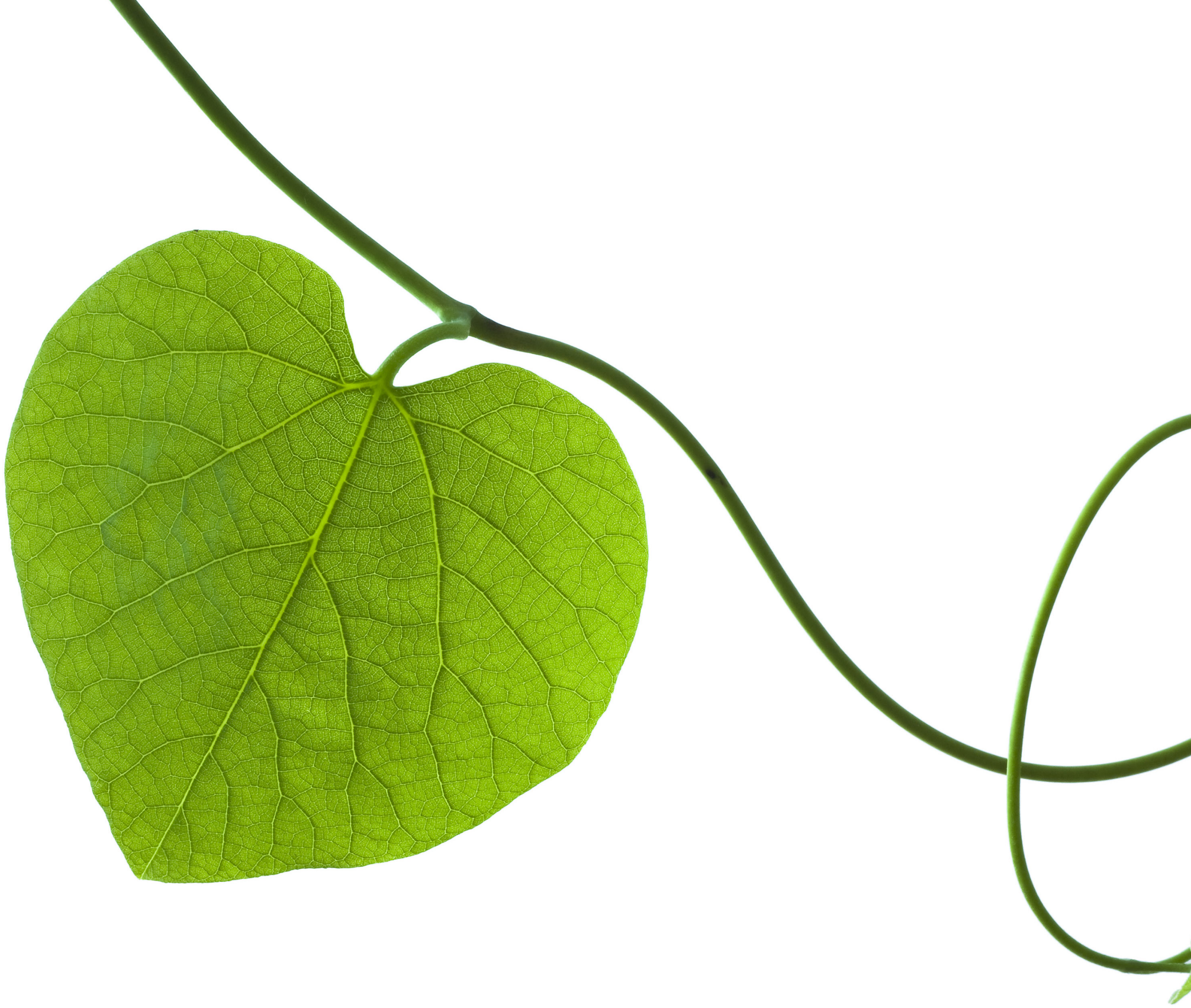
Q1 Report

For the three months ending March 30, 2019

Hammond
Power Solutions



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**

Fellow Shareholder:

I am pleased to announce that Hammond Power Solutions ("HPS") delivered an impressive first quarter of sales growth and bottom line improvement. These very positive results were driven by two major factors – the continuing strong momentum of our North American business and the closure of our Italian operations. The strong momentum of growth over the last two years in both Canada and the United States ("U.S.") has continued unabated into 2019. Bookings continue to hover at historically high levels and quotation activity has accelerated. We continue to deliver double digit growth rates in both countries and despite a competitive marketplace, North American margins are strengthening.

HPS has been a dominant player in the Canadian transformer market for many years and we are now becoming the market leader for transformers in the U.S. This opens the door to many opportunities that are driving our growth today and into the future. It is also encouraging that our growth is coming from a variety of areas. Over the last two years we have been very successful in the conversion of strategic distributor organizations and have become the largest and broadest North American distribution network in our industry. We are also seeing strong industrial, marine and commercial activity across the continent. At the micro-level, growth is coming from such diverse markets as oil and gas drilling and pumping, mining equipment, drives systems, alternative energy, LNG facilities and data centres.

We have also been successful in growing our participation and success in the project business in both Canada and the U.S. We have worked diligently at attaining our leading marketing position by building the strongest service platform in our business, offering the broadest capabilities, putting in place the production flexibility that multiple facilities provide us and most importantly having a very engaged employee culture.

We continue to work through the closure of our Italian manufacturing location. As difficult as these actions are, closing this operation significantly improves our profitability as well as strengthens our financial position.

