Q1 Report

STAYING THE COURSE

For the three months ended March 28, 2015

HPS is dedicated to its strategic investment in growth initiatives in Canada, the United States, India and Europe. This commitment is evidenced by the Company's international acquisitions, capacity expansion strategies, new product development and increased capital spending for strategic projects.

Hammond Power Solutions Inc.

CONTENTS

ANNUAL GENERAL AND SPECIAL MEETING

Shareholders are cordially invited to attend the Annual General Meeting held:
Thursday, May 21, 2015 at 1:00pm (EST)

Cutten Fields
(The Cutten Room)
190 College Avenue East,
Guelph, Ontario
N1G 3B9

Fellow Shareholders,

Given the challenging economic conditions we face across the world, I am pleased to report improved financial results for Hammond Power Solutions Inc. ("HPS") in the first quarter of 2015. In addition to this we are enjoying the largest growth in bookings and backlog across all of our global operations since 2012.

The North American economy began the year at a slower rate of growth than most predicted due to the unusually harsh winter weather and the cascading effects of the collapse in oil prices. All provinces and states with a large oil and gas footprint have seen a significant slowdown in activity and investment. Construction activity was also stunted in certain areas of North America during much of the first quarter of 2015. At the same time, export business has remained slow due to the receding Chinese economy and the impact of a higher U.S. dollar.

HPS continues to endure volatile economic conditions globally. Our Canadian business was negatively impacted in Quebec, due to delays in project releases and was subsequently down in Alberta due to weaker business investment in the energy sector. As a result, our Canadian sales were down slightly, however our bookings were up 20% over the same period of 2014. Our U.S. distributor sales increased modestly despite the significant contraction of the oil and gas markets. The U.S. Original Equipment Manufacturers ("OEM") business increased slightly yet was also affected by these energy-related struggles as well as the slowdown in exports. Bookings have begun to recover as the year is progressing. The most positive momentum through this challenging quarter has been a significant upswing in our U.S. construction business where both sales and bookings are up over 40% compared to a year ago.

Internationally, our operations in Italy and India had a slower than expected first quarter of shipments due to delays in several business development projects as well as the timing of a number of export bids. As a result of our efforts to expand activity and market share both of these business units realized their largest levels of bookings and backlog in over two years.

Through all of this, one of the positive areas has been our ability to hold margins as well as reduce costs to improve profitability. Seven years into this "recovery" we continue to find ourselves in the most competitive and volatile economic environment since the depths of the Great Recession. Our business in terms of markets and product mix has changed given the shifting global economic dynamics and we have been able to adjust our strategies to find ways and places to grow. Our diversity in terms of geography, channels, technology, markets, and product capabilities has enabled HPS to weather these storms.

During the quarter, we also announced the formation of a new joint venture company, Corefficient S. de R.L. de C.V. ("Corefficient") that will design and manufacture electrical cores for the U.S. and Mexican transformer markets. This will indirectly provide HPS access to the North American utility transformer industry which is not only a large market but also operates in a different investment cycle with different dynamics than our traditional markets. We are very excited about the future prospects of this business.

We are cautiously optimistic about our positive momentum continuing into future quarters. We are enjoying the largest growth in bookings and backlog seen in years. This acceleration is happening despite the decline in the resource and export sectors which we expect to remain slow for the rest of the year while gradual improvement is expected in a number of key markets in North America as well as internationally. Nonetheless, we will continue to manage the Company conservatively and tightly with a commitment to growth but with a focus on profits.

Q1 MANAGEMENT'S DISCUSSION AND ANALYSIS

Hammond Power Solutions Inc. ("HPS" or the "Company") is a North American leader in the design and manufacture of custom electrical engineered magnetics, as well as a leading manufacturer of 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 leader in the electrical and electronic industries. The Company has manufacturing plants in Canada, the United States, Mexico, Italy and India.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended March 28, 2015, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of Fiscal 2015. This information is based on Management's knowledge as at April 29, 2015. 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 2014 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the Fiscal 2014 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. Operating earnings and 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 and EBITDA in making investment decisions about the Company and to measure its operational results. A reconciliation of EBITDA to earnings from operations for the quarters ending March 28, 2015 and March 29, 2014 is contained in the MD&A. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS. "Order bookings" represent confirmed purchase orders for goods or services received from our customers. "Backlog" represents all unshipped customer orders. "Book value per share" is the total shareholders' equity divided by the average outstanding shares. The terms "earnings from operations" "EBITDA", "adjusted EBITDA", "order bookings", "backlog" and "book value per share" do not have any standardized meaning prescribed within IFRS and may not be comparable to similar measures presented by other companies.

Sales

Sales for the quarter-ended March 28, 2015 were $63,137, an increase of $3,184 or 5.3% from Quarter 1, 2014 sales of $59,953.

The Company continues to increase both its market share and sales through distributor conversions. This increase, on a quarter-to-quarter comparison, has been buoyed by modestly improved construction, alternative energy and oil and gas market segments. Recent acquisitions not only expanded HPS' European presence, but also broadened the Company's product offering and manufacturing capabilities in cast resin transformer technology. These factors will allow the Company to continue to grow its market share globally as a result of its expanded product offering, the addition of new customers, geographically diverse manufacturing capabilities and market reach. HPS' growth strategy is also supported by its acquisition activity and substantial capacity capital expenditure investment. The Company has generated sales growth in several market segments with its custom engineered product capabilities, breadth of product offering, global footprint and consistent uncompromised quality. The increased quotation activity and late 2014 year-end rise in order booking rates bode well for business going forward.

