HAMMOND

RADIO TRANSFORMERS
TRANSMITTING EQUIPMENT

Hammond
Power Solutions
1917-2017

Q1 Report

For The Three Months Ending April 1, 2017

CATALOGUE G-48

CONTENTS

Cover:

Based on the 1935 Hammond Manufacturing Co. Catalogue Cover

THE ROAD AHEAD

FELLOW SHAREHOLDER:

Hammond Power Solutions is a solid company and we are indeed very proud of our history as well as our growth and success. We have performed better than most of our competitors due to our diversity in geography, channels, markets, products and operational strengths.

As anticipated, Hammond Power Solutions Inc. ("HPS") has seen a nice uplift in our first quarter results following a very tough 2016.

With the distraction of the United States ("U.S.") election behind us and a more pro-business government in power in Washington, a more optimistic view of the U.S. economy has emerged in the early months of 2017. This has resulted in higher levels of bookings and sales, including the first meaningful orders from the drilling, pipeline and mining sectors that we have seen in three years. We are also seeing year-over-year growth in Canada, Europe and India as the global economy continues to firm up in 2017.

2016 was one of the toughest business environments HPS has faced since 2007. It has caused us to make certain decisions to reduce costs in North America as well as Italy in order to rightsize our operations, while improving our profitability. Throughout the last two years, we have been able to maintain higher margins in a very competitive market, superior ship on time, product quality and strong relationships with distributor and customer partners, have enabled this to happen.

As a management team with decades of experience in our business, we are committed to delivering improved financial results.

With the resurgence in bookings, and the strengthening end markets we serve, HPS is poised to rebound in the coming quarters. Over the last three years, we have invested a significant amount of time and money in developing new products, expanding our U.S. distributor network and investing in our Indian operation – all of which will aid our growth as the global economy improves. A growing U.S. economy, coupled by an improving energy sector should benefit the Canadian economy – our second largest market.

We are well aware of the risks and subsequent uncertainties that extend across the world due to possible U.S. trade policies, the impact of Brexit negotiations on the Eurozone and sabre rattling in the Far East. The global economy, especially in the United States, is beginning to come back to life and we believe that HPS can ride this to improved financial performance in the quarters and years ahead.

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

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, 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, Italy and India.

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the three months ended April 1, 2017, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the first quarter of fiscal 2017. This information is based on Management's knowledge as at May 9 , 2017. 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 2016 Annual Report and accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2016 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 April 1, 2017 and April 2, 2016 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 April 1, 2017 were $72,362, an increase of $3,640 or 5.3% from Quarter 1, 2016 sales of $68,722.

Sales in the United States ("U.S.") increased by $3,981 or 10.3%, finishing at $42,671 for Quarter 1, 2017 compared to $38,690 in Quarter 1, 2016. Private branding, power control, switch gear, motor control and petro chemical markets were stronger in the U.S. in Quarter 1, 2017 compared to the same quarter in 2016. These increases were offset by softness in the alternative energy, North American Electrical Distributor ("NAED") and specialty markets during Quarter 1, 2017. First quarter sales in the U.S. were unfavourably affected by a 4.3% weaker U.S. dollar ("USD"), $1.00 USD = $1.32 Canadian dollar ("CAD") compared against $1.00 USD = $1.38 CAD in Quarter 1, 2016. U.S. sales, when stated in U.S.

dollars were $32,264 in Quarter 1, 2017, compared to Quarter 1, 2016 of $28,120, an increase of $4,144 or 12.8%.

Canadian sales were $16,939 for the quarter, a decrease of $986 or 5.5% from Quarter 1, 2016 sales of $17,925. During the current quarter, a decline in the NAED, switch gear, technical services, capital equipment and machine building industry were the main contributor to the decrease in sales compared to the same quarter last year. This decline was partially offset by stronger sales in the mining, alternative energy and motor control market segments.

International sales for Quarter 1, 2017 finished at $12,752 versus $12,107 in Quarter 1, 2016, an increase of $645 or 5.3%. Increases in international sales this quarter were impacted by a 26.8% increase in sales in India, which was offset by declines in Italy. The Indian market continues to show double digit growth, while the prolonged sluggishness in the European market continues to be a challenge.

Quarter 1, 2017 sales stated by geographic segment were derived from U.S. sales of 59.0% (Quarter 1, 2016 – 56.3%) of total sales, Canadian sales of 23.4% (Quarter 1, 2016 – 26.1%), and International sales of 17.6% (Quarter 1, 2016 – 17.6%).

The Company continues to increase both its market share and sales through distributor conversions. Past acquisitions have broadened the Company's product offering as well as its manufacturing capabilities in cast resin transformer technology; expanding the HPS footprint in India and Europe.

HPS' growth strategy is evidenced by its business development activities and its commitment to capital investment and vertical integration strategies. HPS' market diversification strategies provide a business hedge, as the Company is not single market or industry dependent.

The Company's expanded product offering, organic customer diversity, new customer additions and market reach, supports its global market share. International expansion continues to be an area of focus for HPS. The Company's emphasis is on providing value to our customers through competitive custom engineered designs, uncompromised quality, new product development and product breadth. These factors, combined with multi-national manufacturing capabilities and an effective distribution channel continue to be a company strength – vital to revenue growth.