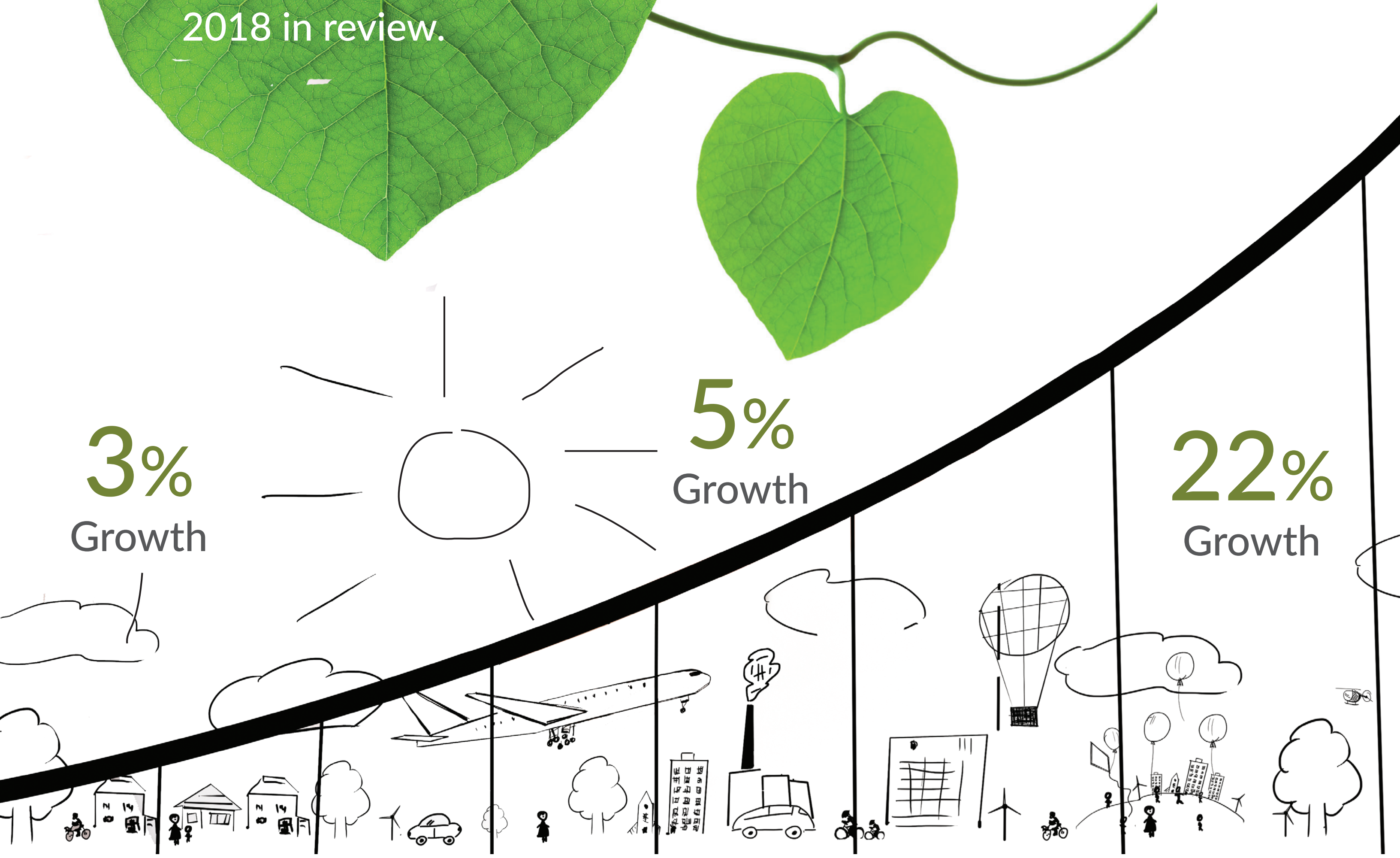
Our Indian sales and profits were disappointing in Quarter 1 as our business suffered from a general economic slowdown and project delays caused by uncertainty surrounding the outcome of the national elections that take place during the month of April. We are directing our focus to manufacturing and engineering support and in turn accelerating the turnaround of our operation in India.

Looking forward, we are cautiously optimistic about our impressive growth rate in North America continuing for the remainder of the year, which will drive our overall results. Our focus remains on delivering improved financial performance which will ultimately enhance shareholder value in our company.

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

We know our business.
2018 in review.

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



Switchgear

Mining

NAED Channel

Product Diversity

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

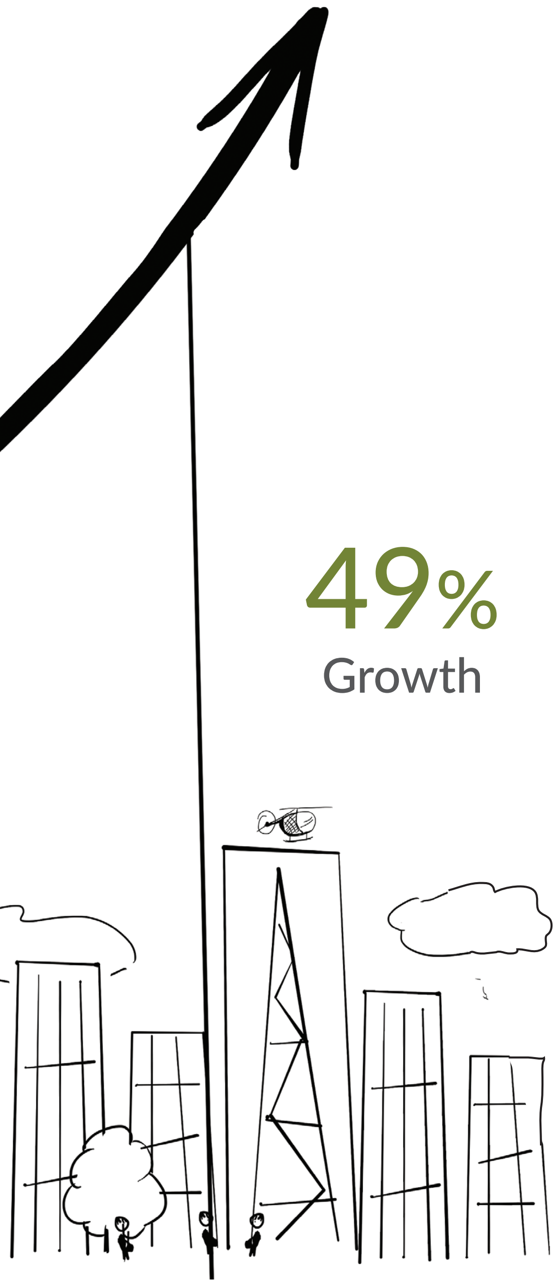
People Power

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

Technology Advancements

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

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



49%

Growth

Motor Control

Market Growth

Global Markets

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

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

Management's Discussion and Analysis

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.