Sales in the United States ("U.S.") grew by $5,376 or 15.9%, finishing at $39,123 for Quarter 1, 2015 compared to $33,747 in Quarter 1, 2014. The increase in U.S. sales was supported by improved motor control, Original Equipment Manufacturer ("OEM") and North American Electrical Distributor("NAED") market segments. U.S. Quarter 1 sales were also favourably affected by a 10.8% weaker Canadian dollar ("CAD"), ($1.00 USD = $1.23 CAD) in Quarter 1, 2015 compared against $1.00 USD = $1.11 CAD in Quarter 1, 2014). Stated in U.S. dollars ("USD"), U.S. sales were $31,690 in Quarter 1, 2015 an increase of $1,039 or 3.4% from Quarter 1, 2014 of $30,651.

Canadian sales were $16,678 for the quarter, a decline of $1,252 or 7.0% from Quarter 1, 2014 sales of $17,930. Canadian sales continue to be negatively impacted by lower business activity in the power, mining and commercial project markets as well as a softer Canadian distributor channel.

International sales for Quarter 1, 2015 finished at $7,336 versus $8,276 in Quarter 1, 2014 a decrease of $940 or 11.4%. The decrease in international sales continues to be impacted by a lackluster European market and erratic Indian market.

Quarter 1, 2014 sales stated by geographic segment were derived from U.S. sales of 62.0% of total sales, Canadian sales of 26.4%, European sales of 5.5%, and Indian sales of 6.1%.

HPS continues to focus on channel sales growth initiatives in strategic market segments in the U.S., Canada, Europe and India. Strategic acquisitions over the past several years have built a foundation for global expansion. This combined with a strong distribution channel and multi-national manufacturing capacities, will continue to be a competitive advantage and revenue growth generator.

The Company is committed to producing transformers with uncompromised quality standards, competitive customer engineered designs, new product development and product breadth. We expect that this, combined with manufacturing agility and competitive lead-times will result in sales growth through existing and new customer sales.

Order bookings and backlog

The Company increased bookings 14.8% over Quarter 1, 2014 due to stronger bookings in both the distributor and direct channels in North American and international markets.

Booking rates in the distributor channel increased 11.4% over Quarter 1, 2014. On a direct channel basis, bookings exceeded Quarter 1, 2014 by 17.8%.

Backlog increased 16.6% over Quarter 4, 2014 and finished higher by 15.8% when compared to Quarter 1, 2014 due to higher booking rates in several markets including the Canadian and U.S. OEM markets.

Quotation activity is steady despite the continued soft general world economy and erratic North American OEM market conditions. This bodes favorably going forward, as the Company is starting to see a longer term booking horizon. It is expected that the Company's strategic sales initiatives, expanded distributor network and new products will result in growing improvement in our 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

Gross margin rates for Quarter 1, 2015 were 22.2% compared to Quarter 1, 2014 margin rates of 23.2%, a decrease of 1.0% of sales. The Company's gross margin rates were reduced by customer and market mix, lower international gross margin rates and lower factory capacity utilization. The Company continues to experience negative selling price pressures due to the available excess capacity currently in the industry. The strengthened U.S. currency continues to have an unfavourable impact on raw material costs. A portion of these increases have been offset by market specific pricing gains, increased U.S. sales, cost reduction and productivity initiatives which will protect gross margin rates. Gross margin dollar contribution grew in the quarter by $107 or 0.8%.

It is important to note that the Company has invested in its capacity expansion initiatives in support of future sales growth, geographic diversification and new product development. The Company is steadfast in its growth strategies despite the shorter-term dilutive effect these investments have on gross margin rates, particularly during down turn economies. As manufacturing throughput increases, there is an accretive effect on margin rates which bodes well as sales increase. Gross margin rates are being negatively impacted by selling price pressures due to weak market conditions, as the Company is seeing unsustainable pricing from many of its competitors in the market place. Gross margin rates are supported by the maintenance of market price combined with material procurement and engineering cost reduction initiatives.

There are some moderate signs of economic improvement in the quarter and the year. The wavering economic environment and slow global recovery have hurt margin rates from a price and manufacturing throughput point of view. The Company has implemented a number of cost reduction activities including variable manufacturing expense reductions. HPS continues to advance its geographic footprint, manufacturing capabilities and new product development. A diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. The additional fixed costs associated with capacity expansion are dilutive to net margin rates in the short-term, but as sales grow the favourable impact that higher manufacturing throughput will have on the absorption of our factory overheads, will positively affect margin rates. The Company's capacity expansion strategy is paramount for future increased sales demand as a result of market share growth and sales from new products. HPS is unyielding in obtaining increased productivity improvements, cost reductions and lead-time improvements in the entire organization. The Company is confident that these actions, will improve margin rates.

Selling and distribution expense

Total selling and distribution expenses were $6,746 in Quarter 1, 2015 or 10.7% of sales versus $7,058 in Quarter 1, 2014 or 11.8% of sales, a decrease of $312 or 4.4%. Despite the increased sales in the quarter, the associated variable commission and freight costs and the impact of the stronger U.S. dollar on our U.S. expenses, the company effectively managed a reduction in selling and distribution expense levels.

