ 2,237	$ 1,273	$ 292	$ 132,460

Regular quarterly dividend

The Board of Directors of HPS declared a quarterly cash dividend of twelve and a half cents ($0.125) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of twelve and a half cents ($0.125) per Class B Common Share of HPS paid on June 27, 2023 to shareholders of record at the close of business on June 20, 2023. The ex-dividend date was June 19, 2023. The Company has paid a cash dividend of twenty-five cents ($0.25) per Class A Subordinate Voting Share and twenty-five cents ($0.25) per Class B Common Shares year-to-date.

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.

During Quarter 2, 2023 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting, but nothing considered at a material level.

Risks and uncertainties

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However, as with most businesses, HPS is subject to 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 aware of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Market supply and demand impact on commodity prices

HPS relies on a global supply chain to meet its manufacturing needs. The Company sources both raw materials and components from our own factories and third-party suppliers. Industry supply shortages, including those caused by logistics disruptions and global conflicts, may interrupt manufacturing production, therefore affecting our ability to ship product to customers. The Company attempts to mitigate these risks through strategic supply line agreements.

The cyclical effects and unprecedented rise of global commodity prices, including prices for copper, aluminum and electrical steel may put margins at risk. There is a risk in our ability to recoup the rapidly escalating commodity costs through timely and effective selling price increases. Conversely, there is a risk that decreasing commodity costs will create competitive price pressure in our market, forcing prices down and reducing our gross margins.

Other business risks

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

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

Changing legislative mandates in the countries with which we do business may result in several geopolitical risks that could be challenging for the Company. The impact of these political changes can be difficult to predict and can have a pervasive impact on the global business climate. Changes in political leaders can impact trade relations as well as taxes and/or duties. HPS' current structure includes a significant amount of business that crosses borders and any changes in the current trade structure could have a material impact for us. HPS' global footprint will be critical to mitigating any impact for political changes that would modify the current trade relationships. Recent public investment in electrical infrastructure, particularly in the U.S. is a key driver for demand in the electrical industry. A reversal of these policies could lead to reduced demand for our products.

Our industry is highly competitive.

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

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

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

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

Risk of cyber attack

Globally there have been increased incidences of outside cyberattacks and viruses on companies' information infrastructure and technologies. A successful cyber-attack could result in misappropriation of assets, cause interruptions to manufacturing and our ability to take orders, as well as impact our general productivity. This risk is reduced through a number of initiatives to mitigate exposure, including a transition to cloud-based applications, periodic risk assessments, and more robust practices around employee training and awareness and system updates.

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

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

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

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

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

Our global business translates into conducting business in various currencies, all of which are subject to fluctuations.

HPS' global footprint exposes the Company to currency fluctuations and volatility and, at times, has had a significant impact on the financial results of the Company. The Company's functional currency is the Canadian dollar with its operating results reported in Canadian dollars. A significant portion of the Company's sales and material purchases are denominated in U.S. dollars. There is a natural hedge, as sales denominated in U.S. dollars are largely offset by the cost of raw materials purchased from the U.S. and commodities tied to U.S. dollar pricing. A change in the value of the Canadian dollar against the U.S. dollar will impact earnings, significantly at times. Generally, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results, while a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

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

Worldwide HPS is subject to, and required to comply with, multiple income and other taxes, regulations and is exposed to uncertain tax liabilities risk.

The Company operates and is subject to income tax and other forms of taxation in numerous tax jurisdictions. Taxation laws and rates, which determine taxation expenses, may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in a number of other forms of taxation. Tax structures are subject to review by both domestic and foreign taxation authorities. Tax filings are subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities.

We face the potential harms of natural disasters, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.

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

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 the manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk. This risk is partially mitigated by management's credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from Executive management. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure and the Company's future collection rate may differ from its historical experience.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements other than capital expenditure commitments disclosed in Notes to the Consolidated Financial Statements contained in our 2022 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2023, other than transactions disclosed in Note 9 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 2, 2023 Report.