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, global reach and fast responsive service to customers' needs have established the Company as a technical and innovative leader in the electrical transformer industry. The Company has manufacturing plants in Canada, the United States, 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 30, 2019, and should be read in conjunction with the accompanying unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2019. This information is based on Management's knowledge as at April 30, 2019. 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 2018 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2018 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 30, 2019 and March 31, 2018 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

The Company elevated its Quarter 1, 2019 sales by over 20% as compared to the same quarter last year. Sales from continuing operations for the quarter-ended March 30, 2019 were $84,690, a momentous increase of $14,293 or 20.3% from Quarter 1, 2018 sales from continuing operations of $70,397.

Sales in the United States ("U.S.") increased by $9,482 or 21.2%, finishing at $54,194 for Quarter 1, 2019 compared to $44,712 in Quarter 1, 2018. North American Electrical Distributor ("NAED") private branding and motor control markets were stronger in the U.S. in Quarter 1, 2019 compared to the same quarter in 2018. U.S. first quarter sales were favourably affected by a 5.6% stronger U.S. dollar ("USD"), $1.00 USD = $1.33 Canadian dollar ("CAD") compared against $1.00 USD = $1.26 CAD in Quarter 1, 2018. U.S. sales, when stated in USD were $40,747 in Quarter 1, 2019 compared to Quarter 1, 2018 of $35,485, an increase of $5,262 or 15.2%.

Canadian sales increased to $26,241 for the quarter, an increase of $5,521 or 26.6% from Quarter 1, 2018 sales of $20,720. During Quarter 1, 2019 the NAED market accounted for over 75% of the increase in Canadian sales, along with growth in the switchgear, motor control and alternative energy markets.

Indian sales for Quarter 1, 2019 finished at $4,255 versus $4,965 in Quarter 1, 2018, a slight decrease of $710 or 14.3% due to a customer requested delayed shipment.

Quarter 1, 2019 sales from continuing operations stated by geographic segment were derived from U.S. sales of 64.0% (Quarter 1, 2018 – 63.5%) of total sales, Canadian sales of 31.0% (Quarter 1, 2018 – 29.4%) and Indian sales of 5.0% (Quarter 1, 2018 – 7.1%).

HPS' growth strategy is evidenced by its business development activities, vertical integration strategies, capital investment and recent restructuring activities. 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 NAED and Original Equipment Manufacturer ("OEM") channels continue to grow and strengthen HPS' sales. The Company's market share continues to develop through distributor conversions and its capabilities to produce both standard and custom transformers. The expansion of these segments is also a result of organic customer diversity, new customer relationships, expanded product offering and geographically diverse manufacturing facilities. We continue to focus on providing exceptional value to our customers through product breadth, competitive custom engineered designs, uncompromised quality and new product development.

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.

The Company is committed to building its value proposition to our customers through consistent quality, competitive product design, expertise in custom engineered products and product breadth. HPS' restructuring initiatives will ensure HPS remains competitive and able to respond effectively to customer needs. These factors combined with a strong, effective distribution channel, multi-national manufacturing capabilities and global reach will continue to be a competitive advantage for the Company and important to continued revenue growth.

Order bookings and backlog

Bookings increased 12.7% over Quarter 1, 2018 due to an increase in bookings in the North American distribution channel and increased bookings in the Indian market. The distributor channel booking rate increased significantly by 31.1% from Quarter 1, 2018 due to higher business activity across a broad range of markets and also increased market penetration.

Direct channel bookings were lower than Quarter 1, 2018 by 6.5%, primarily a result of lower bookings from the North American OEM market.

Backlog increased 19.6% over Quarter 1, 2018 and 4.8% over Quarter 4, 2018. The quarter change was primarily due to a significant increase in distribution bookings in the North American market.

Quotation activity remains very active, in both the U.S. and Canada. The combination of the Company's strategic sales initiatives, expanded distributor network and product development will translate into a rise in booking rates.

The Company is sensitive to the volatility and unpredictability of current global economies and the impact that this will have on booking trends. While several markets are seeing positive quotation and order trends the Company is very cognizant that it may see some volatility and unpredictability in longer term booking rates.

Gross margin

The gross margin rate for Quarter 1, 2019 was 23.9% compared to Quarter 1, 2018 margin rate of 24.0%, a slight decrease of 0.1% of sales. This margin consistency was achieved through implemented market specific price increases in the quarter which offset the impact of a fluctuating Canadian dollar, product mix and escalating raw material commodity costs. The Company has combated competitor short-sighted pricing strategies for a period of time through its total value-added engineered solutions.

The Company's diversified market and channel approach supports anticipated growth from implemented market strategies and current economic conditions. As sales increase, the higher manufacturing throughput and related absorption of managed and fixed factory overheads will have an accretive impact on margin rates. Gross margin rates are also supported by productivity gains, material procurement and engineering cost reduction initiatives. The Company's ability to flex its manufacturing capacity demand is fundamental for future increases in sales demand created through this growth of market share.

Fluctuating markets and product mix can have significant impacts on financial results. The healthy quarter quotation activity, backlog growth and current and predicted sales volume provide some indication of medium term economic stability. HPS remains cautiously optimistic looking forward, as it will realize growth in some markets and a decline in others underscoring the volatility of markets and sales demand. To manage the impact, the Company expanded its distributor footprint in North America as well as its Indian market presence, implemented cost reductions, invested in new product development and expanded manufacturing capabilities.

HPS is committed to its continuous improvement program which will result in productivity enhancements and cost reductions across the entire organization. The Company is confident that these actions going forward will also support increased margin rates.

Selling and distribution expense

Total selling and distribution expenses from continuing operations were $9,998 in Quarter 1, 2019 or 11.8% of sales versus $8,339 in Quarter 1, 2018 or 11.8% of sales, an increase of $1,659. 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.

General and administrative expense

General and administrative expenses from continuing operations of $5,777 or 6.8% of sales for Quarter 1, 2019 were flat compared to Quarter 1, 2018 expenses of $5,779 or 8.2% of sales. The decrease as a percentage of sales is a result of the increase in sales in Quarter 1, 2019.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Earnings from operations

Quarter 1, 2019 earnings from continuing operations were $4,479 compared to $2,752 for the same quarter last year, an increase of $1,727 or 62.8%. The increase in the quarter earnings from operations is primarily a result of the increase in sales.