General and administrative expense

The general and administrative expenses for Quarter 1, 2015 totalled $5,822 or 9.2% of sales, consistent with Quarter 1, 2014 expenses of $5,546 or 9.3% of sales, an increase of $276. The change for the quarter related to the foreign exchange translation of our U.S. denominated expenses added $153 and regulatory certifications for new product development contributed $47 of additional expense in Quarter 1, 2015. Managing general and administrative expense management is a focus area for the Company.

Earnings from operations

Quarter 1, 2015 earnings from operations was $1,446, an increase of $143 or 11.0% from $1,303 for the same quarter last year. The improvement in the quarter is a result of higher sales, increased gross margin dollar contribution and a higher foreign exchange gain.

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

		Quarter 1, 2015		Quarter 1, 2014
Net earnings	**$**	**781**	$	520
Add:				
Income tax expense		**806**		590
Net finance and other (income) costs		**(141)**		193
Earnings from operations	**$**	**1,446**	$	1,303

Interest expense

Interest expense for Quarter 1, 2015 finished at $116, a decrease of $141 or 54.9% compared to the Quarter 1, 2014 expense of $257. Interest expense in Quarter 1, 2014 was being generated as a result of higher operating debt levels related to the assumption of debt associated with the 2013 acquisition of Marnate and working capital requirements. Cash generated from operations has resulted in a decrease in debt levels as well as a decrease in interest expense. Interest expense includes all bank fees.

Foreign exchange loss

The foreign exchange gain in Quarter 1, 2015 was $290. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada compared to a foreign exchange gain of $97 in Quarter 1, 2014. An increase in the foreign exchange gain is related to the increased volatility in the exchange rates during the past year where the U.S. dollar gained 14.4% from March 2014.

As at March 28, 2015, the Company had outstanding foreign exchange contracts in place for 10,800 Euros ("EUR") and $6,500 USD – both implemented as a hedge against translation gains and losses on inter-company loans as well as $23,000 USD to hedge the U.S. dollar denominated accounts payable in Canadian operations of HPS.

Income taxes

Quarter 1, 2015 income tax expense was $806 as compared to $590 in Quarter 1, 2014 an increase of $216 or 36.6%.

The consolidated effective tax rate for Quarter 1, 2015 was 50.8% versus 53.2% for Quarter 1, 2014, a small decrease of 2.4%. The changes in the effective tax rates are impacted by changes in the earnings mix of the Company. The Company income is generated from different tax jurisdictions and is subject to different tax rates and regulations. The effect of minimum tax regulations in Italy contributed to the slightly elevated effective tax rate in the prior year.

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

Net earnings for Quarter 1, 2015 increased by $261 or 50.2% and finished at $781 compared to net earnings of $520 in Quarter 1, 2014. This growth in the quarter earnings is a result of higher sales, increased gross margin dollar contribution despite lower gross margin rates and an increased foreign exchange gain this quarter compared to Quarter 1, 2014.

The Company continues to anticipate further improvements going forward as it increases traction with its operational and strategic initiatives.

EBITDA

EBITDA for Quarter 1, 2015 was $3,589 versus $3,310 in Quarter 1, 2014 an increase of $279 or 8.4%. Adjusted for foreign exchange gains, EBITDA for Quarter 1, 2015 was $3,299 versus $3,213 in Quarter 1, 2014, an increase of $86.

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

	Quarter 1, 2015	Quarter 1, 2014
Net earnings	**$ 781**	$ 520
Add:		
Interest expense	**116**	257
Income tax expense	**806**	590
Depreciation and amortization	**1,886**	1,943
EBITDA	**$ 3,589**	$ 3,310
Deduct:		
Foreign exchange gain	**(290)**	(97)
Adjusted EBITDA	**$ 3,299**	$ 3,213

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of quarterly financial information (unaudited)

Fiscal 2015 Quarters	Quarter 1, 2015
Sales	$ 63,137
Net earnings	$ 781
Net earnings per share – basic	$ 0.07
Net earnings per share – diluted	$ 0.07
Average U.S. to Canadian exchange rate	$ 1.235

Fiscal 2014 Quarters	Q1, 2014	Q2, 2014	Q3, 2014	Q4, 2014	Total
Sales	$ 59,953	$ 61,716	$ 61,558	$ 64,529	$ 247,756
Net earnings	$ 520	$ 936	$ 260	$ 804	$ 2,520
Net earnings per share – basic	$ 0.04	$ 0.08	$ 0.02	$ 0.08	$ 0.22
Net earnings per share – diluted	$ 0.04	$ 0.08	$ 0.02	$ 0.08	$ 0.22
Average U.S. to Canadian exchange rate	$ 1.101	$ 1.092	$ 1.087	$ 1.130	$ 1.1025

Sales in Quarter 1, 2015 have increased from 2014 due to the favorable fluctuations in exchange rates as well as small improvements in general economic conditions. The Company has implemented cost reduction strategies which are having an impact on controlling expenses and improving profitability. The changes in exchange rates have created a larger exchange gain in the first quarter of 2015 compared to the first quarter of 2014. The year-to-year quarterly fluctuations in both sales and income are affected by the changes in Canadian foreign exchange rates, product mix, changing economic conditions and competitive pricing pressures.

