Q3 Report 2022

For the nine months ended October 1, 2022

Hammond Power Solutions Inc.

“I would like to take this opportunity to again recognize the tremendous efforts of our employees and to thank them for everything they do to make us a successful company that we can all be proud of.”

To Our Shareholders

As we execute our market growth and capacity expansion plans, we do so in a prudent and mindful way recognizing that concerns over the global economy are growing.

It gives me great pleasure to highlight our exceptional Q3 financial results. Our sales and profit performance is truly noteworthy given recent supply chain challenges and uncertainties in the global economy. Our strong momentum is expected to continue in the coming quarters as we prudently expand our capacity and focus on serving the needs of our distributors and customers. Our agility and capabilities have helped us to expand market share when others have struggled with material shortages and service issues. Success has not come easily and our strong performance is a credit to the excellent support and hard work of our managers and employees.

Our growth is coming from all corners - the U.S., Canada, Latin America and India; as well as from all channels - distributors, OEMs and private label. Our sales are growing in multiple and diverse markets like electric vehicle ("EV") recharging, solar power, energy storage, data centers, hydro power generation, silica chip manufacturing, reshoring of American manufacturing plants, mining equipment, as well as oil and gas production. The U.S. economy is the strongest and most stable of any in the world right now, representing most of our growth in sales today and going forward.

Given our momentum and the number of opportunities we see around us, we are carefully moving ahead with selective and increased capital spending plans to expand our manufacturing capacity and capabilities. These investments will solidify our market-leading position through improved lead times and inventory levels, as well as more efficient manufacturing capabilities.

As we execute our market growth and capacity expansion plans, we do so in a prudent and mindful way recognizing that concerns over the global economy are growing. In this uncertain environment, we are fortunate to have a strong balance sheet, a leading market position in our business and robust and diverse market momentum to help us buffer the storm clouds around us and on the horizon.

I would like to take this opportunity to again recognize the tremendous efforts of our employees and to thank them for everything they do to make us a successful company that we can all be proud of.

WGH

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

Management's Discussion and Analysis

Hammond Power Solutions – energizing a better world

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 – energizing a better world

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the nine months ended October 1, 2022, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2022. This information is based on Management's knowledge as at October 27, 2022. 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 2021 Annual Report and accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2021 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 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 represents EBITDA adjusted for 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, net cash or net indebtedness, 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 October 1, 2022 and September 25, 2021 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 may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended October 1, 2022 were $148,953, an increase of $53,427 or 55.9% from Quarter 3, 2021 sales of $95,526. Year-to-date 2022 sales increased $150,287 or 56.9% to $414,211 compared to $263,924 in 2021. The strong sales increase is due to a combination of higher pricing due to cost inflation, higher volumes and strong Mesta and Indian sales as well as a stronger U.S. dollar.

Sales in the United States and Mexico stated in Canadian dollars increased by $32,253 or 52.6%, finishing at $93,591 for Quarter 3, 2022 compared to $61,338 in Quarter 3, 2021. Year-to-date U.S. and Mexican sales were $260,561 in 2022 and $160,896 in 2021, an increase of $99,665 or 61.9%. U.S. and Mexican sales, when stated in U.S. dollars were $71,745 in Quarter 3, 2022, compared to Quarter 3, 2021 of $48,815 an increase of $22,929 or 47.0%. Year-to-date U.S. and Mexican sales stated in U.S. dollars were $203,103 in 2022 compared to $128,581 in 2021, an increase of $74,522 or 58.0%.

Third quarter sales were positively affected by fluctuations in exchange rates during the quarter and year-to-date. Quarter 3 experienced a 3.8% stronger U.S. dollar ("USD") $1.00 USD = $1.30 Canadian dollar ("CAD") compared with $1.00 USD = $1.26 CAD in Quarter 3, 2021. Year-to-date sales have been positively impacted by a 2.4% stronger U.S. dollar - $1.00 USD = $1.28 CAD compared against $1.00 USD = $1.25 CAD in 2021.

The U.S. sales levels are the highest the Company has ever experienced. The growth in the quarter was driven by continued increases in the North American Electrical Distributor ("NAED") markets as shipments in this channel have grown in each quarter in 2021 and 2022. Sales in the OEM channel also grew in the third quarter with strong sales in data centres, solar, mining and control.

Canadian sales were $49,653 for the quarter, an increase of $20,180 or 68.5% from Quarter 3, 2021 sales of $29,473. Year-to-date Canadian sales were $134,653 in 2022 compared to $89,941 in 2021, growth of $44,712 or 49.7%. Canadian sales were positively impacted by the NAED and mining markets during the third quarter.

Indian sales for Quarter 3, 2022 finished at $5,709 versus $4,715 in Quarter 3, 2021, an increase of $994 or 21.1%. Year-to-date Indian sales were $18,997 in 2022 compared to $13,087 in 2021, an increase of $5,910 or 45.2%. The relatively low 2021 values reflect India's struggle with regional restrictions and supply shortages as the Coronavirus (COVID-19) Pandemic ("COVID-19") had a heavy impact on the country.

The first half of 2021 saw many markets emerge from the sluggish effects of the pandemic. As we progressed through 2022, we saw a strong rebound in demand. The Company's broadened reach into NAED and Original Equipment Manufacturer ("OEM") markets have combined to support significantly higher year-over-year shipments.

Quarter 3, 2022 sales by geographic segment were U.S. and Mexico sales of 62.9% (Quarter 3, 2021 – 64.2%) of total sales, Canadian sales of 33.3% (Quarter 3, 2021 – 30.9%), and Indian sales of 3.8% (Quarter 3, 2021 – 4.9%). Quarter 3, 2022 year-to-date sales by geographic segment were U.S. sales of 62.9% (2021 – 60.9%) of total sales, Canadian sales of 32.5% (2021 – 34.1%), and Indian sales of 4.6% (2021 – 5.0%).