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

	Q1, 2019	Q1, 2018
Net earnings from continuing operations	**$ 2,508**	$ 1,884
Add:		
Income tax expense	**1,407**	632
Interest expense	**232**	86
Foreign exchange loss (gain)	**25**	(162)
Share of loss of investment in joint venture	**281**	279
Other	**26**	33
Earnings from operations	**$ 4,479**	$ 2,752

Interest expense

Interest expense for Quarter 1, 2019 was $232, an increase of $146 or 169.8% compared to the Quarter 1, 2018 expense of $86. A portion of the change in Quarter 1, 2019 - $78 was due to the accounting standard adoption of IFRS 16 for leases which allocates part of lease costs to interest expense. The remainder of the increase in the interest expense is a result of operating debt levels movements during the quarter due to working capital requirements and in particular to increases in inventory and payments of restructuring charges. Interest expense includes all bank fees.

Foreign exchange loss/gain

The foreign exchange loss in Quarter 1, 2019 was $25 compared to a gain of $162 in Quarter 1, 2018, a decrease of $187. 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 5.6% from December 2018.

As at March 30, 2019, the Company had outstanding foreign exchange contracts in place for 16,200 Euros ("EUR") and $11,000 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.

Income taxes

Quarter 1, 2019 income tax expense from continuing operations was $1,407 compared to $632 in Quarter 1, 2018 an increase of $775 or 122.6%.

The consolidated effective tax rate for Quarter 1, 2019 was 35.9% versus 25.1% for Quarter 1, 2018, an increase of 10.8%. 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.

Net earnings from continuing operations

Net earnings from continuing operations for Quarter 1, 2019 finished at $2,508 compared to net earnings of $1,884 in Quarter 1, 2018, an increase of $624 or 33.1%. The increase in the quarter earnings is a result of increased sales.

Excluding the share of loss of investment in the joint venture adjusted net earnings from continuing operations for the quarter would have been $2,789 and Quarter 1, 2018 earnings would have been $2,163, an increase of $626 or 28.9%.

Discontinued operations and restructuring charges

In Quarter 4, 2018, the Company decided to close the Italian facility and cease 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, totaling $15,925. The closure of the Italian operations has been presented as discontinued operations in the financial statements

Earnings per share from continuing operations

Basic earnings per share from continuing operations were $0.21 for Quarter 1, 2019 versus $0.16 in Quarter 1, 2018. Basic earnings per share was $0.20 for Quarter 1, 2019 versus $0.08 in Quarter 1, 2018.

EBITDA

EBITDA for Quarter 1, 2019 was $6,111 versus $4,410 in Quarter 1, 2018, an increase of $1,701 or 38.6%. Adjusted for foreign exchange loss/gain adjusted EBITDA for Quarter 1, 2019 was $6,136 versus $4,248 in Quarter 1, 2018, an increase of $1,888 or 44.4%.

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

		Quarter 1, 2019		Quarter 1, 2018
Net earnings from continuing operations	$	2,508	$	1,884
Add:				
Interest expense		232		86
Income tax expense		1,407		632
Depreciation and amortization		1,964		1,808
EBITDA from continuing operations	$	6,111	$	4,410
Subtract:				
Foreign exchange loss (gain)		25		(162)
Adjusted EBITDA from continuing operations	$	6,136	$	4,248

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2019 Quarters		Quarter 1, 2019
Sales from continuing operations	$	84,690
Net earnings from continuing operations	$	2,508
Net income per share – basic	$	0.20
Net income per share – diluted	$	0.20
Average U.S. to Canadian exchange rate	$	1.3301

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

(1) Balances not restated to reflect discontinued operations

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Quarter 1, 2019 sales are significantly higher than Quarter 1, 2018. Sales for Quarter 1, 2019 were favourably impacted due to fluctuations in exchange rates as well as general economic conditions. There continues to be significant fluctuations of sales volumes in various markets.

The Company has implemented a number of cost reduction activities and continues to identify additional opportunities for savings which are having an impact on controlling expenses and improving operational profitability. The fluctuations in exchange rates resulted in a loss in foreign exchange in the first quarter of 2019 of $25 compared to a gain of $162 in the first quarter of 2018. The Quarter 1, 2019 gross margin rates were consistent with prior year but the increased sales translated into $3,384 additional gross margin dollars being generated.

Selling and distribution expenses have remained constant as a percentage of sales and increased $1,659 due to the rise in selling expenses associated with the increase in sales. General and administrative expenses have remained consistent in dollars while decreasing as a percentage of sales from 8.2% to 6.8%.

Corefficient de R.L. de C.V., ("Corefficient") had a comparable loss in Quarter 1, 2019 with the share of loss of investment in the joint venture of $281 compared to Quarter 1, 2018 loss of $279. Excluding the share of loss of investment in the joint venture, adjusted net earnings from continuing operations for the quarter would have been $2,789 and Quarter 1, 2018 earnings would have been $2,163 an increase of 28.9%.

Changes in 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 generated by operating activities for Quarter 1, 2019 was $2,316 versus cash used of $1,907 in Quarter 1, 2018, an increase of $4,223. This increase is a result of a decrease in cash utilized for working capital, increased net earnings and changes in the unrealized gain/loss on derivatives.

In Quarter 1, 2019, non-cash working capital used cash of $4,114 compared to cash used of $4,952 for the same quarter last year, a decrease of $838. The working capital changes are primarily related to a significant decrease in accounts receivable, accounts payable and provisions offset by an increase in inventory.

Total cash from financing activities changed by $4,809 from cash generated by financing activities of $3,698 in the first three months of 2018 to cash used by financing activities of $1,111 in the same period of 2019. The key driver of this change is the prior year advances of bank operating lines.

Cash used in investing activities decreased by $1,083 from $2,024 in Quarter 1, 2018 to $941 in Quarter 1, 2019. The first three months of 2018 were impacted by the purchase of the remaining 15% minority interest in the amount of $1,511. Capital expenditures were $940 in Quarter 1, 2019 compared to $345 for Quarter 1, 2018, an increase of $595. 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, 2019 at $33,052 compared to $32,313 at the end of Quarter 1, 2018, an increase of $739. The bank operating lines of credit have increased $451 since the year-end balance of $32,601.