Capital resources and liquidity

Net cash provided by operating activities for Quarter 1, 2015 was $421 versus cash used in operating activities of $1,645 in Quarter 1, 2014, an increase of $2,066. This increase is as a result of a decrease in income tax payments, higher net income and a decrease in working capital.

During the quarter, non-cash working capital used cash of $2,880 compared to $4,686 for the same quarter last year. The working capital changes are primarily related to an increase in inventories and accounts receivable and foreign exchange impacts on working capital changes.

Capital expenditures were $236 in Quarter 1, 2015 compared to $674 for Quarter 1, 2014, a decrease of $438. The Company continues to invest in the areas of manufacturing processes and capabilities, new product development and information technology.

There was an additional investment to the joint venture in the amount of $2,480. This Quarter 1 spending was towards additional deposits and purchases of capital equipment.

Total cash generated by financing activities for Quarter 1, 2015 was $2,488 as compared to $641 in Quarter 1, 2014. The main cause of this change is additional borrowings in Quarter 1 from the bank operating lines of credit to fund changes in working capital. Bank operating lines of credit have decreased from prior year levels finishing Quarter 1, 2015 at $20,562 compared to $28,999 at the end of Quarter 1, 2014, a decrease of $8,437.

The Company's overall operating debt balance net of cash was $14,419 in Quarter 1, 2015 compared to $19,858 in Quarter 1, 2014, a decrease in debt position of $5,439 primarily reflecting cash generated by operations during the year. All bank covenants continue to be met as at March 28, 2015.

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.

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.

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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.

	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	$ 2,175	$ 1,637	$ 935	$ 882	$ 549	–	$ 6,178
Accounts payable and accrued liabilities	38,920	–	–	–	–	–	38,920
Capital expenditure purchase commitments	5,866	–	–	–	–	–	5,866
Bank operating lines	20,562	–	–	–	–	–	20,562
Long-term debt	3,938	–	–	–	–	–	3,938
Total	**$ 71,461**	**$ 1,637**	**$ 935**	**$ 882**	**$ 549**	**–**	**$75,464**

Contingent liabilities

In December 2013, the Company received notice of an environmental claim from the owner of a property located nearby to a property that was once partially owned by the Corporation. At this time the Company feels that there is no merit to the claim.

Management is not aware of any other contingent liabilities.

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 2014 internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2014 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 generally accepted accounting principles. 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, 2015 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.

Regular quarterly dividend declaration

The Board of Directors of HPS declared a quarterly cash dividend of six cents ($0.06) per Class A Subordinate Voting Share of HPS and a quarterly cash dividend of six cents ($0.06) per Class B Common Share of HPS payable on March 26, 2015 to shareholders of record at the close of business on March 19, 2015. The ex-dividend date was March 17, 2015.

Joint Venture

On March 25, 2015, the Company and National Material announced the formation of Corefficient S. de R.L. de C.V. ("Corefficient")located in Monterrey, Mexico. Corefficient will design, manufacture and market energy efficient electrical cores, a major component used in the manufacture of dry type and liquid filled transformers. Under the terms of the JV Agreement the Company will have a 55% ownership interest and is scheduled to begin operations in Quarter 4, 2015.

Risks and uncertainties

As with most businesses, HPS is subject to a number of market place, industry and economic-related business risks, which could have some visible impact on our operating results. These risks include:

- The volatility, unpredictability and cyclical effects of market costs and supply pressures for commodities including, but not limited to, copper, insulation and electrical grain oriented steel;
- A significant, unexpected change in the global demand for resources;
- Instability and extreme volatility in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or recession;
- The size, timing and terms of sale for large OEM customer orders;
- Product mix impact on gross margins;
- Fluctuations of interest rates;
- Unpredictable weather trends and conditions; Government protectionism or regulation changes;
- Competition and market pricing pressures;
- Credit risk; and
- Global political unrest.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The Company is very cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS strives to curtail or reduce 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.

There are, however, several risks that deserve particular attention:

Commodity prices

The cyclical effects and market cost pressures of copper commodity and steel pricing in the global markets has an impact on the Company's costs and earnings. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Currency fluctuations

With the expansion of HPS' global footprint, currency fluctuations and volatility may have a more significant impact on the financial results and continues to be an awareness area for the Company. The Company's functional currency is the Canadian dollar and its operating results are reported in Canadian dollars. A significant portion of the Company sales and material purchases are denominated in U.S. dollars. While there is a natural hedge, as sales denominated in U.S. dollars 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. In general, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results. Inversely, a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

The Company also has a U.S. operating subsidiary and U.S. dollar assets. The exchange rate between the Canadian and U.S. dollar can vary significantly from year-to-year and recently has shown significant volatility with substantial changes month-to-month. There is a corresponding positive or negative impact to the Company's Accumulated Other Comprehensive Income in the Consolidated Statement of Financial Position solely related to the foreign exchange translation of its U.S. Balance Sheet.

The recent acquisitions in Italy and India have created assets to be denominated in Euros and Indian Rupees. There is a corresponding positive or negative impact to the Company's Statement of Comprehensive Income solely related to the foreign exchange translation of its entities Balance Sheets.

We have partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output. The Company has lessened its intercompany loan transactional exchange rate risk by entering into forward foreign exchange contracts.

