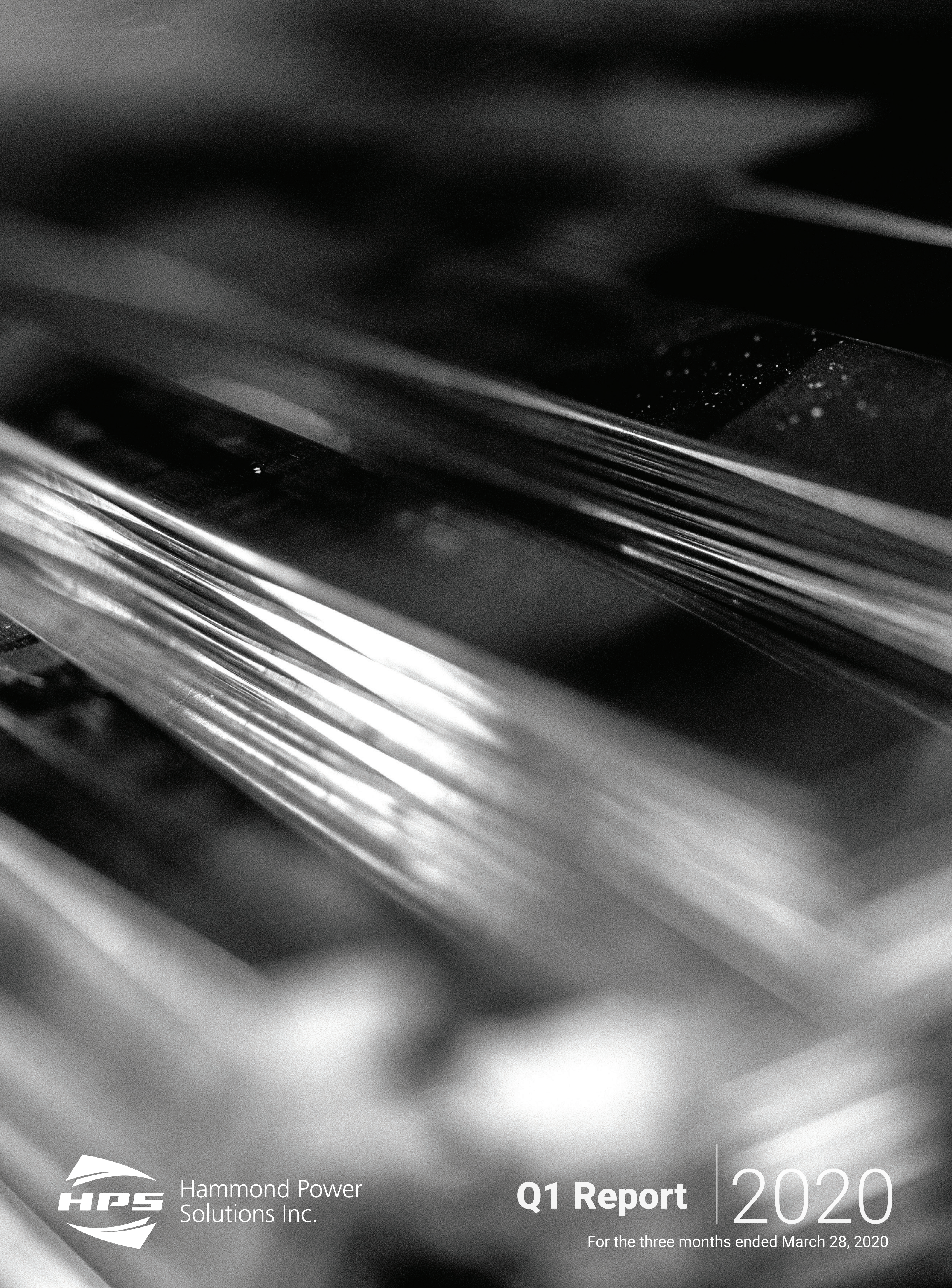


Hammond Power Solutions Inc.

Q1 Report 2020

For the three months ended March 28, 2020

Our Vision

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

Our Mission

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

Our Values

We value the **safety** and **well-being** of all

We expect **honesty, integrity** and **ethical behaviour**

We embrace **diversity** by nurturing an **inclusive** environment and treating everyone with **dignity** and **respect**

We promote **innovation** and a relentless pursuit of **continuous improvement** through **teamwork**

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

To our shareholders,

First let me say, I hope that you and your family have been spared from the ill effects of this dangerous pandemic that is turning our personal and business worlds upside down. In a few short months a new reality has taken hold and not only changed how we go about our lives but also created great uncertainty.

Contrary to the seriousness of the threat posed by COVID-19 Hammond Power Solutions Inc. (“HPS”) is pleased to report that we started the year with positive momentum, delivering solid financial results in Quarter 1, 2020 – even in comparison to our record breaking results of 2019. Our North American operations were not affected by government orders which shut most other businesses down. We also entered the year with a strong bookings trend as well as a sizeable backlog of orders and as a result, we were able to deliver higher sales than the first quarter in 2019 while holding our marketing margins steady. Under the current circumstances, we are very proud of these results.

As we all know, the effects of this pandemic as well as nationwide restrictions and mandated business shutdowns have had an immediate and devastating impact on economic activity across the globe. Although we have not yet been hit to the same extent as other companies, we anticipate that the next few quarters will be much more challenging for many of our markets and customers. Fortunately, HPS has been deemed an essential supplier of electrical components in Canada, the United States (“U.S.”) and Mexico. This has not been the case however in India, where they have been forced to take drastic action in an attempt to slow the spread of this virus by shutting down all manufacturing until early May.