Contractual obligations

	2019	2020	2021	2022	2023	Total
Accounts payable and accrued liabilities	$ 47,575	$ –	$ –	$ –	$ –	$ 47,575
Capital expenditure purchase commitments	218	–	–	–	–	$ 218
Bank operating lines	–	–	–	33,052	–	$ 33,052
Total	$ 47,793	$ –	$ –	$ 33,052	$ –	$ 80,845

The Company's overall operating debt balance net of cash has decreased $468 in the current year from $17,056 in Quarter 1, 2018 to $16,588 in Quarter 1, 2019.

All bank covenants continue to be met as at March 30, 2019.

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.

Regular quarterly dividend declaration

The Board of Directors of HPS declared a 16.7% increase in the quarterly cash dividend to seven cents ($0.07) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of seven cents ($0.07) per Class B Common Share of HPS payable on March 26, 2019 to shareholders of record at the close of business on March 19, 2019. The ex-dividend date was March 25, 2019.

Normal course issuer bid

On November 5, 2018, the Board of Directors of the Corporation authorized the repurchase of up to 50,000 Class A Subordinate Voting Shares by way of a normal course issuer bid through the facilities of the TSX. The purchases commenced on November 9, 2018 and will terminate no later than November 8, 2019. Purchases are made in open market transactions on the TSX. During Quarter 1, 2019 1,100 shares were repurchased, totaling 10,300 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 1, 2019 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. 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, pandemics, acts of war, terrorism, international conflicts or other disruptions to our operations.

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

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

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

Our industry is highly competitive.

HPS faces competition in all of our market segments. Current and potential competitors may have greater brand name recognition, more established distribution networks, access to larger customer bases and substantially greater financial, distribution, technical, sales and market, manufacturing and other resources than HPS. 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 competetiveness, 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.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements.

Transactions with related parties

The Company had no transactions with related parties in 2019, other than transactions disclosed in Note 14 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2019 Report.

Proposed transactions

The Company had no proposed transactions as at March 30, 2019. The Company continues to evaluate potential business expansion initiatives in accordance with its long-term growth strategy.

Financial instruments

As at March 30, 2019, the Company had outstanding foreign exchange contracts in place for 16,200 EUR and $11,000 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.

The Group has recorded restructuring charges during 2018 and 2017. The restructuring provision is comprised of severance and benefits costs related to workforce reductions, closure and cancellation costs. While management has made reasonable efforts to estimate these costs, actuals could differ from what has been accrued. For details of the restructuring charges, refer to note 13 in the Condensed Interim Consolidated Financial Statements of the Company.

Outstanding share data

Details of the Company's outstanding share data:

8,961,324	Class A Shares
2,778,300	Class B Common Shares
11,729,924	Total Class A and B Shares

Adopted accounting pronouncements

Leases

On January 13, 2016 the IASB issued IFRS 16, Leases, which became effective for the Company's annual and interim financial statements commencing for the period beginning January 1, 2019.

Under this standard, the Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The modified retrospective approach was applied when implementing this standard. This approach calculated the lease assets and lease liabilities and recognized an equity adjustment at January 1, 2019 and does not restate prior-period financial information. The Group recorded a right-of-use asset for the Company's premises and other leases in the amount of $8,437,000, a corresponding lease obligation of $11,041,000 and an adjustment to retained earnings of $2,604,000. Effective January 1, 2019, amounts which previously would have been characterized as rent expense for these leases are now included in the Statement of Operations as depreciation and interest expense.

New accounting pronouncements

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

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

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

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

Strategic direction and outlook

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

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

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.

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.

The Company's facilities throughout the world continue to be enhanced through strategic and operational initiatives and capital investment.

At the end of 2018 the decision was made to close the Italian facility and cease operations due to low sales volume and inability to cover fixed costs related to these operations. The closure resulted in restructuring charges and the presentation of the Italian operations as discontinued. The Company has begun to execute the closure procedures during Quarter 1, 2019.

The implementation of the ERP system has allowed HPS to enhance the availability and quality of information accessible to support operational performance, strategic decision making and audit and control. This system has been implemented in the majority of the North American facilities and has completed implementation in our Indian facility in Quarter 1, 2019. There is only one remaining operation that will be converted to our ERP platform, with a project start scheduled to begin in the fourth quarter of 2019 and completed in late 2020. The consolidation to the ERP platform is an important step towards providing one global, integrated, consistent source of information and data.

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

While there have been many successes during the first quarter of 2019 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.

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

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

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

Selected Annual and Quarterly Information

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 2019. 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.

(tabular amounts in thousands of dollars)

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

		2017			2018			**2019**
Quarterly Information (3)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Sales	78,874	74,685	75,829	73,073	77,393	83,153	88,183	**84,690**
Earnings from operations	4,953	3,338	3,774	1,973	1,561	2,296	7,949	**4,479**
EBITDA	6,273	4,903	4,555	3,631	2,184	3,879	8,221	**6,111**
Net earnings (loss)	2,842	1,563	625	895	(370)	1,391	(14,833)	**2,508**
Total assets	197,887	194,147	192,449	197,187	202,635	200,954	205,527	**206,554**
Non-current liabilities	4,291	4,198	3,641	3,429	3,383	3,291	2,528	**10,914**
Total liabilities	76,252	80,478	77,438	77,829	83,210	83,253	96,793	**99,939**
Total shareholders' equity attributable to equity holders of the Company	121,288	116,491	114,848	119,358	119,425	117,701	108,734	**106,615**
Total debt	(20,416)	(16,407)	(16,983)	(21,483)	(21,578)	(20,502)	(17,056)	**(27,133)**
Cash (used) provided by operations	2,315	5,918	421	(1,907)	972	2,468	4,941	**2,316**
Basic earnings (loss) per share	0.25	0.14	0.05	0.08	(0.03)	0.12	(1.27)	**0.20**
Diluted earnings (loss) per share	0.25	0.14	0.04	0.08	(0.03)	0.12	(1.27)	**0.20**
Dividends declared and paid	702	702	703	704	704	704	706	**822**
Average exchange rate (USD$=CAD$)	1.347	1.253	1.270	1.262	1.290	1.307	1.319	**1.330**
Book value per share	10.37	9.96	9.80	10.18	10.16	10.02	9.26	**9.09**

(2) Balances not restated to reflect discontinued operations

(3) Balances for 2017 and 2018 not restated to reflect discontinued operations, 2019 balances reflect information from continuing operations