Proposed transactions

The Company had no proposed transactions as at July 1, 2023. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at July 1, 2023, the Company had outstanding foreign exchange contracts in place for 14,500 EUR and $35,316 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $36,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Critical accounting estimates

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

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

The Company conducts its annual impairment assessment of goodwill, intangible assets and property, plant and equipment in the fourth quarter of each year, which corresponds with its annual planning cycle, and whenever events or changes in circumstances indicate that the carrying amount of an asset or Cash Generating

Unit ("CGU") may not be recoverable. The Company did not identify any triggering events during the course of 2022 indicating that the carrying amount of its assets and CGUs may not be recoverable, which would require the performance of an impairment test for those CGUs which did not contain goodwill.

Business Combinations requires acquirers to recognize the identifiable assets acquired and liabilities assumed at fair value. The determination of fair value requires Management to make estimates around the value by an independent third party, under no compulsion to act, would pay for an asset acquired or liability assumed on a standalone basis. Where possible, Management engages third-party appraisers to assist in the determination of the fair value of real property acquired. The fair value of acquired intangible assets are generally determined using discounted cash flow models and involves the use of cash flow forecasts, market-based discount rates, and/or market-based royalty rates. The fair value of liabilities assumed is generally based on discounted cash flow models which involves the use of market-based discount rates. The development of cash flow forecasts involves the use of estimates, which may differ from actual cash flows realized. Assumptions are involved in the determination of discount rates and royalty rates.

The Company records a provision for warranties based on historical warranty claim information and anticipated warranty claims, based on a weighted probability of possible outcomes.

The key assumptions made by management in recording the provision are i) warranty cost, ii) probability of claim, and iii) quantum of units which may be subject to any warranty claim.

Quantifying provisions inherently involves judgment, and future events and conditions may impact these assumptions. Differences in actual future experience from the assumptions utilized may result in a greater or lower warranty cost.

Outstanding share data

Details of the Company's outstanding share data as of July 1, 2023 are as follows:

9,126,624	Class A Shares
2,778,300	Class B Common Shares
11,904,924	Total Class A and B Shares

Strategic direction and outlook

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

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

- Developing our Customers and Markets by:
  - Driving organic growth through continuing to develop our NAED channel;
  - Offering competitive products, including an expanding product quality offering;
  - Providing unparalleled service to our customers; and
  - Growing through strategic acquisitions.
- Achieving Operational and Financial Excellence by:
  - Driving continuous improvement;
  - Improving efficiency by investing in equipment, people and technology; and
  - Optimizing the efficiency of our global manufacturing footprint.
- Developing our People and Culture by:
  - Building our leadership team for the future;
  - Developing our people to excel and thrive; and
  - Making HPS a preferred employer.
- Building a Sustainability Program by
  - Designing energy efficient products;
  - Shrinking our ecological footprint; and
  - Energizing the world in a responsible way for the generations to come.

The demand for our transformers, particularly in North America, continues to accelerate and sales volumes are climbing at an accelerating rate. Commodity costs and supply shortages appear to have stabilized and are not as a significant challenge as they were a year ago. We have seen improvements in business activity and demand and the Company expects to see continued growth in revenues. It has been, and is, HPS' objective to maintain gross margins in the face of rising prices. We will continue to do so in the future.

HPS has continued to add new distributors and have implemented additional infrastructure in place to support our growth initiative into Mexico. We believe that Mexico has strong potential for us as a sales market due to its proximity to our manufacturing locations and our ability to leverage existing people, product, and supply chain.

Our most recent acquisition of Mesta in 2021 has expanded HPS' offering into standard and custom active filter and induction heating products. Mesta shares an excellent reputation for product quality, design and reliability. Mesta not only expands HPS' U.S. presence but also broadens our power solutions product offering and manufacturing capabilities in power quality solutions. Mesta continues to contribute to both the increase in revenue as well as the increase in profits. During Quarter 2, 2023 the Mesta manufacturing location building, which was previously leased, was purchased. Expansion of this building is planned for the later part of 2023 and into 2024.