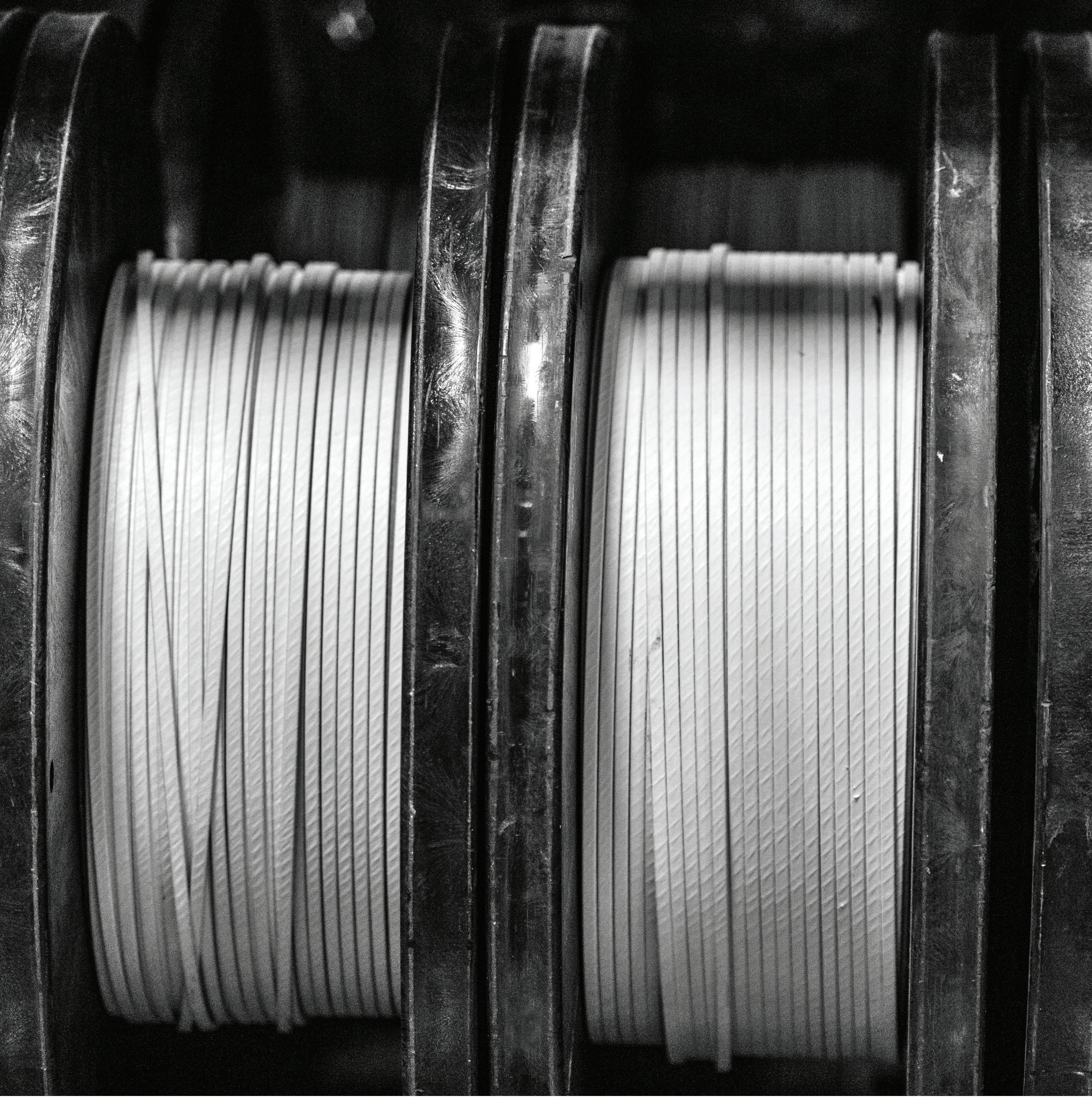
The impact of government restrictions in North America is having the greatest effect on our Canadian business where we have seen a marked downturn in the construction and industrial markets. Although a number of our markets in the U.S. have seen a similar and immediate slowdown in activity, much of this downdraft in business has been offset by an increase in sales through our U.S. distributor channel. Our dominant position in this channel as well as the broad national and market coverage that it gives us, has brought us a continuing stream of opportunities in several areas including health care facilities, data centres and specialized manufacturing. We also anticipate other opportunities to surface in the next two quarters as a result of the financial limitations of some of our competitors who do not have the same financial strength of HPS.

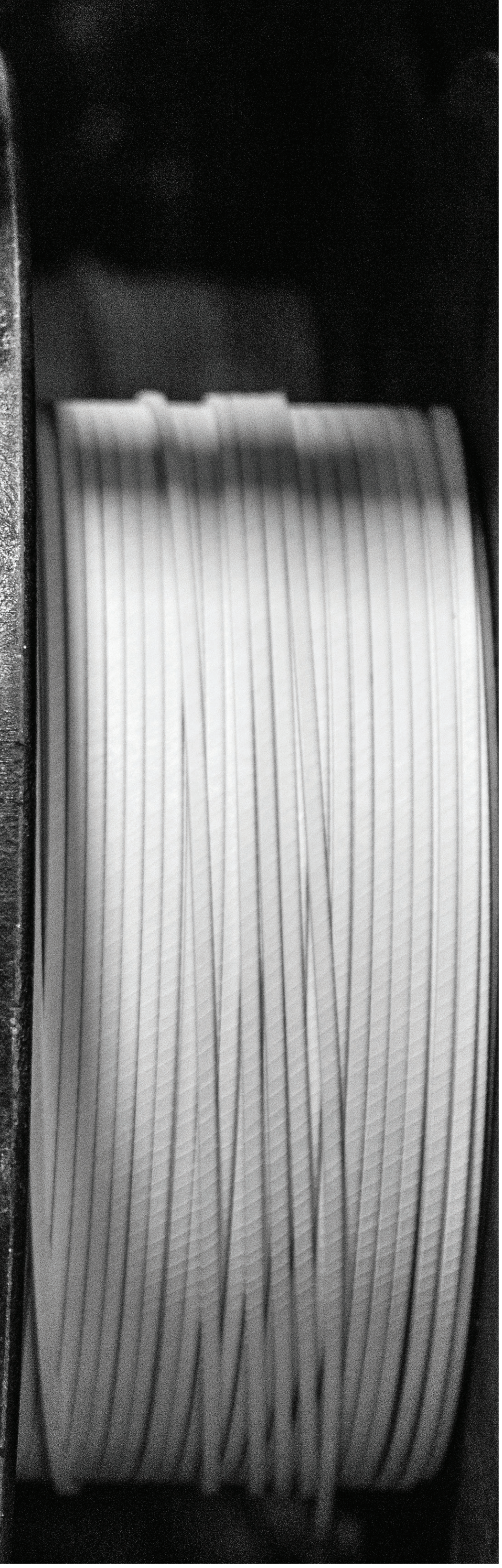
As important as financial performance is, our number one priority has been the health and safety of our employees. Even though we are deemed to be an essential supplier, we cannot build and ship transformers if our employees within our operations are not protected in the safest means possible. Although we are going to great lengths to accomplish this, the costs and inefficiencies caused by higher levels of absenteeism, working remotely, as well as mandated temporary leave are challenging to say the least. We sincerely appreciate the efforts and support of our employees who come to work every day in our ten North American facilities under these trying circumstances. I would also like to thank our agents who are continuing to staff six regional warehouses, which we maintain across the U.S. and Canada to serve the immediate needs of our distributors. I would also like to acknowledge the continuing support of our many suppliers without whom we could not build products. By working together, we will get through this pandemic and recession.