Finally, HPS periodically institutes price increases to help offset the negative impact of changes in foreign exchange and product cost increases.

Natural disasters and unpredictable weather

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.

Interest rates

There has been higher operating line usage over the last few years related to global acquisitions, working capital usage and capital expenditure needs to support the Company's growth strategies. The Company's debt financing has been structured to take advantage of the current lower interest rates and reduced interest costs. The Company continues to be cognizant that a rise in interest rates will negatively impact the financial results. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

As part of hedging this risk, the Company may enter into fixed long-term rates on part of its total debt. It is the Company's determination that the interest rate premium to secure longer term interest rates does not provide an economic advantage. The Company believes that a more significant impact of a rise in interest rates would apply to our customers' investment decisions and financing capabilities.

Credit

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.

Global economic conditions

Current global economic conditions, particularly in Europe and North America, influence the Company's financial performance and the Company's focus and strategic initiatives. To address the current uncertainty, we are focusing our efforts on projects that will increase our cost competiveness, capacity and improve our manufacturing flexibility.

The Company believes, and results have confirmed, that being an agile organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. We also believe 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.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in Notes to the Consolidated Financial Statements contained in our 2014 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2015, other than transactions disclosed in Note 10 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2015 Report.

Proposed transactions

The Company continues to evaluate potential business expansion initiatives and has no firm transactions as at March 28, 2015.

Financial instruments

As at March 28, 2015, the Company had outstanding foreign exchange contracts in place for 10,800 EUR and $6,500 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $23,000 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.

Outstanding share data

Details of the Company's outstanding share data:

8,916,624	Class A Shares
2,778,300	Class B Common Shares
11,694,924	Total Class A and B Shares

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.

Interests in joint operations

On May 6, 2014, the International Accounting Standards Board ("IASB") issued amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. The amendments require business combinations accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Methods of depreciation and amortization

On May 12, 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets. The amendments to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that the use of revenue based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning January 1, 2016. The company does not expect the amendments to have a material impact on the financial statements.

Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. This new standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts. The extent of the impact of adoption of the standard has not yet been determined.

Financial instruments

On July 24, 2014 the IASB issued the complete IFRS 9 Financial Instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Transfer of assets

On September 11, 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture (JV). Specifically, under the existing consolidation standard the parent recognizes the full gain on the loss of control, whereas under the existing guidance on associates and JVs the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. The main consequence of the amendments is that a full gain/loss is recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations. A partial gain/loss is recognized when the assets transferred do not meet the definition of a business, even if these assets are housed in a subsidiary. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Annual improvements to IFRS (2010 – 2012) and (2011-2013) cycles

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits; and
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Disclosure initiative

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Strategic direction and outlook

HPS is dedicated to its strategic investment in growth initiatives in Canada, the U.S., India and Europe. This commitment is evidenced by the Company's international acquisitions, capacity expansion strategies, new product development and increased capital spending for strategic projects.

The capricious global economic climate has had a pervasive effect on HPS. The negative impact of an erratic and unpredictable economy, as well as the variability of foreign currency exchange rates, manufacturing throughput, raw material commodity costs and market pricing pressures has affected the Company. These deterrents are being managed through the Company's strategic projects and operational plans.

The Company's shorter term operational and financial performance has been hindered by these negative influences over the past few quarters, however, we are confident that the business fundamentals that have been developed will sustain and grow HPS in the near future and over the long-term. The Company's reaction to these conditions continues to be prudent but not complacent, conservative but progressive. HPS is seeing the results of these key initiatives having a positive impact. The Company will be unwavering in its pursuit of improving productivity gains, cost reduction, sales growth from new product development, geographic diversification, capacity flexibility and escalation of market share.

Corefficient will design, manufacture and market, energy efficient electrical cores, a major component used in the manufacture of dry type and liquid filled transformers. This company represents an attractive new business for HPS that is expected to enhance HPS' financial performance as the Company expands its presence in the North American transformer component market.

We continue to be an industry leader, remain financially and operationally strong, able to navigate through the enduring economic uncertainty and confident in our vision of the future.

Our approach to improving profitability includes geographic manufacturing dispersion, global expansion, sales growth, productivity gains, new product development and market share penetration.

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. Key success factors are our resilience, drive and commitment, decades of experience, engineering expertise, solid supplier relationships and a broad and unique business perspective gained through our diverse products, customers and markets.

While we expect sales growth to continue to be realized in several of our markets, we also are aware that it may remain at a lower level in others. As a portion of our sales will come from major customer projects for which the exact timing is hard to predict, we may continue to experience quarterly sales fluctuations.

The Company is committed to ensuring our strategic advantage going forward through:

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

HPS is committed to delivering escalating improvement in its financial results. We believe in the strength of HPS' strategies and are confident in the Company's ability to successfully execute its plan.

Management is firmly committed to delivering long-term value to our shareholders while contributing profitable growth and remains focused on the success of all stakeholders of the company.