At the end of 2022 an extensive upgrade to our enterprise resource planning ("ERP") system to a cloud-based format went live. The upgrade allows for better software manufacturer support as well as the speed and flexibly a cloud-based system can provide. This upgrade was completed for all HPS facilities.

HPS has modern manufacturing facilities throughout the world, and this continues to be enhanced through our committed capital investment. As we grow, we are investing in equipment and machinery that will allow us to keep up with future demand and allow us to optimize our manufacturing capabilities at our various locations. We are also investing in business technology that will help us become more efficient and provide us with the data that we need to improve our business.

With a continued focus on growth and advancement, HPS intends to increase its planned capital program by approximately $40 million over 2023 and 2024. These planned capital investments are focused on areas targeted to increase capacity and reduce lead times for low voltage, power quality and induction heating products. These investments are also expected to support HPS' supply chain resilience initiatives. HPS intends to focus the capital program primarily in Mexico and the U.S. In Mexico, HPS is planning to set up an approximately 80,000 square foot small products facility, while also adding equipment to existing facilities there. HPS also expects to expand its manufacturing capacity at the Mesta location in Pennsylvania, USA, as well as its facility in Guelph, Ontario, Canada.

The Company continues to have a strong reputation for being an industry leader and is both operationally and financially strong. HPS is well positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of other market sectors. We continue to be focused on escalation of market share, improved sales growth from new product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

The Company has provided shareholders with strong earnings per share, solid cash generation and quarterly dividends paid with an attractive yield. To continue this trend HPS is focused on sales development, continued distributor channel expansion, product development, and bringing quality and value to all that we produce. Our strategic initiatives and focused plans will continue to allow HPS to grow and expand.

HPS' strategic vision and operational initiatives have supported our industry leadership, operational strength and financial stability. The combination of our resilience, drive, decades of experience, commitment, engineering expertise, solid supplier relationships and a broad and unique business perspective gained through our diverse products, customers and markets are all key success factors critical to our success.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to and including the Second Quarter of 2023. The quarterly information has been extracted from our unaudited consolidated financial statements, which in the opinion of Management are prepared in accordance with the IFRS accounting framework as noted.

Annual Information	2018	2019	2020	2021	**2022**
Sales	314,082	358,792	322,097	380,202	**558,464**
Earnings from operations	13,779	20,543	22,041	23,151	**59,441**
EBITDA	17,915	28,175	29,482	30,114	**69,746**
Net (loss) earnings	(12,917)	11,607	14,062	15,176	**44,828**
Total assets	205,527	214,953	189,394	235,099	**302,673**
Non-current liabilities	2,528	11,271	8,329	7,104	**8,101**
Total liabilities	96,793	105,186	75,478	109,097	**125,779**
Total shareholders' equity attributable to equity holders of the Company	108,734	109,767	113,916	126,002	**176,894**
Operating debt, net of cash	(17,056)	(9,326)	(1,278)	1,638	**21,972**
Cash provided by operations	6,474	17,810	19,683	20,447	**37,013**
Basic (loss) earnings per share	(1.10)	0.99	1.20	1.29	**3.79**
Diluted (loss) earnings per share	(1.10)	0.99	1.20	1.28	**3.77**
Dividends declared and paid	2,818	3,287	3,993	4,009	**4,556**
Average exchange rate (USD$=CAD$)	1.294	1.327	1.343	1.253	**1.301**
Book value per share	9.26	9.36	9.70	10.69	**15.00**