I am confident that due to our engaged and supportive employee culture, our strong financial foundation, our channel and market diversity, our dominant position in this business, as well as our superior service capabilities we will make it through this tough and challenging trough. I am confident that on the outset, HPS will be in an even stronger market and financial position. Our biggest challenge at the current time is knowing with any degree of certainty whether we will experience any future business disruptions should the COVID-19 infection rate see a resurgence.

Until then, may we all enjoy good health!

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





Management's Discussion and Analysis

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

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended March 28, 2020, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2020. This information is based on Management's knowledge as at April 30, 2020. 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 2019 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2019 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" from continuing operations represents EBITDA from continuing operations 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, EBITDA and Adjusted EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA and Adjusted EBITDA to net earnings for the quarters ending March 28, 2020 and March 30, 2019 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 from continuing operations for the quarter-ended March 28, 2020 were $88,420, an increase of $3,730 or 4.4% from Quarter 1, 2019 sales from continuing operations of $84,690.

Sales in the U.S. increased by $2,147 or 4.0%, finishing at $56,341 for Quarter 1, 2020 compared to $54,194 in Quarter 1, 2019. North American Electrical Distributor ("NAED"), motor control and mining markets were stronger in the U.S. in Quarter 1, 2020 compared to the same quarter in 2019, while private branding and capital equipment markets decreased during the same period. U.S. first quarter sales were favourably affected by a 0.8% stronger U.S. dollar ("USD"), $1.00 USD = $1.34 Canadian dollar ("CAD") compared against $1.00 USD = $1.33 CAD in Quarter 1, 2019. U.S. sales, when stated in USD were $42,083 in Quarter 1, 2020 compared to Quarter 1, 2019 of $40,747, an increase of $1,336 or 3.3%.

Canadian sales increased to $27,344 for the quarter, an increase of $1,103 or 4.2% from Quarter 1, 2019 sales of $26,241. During Quarter 1, 2020 the switchgear market experienced increases while there were decreases in the NAED, mining and motor control markets.

Indian sales for Quarter 1, 2020 finished at $4,735 versus $4,255 in Quarter 1, 2019, an increase of $480 or 11.3% due to higher Original Equipment Manufacturer ("OEM") shipments in the quarter.

Quarter 1, 2020 sales from continuing operations stated by geographic segment were derived from U.S. sales of 63.7% (Quarter 1, 2019 – 64.0%) of total sales, Canadian sales of 30.9% (Quarter 1, 2019 – 31.0%) and Indian sales of 5.4% (Quarter 1, 2019 – 5.0%).

The Company's market share further grew through the U.S. distributor channel and as a result of its capabilities to produce both standard and custom transformers. The NAED channels growth and OEM capabilities continued to accelerate and strengthen HPS' sales. The expansion of these segments is also a result of organic customer diversity, new customer relationships, expanded product offering and geographically diverse manufacturing facilities. 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. Specifically, the Company's North American operations are operating as an "essential" business and did experience an increase in distribution transformer sales through the NAED channel specifically used for new U.S field hospitals that are being established as a result of the increased hospitalization demand caused by the impact of COVID-19.

We are unwavering in our commitment on providing exceptional value to our customers through product breadth, competitive custom engineered designs, uncompromised quality, new product development and ease of doing business.

The Company's engineering and manufacturing capabilities in dry, liquid filled and cast resin transformer technology is a strength to the Company and fundamental to revenue growth. HPS' growth strategy is evidenced by its business development activities, vertical integration strategies, capital investment and past restructuring activities.

The Company prides itself on building our value proposition to our customers through consistent quality, innovative and competitive product design, industry expertise in custom engineered products and expanded product breadth. These factors coupled with a strong, effective distribution channel, multi-national manufacturing capabilities and global reach will continue to be an advantage for the Company and important to continued revenue growth. The company's North American operations designated as an "essential" businesses will ensure our support to our customers providing critical services through the COVID-19 pandemic.

Order bookings and backlog

Bookings decreased 8.8% from Quarter 1, 2019 due to a decrease in bookings in the North American direct and Canadian distributor sales channels and lower bookings in the Indian market, predicated by the onset of the COVID-19 pandemic in March of this year. Although remaining strong in the U.S., the company saw a Quarter 1, 2020 drop in bookings in the Canadian NAED channel. This resulted in an overall decline in the distributor channel booking rates by 4.1% from Quarter 1, 2019. Direct channel bookings were lower than Quarter 1, 2019 by 15.5%, particularly caused by a softness in the OEM and project business in North America from project deferrals and the business activity slowdown caused the current COVID-19 pandemic.

As a result of lower bookings combined with the impact of increased sales, the backlog decreased 4.1% over Quarter 1, 2019 and 3.3% over Quarter 4, 2019 but remains reasonably healthy.

The Company is sensitive to the volatility, unpredictability and changeability of current global economies and the impact that this will have on booking trends. Even in the current COVID-19 environment we are seeing some active quotation and order trends in certain industries, however the Company is very cognizant that it will see volatility and unpredictability in medium and longer term booking rates.

Gross margin

The Company saw a decline in its gross margin rate for Quarter 1, 2020 which was 23.6% compared to Quarter 1, 2019 margin rate of 23.9%, a decrease of 0.3% of sales. This margin rate decline is attributed to sales mix and market specific pricing which is partially offset by decreasing raw material commodity costs and solid manufacturing throughput. HPS continues to focus on price realization strategies and achievement of cost reductions in an effort to maintain or increase margin rates.

Gross margin rate consistency is supported by productivity gains, material procurement and engineering cost reduction initiatives. The Company's ability to flex its manufacturing capacity demand and cost structures is fundamental for future gross margin attainment. HPS remains committed to its continuous improvement program and cost reductions across the entire organization which will help offset the negative effects of manufacturing load fluctuations and/or reductions. The Company is confident that these actions going forward will support us in maximizing margin rates during the current economic times. The Company's diversified market and channel approach will also buffer some of the impact experienced by HPS during the global pandemic.