During 2021, the Company implemented four price increases, which were necessary to offset rapidly increasing costs in commodities (copper, aluminum and electrical steel), freight and other components critical to manufacturing transformers. We began to see the effect of those increases in Quarter 1, 2022 and continued to see the impact through Quarter 2 and 3, 2022, which is a significant contributor to the increased sales values over the prior year. The cost increases were mainly the result of continued supply chain constraints. There have been improvements in material availability in the current quarter, allowing higher volumes to be shipped to customers.

In July 2021, HPS acquired the Mesta business, which manufactures active harmonic filters ("AHF") as well as induction heating products ("IH"). AHF are an important addition to our power quality portfolio and IH are used in silica processing – an important moisture controlling component in transformers. Sales for Mesta for the nine months of 2022 reached $11,727 (2021 - $0), contributing to the overall increase in sales.

The Company's engineering and manufacturing capabilities in dry, liquid filled and cast resin transformer technology is a strength of HPS and fundamental to revenue growth. The Company's market diversification strategy is not single market or industry dependent, resulting in a natural business hedge as some markets grow while others decline. The ability to continue to expand these segments is also a result of new customer additions, organic customer diversity, expanded product offerings and diverse manufacturing capabilities.

HPS is dedicated to its growth strategy through our focus on product development, capital expenditure to increase capacity, vertical integration strategies and geographic diversification. The Company believes that these factors will allow the Company to continue to grow market share globally. HPS' standard and custom transformer manufacturing capabilities and service commitment enable HPS to be a leader in the electrical transformer market.

Backlog

The Company saw a significant order backlog increase of 141.3% over Quarter 3, 2021 and has seen a continued increase of 14.6% from Quarter 2, 2022. The combination of price increases, a stronger U.S. dollar, market demand and some delayed shipments due to material availability continue to contribute to the record-high backlog. Bookings continue to increase across several market and geographical segments. As the backlog grows, product lead times are extended and the timing of shipments in the backlog become more uncertain – in some cases extending to the end of the year and beyond.

HPS is sensitive to the volatility and unpredictability of the global economy – in particular that of the U.S. and Canada and the impact that this could have on booking trends. While many markets are seeing positive quotation and order trends, the Company is very aware that it may see some volatility and unpredictability in longer term booking rates. Some industry-related factors such as global supply chain constraints and low inventories may be contributing to the higher booking rates and backlog and therefore may be temporary in nature.

Gross margin

The company experienced an increase in its gross margin rate for Quarter 3, 2022, which was 29.2% compared to a Quarter 3, 2021 gross margin rate of 26.8%, an increase of 2.4% of sales. The year-to-date gross margin rate was 27.9% in 2022 versus 26.7% in 2021, an increase of 1.2%.

Given the rapid rise in commodity prices, HPS was required to increase prices several times during 2021 and 2022 to protect gross margins. In the raising of prices, the Company has been proactive in anticipating cost increases, judicious in maintaining margins and conscientious of our customer relationships. For some channels, particularly those with longer backlog dates and lead times as is the case in our OEM and private label channels, raising prices is more difficult to do in a timely way due to the nature of the contracts. The Company believes that some margin deterioration occurred during 2021 as we were catching up to cost increases. In Quarter 1, 2022 sales and margins were strong with relative stability in underlying commodity costs, culminating in a strong gross margin. By contrast, Quarter 2, 2022 prices were once again lagging the cost increases brought on by global supply disruptions. Two additional price increases were implemented in 2022, some of which affected Quarter 3, 2022 sales and will continue to be reflected in future quarter sales. In the third quarter, some material input costs have stabilized while others continue to increase due to underlying inflation. While there remains higher than normal volatility costs, we have seen a positive impact on margins in the quarter.

Sales and margins were influenced by the Company's ability to source the materials and components required to maintain a continuous supply to meet demand. The manufacture of transformers requires commodities – copper, aluminum and electrical steel, all of which, particularly electrical steel, have seen significant price increases driven mainly by supply constraints. During 2021 and into 2022, there has been a heightened awareness of the challenges and strain on the global supply markets. The Company has considerable energy focused on ensuring that materials required for production are received on a timely basis – preventing interruptions in production. Quarter 3, 2022 demonstrated the results of these efforts and allowed higher volumes of product to be shipped to customers. Higher throughput in the Company's plants has allowed us to cover factory overheads more effectively.

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. HPS is confident that these actions will improve profitability and overall financial performance.

The gross margin rate is impacted by productivity gains, material procurement and engineering cost reduction initiatives. Margin rates can be sensitive to selling price pressures, volatility in commodity costs, customer mix and geographic blend. The Company is steadfast in its implementation of initiatives to manage the impact of margin volatility through diversification in customers, the industries it serves, its products and geographies.

Selling and distribution expenses

Total selling and distribution expenses were $16,433 in Quarter 3, 2022 or 11.0% of sales versus $11,433 in Quarter 3, 2021 or 12.0% of sales, an increase of $5,000 and a decrease of 1.0% of sales. Year-to-date selling and distribution expenses were $46,192 or 11.2% of sales in 2022 compared to $31,900 or 12.1% in 2021, an increase of $14,292 or a decrease of 0.9% 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 current year sales. 2021 expenses were reduced by the Canada Emergency Wage Subsidy ("CEWS") of $346. There was no subsidy recorded in 2022.