	2021			**2022**			**2023**	
Quarterly Information	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Sales	95,526	116,278	127,782	137,476	148,953	144,253	171,134	172,451
Earnings from operations	5,909	6,220	12,658	10,046	16,118	20,369	22,623	18,957
EBITDA	7,378	8,693	14,458	12,225	18,970	24,093	24,145	21,444
Net earnings	3,948	4,241	8,569	6,505	11,531	18,223	15,726	13,333
Total assets	221,549	235,099	253,340	283,852	315,864	302,673	327,166	339,358
Non-current liabilities	6,486	7,104	6,170	5,793	6,640	8,101	9,413	9,800
Total liabilities	98,951	109,097	119,565	140,791	152,187	125,779	135,572	138,863
Total shareholders' equity attributable to equity holders of the Company	122,598	126,002	133,775	143,061	163,677	176,894	191,594	200,495
Operating debt, net of cash	(15,399)	1,638	(905)	9,542	21,843	5,352	7,127	11,717
Cash provided by (used in) operations	7,430	19,900	537	14,623	16,501	1,837	(10,466)	12,295
Basic earnings per share	0.34	0.36	0.72	0.55	0.97	1.55	1.32	1.12
Diluted earnings per share	0.34	0.35	0.72	0.55	0.97	1.53	1.32	1.12
Dividends declared and paid	1,002	1,002	1,006	1,183	1,184	1,183	1,488	1,488
Average exchange rate (USD$=CAD$)	1.257	1.258	1.267	1.276	1.305	1.358	1.348	1.345
Book value per share	10.40	10.69	11.39	12.13	13.88	15.00	16.31	17.01

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of dollars)

	As at July 1, 2023		As at December 31, 2022	
Assets				
Current assets				
Cash and cash equivalents	$	29,721	$	28,126
Accounts receivable		119,418		86,701
Inventories		104,044		106,353
Income taxes receivable		2,192		1,995
Prepaid expenses and other assets		7,050		6,948
Total current assets		262,425		230,123
Non-current assets				
Property, plant and equipment (note 4)		47,982		41,742
Investment in properties		3,022		3,121
Deferred tax assets		7,083		8,013
Intangible assets		7,009		7,650
Goodwill		11,837		12,024
Total non-current assets		76,933		72,550
Total assets	$	339,358	$	302,673
Liabilities				
Current liabilities				
Bank operating lines of credit	$	18,004	$	6,154
Accounts payable and accrued liabilities		93,841		92,301
Deferred revenue		8,333		10,607
Income taxes payable		3,237		2,342
Provisions		1,738		1,840
Current portion of lease liabilities (note 5)		4,744		4,434
Total current liabilities		129,897	$	117,678
Non-current liabilities				
Provisions		733		979
Deferred tax liabilities		-		117
Long-term portion of lease liabilities (note 5)		8,233		7,005
Total non-current liabilities		8,966		8,101
Total liabilities	$	138,863	$	125,779
Shareholders' Equity				
Share capital		15,761		15,240
Contributed surplus		2,289		2,376
Accumulated other comprehensive income (note 7)		9,515		12,431
Retained earnings		172,930		146,847
Total shareholders' equity		200,495		176,894
Total liabilities and shareholders' equity	$	339,358	$	302,673

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Operations

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

	Three Months Ending		Six Months Ending	
	July 1, 2023	July 2, 2022	**July 1, 2023**	July 2, 2022
Sales (note 8)	$ 172,451	$ 137,476	$ 343,585	$ 265,258
Cost of sales	119,122	102,091	235,809	193,497
Gross margin	53,329	35,385	107,776	71,761
Selling and distribution	18,950	15,288	36,439	29,759
General and administrative	15,422	10,051	29,757	19,298
	34,372	25,339	66,196	49,057
Earnings from operations	18,957	10,046	41,580	22,704
Finance and other costs				
Interest expense	495	349	695	612
Foreign exchange (gain) loss	(86)	629	412	753
Share of income of investment in joint venture	–	–	–	(4)
Other	32	32	65	65
Net finance and other costs	441	1,010	1,172	1,426
Earnings before income taxes	18,516	9,036	40,408	21,278
Income tax expense	5,183	2,531	11,349	6,204
Net earnings	$ 13,333	$ 6,505	$ 29,059	$ 15,074
Earnings per share				
Basic earnings per share	$ 1.12	$ 0.55	$ 2.44	$ 1.27
Diluted earnings per share	$ 1.12	$ 0.55	$ 2.44	$ 1.27

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (in thousands of dollars)	Three Months Ending		Six Months Ending	
	July 1, 2023	July 2, 2022	**July 1, 2023**	July 2, 2022
Net earnings	$ 13,333	$ 6,505	$ 29,059	$ 15,074
Other comprehensive income				
Foreign currency translation differences for foreign operations (note 7)	(2,944)	3,964	(2,916)	3,876
Total comprehensive income for the period	$ 10,389	$ 10,469	$ 26,143	$ 18,950