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 2015. 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

	2010	2011	2012	2013	**2014**
Sales	190,604	221,323	257,376	242,941	**247,756**
Earnings from operations	13,642	13,039	18,180	11,036	**6,460**
EBITDA	19,500	15,538	24,352	16,924	**12,327**
Net earnings	10,652	5,993	12,611	6,104	**2,520**
Total assets	118,643	137,520	160,049	186,878	**184,291**
Total liabilities	32,360	46,072	58,404	77,827	**69,854**
Total cash (debt)	17,694	1,681	(990)	(21,104)	**(14,833)**
Cash provided (used) by operations	14,109	6,592	21,371	765	**18,450**
Basic earnings per share	0.92	0.52	1.08	0.52	**0.22**
Diluted earnings per share	0.91	0.51	1.08	0.52	**0.22**
Dividends declared and paid	1,504	1,738	2,098	2,328	**2,800**
Average exchange rate (USD$=CAD$)	1.030	0.989	1.0005	1.029	**1.1025**
Book value per share	7.45	7.89	8.54	9.17	**9.61**

Quarterly Information

	2013			2014				**2015**
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Sales	59,072	57,393	62,804	59,953	61,716	61,558	64,529	**63,137**
Earnings from operations	1,599	1,921	4,157	1,303	1,770	915	2,472	**1,446**
EBITDA	3,254	3,380	4,848	3,310	3,262	2,234	3,521	**3,589**
Net earnings	510	792	2,895	520	936	260	804	**781**
Total assets	170,131	169,261	186,878	185,863	182,373	191,435	184,291	**191,972**
Total liabilities	64,359	65,364	77,827	73,169	72,155	78,861	69,854	**70,482**
Total cash (debt)	(20,552)	(19,823)	(21,104)	(24,965)	(23,419)	(14,976)	(14,833)	**(18,357)**
Cash provided (used) by operations	1,429	3,439	(3,092)	(1,645)	3,892	11,415	4,788	**421**
Basic earnings per share	0.04	0.07	0.25	0.04	0.08	0.02	0.08	**0.07**
Diluted earnings per share	0.04	0.07	0.25	0.04	0.08	0.02	0.08	**0.07**
Dividends declared and paid	582	582	582	700	700	700	700	**702**
Average exchange rate (USD$=CAD$)	1.014	1.038	1.048	1.101	1.097	1.087	1.130	**1.235**
Book value per share	8.91	8.75	9.17	9.47	9.24	9.44	9.61	**10.18**

Consolidated Statements of Financial Position

(unaudited) (tabular amounts in thousands of dollars)	As at March 28, 2015	December 31, 2014
Assets		
Current assets		
Cash	$ 6,143	$ 6,456
Accounts receivable	52,316	47,381
Inventories	42,327	37,961
Income taxes recoverable	1,934	1,863
Prepaid expenses and other assets	1,887	10,169
Total current assets	$ 104,607	$ 103,830
Non-current assets		
Property, plant and equipment (note 4)	$ 45,588	$ 46,365
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	6,978	–
Deferred tax assets	1,011	937
Goodwill	18,596	17,889
Intangible assets (note 6)	14,148	14,226
Total non-current assets	87,365	80,461
Total assets	$ 191,972	$ 184,291
Liabilities		
Current liabilities		
Bank operating lines of credit	$ 20,562	$ 17,178
Accounts payable and accrued liabilities	38,920	38,041
Other liabilities	–	4,064
Income tax liabilities	780	205
Provisions	415	387
Derivative liabilities	–	105
Current portion of long-term debt (note 7)	3,938	347
Total current liabilities	$ 64,615	$ 60,327
Non-current liabilities		
Employee future benefits	$ 336	$ 294
Provisions	100	100
Long-term debt (note 7)	–	3,764
Deferred tax liabilities	5,431	5,369
Total non-current liabilities	5,867	9,527
Total liabilities	$ 70,482	$ 69,854
Shareholders' Equity		
Share capital (note 8)	13,800	13,800
Contributed surplus	2,427	2,339
Accumulated other comprehensive income (note 9)	11,283	4,613
Retained earnings	91,584	91,519
Total shareholders' equity attributable to equity holders of the Company	$ 119,094	$ 112,271
Non-controlling interests	2,396	2,166
Total shareholder's equity	121,490	114,437
Total liabilities and shareholders' equity	$ 191,972	$ 184,291

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Earnings

(unauditied)

(tabular amounts in thousands of dollars)	Three Months Ending March 28, 2015	March 29, 2014
Sales	$ 63,137	$ 59,953
Cost of sales	49,123	46,046
Gross margin	14,014	13,907
Selling and distribution	6,746	7,058
General and administrative	5,822	5,546
Earnings from operations	1,446	1,303
Finance and other costs (income)		
Interest expense	116	257
Foreign exchange gain	(290)	(97)
Other	33	33
Net finance and other (income) costs	(141)	193
Income before income taxes	1,587	1,110
Income tax expense	806	590
Net earnings	$ 781	$ 520
Non-controlling interests	$ 14	$ 8
Net income attributable to equity holders of the Company	767	512
Net earnings	$ 781	$ 520
Earnings per share		
Basic earnings per share (dollars)	$ 0.07	$ 0.04
Diluted earnings per share (dollars)	$ 0.07	$ 0.04

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unauditied)

(tabular amounts in thousands of dollars)	Three Months Ending March 28, 2015	March 29, 2014
Net earnings	$ 781	$ 520
Other comprehensive income		
Foreign currency translation differences for foreign operations	6,886	3,653
Other comprehensive income for the period, net of income tax (note 9)	6,886	3,653
Total comprehensive income for the period	$ 7,667	$ 4,173
Attributable to:		
Equity holders of the Company	6,670	3,501
Non-controlling interests	216	152
Total comprehensive income for the period	$ 6,886	$ 3,653