General and administrative expense

General and administrative expenses for Quarter 3, 2022 were $10,976 or 7.4% of sales, compared to Quarter 3, 2021 expenses of $8,222 or 8.6% of sales, an increase of $2,754 and a decrease of 1.2% of sales. Year-to-date general and administrative expenses were $30,274 or 7.3% of sales in 2022, compared to $21,766 or 8.2% of sales in 2021, an increase of $8,508 and a decrease of 0.9% of sales. Key drivers for the current increase are as follows:

- 2021 year-to-date expenses were reduced by the CEWS subsidy in the amount of $820, there has been no subsidy recorded in 2022;
- Approximately $2,789 of the increase in the current year is associated with strategic investments in people resources and incentive plans – there were critical roles filled later in 2021 that did not have a comparable expense in the same period of 2021;
- The Mesta acquisition contributed an additional $546 to general and administrative expenses;
- Additional general and administrative expenses of $749 relate to the new infrastructure in Mexico;
- Additional investment in information technology contributed additional expenses of $1,638 related to maintenance contracts;
- The higher share price and additional awards granted in Quarter 1, 2022 has caused the DSU expense to increase $397 from prior year;
- Bad debt expense has increased $344 in 2022 over 2021 relating to a specific customer and not representative of a pervasive problem; and
- Higher spending for outside services such as regulatory approvals represent $657 of the current year increase.

The higher general and administrative expenses are a result of HPS' investment in building a resilient and efficient organization that can support future growth.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Earnings from operations

Quarter 3, 2022 earnings from operations increased to $16,118, an increase of $10,209 or 172.8% from $5,909 for the same quarter last year. The year-to-date earnings from operations were $39,072 in 2022 compared to $16,931 in 2021, an increase of $22,141 or 130.8%. The expansion in the quarter and year-to-date earnings from operations are mainly a result of increased sales. This was partially offset by higher variable selling costs and increased general and administrative expenses.

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

	Quarter 3, 2022	Quarter 3, 2021	**YTD 2022**	YTD 2021
Net earnings	**$ 11,531**	$ 3,948	**$ 26,605**	$ 10,935
Add/(subtract):				
Income tax expense	**4,358**	1,546	**10,562**	4,585
Interest expense	**448**	309	**1,060**	933
Foreign exchange (gain) loss	**(252)**	75	**751**	432
Share of income of investment in joint venture	**–**	(2)	**(4)**	(47)
Other	**33**	33	**98**	93
Earnings from operations	**$ 16,118**	$ 5,909	**$ 39,072**	$ 16,931

Net Finance and other costs

Interest expense for Quarter 3, 2022 was $448, an increase of $139 or 45.0% compared to the Quarter 3, 2021 expense of $309. Year-to-date interest cost was $1,060, an increase of $127 or 13.6% when compared to the 2021 year-to-date expense of $933. The increase in Quarter 3 is a result of fluctuations in indebtedness and higher interest rates. The year-to-date change in the interest expense is a result of timing of working capital requirements as well as higher interest rates.

The foreign exchange gain in Quarter 3, 2022 was $252, an increase of $327 compared to the loss of $75 in Quarter 3, 2021. The year-to-date foreign exchange loss for 2022 was $751, compared to $432 for the same period last year, an increase of $319. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of the foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past year.

As at October 1, 2022, the Company had outstanding foreign exchange contracts in place for 17,350 Euros ("EUR") and $16,500 USD – all of which were implemented as an economic hedge against translation gains and losses on inter-company loans as well as $36,000 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS operations.

Income taxes

Quarter 3, 2022 income tax expense was $4,358 as compared to $1,546 in Quarter 3, 2021, an increase of $2,812. Year-to-date income tax expense was $10,562 in 2022 and $4,585 in 2021, an increase of $5,977.

The consolidated effective tax rate[1] for Quarter 3, 2022 was 27.4% and Quarter 2, 2021 was 28.1%. The year-to-date effective tax rate for the first nine months of 2022 was 28.4% compared to 29.5% for the same period in 2021, a decrease of 1.1%. The changes in the effective tax rates were impacted by changes in the earnings mix of the Company. The Company's income is generated from different tax jurisdictions and is subject to diverse tax rates and regulations.

Deferred tax assets and liabilities consisting mainly of reserves and allowances are related to temporary differences on current assets and liabilities and are not deductible against current year earnings. Deferred tax assets and liabilities relate to temporary differences resulting from intangible assets and the difference between the net book value and undepreciated capital cost of property, plant and equipment.

Net earnings

Net earnings for Quarter 3, 2022 finished at $11,531 compared to net earnings of $3,948 in Quarter 3, 2021, an improvement of $7,583 or 192.1%. Year-to-date net earnings were $26,605 in 2022 compared to $10,935 in 2021, an increase of $15,670 or 143.3%. The improvement in the year-to-date earnings is a result of the increased sales partially offset by greater selling, distribution, general and administrative expenses and additional foreign exchange losses.

Earnings per share

The basic earnings per share were $0.97 for Quarter 3, 2022, versus $0.34 in Quarter 3, 2021, an improvement of $0.63 or 185.3%. The year-to-date basic earnings per share was $2.25 in 2022 and $0.93 in 2021, an increase of $1.32 or 141.9%.

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

EBITDA

EBITDA for Quarter 3, 2022 was $18,970 versus $7,378 in Quarter 3, 2021, an increase of $11,592 or 157.1%. Year-to-date EBITDA was $45,653 in 2022 and $21,421 in 2021, an increase of $24,232 or 113.1%. Adjusted for foreign exchange losses adjusted EBITDA for Quarter 3, 2022 was $18,718 versus $7,453 in Quarter 3, 2021, an increase of $11,265 or 151.1%. Year-to-date EBITDA was $46,404 in 2022 and $21,853 in 2021, an increase of $24,551 or 112.3%.