Condensed Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)

	As a	
	March 30, 2019	December 31, 2018
Assets		
Current assets		
Cash	$ 16,464	$ 15,545
Accounts receivable	62,718	69,010
Inventories	50,549	48,636
Income taxes receivable	808	953
Prepaid expenses and other assets	2,934	4,082
Total current assets	133,473	138,226
Non-current assets		
Long-term lease receivable	3,451	3,604
Property, plant and equipment (note 4)	36,282	29,038
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	12,731	13,302
Deferred tax assets	814	1,042
Goodwill	11,811	11,961
Intangible assets (note 6)	6,948	7,310
Total non-current assets	73,081	67,031
Total assets	$ 206,554	$ 205,527
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 33,052	$ 32,601
Accounts payable and accrued liabilities	47,575	54,326
Income tax liabilities	1,030	447
Provisions	5,285	6,891
Current portion of lease liabilities (note 7)	2,083	–
Total current liabilities	89,025	94,265
Non-current liabilities		
Provisions	392	396
Deferred tax liabilities	2,060	2,132
Long-term portion of lease liabilities (note 7)	8,462	–
Total non-current liabilities	10,914	2,528
Total liabilities	$ 99,939	$ 96,793
Shareholders' Equity		
Share capital	14,215	14,217
Contributed surplus	2,559	2,559
Accumulated other comprehensive income (note 9)	11,737	12,740
Retained earnings	78,104	79,218
Total shareholder's equity	106,615	$ 108,734
Total liabilities and shareholders' equity	$ 206,554	$ 205,527

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Operations

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending	
	March 30, 2019	March 31, 2018
Sales (note 11)	$ 84,690	$ 70,397
Cost of sales	64,436	53,527
Gross margin	20,254	16,870
Selling and distribution	9,998	8,339
General and administrative	5,777	5,779
	$ 15,775	$ 14,118
Earnings from operations	4,479	2,752
Finance and other costs		
Interest expense	232	86
Foreign exchange loss (gain)	25	(162)
Share of loss of investment in joint venture (note 5)	281	279
Other	26	33
Net finance and other costs	564	236
Earnings before income taxes	3,915	2,516
Income tax expense	1,407	632
Net earnings from continuing operations	$ 2,508	$ 1,884
Loss from discontinued operations, net of tax (note 12)	(193)	(989)
Net earnings	$ 2,315	$ 895
Earnings per share		
Basic earnings per share	$ 0.20	$ 0.08
Diluted earnings per share	$ 0.20	$ 0.08
Basic earnings per share from continuing operations	$ 0.21	$ 0.16
Diluted earnings per share from continuing operations	$ 0.21	$ 0.16

See accompanying Notes to Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending	
	March 30, 2019	March 31, 2018
Net earnings	$ 2,315	$ 895
Other comprehensive income (loss)		
Foreign currency translation differences for foreign operations (note 9)	(1,003)	5,597
Total comprehensive income for the period	$ 1,312	$ 6,492

See accompanying notes to condensed consolidated interim financial statements

Condensed 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 (note 3)	–	–	–	(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 income					
Foreign currency translation differences related to joint venture (note 5)	–	–	(290)	–	(290)
Foreign currency translation differences (note 9)	–	–	(713)	–	(713)
Total other comprehensive income	–	–	(1,003)	–	(1,003)
Total comprehensive 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 – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 31, 2018

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 1, 2018	$ 13,986	$ 2,600	$ 1,916	$ 96,346	$ 163	$ 115,011
Total comprehensive income for the year						
Net earnings	–	–	–	895	–	895
Other comprehensive income						
Foreign currency translation differences related to joint venture (note 5)	–	–	335	–	–	335
Foreign currency translation differences (note 9)	–	–	5,262	–	–	5,262
Total other comprehensive income	–	–	5,597	–	–	5,597
Total comprehensive income for the year	–	–	5,597	895	–	6,492
Transactions with owners, recorded directly in equity						
Stock options exercised (note 8)	84	(14)	–	–	–	70
Dividends to equity holders (note 8)	–	–	–	(704)	–	(704)
Non-controlling interest (note 10)	–	–	9	(1,357)	(163)	(1,511)
Total transactions with shareholders	84	(14)	9	(2,061)	(163)	(2,145)
Balance at March 31, 2018	$ 14,070	$ 2,586	$ 7,522	$ 95,180	$ –	$ 119,358

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Condensed Consolidated Statements of Cash Flows

(unaudited) (tabular amounts in thousands of dollars)

	Three Months Ending March 30, 2019	Three Months Ending March 31, 2018
Cash flows from operating activities		
Net earnings	$ 2,315	$ 895
Adjustments for:		
Share of loss of investment in joint venture	281	279
Amortization of property, plant and equipment	1,784	1,157
Amortization of intangible assets	180	651
Provisions	(211)	(57)
Interest expense	284	296
Income tax expense	1,407	632
Change in unrealized gain (loss) on derivatives included within other assets	1,069	(317)
	7,109	3,536
Change in non-cash working capital (note 15)	(4,114)	(4,952)
Cash provided by (used in) operating activities	2,995	(1,416)
Income tax paid	(679)	(491)
Net cash generated by (used in) operating activities	2,316	(1,907)
Cash flows from investing activities		
Purchase of non-controlling interest (note 10)	–	(1,511)
Acquisition of property, plant and equipment (note 4)	(940)	(345)
Acquisition of intangible assets (note 6)	(1)	(168)
Cash used in investing activities	(941)	(2,024)
Cash flows from financing activities		
Advances of borrowings	451	4,558
Receipt of lease receivable payment	46	70
Issue of common shares	–	70
Share repurchase (note 8)	(6)	–
Payment of lease liabilities (note 7)	(496)	–
Cash dividends paid (note 8)	(822)	(704)
Interest paid	(284)	(296)
Cash (used in) generated by financing activities	(1,111)	3,698
Foreign exchange on cash held in a foreign currency	655	291
Increase in cash	919	58
Cash and cash equivalents at beginning of period	15,545	10,772
Cash and cash equivalents at end of period	$ 16,464	$ 10,830

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and March 31, 2018 (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 Charted 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 30, 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Group has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India. The 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, 2019.