Fluctuating markets, product mix and the effect of COVID-19 on the current global economy will have substantial impacts on financial results. Looking forward, the unpredictable business activity combined with our backlog decrease provides some indication of caution. HPS has been identified as an essential service in all countries that we operate in, with the exception of India where the country is currently on lockdown. The demand for our product exists, but sales volumes will be determined primarily by which industries and customers are continuing to operate and in what capacity. As sales decrease, the lower manufacturing throughput will have a dilutive impact on margin rates. The Company will still realize growth in some markets and experience a decline in others underscoring the volatility of markets and sales demand. The Company is steadfast in its implementation of initiatives to manage the negative volatility impact. The Company's distributor footprint in North America and its Indian market presence, cost reduction and containment, product and market breadth and multi-national manufacturing capabilities will support the business.

Selling and distribution expense

Total selling and distribution expenses from continuing operations were $11,140 in Quarter 1, 2020 or 12.6%

of sales versus $9,998 in Quarter 1, 2019 or 11.8% of sales, an increase of $1,142. The year-over-year increase in selling and distribution expenses is a result of higher variable freight and commission expenses attributed to the increase in sales and the start-up and operational expenses related to a new distribution centre in Reno, Nevada.

General and administrative expense

General and administrative expenses from continuing operations were $6,701 or 7.6% of sales for Quarter 1, 2020 compared to Quarter 1, 2019 expenses of $5,777 or 6.8% of sales, an increase of $924 or 16.0%. The increase in these expenses can be attributed to continuing costs relating to our European business and property holdings in Italy, increased compensation costs, additional provisions for doubtful accounts receivable and added costs associated with our investor relations program.

Earnings from continuing operations

Quarter 1, 2020 earnings from continuing operations were $3,033 compared to $4,479 for the same quarter last year, a decrease of $1,446 or 32.3%. The decrease in the quarter earnings from operations is primarily a result of increased selling, distribution, general and administrative expenses.

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

	Q1, 2020	Q1, 2019
Net earnings from continuing operations	$ 2,148	$ 2,508
Add:		
Income tax expense	983	1,407
Interest expense	396	232
Foreign exchange (gain) loss	(376)	25
Share of (income) loss of investment in joint venture	(151)	281
Other	33	26
Earnings from continued operations	$ 3,033	$ 4,479

Net finance and other costs

Interest expense for Quarter 1, 2020 was $396, an increase of $164 or 70.7% compared to the Quarter 1, 2019 expense of $232. A portion of the change in Quarter 1, 2020 - $97 for the current year and $78 for the prior year was due to the accounting standard adoption of IFRS 16 for leases which allocates part of lease costs to interest expense. The increase in the interest expense is a result of operating debt levels growth during the quarter due to working capital increases primarily due to higher accounts receivable and a drop in accounts payable from the end of the year. Interest expense includes all bank fees.

The foreign exchange gain in Quarter 1, 2020 was $376 compared to a loss of $25 in Quarter 1, 2019, an increase of $401. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past quarter where the U.S. dollar increased 5.1% from December 2019.

As at March 28, 2020 the Company had outstanding foreign exchange contracts in place for 17,200 Euros ("EUR") and $12,000 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 $45,000 USD – an economic hedge of U.S. dollar denominated accounts payable in HPS Canada operations.

Corefficient de R.L. de C.V. ("Corefficient") realized some profitability improvement during Quarter 1, 2020 with earnings from the joint venture of $151 compared to a loss of $281 in Quarter 1, 2019. The improvement in the joint venture performance was a result of elevated sales, higher manufacturing throughput, lower material costs and increased selling prices.

Income taxes

Quarter 1, 2020 income tax expense from continuing operations was $983 compared to $1,407 in Quarter 1, 2019 a decrease of $424 or 30.1%.

The consolidated effective tax rate for Quarter 1, 2020 was 31.4% versus 35.9% for Quarter 1, 2019, a decrease of 4.5%. 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 and the share of the loss of investment in the joint venture.

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 un-depreciated capital cost of property, plant and equipment.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Net earnings from continuing operations

Net earnings from continuing operations for Quarter 1, 2020 finished at $2,148 compared to net earnings of $2,508 in Quarter 1, 2019, a decrease of $360 or 14.4%. The decrease in the quarter earnings is a result of increased sales, additional gross margin dollars and improved results from the joint venture offset by higher selling, distribution, general and administration expenses.

Discontinued operations

In Quarter 4, 2018, the Company closed its Italian facility and ceased operations as the entity struggled to generate adequate sales and profits. The restructuring charges were comprised of severance and benefit costs related to workforce reductions, closure and cancellation costs and write-downs of goodwill, long-lived assets and inventory. The closure of the Italian operations has been presented as discontinued operations in the 2019 financial statements. In 2020 the Italian real estate holding and marketing services entity is included as part of the continuing operations of the Company.

Earnings per share from continuing operations

Basic earnings per share from continuing operations were $0.18 for Quarter 1, 2020 versus $0.21 in Quarter 1, 2019. Basic earnings per share was $0.18 for Quarter 1, 2020 versus $0.20 in Quarter 1, 2019.

EBITDA

EBITDA for Quarter 1, 2020 was $5,678 versus $6,111 in Quarter 1, 2019, a decrease of $433 or 7.1%. Adjusted for foreign exchange gain/loss adjusted EBITDA for Quarter 1, 2020 was $5,302 versus $6,136 in Quarter 1, 2019, a decrease of $834 or 13.6%.

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

	Quarter 1, 2020	Quarter 1, 2019
Net earnings from continuing operations	$ 2,148	$ 2,508
Add:		
Interest expense	396	232
Income tax expense	983	1,407
Depreciation and amortization	2,151	1,964
EBITDA from continuing operations	$ 5,678	$ 6,111
(Subtract) Add :		
Foreign exchange (gain) loss	(376)	25
Adjusted EBITDA from continuing operations	$ 5,302	$ 6,136

Summary of quarterly financial information (unaudited)

Fiscal 2020 Quarters	Q1
Sales from continuing operations	$ 88,420
Net earnings from continuing operations	$ 2,148
Net income per share – basic	$ 0.18
Net income per share – diluted	$ 0.18
Average U.S. to Canadian exchange rate	$ 1.3388

Fiscal 2019 Quarters	Q1	Q2	Q3	Q4	Total
Sales	$ 84,690	$ 91,937	$ 91,502	$ 90,653	$ 358,782
Net earning	$ 2,508	$ 3,352	$ 3,595	$ 3,851	$ 13,306
Net earnings per share – basic	$ 0.20	$ 0.25	$ 0.27	$ 0.27	$ 0.99
Net earnings per share – diluted	$ 0.20	$ 0.25	$ 0.27	$ 0.27	$ 0.99
Average U.S. to Canadian exchange rate	$ 1.3301	$ 1.3379	$ 1.3198	$ 1.3203	$ 1.3270

Quarter 1, 2020 sales are higher than Quarter 1, 2019. Sales for Quarter 1, 2020 were favourably impacted due to fluctuations in exchange rates. There continues to be significant fluctuations of sales volumes in various markets.