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

	Quarter 3, 2022	Quarter 3, 2021	YTD 2022	YTD 2021
Net earnings	**$ 11,531**	$ 3,948	**$ 26,605**	$ 10,935
Add:				
Interest expense	**448**	309	**1,060**	933
Income tax expense	**4,358**	1,546	**10,562**	4,585
Depreciation and amortization	**2,633**	1,575	**7,426**	4,968
EBITDA	**$ 18,970**	$ 7,378	**$ 45,653**	$ 21,421
(Subtract) add:				
Foreign exchange (gain) loss	**(252)**	75	**751**	432
Adjusted EBITDA	**$ 18,718**	$ 7,453	**$ 46,404**	$ 21,853

Summary of quarterly financial information (unaudited)

Fiscal 2022 Quarters	**Q1**	**Q2**	**Q3**	**YTD Total**
Sales	$ 127,782	$ 137,476	$ 148,953	**$ 414,211**
Net earnings	$ 8,569	$ 6,505	$ 11,531	**$ 26,605**
Net earnings per share – basic	$ 0.72	$ 0.55	$ 0.97	**$ 2.25**
Net earnings per share – diluted	$ 0.72	$ 0.55	$ 0.97	**$ 2.25**
Average U.S. to Canadian exchange rate	$ 1.267	$ 1.276	$ 1.305	**$ 1.282**

Fiscal 2021 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 80,121	$ 88,277	$ 95,526	$ 116,278	$ 380,202
Net earnings	$ 2,298	$ 4,689	$ 3,948	$ 4,241	$ 15,176
Net earnings per share – basic	$ 0.19	$ 0.40	$ 0.34	$ 0.36	$ 1.29
Net earnings per share – diluted	$ 0.19	$ 0.40	$ 0.34	$ 0.35	$ 1.28
Average U.S. to Canadian exchange rate	$ 1.268	$ 1.231	$ 1.257	$ 1.258	$ 1.253

Quarterly sales continue to accelerate with resulting Quarter 3, 2022 sales higher than any quarter in 2021 and 2022 to-date. A portion of the sales escalation was due to price increases and stronger foreign exchange rates, but the Company has also experienced volume growth over previous quarters. There has been an upward trend over the past eight quarters due to an overall improvement in general economic activity.

Changes in volume, product mix, changing economic conditions, fluctuating commodity costs and competitive pricing pressures have all had an impact on the year-over-year quarterly fluctuations for both sales and income.

Capital resources and liquidity

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

Net cash generated by operating activities for Quarter 3, 2022 was $16,501 versus $7,430 in Quarter 3, 2021, an improvement of $9,071. This change has been generated by an increase in cash generated from working capital offset by higher income tax payments during the Quarter. Year-to-date net cash generated by operating activities was $31,661 compared to cash generated of $547 in 2021, an increase of $31,114. The year-to-date increase is a result of lower cash utilized for working capital offset by higher income tax payments.

During the Quarter, non-cash working capital generated cash of $4,121 compared to a use of cash of $323 for the same quarter last year, an increase of $4,444. The year-to-date change in non-cash working capital was cash generation of $9 in 2022 compared to a usage of $14,224 in 2021, an increase of $14,233. The year-to-date working capital changes are primarily related to an increase in accounts receivable and inventories offset by an increase in accounts payable and customer deposits.

Cash used in investing activities decreased by $3,602 to $3,127 in Quarter 3, 2022 from $6,729 in the same period of 2021. Year-to-date cash used in investing activities was $6,250 in 2022 and $8,745 in 2021, a decrease of $2,495. Capital expenditures were $3,129 in Quarter 3, 2022 compared to $1,741 for Quarter 3, 2021, an increase of $1,388. Year-to-date capital expenditures were $6,006 in the current year compared to $3,849 in 2021, an increase of $2,157. In 2021, the acquisition of Mesta used cash of $5,029. The Company continues to invest in the areas of manufacturing processes and capabilities, information technology and new product development.

Total cash generated by financing activities for Quarter 3, 2022 was $4,083 as compared to cash used of $5,986 in Quarter 3, 2021, a change of $10,069. The source of this change was advances of operating debt in Quarter 3, 2022 compared to repayment in Quarter 3, 2021. Year-to-date financing activities generated cash of $998 compared to cash generated of $1,926 in the first nine months of 2021, a decrease of $928.

Bank operating lines of credit as at Quarter 3, 2022 were $26,633 compared to $23,357 at the end of Quarter 3, 2021, an increase of $3,276. The bank operating lines of credit have increased $7,366 since the year-end balance of $19,267.

The Company's overall net operating cash balance[1] was $21,843 in Quarter 3, 2022 compared to net operating debt balance[2] of $15,399 in Quarter 3, 2021, a decrease in debt position of $37,242 primarily reflective of increased profitability.

All bank covenants continue to be met as at October 1, 2022.

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

[1] Overall net operating cash balance is the cash and cash equivalents of $48,476 net of bank operating lines of credit of $26,633
[2] Overall net operating debt balance is the bank operating lines of credit of $23,357 net of cash and cash equivalents of $7,958

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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.

	2022	2023	2024	2025	2026 & Thereafter	Total
Accounts payable and accrued liabilities	$ 111,836	–	–	–	–	$ 111,836
Capital expenditure purchase commitments	2,353	–	–	–	–	2,353
Bank operating lines	–	–	–	–	26,633	26,633
Lease liabilities	2,977	1,942	1,308	715	249	7,191
Contingent liabilities	302	590	1,216	–	–	2,108
Total	$ 117,468	$ 2,532	$ 2,524	$ 715	$ 26,882	$ 150,121

Regular quarterly dividend

During Quarter 3, 2022 the Board of Directors of HPS declared a quarterly cash dividend of ten cents ($0.10) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of ten cents ($0.10) per Class B Common Share of HPS payable on September 23, 2022 to shareholders of record at the close of business on September 16, 2022. The ex-dividend date was September 15, 2022. The Company has paid a cash dividend of twenty-eight and a half cents ($0.285) per Class A Subordinate Voting Share and twenty-eight and a half cents ($0.285) per Class B Common Share 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 3, 2022 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.

Joint venture ownership change

The Company and National Material L.P. ("National") have operated the joint venture in Monterrey, Mexico under the name Corefficient S. de R.L. de C.V. Effective February 28, 2022, the Company and National have amicably agreed to divide the operations, with HPS retaining certain equipment, employees, obligations and other financial assets and liabilities, and National withdrawing certain assets and capital in exchange for redeeming their ownership interest. The Corefficient name was also retained by National. The operation continues to produce transformer cores to supply the Group's facilities in Mexico.