(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, 2018.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2018 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, 2018, with the exception of items noted below:

Three months ended March 30, 2019 and March 31, 2018 (amounts in thousands of dollars except share and per share amounts)

Changes to accounting policies

Leases

On January 13, 2016 the IASB issued IFRS 16, Leases, which became effective for the Company's annual and interim financial statements commencing for the period beginning January 1, 2019.

Under this standard, the Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate or the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some leases in which it is a lessee that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right of use assets recognized.

Previously, the Group classified property and equipment leases as operating leases under IAS 17. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at January 1, 2019. A right-of-use asset was recognized at January 1, 2019 at an amount equivalent to its carrying amount as if IFRS 16 had been applied since the commencement of the lease, but discounted using the Company's incremental borrowing rate at the date of initial application.

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

- Grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.
- Not recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less.
- Not recognize right-of-use assets and lease liabilities for leases of low-value assets (under $5,000).
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Apply a single discount rate to the portfolio of leases with reasonably similar characteristics.
- Using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The modified retrospective approach was applied when implementing this standard. This approach calculated the lease assets and lease liabilities and recognized an equity adjustment at January 1, 2019 and does not restate prior-period financial information. The Group recorded a right-of-use asset for the Company's premises and other leases in the amount of $8,437,000, a corresponding lease obligation of $11,041,000 and an adjustment to retained earnings of $2,603,000. Effective January 1, 2019, amounts which previously would have been characterized as rent expense for these leases are now included in the Statement of Operations as depreciation and interest expense. Comparative amounts have not been restated.

Uncertainty over Income Tax Treatments

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

Three months ended March 30, 2019 and March 31, 2018 (amounts in thousands of dollars except share and per share amounts)

January 1, 2019. Earlier application is permitted.

The Interpretation requires:

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

The Group adopted the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The adoption of the Interpretation 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.

		2019
Property, plant and equipment owned	$	28,340
Right-of-use assets		7,942
	$	36,282

The Group had acquisitions of property, plant and equipment owned for the three months ended March 30, 2019 in the amount of $940,000 of machinery and equipment (2018 – $345,000).

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, 2019	$	7,915	$	475	$	47	$	8,437
Depreciation		(416)		(72)		(7)		(495)
Balance at March 30, 2019	$	7,499	$	403	$	40	$	7,942

There were no additions to the right-of-use assets during the three months ended March 30, 2019.

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 30, 2019		December 31, 2018
Cost of investment in joint venture	$	19,304	$	19,304
Cumulative share of loss in investment in joint venture		(3,943)		(3,662)
Foreign currency translation differences related to the joint venture		(2,630)		(2,340)
	$	12,731	$	13,302

Three months ended March 30, 2019 and March 31, 2018 (amounts in thousands of dollars except share and per share amounts)

Selected financial information relating to Corefficient is as follows:

	March 30, 2019	December 31, 2018
Cash	$ 2,635	$ 1,206
Trade and other receivables	7,923	8,405
Inventories	2,350	1,403
Other current assets	271	429
Total current assets	$ 13,179	$ 11,443
Non-current assets	16,801	17,545
Total assets	$ 29,980	$ 28,988
Current liabilities	$ 7,097	$ 5,070
Non-current liabilities	–	–
Total liabilities	$ 7,097	$ 5,070

	Three Months Ending	
	March 30, 2019	March 30, 2018
Revenue	$ 10,740	$ 5,910
Loss for the period	511	507

The loss for the three months ended March 30, 2019 includes depreciation and amortization expense of $584,000 (Quarter 1, 2018 – $520,000), interest income of $16,000 (Quarter 1, 2018 – $73,000) and an income tax recovery of $219,000 (Quarter 1, 2018 – expense of $7,000) related to Corefficient.

6. Intangible assets

The Group had acquisitions of intangible assets for the three months ended March 30, 2019 in the amount of $1,000 (Quarter 1, 2018 – $168,000), for the addition of software. None of the intangible assets have been developed internally.

Three months ended March 30, 2019 and March 31, 2018 (amounts in thousands of dollars except share and per share amounts)

7. Lease liabilities

Maturity anlaysis – contractual undiscounted cash flows

	March 30, 2019
Less than one year	$ 1,761
One to five years	8,558
More than five years	1,532
Total undiscounted lease liablitilies as of March 30, 2019	$ 11,851
Lease liabilities included in the statement of financial position at March 30, 2019	$ 10,545
Current	$ 2,083
Non-current	$ 8,462

Amounts recognized in statement of operations	Three months ended March 30, 2019
Interest on lease liabilities	$ 78

Amounts recognized in statement of cash flows	Three months ended March 30, 2019
Payment of lease liabilities	$ 497

8. Share capital

(a) Share capital:

During the three months ended March 30, 2019, the Company purchased and cancelled 1,100 Class A shares under a normal course issuer bid at a cost of $6,000 of which $2,000, $4,000 was applied against share capital and retained earning respectively.

(b) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending	
	March 30, 2019	March 31, 2018
7 cents per Class A common share (2018: 6 cents)	$ 628	$ 537
7 cents per Class B common share (2018: 6 cents)	194	167
	$ 822	$ 704

(c) Stock option plan:

During the three months ended March 31, 2018 there were 10,000 options exercised, 5,000 at an exercise price of $6.62 and 5,000 at an exercise price of $7.50, representing gross proceeds of $70,000. This amount, together with $14,000 of previously recognized stock-based compensation expense were credited to share capital on issuance.

(d) Deferred Stock 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.

Three months ended March 30, 2019 and March 31, 2018 (amounts in thousands of dollars except share and per share amounts)

The movement in DSUs for the three months ended March 30, 2019 was as follows:

	Number of DSUs	Closing Share Price
Balance at January 1, 2019	69,151	$ 5.70
DSUs issued	16,721	6.30
Balance at March 30, 2019	85,872	$ 7.13

An expense of $218,000 (2018 – $107,000) for the quarter was recorded in general and administrative expenses. The liability of $612,000 (December 31, 2018 – $394,000) related to these DSUs is included in accounts payable and accrued liabilities.

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 loss for the three months ended March 30, 2019 was $1,003,000 (Quarter 1, 2018 – income of $5,597,000), of which $713,000 (Quarter 1, 2018 - $5,262,000) relates to the translation of wholly-owned subsidiaries, resulting in an ending balance as at March 30, 2019 of accumulated other comprehensive income of $11,737,000 (March 31, 2018 – $7,522,000).