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the three months ended March 28, 2015

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2015	$ 13,800	$ 2,339	$ 4,613	$ 91,519	2,166	$ 114,437
Total comprehensive income for the year						
Net earnings	–	–	–	767	14	781
Other comprehensive income						
Foreign currency translation differences (note 9)	–	–	6,670	–	216	6,886
Total other comprehensive income	–	–	6,670	–	216	6,886
Total comprehensive income for the year	–	–	6,670	767	230	7,667
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	88	–	–	–	88
Dividends to equity holders (note 8)	–	–	–	(702)	–	(702)
Total transactions with shareholders	–	88	–	(702)	–	(614)
Balance at March 28, 2015	$ 13,800	$ 2,427	$ 11,283	$ 91,584	$ 2,396	$ 121,490

*AOCI – Accumulated 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 29, 2014

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2014	$ 13,611	$ 2,133	$ (524)	$ 91,794	2,037	$ **109,051**
Total comprehensive income for the year						
Net earnings	–	–	–	512	8	**520**
Other comprehensive income						
Foreign currency translation differences (note 9)	–	–	3,501	–	152	**3,653**
Total other comprehensive income	–	–	3,501	–	152	**3,653**
Total comprehensive income for the year	–	–	3,501	512	160	**4,173**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	–	170	–	–	–	**170**
Dividends to equity holders (note 8)	–	–	–	(700)	–	**(700)**
Total transactions with shareholders	–	170	–	(700)	–	**(530)**
Balance at March 29, 2014	$ 13,611	$ 2,303	$ 2,977	$ 91,606	$ 2,197	$ **112,694**

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

Consolidated Statements of Cash Flows

(unauditied)

(tabular amounts in thousands of dollars)	Three Months Ending March 28, 2015	March 29, 2014
Cash flows from operating activities		
Net earnings	$ 781	$ 520
Adjustments for:		
Amortization of property, plant and equipment	1,412	1,487
Amortization of intangible assets	474	456
Provisions	31	43
Interest expense	116	257
Income tax expense	807	590
Change in unrealized gain on derivatives	(105)	51
Stock based compensation expense	88	170
	3,604	3,574
Change in non-cash working capital (note 11)	(2,880)	(4,686)
Cash provided from operating activities	724	(1,112)
Income tax paid	(303)	(533)
Net cash provided by (used in) operating activities	421	(1,645)
Cash flows from investing activities		
Investment in joint venture (note 5)	(2,480)	–
Acquisition of property, plant and equipment	(236)	(674)
Acquisition of intangible assets	(117)	–
Cash used in investing activities	(2,833)	(674)
Cash flows from financing activities		
Advances of borrowings	3,384	1,816
Repayment of long-term debt	(78)	(218)
Cash dividends paid (note 8)	(702)	(700)
Interest paid	(116)	(257)
Cash provided by financing activities	2,488	641
Foreign exchange on cash held in a foreign currency	(389)	(405)
Decrease in cash	(313)	(2,083)
Cash and cash equivalents at beginning of period	6,456	11,224
Cash and cash equivalents at end of period	$ 6,143	$ 9,141

See accompanying notes to condensed consolidated interim financial statements

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

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. ("HPS" or the "Company") is a company domiciled in Canada. The address of the Company's registered office is 595 Southgate Rd. 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, 2015 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled 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 Company has manufacturing plants in Canada, United States ("U.S."), Mexico, Italy, and India, the latter being PETE Hammond Power Solutions Private Limited ("PETE"), subsidiary in which the Company holds a 70% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. ("the JV Agreement") for the manufacturing of transformer cores. On March 25, 2015, the Company and National Material L.P. executed all agreements and a new company Corefficient S. de R.L. de C.V. ("Corefficient") was established. HPS has a 55% ownership interest in 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 29, 2015.

(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, 2014.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2014 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, 2014.

Changes to accounting policies

Defined Benefit plans: employee contributions

IAS 19 was amended in November 2013 to reduce the complexity of account for certain contributions from employees or third parties. When employee contributions are eligible, a Company is permitted to recognize them as a reduction of the service cost in the period in which the service is rendered. The Group adopted the amendments to IAS 19 in its consolidated financial statements for the year commencing January 1, 2015. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

Joint venture

The Company has a 55% ownership interest in the joint venture. The Company applies the equity method of accounting for its investment in the joint venture. Under the equity method of accounting, interests in joint ventures are initially recognized in the Consolidated Statement of Financial Position at initial cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income in the income statement and in other comprehensive income respectively. When the Group's share of losses in a joint venture equals or exceeds it interest in the joint venture the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains or transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

4. Property, plant and equipment

The Group had acquisitions of fixed assets for the three months ended March 28, 2015 in the amount of $236,000 of machinery and equipment (2014 - $674,000).

5. Joint venture

Corefficient was formed on March 25, 2015. As of March 28, 2015 there were no revenues or expenses associated with the joint venture. As at December 31, 2014 other assets reflected $8,562,000 of deposits made for capital equipment related to the joint venture by the Company and other liabilities of $4,064,000 represented National Material L.P.'s related funding of these deposits. Given the execution of the JV Agreement these amounts have been reclassified to reflect the Company's initial investment in the joint venture of $4,498,000. An additional investment of $2,480,000 was contributed in Quarter 1, 2015.