Total consideration received by National in connection with this transaction was $10,809 comprised of inventory valued at $1,705, property, plant and equipment valued at $5,589 and a note payable in the amount of $3,515, repayable in six equal installments, due monthly commencing March 2022. The agreement calls for adjustments to the consideration in respect of possible realization of certain tax attributes by March 2023.

As a result of this transaction, the Company now owns 100% of the equity and voting interests of the former Corefficient (referred to here as "Corefficient") and continues to operate the entity as a wholly owned subsidiary of the Group. As the Company has acquired control of Corefficient, the transaction constitutes a business combination. The Company measured the fair value of its previously held interest in Corefficient immediately prior to obtaining control and determined it to be equivalent to its carrying value. The Company is evaluating the recognition and measurement of possible contingent consideration and other fair value adjustments, which may involve the use of third-party valuation specialists. Accordingly, amounts presented below, and their associated income tax effects are subject to change within the measurement period.

The preliminary allocation of the fair value of the acquired business is as follows:

Cash	$	3,393
Accounts receivable		16,248
Inventories and other assets		1,582
Property, plant and equipment and right of use assets		5,317
Intangibles		142
Deferred future tax asset		2,431
Assets	$	29,113
Current liabilities	$	(15,900)
Total purchase consideration	$	13,213
Satisfied as follows:		
Capital redemption	$	9,698
Note payable		3,515
Total consideration	$	13,213

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 several 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 mitigate 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 rapid 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.

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

We may not realize all of the anticipated benefits of our acquisitions, divestitures, 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 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. Approximately 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 make it difficult or impossible to deliver our products or disrupt our global material sourcing.

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.

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 competiveness, 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 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 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.

Coronavirus Pandemic ("COVID-19") – Business Disruption/Interruption

Markets, governments and health organizations around the world have been impacted by the COVID-19 pandemic. COVID-19 has presented a wide range of issues and complications for the Company, some of which the Company is unable to know the full extent.

Looking forward there is guarded business optimism, as some uncertainty and unpredictability persists on the impacts of the COVID-19 pandemic on the business climate and governmental and health authorities' legislation. The full negative financial impact of the unprecedented pandemic will not be fully known until the economy fully recovers.

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.

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 2021 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2022, other than transactions disclosed in note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 3, 2022 Report.

Proposed transactions

The Company had no proposed transactions as at October 1, 2022. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at October 1, 2022, the Company had outstanding foreign exchange contracts in place for 17,350 EUR and $16,500 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 2021 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 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 involve the use of cash flow forecasts, market-based discount rates, and/or market-based royalty rates. The fair values 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 October 1, 2022 are as follows:

9,056,624	Class A Shares
2,778,300	Class B Common Shares
11,834,924	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, has accelerated at an unprecedented rate and sales volumes have significantly exceeded pre-pandemic levels. While we have seen improvements in business activity and demand, we have also experienced rapidly rising commodity costs as well as supply shortages. Based on the combination of these factors, the Company is working diligently to ensure there is adequate material supply to fulfill this growth. The third quarter of 2022 experienced improvements in material availability.

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. As a result, we continue to add new distributors and have implemented additional infrastructure to support our growth initiative into this global market.

As of January 1, 2022, the Company went live with a new human resources information system (“HRIS”) in order to move the Company to a common payroll and human resource system. This platform will enhance our internal communications, create efficiencies, improve controls, incorporate additional career planning and allow for better data analysis.

The Company continues to have a strong reputation of 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 NAED 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 Third Quarter of 2022. 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 (1)	2017	2018	2019	2020	**2021**
Sales	301,750	314,082	358,792	322,097	**380,202**
Earnings from operations	14,470	13,779	20,543	22,041	**23,151**
EBITDA	23,069	17,915	28,175	29,482	**30,114**
Net earnings (loss)	6,114	(12,917)	11,607	14,062	**15,176**
Total assets	192,449	205,527	214,953	189,394	**235,099**
Non-current liabilities	3,641	2,528	11,271	8,329	**7,104**
Total liabilities	77,438	96,793	105,186	75,478	**109,097**
Total shareholders' equity attributable to equity holders of the Company	114,848	108,734	109,767	113,916	**126,002**
Operating debt, net of cash	(16,983)	(17,056)	(9,326)	(1,278)	**1,638**
Cash provided by operations	1,032	6,474	17,810	19,683	**20,447**
Basic earnings (loss) per share	0.53	(1.10)	0.99	1.20	**1.29**
Diluted earnings (loss) per share	0.52	(1.10)	0.99	1.20	**1.28**
Dividends declared and paid	2,809	2,818	3,287	3,993	**4,009**
Average exchange rate (USD$=CAD$)	1.298	1.294	1.327	1.343	**1.253**
Book value per share	9.80	9.26	9.36	9.70	**10.69**

	2020		2021				2022	
Quarterly Information	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	80,169	80,121	88,277	95,526	116,278	127,782	137,476	148,953
Earnings from operations	7,047	3,402	7,620	5,909	6,220	12,658	10,046	16,118
EBITDA	7,891	5,349	8,694	7,378	8,693	14,458	12,225	18,970
Net earnings	4,032	2,298	4,689	3,948	4,241	8,569	6,505	11,531
Total assets	189,394	192,395	208,865	221,549	235,099	253,340	283,852	315,864
Non-current liabilities	8,329	7,546	7,018	6,486	7,104	6,170	5,793	6,640
Total liabilities	75,478	77,559	91,691	98,951	109,097	119,565	140,791	152,187
Total shareholders' equity attributable to equity holders of the Company	113,916	114,836	117,174	122,598	126,002	133,775	143,061	163,677
Operating debt, net of cash	(1,278)	(11,754)	(14,392)	(15,399)	1,638	(905)	9,542	21,843
Cash provided (used) by operations	8,073	(6,854)	(29)	7,430	19,900	537	14,623	16,501
Basic earnings per share	0.34	0.19	0.40	0.34	0.36	0.72	0.55	0.97
Diluted earnings per share	0.34	0.19	0.40	0.34	0.35	0.72	0.55	0.97
Dividends declared and paid	998	1,002	1,002	1,002	1,002	1,006	1,183	1,184
Average exchange rate (USD$=CAD$)	1.309	1.268	1.231	1.257	1.258	1.267	1.276	1.305
Book value per share	9.70	9.78	9.94	10.40	10.69	11.39	12.13	13.88