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the six months ended July 1, 2023

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2023	$ 15,240	$ 2,376	$ 12,431	$ 146,847	$ 176,894
Total comprehensive income for the year					
Net earnings	–	–	–	29,059	29,059
Other comprehensive income					
Foreign currency translation differences (note 7)	–	–	(2,916)	–	(2,916)
Total comprehensive income for the year	–	–	(2,916)	29,059	26,143
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 6)	–	–	–	(2,976)	(2,976)
Stock options exercised (note 6)	521	(87)	–	–	434
Total transactions with shareholders	521	(87)	–	(2,976)	(2,542)
Balance at July 1, 2023	$ 15,761	$ 2,289	$ 9,515	$ 172,930	$ 200,495

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

Condensed Consolidated Statement of Changes in Equity

(unaudited) (in thousands of dollars) For the three months ended July 2, 2022

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance at January 1, 2022	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002
Total comprehensive income for the year					
Net earnings	–	–	–	15,074	15,074
Other comprehensive income					
Foreign currency translation differences (note 7)	–	–	3,876	–	3,876
Total comprehensive income for the year	–	–	3,876	15,074	18,950
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 6)	–	–	–	(2,189)	(2,189)
Stock options exercised (note 6)	354	(56)	–	–	298
Total transactions with shareholders	354	(56)	–	(2,189)	(1,891)
Balance at July 2, 2022	$ 15,240	$ 2,376	$ 5,985	$ 119,460	$ 143,061

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

Condensed Consolidated Statements of Cash Flows

(unaudited) (in thousands of dollars)

	Six Months Ending July 1, 2023	Six Months Ending July 2, 2022
Cash flows from operating activities		
Net earnings	$ 29,059	$ 15,074
Adjustments for:		
Share of income of investment in joint venture	-	(4)
Amortization of property, plant and equipment	4,066	3,761
Amortization of intangible assets	420	1,032
Provisions	(348)	(147)
Interest expense	695	612
Income tax expense	11,349	6,204
Change in unrealized gain (loss) on derivatives included within other assets	1,553	(447)
	46,794	26,085
Change in non-cash working capital (note 10)	(34,314)	(4,112)
Cash used in operating activities	12,480	21,973
Income tax paid	(10,651)	(6,813)
Net cash generated by operating activities	1,829	15,160
Cash flows from investing activities		
Receipt of lease receivable payments	93	88
Acquisition of intangible assets	(97)	(334)
Acquisition of property, plant and equipment (note 4)	(6,319)	(2,877)
Cash used in investing activities	(6,323)	(3,123)
Cash flows from financing activities		
Net advances of bank operating lines of credit	11,850	974
Proceeds from issue of share capital (note 6)	434	298
Payment of lease liabilities (note 5)	(1,934)	(1,670)
Cash dividends paid (note 6)	(2,976)	(2,189)
Payment of contingent consideration	(336)	–
Interest paid	(495)	(498)
Cash generated by (used in) financing activities	6,543	(3,085)
Foreign exchange on cash held in a foreign currency	(454)	(74)
Decrease in cash	1,595	8,878
Cash and cash equivalents at beginning of period	28,126	20,905
Cash and cash equivalents at end of period	$ 29,721	$ 29,783

See accompanying notes to condensed consolidated interim financial statements

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Company as at and for the second quarter ended July 1, 2023 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group enables electrification through its broad range of dry-type transformers, power quality products and related magnetics. HPS' standard and custom-designed products are essential and ubiquitous in electrical distribution networks through an extensive range of end-user applications. The Company has manufacturing plants in Canada, the United States (U.S.), Mexico and India and sells its products around the globe.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with requirements of IAS 34, Interim Financial Reporting and do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 1, 2023.

(b) Use of estimates and judgements

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

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2022.