Gross margin rates for the quarter have decreased from the same quarter last year. This margin rate decline is attributed to sales mix and market specific pricing which is partially offset by decreasing raw material commodity costs and solid manufacturing throughput.

Fluctuations in exchange rates resulted in a gain in foreign exchange in the first quarter of 2020 of $376 compared to a loss of $25 in the first quarter of 2019.

Selling and distribution expenses have increased due to higher variable freight and commission expenses attributed to the increase in sales and start-up expenses related to a new warehouse in Reno, Nevada. General and administrative expenses increases can be attributed to continuing costs relating to our European business and property holdings in Italy, increased compensation costs, provisions for doubtful accounts receivable and increased costs associated with our investor relations program.

Corefficient Quarter 1, 2020 share of income of investment in the joint venture was $151 compared to a share of loss of investment in the joint venture of $281 Quarter 1, 2019, an improvement of $432.

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

Net cash used in operating activities for Quarter 1, 2020 was $6,038 versus cash generated of $2,316 in Quarter 1, 2019, an increase in cash usage of $8,354. This increase is a result of a rise in cash utilized for working capital and increased income tax payments.

In Quarter 1, 2020, non-cash working capital used cash of $9,847 compared to cash used of $4,114 for the same quarter last year, an increase of $5,733. The working capital changes are primarily related to a significant increase in accounts receivable and decrease in accounts payable and accrued liabilities offset by foreign exchange fluctuations.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Total cash from financing activities changed by $639 from cash used in financing activities of $1,111 in the first three months of 2019 to $472 in the same period of 2020. The key driver of this change is the current year advances of bank operating lines.

Cash used in investing activities increased by $412 from $941 in Quarter 1, 2019 to $1,353 in Quarter 1, 2020. Capital expenditures were $1,353 in Quarter 1, 2020 compared to $940 for Quarter 1, 2019, an increase of $413. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Bank operating lines of credit have increased slightly from prior year levels finishing Quarter 1, 2020 at $34,217 compared to $33,052 at the end of Quarter 1, 2019, an increase of $1,165. The bank operating lines of credit have increased $1,520 since the year-end balance of $32,697.

The Company's overall operating debt balance net of cash has increased $1,768 in the current year from $16,588 in Quarter 1, 2019 to $18,356 in Quarter 1, 2020.

All bank covenants continue to be met as at March 28, 2020.

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

	2020	2021	2022	2023	2024	Total
Accounts payable and accrued liabilities	$ 47,177	–	–	–	–	$ 47,177
Capital expenditure purchase commitments	3,102	–	–	–	–	3,102
Bank operating lines	–	34,217	–	–	–	34,217
Lease liabilities	1,091	2,111	2,217	1,730	3,109	10,258
Total	$ 51,370	$ 36,328	$ 2,217	$ 1,730	$ 3,109	$ 94,754

Regular quarterly dividend declaration

The Board of Directors of HPS declared a 21.4% increase in the quarterly cash dividend to eight and a half cents ($0.085) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of eight and a half cents ($0.085) per Class B Common Share of HPS paid on March 26, 2020 to shareholders of record at the close of business on March 19, 2020. The ex-dividend date was March 18, 2020.

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 1, 2020 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 market place, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies.

Coronavirus (COVID-19) – Business Disruption

Markets, governments and health organizations around the world are working to contain the outbreak of the coronavirus (COVID-19). COVID-19 presents a wide range of potential issues or complications for the Company, most of which the Company is not able to know the full extent of.

The following is a summary of what the Company believes may impact their business as a result of COVID-19:

- Disruptions to business operations resulting from quarantines of employees, customers, suppliers and third party service providers in areas affected by the outbreak;
- Disruptions to business operations resulting from travel restrictions;
- Uncertainty around the duration of the virus' impact; and
- Change in classification of essential services, requiring HPS to shut-down operations.

At this time, it appears that COVID-19 will be a material disruption to the Company's business. All of our operations in Canada, U.S. and Mexico have been designated as an "essential services business" while currently our Indian operations are not operating as the government has imposed a 100% lockdown of the country, shutting down all businesses since March 24, 2020. Although the company's U.S. markets remain steady, it appears that the company will see significant reductions in sales in the Canadian and Indian markets. Due to the uncertainty and unpredictability of the impacts of the COVID-19 pandemic on business operations and the uncertainty of governmental and health authorities legislation, the negative financial impact of the unprecedented pandemic will be more clearly determinable over the next few quarters.

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

These risks include:

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

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

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

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

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

We do business in a host of countries around the world. Approximately 75% of our sales were to customers outside of Canada. In addition, a number of our manufacturing operations, suppliers and employees are located in many places around the world. The future success of our business depends in large part on growth in our sales in non-Canadian markets. Our global operations are subject to numerous financial, legal and operating risks, such as political and economic instability; prevalence of corruption in certain countries; enforcement of contract and intellectual property rights and compliance with existing and future laws, regulations and policies, including those related to tariffs, investments, taxation, trade controls, product content and performance, employment and repatriation of earnings.

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

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

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

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

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

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

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

The U.S. political uncertainty and potential for changes in the business environment can lead to legislative changes that could impact business.

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

Our industry is highly competitive.

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

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

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

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

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

The business practice of extending credit to customers can lead to a risk of uncollectability.
A substantial portion of the Company's accounts receivable are with customers in manufacturing sectors and are subject to credit risks normal to those industries. The Company's expansion into emerging markets increases credit risk which is partially mitigated by progress payments. Approvals are based on trade information, payment history, credit rating and financial analysis. Although the Company has historically incurred very low bad debt expense, the current economic environment conditions elevate this exposure.

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

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements other than capital expenditure commitments disclosed in Notes to the Consolidated Financial Statements contained in our 2019 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2020, other than transactions disclosed in Note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2020 Report.

Proposed transactions

The Company had no proposed transactions as at March 28, 2020. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at March 28, 2020, the Company had outstanding foreign exchange contracts in place for 17,200 EUR and $12,000 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $45,000 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 assesses the carrying value of its property, plant and equipment, intangible assets and goodwill every year, or more often if necessary. If it is determined that we cannot recover the carrying value of an asset or goodwill, the unrecoverable amount is written off against current earnings. The Company bases its assessment of recoverability on assumptions and judgments about future prices, demand and manufacturing costs. A material change in any of these assumptions could have a significant impact on the potential impairment and/or useful lives of these assets.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Outstanding share data

Details of the Company's outstanding share data:

8,966,624	Class A Shares
2,778,300	Class B Common Shares
11,744,924	Total Class A and B Shares

Adopted accounting pronouncements

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

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

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2020. The adoption of the amendments did not have a material impact on the consolidated financial statements.