(1) Balances for 2017 not restated to reflect discontinued operations

Condensed Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As at	
	October 1, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 48,476	$ 20,905
Accounts receivable	102,944	72,004
Inventories	86,877	62,467
Income taxes receivable	2,298	807
Prepaid expenses and other assets	5,455	3,515
Total current assets	$ 246,050	$ 159,698
Non-current assets		
Long-term lease and note receivable	2,494	2,779
Property, plant and equipment (note 4)	37,397	30,960
Investment in properties	3,294	3,294
Investment in joint venture (note 5)	–	13,279
Deferred tax assets	4,873	2,370
Intangible assets	9,398	10,503
Goodwill	12,358	12,216
Total non-current assets	69,814	75,401
Total assets	$ 315,864	$ 235,099
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 26,633	$ 19,267
Accounts payable and accrued liabilities	111,836	75,760
Income taxes payable	2,459	1,988
Provisions	1,696	1,850
Current portion of lease and other liabilities (note 6)	2,923	3,128
Total current liabilities	$ 145,547	$ 101,993
Non-current liabilities		
Provisions	307	342
Deferred tax liabilities	–	401
Long-term portion of lease and other liabilities (note 6)	6,333	6,361
Total non-current liabilities	6,640	7,104
Total liabilities	$ 152,187	$ 109,097
Shareholders' Equity		
Share capital	15,240	14,886
Contributed surplus	2,376	2,432
Accumulated other comprehensive income (note 8)	16,254	2,109
Retained earnings	129,807	106,575
Total shareholders' equity	163,677	126,002
Total liabilities and shareholders' equity	$ 315,864	$ 235,099

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statements of Operations

(unaudited) (tabular amounts in thousands of dollars, except per share amounts)

	Quarter Ending		Nine Months Ending	
	October 1, 2022	September 25, 2021	**October 1, 2022**	September 25, 2021
Sales (note 9)	$ 148,953	$ 95,526	$ 414,211	$ 263,924
Cost of sales (note 10)	105,426	69,962	298,673	193,327
Gross margin	43,527	25,564	115,538	70,597
Selling and distribution (note 10)	16,433	11,433	46,192	31,900
General and administrative (note 10)	10,976	8,222	30,274	21,766
	27,409	19,655	76,466	53,666
Earnings from operations	16,118	5,909	39,072	16,931
Finance and other costs				
Interest expense	448	309	1,060	933
Foreign exchange (gain) loss	(252)	75	751	432
Share of income of investment in joint venture (note 5)	–	(2)	(4)	(47)
Other	33	33	98	93
Net finance and other costs	229	415	1,905	1,411
Earnings before income taxes	15,889	5,494	37,167	15,520
Income tax expense	4,358	1,546	10,562	4,585
Net earnings	$ 11,531	$ 3,948	$ 26,605	$ 10,935
Earnings per share				
Basic earnings per share	$ 0.97	$ 0.34	$ 2.25	$ 0.93
Diluted earnings per share	$ 0.97	$ 0.34	$ 2.25	$ 0.93

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Quarter Ending		Nine Months Ending	
	October 1, 2022	September 25, 2021	**October 1, 2022**	September 25, 2021
Net earnings	$ 11,531	$ 3,948	$ 26,605	$ 10,935
Other comprehensive income				
Foreign currency translation differences for foreign operations (note 8)	10,269	2,478	14,145	424
Total comprehensive income for the period	$ 21,800	$ 6,426	$ 40,750	$ 11,359

See accompanying Notes to Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Statement of Changes in Equity

(unaudited) (tabular amounts in thousands of dollars) For the nine months ended October 1, 2022

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2022	$ 14,886	$ 2,432	$ 2,109	$ 106,575	$ 126,002
Total comprehensive income for the year					
Net earnings	–	–	–	26,605	26,605
Other comprehensive income					
Foreign currency translation differences (note 8)	–	–	14,145	–	14,145
Total comprehensive income for the year	–	–	14,145	26,605	40,750
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(3,373)	(3,373)
Stock options exercised (note 7)	354	(56)	–	–	298
Total transactions with owners	354	(56)	–	(3,373)	(3,075)
Balance at October 1, 2022	$ 15,240	$ 2,376	$ 16,254	$ 129,807	$ 163,677

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

Condensed Consolidated Statement of Changes in Equity

(unaudited) (tabular amounts in thousands of dollars) For the nine months ended September 25, 2021

	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2021	$ 14,491	$ 2,498	$ 1,519	$ 95,408	$ 113,916
Total comprehensive income for the year					
Net earnings	–	–	–	10,935	10,935
Other comprehensive loss					
Foreign currency translation differences related to the joint venture (note 5)	–	–	487	–	487
Foreign currency translation differences (note 8)	–	–	(63)	–	(63)
Total other comprehensive income	–	–	424	–	424
Total comprehensive income for the year	–	–	424	10,935	11,359
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 7)	–	–	–	(3,006)	(3,006)
Stock options exercised (note 7)	395	(66)	–	–	329
Total transactions with owners	395	(66)	–	(3,006)	(2,677)
Balance at September 25, 2021	$ 14,886	$ 2,432	$ 1,943	$ 100,337	$ 122,598