10. Non-controlling interest

On January 10, 2018, the terms and conditions under an agreement to acquire the remaining 15% economic interest of Hammond Power Solutions Private Limited from a minority shareholder, which included the mutually agreed upon resignation from the Board of the minority shareholder, at a discounted amount of 76,933,000 INR (approximately $1,511,000 Canadian dollars) were fulfilled, resulting in the Company's equity ownership in Hammond Power Solutions Private Limited becoming 100%. As a result, the Company recorded an elimination of non-controlling interests on the condensed consolidated statement of financial position in the amount of $163,000, a reduction in retained earnings of $1,357,000, and an increase in accumulated other comprehensive income in the amount of $9,000.

11. Sales

	Three Months Ending	
	March 31, 2018	April 1, 2017
Canada	$ **26,241**	$ 20,720
United States and Mexico	**54,194**	44,712
India	**4,255**	4,965
	84,690	70,397
Italy – discontinued operations	**281**	2,676
	$ **84,971**	$ 73,073

As at March 30, 2019 the Company had contract liabilities of $nil (December 31, 2018 - $280,000).

12. Discontinued operations

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

	Three Months Ending			
		March 30, 2019		March 31, 2018
Revenue	**$**	**281**	$	2,676
Cost of sales		**373**		2,470
Gross margin (loss)		**(92)**		206
Selling and distribution		**24**		266
General and admistrative		**25**		719
Loss from operations		**(141)**		(779)
Interest expense		**52**		210
Loss from discontinued operations before tax		**(193)**		(989)
Income tax		**–**		–
Loss from discontinued operations, net of tax	**$**	**(193)**	$	(989)
Earnings per share				
Basic loss per share from discontinued operations	**$**	**(0.01)**	**$**	(0.08)
Diluted loss per share from discontinued operations	**$**	**(0.01)**	**$**	(0.08)

	Three Months Ending			
		March 30, 2019		March 31, 2018
Net cash used in operating activites	**$**	**(1,833)**	$	(255)
Net cash used in investing activites		**–**		(62)
Cash used in financing activites		**(52)**		(210)
Add: Intercompnay transfer of cash		**3,965**		–
Net cash generated by (used in) financing activites		**3,913**		(210)
Net cash generated (used) in the period	**$**	**2,080**	$	(527)

13. Restructuring charges

During the year ended December 31, 2018, the Company decided to cease operating and close the Italian 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 are included in provisions. The restructuring activities were undertaken to adjust the Company's cost structure and streamline various support activities in consideration of the current and expected industry market conditions. These charges are reported in the discontinued operations within the consolidated statements of operations.

The following table highlights the activity and balance of the restructuring charges for the three month period ending March 30, 2019:

		Restructuring Charges
Opening balance January 1, 2019	$	6,232
Cash payments		(1,399)
Accrued balance at March 30, 2019	$	4,833

During 2017, the Company recognized a restructuring provision comprised of severance and benefit costs relating to workforce reductions. The restructuring activities were undertaken to adjust the Company's cost structure, to streamline various support activities in consideration of the current and expected industry market conditions.

The following table highlights the activity and balance of the restructuring charges for the three month period ending March 31, 2018:

		Employee Termination Benefits
Opening balance January 1, 2018	$	329
Cash payments		(188)
Accrued balance at March 31, 2018	$	141

14. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (December 31, 2018 – 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 1,061,202 (December 31, 2018 – 1,060,624) Class A subordinate voting shares of the Company, representing approximately 11.8% (2018 – 11.8%) 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 $269,000 (Quarter 1 2018– $230,000).

Transactions with key management personnel

During the three months ended March 30, 2019, the Company purchased $98,000 (2018 – $69,000) 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 $55,000 (December 31, 2018 – $39,000), which is owed to this company.

15. Change in non-cash operating working capital

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

	Three Months Ending	
	March 30, 2019	March 31, 2018
Accounts receivable	$ 6,292	$ (2,458)
Inventories	(1,913)	(2,571)
Prepaid expenses	69	345
Accounts payable and accrued liabilities	(6,751)	(3,736)
Provisions	(1,399)	-
Foreign exchange	(412)	3,468
	$ (4,114)	$ (4,952)

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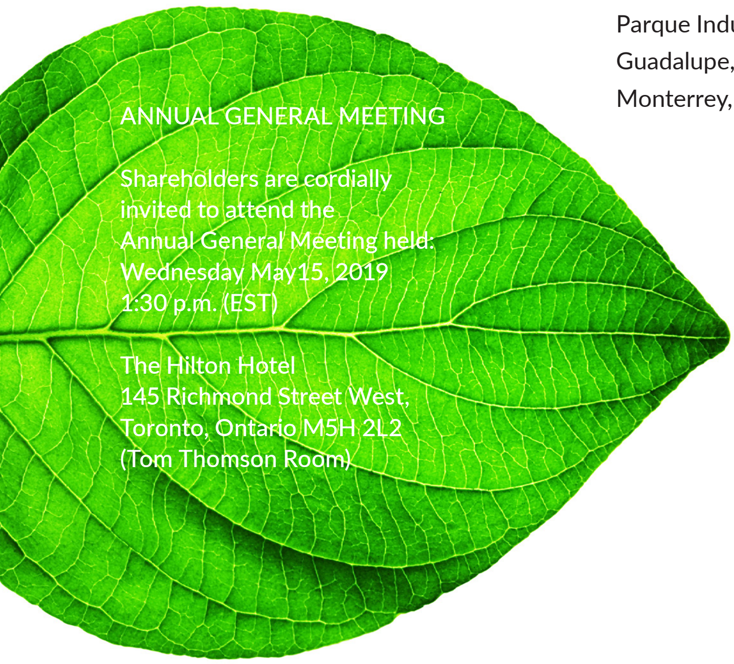

ANNUAL GENERAL MEETING

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

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

Corporate Officers and Directors

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

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
Director

* Corporate Governance Committee
\+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

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Banking Institution

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Investor Relations

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

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

Hammond Power
Solutions Inc.

IN ORDER TO SUCCEED,
WE MUST FIRST BELIEVE THAT WE CAN

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