Strategic direction and outlook

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

- Escalating growth of the NAED channel;
- New global customers;
- Expanded relationships with existing customers;
- Compliance with regulatory changes;
- New product development;
- Expanded product offering using cast resin technology;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Establishment of a state-of-the-art core manufacturing facility in Mexico; and
- Development and further implementation of our ERP system to enhance availability of information and streamline processes.

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

The current pandemic, COVID-19, has had an unprecedented impact on the global economy. The full impact is not yet known but the government decisions to declare a state of emergency in a number of countries in which we operate has had an immediate impact on the economies of such countries. HPS has been identified as an essential service in most countries. The demand for our transformers particularly in North America continues to exist but sales volumes are expected to be tempered, primarily by which industries and services are continuing to operate. Based on the foregoing, the Company expects to see a decline of revenues and an increase in operational costs which will have the effect of reducing HPS' financial performance in 2020.

The implementation of the ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, supplement strategic decision making, improve customer service and audit and control. The ERP system implementation was completed in our Indian facility in Quarter 2, 2019 and an implementation project began in Quarter 3, 2019 for the Company's remaining operation that will be converted to our ERP platform. It is expected to be fully implemented in late 2020 or early 2021. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

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

HPS is aware that the global economy is vital to maintaining competitiveness and market share growth. Our international ventures have allowed the Company to expand product offerings and opened up additional markets and customers that were previously not accessible. These acquisitions also provided HPS with cast resin technology which has introduced new markets.

While there have been many successes and challenges the unpredictable and fluctuating global economic climate has had a pervasive and persistent impact on HPS' profitability over a number of years. The Company has also experienced the adverse impact of unpredictability of foreign currency exchange rates, variability of raw material commodity costs, fluctuating manufacturing throughput and market pricing pressures. These deterrents are being prudently managed through the Company's operational plans and strategic initiatives and projects.

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

- Investing in capital and its employees;
- Disciplined cost management initiatives;
- Sales development;
- NAED channel expansion;
- Broadened product offering;
- Bringing quality and value to all stakeholders of the Company;
- Identifying and pursuing additional sales opportunities with both existing as well as new customers;
- Cash flow generation;
- Product development;
- Capital investment; and
- Strategic planning.

HPS continues to have a strong reputation of being an industry leader and is both operationally and financially strong. The Company is positioned to meet the evolving needs of our traditional markets while becoming a leading player in a growing number of market sectors. Historically, the Company has navigated through long-term economic uncertainty and management continues to remain confident in the vision of the future. HPS continues to be focused on escalation of market share, sales growth from product development, geographic diversification, productivity gains, cost reduction and capacity flexibility.

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

The Company has implemented robust health and safety precautions dedicated to providing a safe working environment for our employees while continuing to manufacture and serve our customers during this volatile, unpredictable time.

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 First Quarter of 2020. 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)]	2015	2016	2017	2018	2019
Sales	274,639	274,793	301,750	314,082	358,792
Earnings from operations	12,644	10,873	14,470	13,779	20,543
EBITDA	18,748	14,356	23,069	17,915	28,175
Net earnings (loss)	6,320	1,793	6,114	(12,917)	11,607
Total assets	222,969	205,177	192,449	205,527	214,953
Non-current liabilities	5,454	4,131	3,641	2,528	11,271
Total liabilities	90,668	84,524	77,438	96,793	105,186
Total shareholders' equity attributable to equity holders of the Company	129,665	120,441	114,848	108,734	109,767
Operating debt, net of cash	(13,202)	(11,318)	(16,983)	(17,056)	(9,326)
Cash provided by operations	16,065	15,216	1,032	6,474	17,810
Basic earnings (loss) per share	0.53	0.16	0.53	(1.10)	0.99
Diluted earnings (loss) per share	0.53	0.16	0.52	(1.10)	0.99
Dividends declared and paid	2,807	2,808	2,809	2,818	3,287
Average exchange rate (USD$=CAD$)	1.274	1.325	1.298	1.294	1.327
Book value per share	11.08	10.29	9.80	9.26	9.36

		2018			2019			2020
Quarterly Information	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	75,418	81,553	86,714	84,690	91,937	91,502	90,653	88,420
Earnings from operations	3,028	3,219	4,780	4,479	4,731	5,471	5,862	3,033
EBITDA	2,184	3,879	8,221	6,111	7,111	7,302	7,651	5,678
Net earnings (loss)	(370)	1,391	(14,833)	2,508	3,352	3,595	2,152	2,148
Total assets	202,635	200,954	205,527	206,554	205,059	206,586	214,953	212,929
Non-current liabilities	3,383	3,291	2,528	10,914	10,558	9,947	11,271	9,729
Total liabilities	83,210	83,253	96,793	99,939	99,640	96,870	105,186	97,156
Total shareholders' equity attributable to equity holders of the Company	119,425	117,701	108,734	106,615	105,419	109,716	109,767	115,773
Operating debt, net of cash	(21,578)	(20,502)	(17,056)	(16,588)	(18,582)	(22,678)	(9,326)	(18,356)
Cash provided by (used in) operations	972	2,468	4,941	2,316	507	(1,460)	16,447	(6,038)
Basic earnings per share	(0.03)	0.12	(1.27)	0.20	0.25	0.27	0.27	0.18
Diluted earnings per share	(0.03)	0.12	(1.27)	0.20	0.25	0.27	0.27	0.18
Dividends declared and paid	704	704	706	822	821	821	823	998
Average exchange rate (USD$=CAD$)	1.290	1.307	1.319	1.330	1.338	1.320	1.320	1.339
Book value per share	10.16	10.02	9.26	9.09	8.99	9.33	9.36	9.86