6. Intangible assets

The Group had acquisitions of intangible assets for the three months ended March 28, 2015 in the amount of $117,000 (2014 - $nil), for the addition of software. None of the intangible assets have been developed internally.

7. Long-term debt

	Three Months Ending	
	March 28, 2015	March 29, 2014
Opening balance	$ **4,111**	$ 5,145
Repayments		
Term loan CAD	**(45)**	(45)
Term Loans EUR	**(25)**	(164)
Term loan INR	**(7)**	(9)
Exchange	**(96)**	180
	3,938	5,107
Less current portion of long-term debt	**3,938**	859
Total	$ **–**	$ 4248

8. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Three Months Ending	
	March 28, 2015	March 29, 2014
6 cents per Class A common share (2014: 6 cents)	$ 535	$ 533
6 cents per Class B common share (2014: 6 cents)	167	167
	$ 702	$ 700

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

(b) Stock option plan

During the three months ended March 28, 2015, the Company granted 95,000 options (2014 – 90,000) of which 55,000 vested immediately (2014 – 90,000). Stock-based compensation recognized and the amount credited to contributed surplus during the period is $88,000 (2014 - $170,000) and relates to options granted during Quarter 1, 2015, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period is $1.26 (2014 - $1.52).

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

	2015	2014
Fair value of share options and assumptions		
Fair value at grant date	$ 1.26	$ 1.52
Share price at grant date	$ 6.62	$ 7.50
Exercise price	$ 6.62	$ 7.50
Expected volatility (weighted average volatility)	33.8%	34.1%
Option life (expected weighted average life)	3.5 years	3.5 years
Expected dividends	3.48%	3.14%
Risk-free interest rate (based on government bonds)	0.63%	1.27%

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. Total other comprehensive income for the three months ended March 28, 2015 was $6,670,000 (2014 – $3,501,000), resulting in an ending balance of accumulated other comprehensive income of $11,283,000 (2014 – $2,977,000).

10. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2014 – 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 1,050,921 (2014 – 1,033,540) Class A subordinate voting shares of the Company, representing approximately 11.8% (2014 – 11.6%) 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 $230,000 (Quarter 1 2014– $229,000).

In the ordinary course of business, the Company enters into transactions with affiliated entities. A number of key management personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. All related party transactions in the normal course of operations are recorded at the exchange amount of consideration established by and agreed to by the related parties. The Group entered into the following trading transactions with other related parties:

	Note	2015	2014	Relationship
Purchase of goods and services	(i)	$ 333	$ 309	Companies in which key management personnel and/or their relatives have significant influence.

		2015	2014	Relationship
Amounts owed by related parties		$ 545	$ 677	Companies in which key management personnel and/or their relatives have significant influence.

Quarters ended March 28, 2015 and March 29, 2014 (amounts in thousands of dollars)

Transactions with key management personnel

During the three months ended March 28, 2015, the Company purchased $63,000 (2014 – $54,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. 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 $14,000 (2014 – $10,000), which is owed to this company.

(i) During the three months ended March 28, 2015, the Company has paid $5,000 (2014 – $4,000) of payments in connection with rental agreements for office space and an apartment with K. Linga Reddy and K. Ravi Reddy, the minority shareholders of PETE – Hammond Power Solutions Private Limited in India.

11. Change in non-cash operating working capital

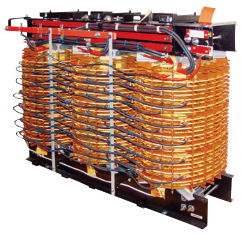
The table below depicts the receipt of (use of) cash for working capital purposes by the Company:

	Three Months Ending			
		March 28, 2015		March 29, 2014
Accounts receivable	$	**(4,935)**	$	38
Inventories		**(4,366)**		180
Prepaid expenses		**(280)**		(167)
Accounts payable and accrued liabilities		**879**		(6,628)
Foreign exchange		**5,822**		1,891
	$	**(2,880)**	$	(4,686)

CAST RESIN

DISTRIBUTION

CONTROL



DRIVE ISOLATION

SHOVEL DUTY

PRODUCT STRENGTH

POWER

OIL-FILLED

Hammond Power Solutions Inc.

Canada

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Guelph, Ontario N1G 3W6

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10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.

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Granby, Quebec J2G 9A1

3850 place de Java
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Brossard, Québec J4Y 0C4

PETE – Hammond Power Solutions Private Limited

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D.No. 8-3-166/6&7
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Hammond Power Solutions

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Via A. Gramsci, 98
21050 Marnate (VA), Italy

Hammond Power Solutions S.A. de C.V.

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Parque Industrial Guadalupe
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Monterrey, Mexico

Ave. Avante #900
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Monterrey, Mexico

Hammond Power Solutions, Inc.

United States

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Compton, California 90224

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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100 University Avenue
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Auditors

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Waterloo, Ontario N2J 5A3

Legal Representation

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Banking Institution

JP Morgan Chase
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Investor Relations

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Hammond Power Solutions Inc.

THE FUTURE IS BRIGHT.