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

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Nine Months Ending	
	October 1, 2022	September 25, 2021
Cash flows from operating activities		
Net earnings	$ 26,605	$ 10,935
Adjustments for:		
Share of income of investment in joint venture	(4)	(47)
Amortization of property, plant and equipment	5,878	4,551
Amortization of intangible assets	1,548	417
Provisions	(189)	(114)
Interest expense	1,060	933
Income tax expense	10,562	4,585
Change in unrealized loss on derivatives included within other assets	(2,226)	(1,643)
	43,234	19,617
Change in non-cash working capital (note 12)	9	(14,224)
Cash generated in operating activities	43,243	5,393
Income tax paid	(11,582)	(4,846)
Net cash generated by operating activities	31,661	547
Cash flows from investing activities		
Receipt of lease receivable payments	129	140
Acquisition of subsidiary company	–	(5,029)
Acquisition of property, plant and equipment (note 4)	(6,006)	(3,849)
Acquisition of intangible assets	(373)	(7)
Cash used in investing activities	(6,250)	(8,745)
Cash flows from financing activities		
Advances of borrowings	7,366	7,284
Issue of common shares	298	329
Payment of lease liabilities (note 6)	(2,396)	(1,934)
Cash dividends paid (note 7)	(3,373)	(3,006)
Interest paid	(897)	(747)
Cash generated by financing activities	998	1,926
Foreign exchange on cash held in a foreign currency	1,162	(565)
Increase (decrease) in cash	27,571	(6,837)
Cash and cash equivalents at beginning of period	20,905	14,795
Cash and cash equivalents at end of period	$ 48,476	$ 7,958

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 Chartered Professional Accountants of Canada ("CPA Canada") for a review of interim financial statements by an entity's auditor.

1. Reporting entity

Hammond Power Solutions Inc. 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 third quarter ended October 1, 2022 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 and India.

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 October 27, 2022.

(b) Use of estimates and judgments

The preparation of the condensed consolidated interim 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.

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, 2021.

Nine months ended October 1, 2022 and September 25, 2021 (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 2021 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, 2021, with the exception of items noted below:

Changes to accounting policies

- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Reference to the Conceptual Framework (Amendments to IFRS 3); and
- Annual Improvements to IFRS Standard 2018-2020.

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2022. 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:

	October 1, 2022	December 31, 2021
Property, plant and equipment owned	$ 32,325	$ 25,152
Right-of-use assets	5,072	5,808
	$ 37,397	$ 30,960

The Group had acquisitions of property, plant and equipment owned for the nine months ended October 1, 2022 in the amount of $6,006,000 of machinery and equipment (2021 - $3,849,000).

The Group acquired $4,793,000 of property, plant and equipment through the joint venture ownership change. See Note 5 for details of this transaction.

Right of use 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, 2022	$ 5,237	$ 535	$ 36	$ 5,808
Additions (note 5)	524	24	–	548
Depreciation	(1,431)	(247)	(11)	(1,689)
Effect of movements in exchange rates	371	34	–	405
Balance at October 1, 2022	$ 4,701	$ 346	$ 25	$ 5,072

Nine months ended October 1, 2022 and September 25, 2021 (tabular amounts in thousands of dollars except share and per share amounts)

5. Joint venture

The Company and National Material L.P. ("National") have operated the joint venture in Monterrey, Mexico under the name Corefficient S. de R.L. de C.V. ("Corefficient "). Effective February 28, 2022, the Company and National have amicably agreed to divide the operations, with HPS retaining certain equipment, employees, obligations, and other financial assets and liabilities, and National withdrawing certain assets and capital in exchange for redeeming their ownership interest. The Corefficient name was also retained by National. The operation continues to produce transformer cores to supply the Group's facilities in Mexico.

Total consideration received by National in connection with this transaction was $10,809,000 comprised of inventory valued at $1,705,000, property, plant and equipment valued at $5,589,000 and a note payable in the amount of $3,515,000, repayable in six equal instalments, due monthly commencing March 2022. The agreement calls for adjustments to the consideration in respect of possible realization of certain tax attributes by March 2023.

As a result of this transaction, the Company now owns 100% of the equity and voting interests of the former Corefficient (referred to here as "Corefficient") and continues to operate the entity as a wholly owned subsidiary of the Group. As the Company has acquired control of the former joint venture, the transaction constitutes a business combination. The Company has measured the fair value of its previously held interest in Corefficient immediately prior to obtaining control and determined it to be equivalent to its carrying value. The Company is evaluating the recognition and measurement of possible contingent consideration and other fair value adjustments which may involve the use of third-party valuation specialists. Accordingly, amounts presented below, and their associated income tax effects, are subject to change within the measurement period.

The preliminary purchase price has been allocated as follows:

Cash	$	3,393
Accounts receivable		16,248
Inventories and other assets		1,582
Property, plant and equipment and right of use assets		5,317
Intangibles		142
Deferred future tax asset		2,431
Assets	$	29,113
Current liabilities	$	(15,900)
Total purchase consideration	$	13,213

Included in the Group's consolidated results to February 28, 2022, the date of acquisition, the Group's share of income of investment in joint venture of $4 (2021 - $38).