(1) Balances for 2015-2017 not restated to reflect discontinued operations

Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)	As at March 28, 2020	As at December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 15,861	$ 23,371
Accounts receivable	69,817	64,004
Inventories	50,406	50,926
Income taxes receivable	1,977	1,626
Prepaid expenses and other assets	2,197	2,657
Total current assets	140,258	142,584
Non-current assets		
Long-term lease and note receivable	3,353	3,180
Property, plant and equipment (note 4 and note 7)	31,786	32,468
Investment in properties	3,895	3,709
Investment in joint venture (note 5)	14,582	13,428
Deferred tax assets	1,482	1,944
Intangible assets (note 6)	6,063	6,331
Goodwill	11,510	11,309
Total non-current assets	72,671	72,369
Total assets	$ 212,929	$ 214,953
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 34,217	$ 32,697
Accounts payable and accrued liabilities	48,409	56,216
Income tax payable	852	1,055
Provisions	1,778	1,710
Current portion of lease liabilities (note 7)	2,171	2,237
Total current liabilities	$ 87,427	$ 93,915
Non-current liabilities		
Provisions	243	285
Deferred tax liabilities	1,399	1,819
Long-term portion of lease liabilities (note 7)	8,087	9,167
Total non-current liabilities	9,729	11,271
Total liabilities	$ 97,156	$ 105,186
Shareholders' Equity		
Share capital	14,491	14,491
Contributed surplus	2,498	2,498
Accumulated other comprehensive income (note 9)	12,295	7,439
Retained earnings	86,489	85,339
Total shareholders' equity	$ 115,773	$ 109,767
Total liabilities and shareholders' equity	$ 212,929	$ 214,953

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Operations

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

	Three Months Ending	
	March 28, 2020	March 30, 2019
Sales (note 10)	$ 88,420	$ 84,690
Cost of sales	67,546	64,436
Gross margin	20,874	20,254
Selling and distribution	11,140	9,998
General and administrative	6,701	5,777
	17,841	15,775
Earnings from operations	3,033	4,479
Finance and other costs		
Interest expense	396	232
Foreign exchange (gain) loss	(376)	25
Share of (income) loss of investment in joint venture (note 5)	(151)	281
Other	33	26
Net finance and other (income) costs	(98)	564
Earnings before income taxes	3,131	3,915
Income tax expense	983	1,407
Net earnings from continuing operations	$ 2,148	$ 2,508
Loss from discontinued operations, net of tax	–	(193)
Net earnings	$ 2,148	$ 2,315
Earnings per share		
Basic earnings per share	$ 0.18	$ 0.20
Diluted earnings per share	$ 0.18	$ 0.20
Basic earnings per share from continuing operations	$ 0.18	$ 0.21
Diluted earnings per share from continuing operations	$ 0.18	$ 0.21

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending	
	March 28, 2020	March 30, 2019
Net earnings	$ 2,148	$ 2,315
Other comprehensive income (loss)		
Foreign currency translation differences for foreign operations (note 9)	4,856	(1,003)
Total comprehensive income for the period	$ 7,004	$ 1,312

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 28, 2020

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2020	$ 14,491	$ 2,498	$ 7,439	$ 85,339	$ 109,767
Total comprehensive income for the year					
Net earnings	–	–	–	2,148	2,148
Other comprehensive income					
Foreign currency translation differences related to joint venture (note 5)	–	–	1,003	–	1,003
Foreign currency translation differences (note 9)	–	–	3,853	–	3,853
Total other comprehensive income	–	–	4,856	–	4,856
Total comprehensive income for the year	–	–	4,856	2,148	7,004
Transactions with owners, recorded directly in equity					
Dividends to equity holders (note 8)	–	–	–	(998)	(998)
Total transactions with shareholders	–	–	–	(998)	(998)
Balance at March 28, 2020	$ 14,491	$ 2,498	$ 12,295	$ 86,489	$ 115,773

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 30, 2019

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2019	$ 14,217	$ 2,559	$ 12,740	$ 79,218	$ 108,734
Impact of application of new accounting standard	–	–	–	(2,603)	(2,603)
Adjusted balances as of January 1, 2019	14,217	2,559	12,740	76,615	106,131
Total comprehensive income for the year					
Net earnings	–	–	–	2,315	2,315
Other comprehensive loss					
Foreign currency translation differences related to joint venture (note 5)	–	–	(290)	–	(290)
Foreign currency translation differences (note 9)	–	–	(713)	–	(713)
Total other comprehensive loss	–	–	(1,003)	–	(1,003)
Total comprehensive (loss) income for the year	–	–	(1,003)	2,315	1,312
Transactions with owners, recorded directly in equity					
Repurchase of shares (note 8)	(2)	–	–	(4)	(6)
Dividends to equity holders (note 8)	–	–	–	(822)	(822)
Total transactions with shareholders	(2)	–	–	(826)	(828)
Balance at March 30, 2019	$ 14,215	$ 2,559	$ 11,737	$ 78,104	$ 106,615

*AOCI – Acculated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)	Three Months Ending March 28, 2020	March 30, 2019
Cash flows from operating activities		
Net earnings	$ 2,148	$ 2,315
Adjustments for:		
Share of (income) loss of investment in joint venture	(151)	281
Amortization of property, plant and equipment	1,984	1,784
Amortization of intangible assets	167	180
Provisions	26	(211)
Interest expense	396	284
Income tax expense	983	1,407
Change in unrealized (loss) gain on derivatives incldued within other assets	(207)	1,069
	5,346	7,109
Change in non-cash working capital (note 12)	(9,847)	(4,114)
Cash (used in) provided by operating activities	(4,501)	2,995
Income tax paid	(1,537)	(679)
Net cash (used in) generated by operating activities	(6,038)	2,316
Cash flows from investing activities		
Acquisition of property, plant and equipment (note 4)	(1,353)	(940)
Acquisition of intangible assets (note 6)	–	(1)
Cash used in investing activities	(1,353)	(941)
Cash flows from financing activities		
Advances of borrowings	1,520	451
Receipt of lease receivable payment	45	46
Share repurchase	–	(6)
Payment of lease liabilities (note 7)	(643)	(496)
Cash dividends paid (note 8)	(998)	(822)
Interest paid	(396)	(284)
Cash used in financing activities	(472)	(1,111)
Foreign exchange on cash held in a foreign currency	353	655
(Decrease) increase in cash	(7,510)	919
Cash and cash equivalents at beginning of period	23,371	15,545
Cash and cash equivalents at end of period	$ 15,861	$ 16,464

See accompanying notes to condensed consolidated interim financial statements

Three months ended March 28, 2020 and March 30, 2019 (amounts in thousands of dollars except share and per share amounts)

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. 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 first quarter ended March 28, 2020 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. The Company also holds a 55% economic interest in a joint venture located in Mexico called Correfficient de R.L. de C.V. ("Corefficient").

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 April 30, 2020.

(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, 2019.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2019 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, 2019, with the exception of items noted below:

Three months ended March 28, 2020 and March 30, 2019 (amounts in thousands of dollars except share and per share amounts)

Changes to accounting policies

Definition of a Business (Amendments to IFRS 3)

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

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

The Company adopted the amendments in its financial statements for the annual period beginning on January 1, 2020. 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.