Six months ended July 1, 2023 and July 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

3. Summary of significant accounting policies

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2022 annual audited financial statements, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The significant accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its Consolidated Financial Statements as at and for the year ended December 31, 2022, with the exception of items noted below:

Changes to accounting policies

- Insurance contracts (IFRS 17 and amendments to IFRS 17);
- Definition of accounting estimates (Amendments to IAS 8);
- Disclosure initiative – accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements); and
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes).

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2023. The adoption of the amendments did not have a material impact on the consolidated financial statements.

4. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property. Carrying amounts of owned and right-of-use assets are as follows:

	July 1, 2023	December 31, 2022
Property, plant and equipment owned	$ 38,333	$ 34,789
Right-of-use assets	9,649	6,953
	$ 47,982	$ 41,742

The Group had acquisitions of property, plant and equipment owned for the six months ended July 1, 2023, in the amount of $4,721,000 of machinery and equipment and $1,598,000 of land and building (2022 –$2,877,000 of machinery and equipment).

Six months ended July 1, 2023 and July 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

Right of use of assets

The Group leases many assets including buildings, vehicles and office equipment. Information about leases for which the Group is a lessee is presented below.

	Buildings	Vehicles	Office Equipment	**Total**
Balance at January 1, 2023	$ 6,529	$ 403	$ 21	$ 6,953
Additions	1,898	2,484	–	4,382
Depreciation	(1,353)	(278)	(6)	(1,637)
Disposal	(438)	–	–	(438)
Effect of movements in exchange rates	378	11	–	389
Balance at July 1, 2023	$ 7,014	$ 2,620	$ 15	$ 9,649

5. Lease and other long-term liabilities

	July 1, 2023	December 31, 2022
Lease liabilities	$ 10,501	$ 8,593
Contingent consideration	2,476	2,846
	$ 12,977	$ 11,439
Current	4,744	4,434
Non-current	8,233	7,005

Maturity analysis – contractual undiscounted cash flows	**July 1, 2023**	December 31, 2022
Less than one year	$ 3,938	$ 3,198
One to five years	7,381	5,905
More than five years	–	–
Total undiscounted lease liabilities	$ 11,319	$ 9,103
Less: effect of discounting and foreign exchange	$ (818)	$ (510)
Lease liabilities included in the statement of financial position	$ 10,501	$ 8,593
Current	$ 3,579	$ 2,925
Non-current	$ 6,922	$ 5,668

	Six Months Ended	
Amounts recognized in statement of operations	**July 1, 2023**	July 2, 2022
Interest on lease liabilities	$ 200	$ 114

	Six Months Ended	
Amounts recognized in statement of cash flows	**July 1, 2023**	July 2, 2022
Payment of lease liabilities	$ 1,934	$ 1,670

Six months ended July 1, 2023 and July 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

6. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Six Months Ending	
	July 1, 2023	July 2, 2022
25 cents per Class A subordinate voting shares (2022: 18.5 cents)	$ 2,281	$ 1,675
25 cents per Class B common shares (2022: 18.5 cents)	695	514
	$ 2,976	$ 2,189

(b) Stock option plan

During the six months ended July 1, 2023, there were 70,000 options exercised at an exercise price of $6.20 resulting in cash proceeds of $434,000 and a transfer of $87,000 from contributed surplus. During the six months ended July 2, 2022 there were 45,000 options exercised at an exercise price of $6.62 resulting in cash proceeds of $298,000 and a transfer of $56,000 from contributed surplus.

(c) Deferred Share Units

The Company maintains a deferred share unit plan in order to issue deferred share units ("DSUs") to non-employee directors and senior executives of HPS.

The movement in DSUs for the six months ended July 1, 2023 was as follows:

	Number of DSUs	**Closing Share Price**
Balance at January 1, 2023	213,975	$ 20.12
DSUs issued	12,956	43.79
DSUs settled	(30,654)	43.79
Balance at July 1, 2023	196,277	$ 49.11

An expense of $6,629,000 (six months ended July 2, 2022 - $984,000) for the six months ended July 1, 2023 was recorded in general and administrative expenses. The liability of $9,639,000 (December 31, 2022 - $4,153,000) related to these DSUs is included in accounts payable and accrued liabilities.