Nine months ended October 1, 2022 and September 25, 2021 (tabular amounts in thousands of dollars except share and per share amounts)

6. Lease and other long-term liabilities

	October 1, 2022	December 31, 2021
Lease liabilities	$ 7,148	$ 7,980
Contingent consideration	2,108	1,509
	$ 9,256	$ 9,489
Current	2,923	3,128
Non-Current	6,333	6,361

Maturity analysis – contractual undiscounted cash flows	October 1, 2022	December 31, 2021
Less than one year	$ 2,977	$ 2,762
One to five years	4,214	5,457
More than five years	–	94
Total undiscounted lease liabilities	$ 7,191	$ 8,313
Less: effect of discounting and foreign exchange	$ (43)	$ (333)
Lease liabilities included in the statement of financial position	$ 7,148	$ 7,980
Current	$ 2,485	$ 2,512
Non-current	$ 4,663	$ 5,468

	Nine Months Ending	
Amounts recognized in statement of operations	October 1, 2022	September 25, 2021
Interest on lease liabilities	$ 163	$ 186

	Nine Months Ending	
Amounts recognized in statement of cash flows	October 1, 2022	September 25, 2021
Payment of lease liabilities	$ 2,396	$ 1,934

7. Share capital

(a) Dividends:

The following dividends were declared and paid by the Company:

	Nine Months Ending	
	October 1, 2022	September 25, 2021
28.5 cents per Class A common share (2021: 25.5 cents)	$ 2,581	$ 2,298
28.5 cents per Class B common share (2021: 25.5 cents)	792	708
	$ 3,373	$ 3,006

Nine months ended October 1, 2022 and September 25, 2021 (tabular amounts in thousands of dollars except share and per share amounts)

(b) Stock option plan

During the nine months ended October 1, 2022, there were 45,000 options exercised at an exercise price of $6.62. During the nine months ended September 25, 2021 there were 45,000 options exercised, 10,000 at an exercise price of $6.62 and 35,000 at an exercise price of $7.50.

(d) 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 nine months ended October 1, 2022 was as follows:

	Number of DSUs		Closing Share Price
Balance at January 1, 2022	201,392	$	11.99
DSUs issued	19,540		9.25
DSUs exercised	(20,941)		10.66
Balance at October 1, 2022	199,991	$	16.10

An expense of $1,250,000 (2021 – expense of $853,000) for the nine months ended September 1, 2022 was recorded in general and administrative expenses. The liability of $3,220,000 (December 31, 2021 - $2,346,000) related to these DSUs is included in accounts payable and accrued liabilities.

8. 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 income for the nine months ended October 1, 2022 was $14,145,000 (2021 – $424,000), of which $14,145,000 (2021 – loss of $63,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance of accumulated other comprehensive income of $16,254,000 (September 25, 2021 – $1,943,000).

9. Sales

	Three Months Ending		Nine Months Ending	
	October 1, 2022	September 25, 2021	**October 1, 2022**	September 25, 2021
Canada	$ 49,653	$ 29,473	$ 134,653	$ 89,941
United States and Mexico	93,591	61,338	260,561	160,896
India	5,709	4,715	18,997	13,087
	$ 148,953	$ 95,526	$ 414,211	$ 263,924

As at October 1, 2022, the Company had contract liabilities of $11,730,000 (December 31, 2021 – $5,027,000).

Nine months ended October 1, 2022 and September 25, 2021 (tabular amounts in thousands of dollars except share and per share amounts)

10. Government assistance

During 2020 and 2021, the Government of Canada implemented the Canada Emergency Wage Subsidy ("CEWS") that provided a subsidy of up to 75% of eligible remuneration paid by an eligible entity that experienced significant revenue declines due to the Coronavirus (COVID-19) Pandemic ("COVID-19"). For the nine months ended September 25, 2021 the Company qualified for subsidy payments. The subsidy amounts relating to the nine months were recorded as a reduction in expenses as follows: cost of sales $2,425,000, selling and distribution $346,000 and general and administrative $820,000 for a total of $3,591,000.

No subsidy amounts were recorded in the first nine months of 2022.

11. 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 (2021 – 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 948,494 (2021 – 920,330) Class A subordinate voting shares of the Company, representing approximately 10.5% (2021 – 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 $373,000 (Quarter 2 2021– $327,000).

12. Change in non-cash operating working capital

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

	Nine Months Ending	
	October 1, 2022	September 25, 2021
Accounts receivable	$ (14,692)	$ (21,394)
Inventories	(22,951)	(12,071)
Prepaid expense	306	389
Accounts payable and accrued liabilities	24,398	17,673
Foreign exchange	12,948	1,179
	$ 9	$ (14,224)

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
2nd Floor
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Allwyn X-Roads
Miyapur, Hyderabad – 500049

Italy

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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

Corefficient, S. de R.L. de C.V.
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Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

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Baraboo, Wisconsin 53913

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Compton, California 90224

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Reno, Nevada 89511

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

Corporate Information

Corporate Officers and Directors

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

Richard C. Vollering
Corporate Secretary and
Chief Financial Officer

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Anne Marie Turnbull *+
Director

David M. Wood *+
Director

* Corporate Governance Committee
+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

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Legal Representation

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Banking Institution

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Investor Relations

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Investor Relations
Phone: 519.822.2441 x453
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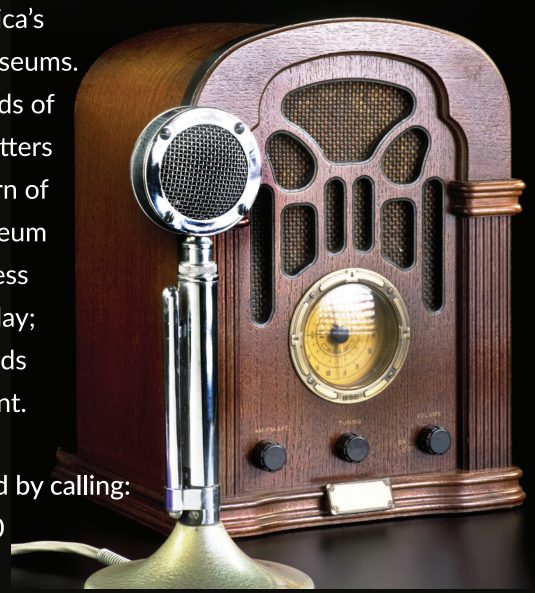
The Hammond Museum of Radio

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



YOU DON'T KNOW WHAT'S GOING TO HAPPEN IN BUSINESS
A YEAR FROM NOW... SO YOU HAVE TO BE FLEXIBLE AND
ADAPTABLE, AND THAT'S WHAT WE TRY TO DO

Hammond Power
Solutions Inc.

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