	March 28, 2020	December 31, 2019
Property, plant and equipment owned	$ 23,694	$ 23,415
Right-of-use assets (note 7)	8,092	9,053
	$ 31,786	$ 32,468

The Group had acquisitions of property, plant and equipment owned for the three months ended March 30, 2020 in the amount of $1,353,000 of machinery and equipment (2019 – $940,000).

5. Joint venture

The Company has a 55% economic and voting interest in Corefficient, whose principal place of business is in Monterrey, Mexico. The Company treats its investment in Corefficient as a joint arrangement. The carrying value of the Company's interest in Corefficient is as follows:

	March 28, 2020	December 31, 2019
Cost of investment in joint venture	$ 20,032	$ 20,032
Cumulative share of loss in investment in joint venture, net of tax	(3,244)	(3,395)
Foreign currency translation differences related to the joint venture	(2,206)	(3,209)
	$ 14,582	$ 13,428

Three months ended March 28, 2020 and March 30, 2019 (amounts in thousands of dollars except share and per share amounts)

Selected financial information relating to Corefficient is as follows:

	March 28, 2020	December 31, 2019
Cash	$ 1,045	$ 4,341
Trade and other receivables	13,476	11,286
Inventories	2,783	3,047
Other current assets	106	118
Total current assets	$ 17,410	$ 18,792
Non-current assets	20,046	19,697
Total assets	$ 37,456	$ 38,489
Current liabilities	$ 8,827	$ 12,744
Non-current liabilities	1,499	1,603
Total liabilities	$ 10,326	$ 14,347

	Three Months Ending	
	March 28, 2020	March 30, 2019
Revenue	$ 16,137	$ 10,740
(Income) loss for the period	(275)	511

The income for the three months ended March 28, 2020 includes depreciation and amortization expense of $814,000 (Quarter 1, 2019 – $584,000), interest expense of $11,000 (Quarter 1, 2019 – interest income of $16,000) and an income tax expense of $5,000 (Quarter 1, 2019 – recovery of $219,000) related to Corefficient.

6. Intangible assets and goodwill

The Group had acquisitions of intangible assets for the three months ended March 28, 2020 in the amount of $nil (Quarter 1, 2019 – $1,000). None of the intangible assets have been developed internally.

7. Lease assets and liabilities

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, 2020	$ 8,503	$ 523	$ 27	$ 9,053
Depreciation	(531)	(79)	(5)	(615)
Effect of movements in exchange rates	(362)	16	–	(346)
Balance at March 28, 2020	$ 7,610	$ 460	$ 22	$ 8,092

There were no additions to the right-of-use assets during the three months ended March 28, 2020 (three months ended March 30, 2019 – $nil).

Three months ended March 28, 2020 and March 30, 2019 (amounts in thousands of dollars except share and per share amounts)

Maturity analysis – contractual undiscounted cash flows		March 28, 2020		December 31, 2019
Less than one year	$	2,620	$	2,602
One to five years		8,896		9,318
More than five years		552		696
Total undiscounted lease liabilities	$	12,068	$	12,616
Less: effect of discounting	$	(1,810)	$	(1,212)
Lease liabilities included in the statement of financial position	$	10,258	$	11,404
Current	$	2,171	$	2,237
Non-current	$	8,087	$	9,167

	Three Months Ending			
Amounts recognized in statement of operations		**March 28, 2020**		March 30, 2019
Interest on lease liabilities	$	97	$	78

	Three Months Ending			
Amounts recognized in statement of cash flows		**March 28, 2020**		March 30, 2019
Payment of lease liabilities	$	643	$	497

8. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Three Months Ending			
		March 28, 2020		March 30, 2019
8.5 cents per Class A subordinate voting shares (2019: 7 cents)	$	762	$	628
8.5 cents per Class B common shares (2019: 7 cents)		236		194
	$	998	$	822

(b) 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 three months ended March 28, 2020 is as follows:

	Number of DSUs	Closing Share Price	
Balance at January 1, 2020	121,571	$	7.68
DSUs Issued	10,045		5.71
Balance at March 28, 2020	131,616	$	7.53

An expense of $132,000 (Quarter 1, 2019 - $218,000) for the quarter was recorded in general and administrative expenses. The liability of $1,066,000 (December 31, 2019 - $934,000) related to these DSUs is included in accounts payable and accrued liabilities.

Three months ended March 28, 2020 and March 30, 2019 (amounts in thousands of dollars except share and per share amounts)

9. 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 three months ended March 28, 2020 was $4,856,000 (Quarter 1, 2019 – loss of $1,003,000), of which $3,853,000 (Quarter 1, 2019 – $713,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at March 28, 2020 of accumulated other comprehensive income of $12,295,000 (March 31, 2019 – $11,737,000).

10. Sales

	Three Months Ending	
	March 28, 2020	March 30, 2019
Canada	$ 27,344	$ 26,241
United States and Mexico	56,341	54,194
India	4,735	4,255
	88,420	84,690
Italy – discontinued operations	–	281
	$ 88,420	$ 84,971

As at March 28, 2020 the Company had contract liabilities of $218,000 (December 31, 2019 - $268,000).

11. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (December 31, 2019 – 2,778,300) Class B common shares of the Company, representing 100% of the issued and outstanding Class B common shares of the Company and 1,063,152 (December 31, 2019 – 1,063,152) Class A subordinate voting shares of the Company, representing approximately 11.9% (2019 – 11.9%) 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 $327,000 (Quarter 1 2019 – $269,000).

Transactions with key management personnel

During the three months ended March 30, 2019, the Company purchased $114,000 (Quarter 1, 2019 – $98,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $28,000 (December 31, 2019 – $32,000), which is owed to this company.

Three months ended March 28, 2020 and March 30, 2019 (amounts in thousands of dollars except share and per share amounts)

12. Change in operating working capital

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

	Three Months Ending	
	March 28, 2020	March 30, 2019
Accounts receivable	$ (5,813)	$ 6,292
Inventories	520	(1,913)
Prepaid expenses	522	69
Accounts payable and accrued liabilities	(7,647)	(6,751)
Provisions	(186)	(1,399)
Foreign exchange	2,757	(412)
	$ (9,847)	$ (4,114)

HPS Offices, Manufacturing Facilities and Warehouse Locations

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595 Southgate Drive
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Chairman of the Board and
Chief Executive Officer

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
Director

* Corporate Governance Committee
\+ Audit and Compensation Committee

Stock Exchange Listing

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

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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:
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