7. Accumulated other comprehensive income

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations which have been determined to have functional currencies under IFRS that are their respective domestic currencies. Total other comprehensive loss for the six months ended July 1, 2023 was $2,916,000 (Quarter 2, 2022 – $3,876,000), of which $2,916,000 (Quarter 2, 2022 – $3,876,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at July 1, 2023 of accumulated other comprehensive income of $2,289,000 (July 2, 2022 – $2,376,000).

Six months ended July 1, 2023 and July 2, 2022 (tabular amounts in thousands of dollars except share and per share amounts)

8. Sales

	Three Months Ending		Six Months Ending	
	July 1, 2023	July 2, 2022	**July 1, 2023**	July 2, 2022
Canada	$ 45,542	$ 36,771	$ 81,956	$ 74,925
United States and Mexico	117,310	93,924	236,114	177,035
India	9,599	6,781	25,515	13,298
	$ 172,451	$ 137,476	$ 343,585	$ 265,258

As at July 1, 2023, the Company had contract liabilities of $8,333,000 (December 31, 2022 – $10,607,000).

9. Related party transactions

Related parties

William G. Hammond, Chief Executive Officer and Chairman of the Company, directly and indirectly, through Arathorn Investments Inc., beneficially owns 2,778,300 (December 31, 2022 – 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 923,802 (December 31, 2022 – 924,802) Class A subordinate voting shares of the Company, representing approximately 10.1% (2022 – 10.2%) of the issued and outstanding Class A subordinate voting shares of the Company and as a result controls the Company. William G. Hammond, Chief Executive Officer and Chairman of the Company, owns all of the issued and outstanding shares of Arathorn Investments Inc. Total dividends paid during the quarter, directly and indirectly to William G. Hammond were $462,000 (Quarter 2 2022 – $373,000).

10. Change in non-cash operating working capital

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

	Six Months Ending	
	July 1, 2023	July 2, 2022
Accounts receivable	$ (32,717)	$ (15,495)
Inventories	2,309	(14,868)
Prepaid expenses	(206)	350
Accounts payable and accrued liabilities	(13)	20,989
Deferred revenue	(2,274)	–
Foreign exchange	(1,413)	4,912
	$ (34,314)	$ (4,112)

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

HPS Offices, Manufacturing Facilities and Warehouse Locations

Canada

Hammond Power Solutions Inc.
Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.
795 Industriel Boul.
Granby, Quebec J2G 9A1

3850 place de Java
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Brossard, Québec J4Y 0C4

India

Hammond Power Solutions Private Limited
Plot No.6A, Phase-1, IDA Pashamylaram,
Patancheru Mandal, Sangreddy District,
Telangana, India 502307

Italy

Hammond Power Solutions S.p.A.
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10121 Torino, Italy
at R & P Legal

Mexico

Hammond Power Solutions S.A. de C.V.
Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

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

Mexico

Hammond Power Solutions Latin America S. de R.L. de C.V.
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Guadalupe, Nuevo León, México
C.P. 67190

United States

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Baraboo, Wisconsin 53913

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Compton, California 90224

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Reno, Nevada 89511

Mesta Electronics, Inc.
11020 Parker Drive,
North Huntington, Pennsylvania 15642

Corporate Information

Corporate Officers and Directors

William G. Hammond
Chairman of the Board
Executive Chairman

Adrian Thomas
Director
Chief Executive Officer

Richard C. Vollering
Corporate Secretary
Chief Financial Officer

Dahra Granovsky
Director
Corporate Human Resources and Compensation Member

Christopher R. Huether
Director
Governance Member

Fred M. Jaques
Director
Governance Chair

Grant C. Robinson
Lead Director
Audit Member

Anne Marie Turnbull
Director
Corporate Human Resources and Compensation Chair

David M. Wood
Director
Audit Chair

Stock Exchange Listing

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

Registrar and Transfer Agent

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Auditors

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Legal Representation

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Toronto, Ontario M5K 0A1

Banking Institution

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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.

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

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