ORDER BOOKINGS AND BACKLOG

Bookings increased 7.1% over Quarter 1, 2016 due to a momentum increase in bookings in the North American direct channel, which was partially offset by reduced distribution channel bookings and lower bookings in Europe. The distributor channel booking rate declined 4.0% from Quarter 1, 2016 due to softer economic activity in the mining and oil production sectors.

Direct channel bookings were higher than Quarter 1, 2016 by 17.5%, resulting primarily from a 19.7% increase in bookings from the U.S. North American Original Equipment Manufacturer ("OEM") market in the quarter.

Backlog increased 11.1% over Quarter 1, 2016 and 5.7% over Quarter 4, 2016. The quarter change was primarily due to significant project bookings in the U.S. Despite the lethargic global economy, quotation activity has become more active – a good indicator of future sales. The combination of the Company's strategic sales initiatives, expanded distributor network and new products will translate into a rise in booking rates.

HPS is sensitive to the volatility and unpredictability of current global economies and the impact 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, 2017 were 24.4% compared to Quarter 1, 2016 margin rates of 24.3%, a slight increase of 0.1% of sales. The improvement in margin rates can be attributed to a combination of restructuring cost reductions, efficiency increases, higher manufacturing throughput, product mix and geographic blend. The slightly weaker U.S. exchange rate to the Canadian dollar resulted overall in a net favourable impact on gross margin rates.

Although the Company has successfully maintained solid margin rates year-over-year, the underutilization of industry capacity has caused downward selling price pressures. The Company continues to combat competitor shortsighted pricing strategies through its total value added engineered solutions.

The Company implemented a restructuring strategy to reduce managed salary costs, which favourably contributed 0.4% to the gross margin rates during the quarter. This cost reduction undertaking supported the Company's competitiveness in the marketplace.

Currently, the Company's diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. At this time, the incremental fixed costs associated with excess capacity 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 favourably impact margin rates. The Company's capacity strategy is fundamental for future increases in sales demand created through growth of market share and sales from newly developed products.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Quarter quotation activity, backlog growth and increased sales provide some indications of economic improvement. Looking forward, the Company remains cautiously optimistic, as it will realize growth in some markets along with a decline in others – underscoring the volatility of markets and sales demand. The uncertain economic environment has negatively impacted margin rates from a price realization and manufacturing capacity utilization perspective. To mitigate this effect, the Company has utilized a number of cost reduction activities, continues to actively advance its geographic presence and invest in new product development.

HPS is dedicated to identifying and implementing productivity enhancements, cost reductions and lead-time improvements throughout the entire organization. The Company is confident that these actions will improve margin rates and overall profitability.

SELLING AND DISTRIBUTION EXPENSE

Total selling and distribution expenses were $8,205 in Quarter 1, 2017 or 11.3% of sales versus $7,637 in Quarter 1, 2016 or 11.1% of sales, an increase of $568 or 0.8% of sales. The foreign exchange translation of our U.S. denominated expenses, reduced expenses by $149 in Quarter 1, 2017. This change in the translation of expenses is offset by the year-over-year increase in variable selling expenses namely, commission and freight expenses – a result of the increased sales during Quarter 1, 2017.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses for Quarter 1, 2017 totaled $6,238 or 8.6% of sales, compared to Quarter 1, 2016 expenses of $6,411 or 9.3% of sales, a decrease of $173 and 0.2% of sales. Quarter 1, 2017 expenses were significantly impacted by the Company's restructuring strategy which reduced general and administrative expenses by $529 or 0.7% of sales, more than offsetting the $54 foreign exchange translation impact of our U.S. denominated expenses.

RESTRUCTURING COSTS

In support of improving the Company's cost competitiveness, during Quarter 1, 2017, the Company implemented a cost reduction initiative through reducing manufacturing employee costs by $287 and general and administrative expenses of $529. The decision to restructure was necessary for HPS to adjust operationally, its costs in support of profitability improvement.

EARNINGS FROM OPERATIONS

Quarter 1, 2017 earnings from operations, were $2,405, a decrease of $272 or 10.2% from $2,677 for the same quarter last year. The reduction in the quarter earnings is primarily a result of higher net earnings derived from increased sales, increased gross margins, lower foreign exchange losses and a smaller loss of investment in the joint venture, which was diluted by higher interest expense.

Excluding restructuring costs, adjusted earnings from operations for Quarter 1, 2017 were $3,221, versus $2,677 in Quarter 1, 2016 an increase of $544 or 20.3%.

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

	Q1, 2017	Q1, 2016
Net earnings	$ 1,084	$ 884
Add:		
Income tax expense	648	710
Interest expense	316	201
Foreign exchange loss	67	321
Share of loss of investment in joint venture	257	528
Other	33	33
Earnings from operations	$ 2,405	$ 2,677
Add back: restructuring charges	$ 816	$ –
Adjusted earnings from operations	$ 3,221	$ 2,667

INTEREST EXPENSE

Interest expense for Quarter 1, 2017 was $316, an increase of $115 or 57.2% compared to the Quarter 1, 2016 expense of $201. Interest expense in Quarter 1, 2017 was generated as a result of higher operating debt levels due to joint venture investment and working capital requirements, particularly due to a rise in accounts receivable and increases in inventory. Interest expense includes all bank fees.

FOREIGN EXCHANGE LOSS

The foreign exchange loss in Quarter 1, 2017 was $67 compared to $321 in Quarter 1, 2016, a decrease of $254 or 79.1%. This loss relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past quarter, where the U.S. dollar declined 0.2% from December 2016.

As at April 1, 2017, the Company had outstanding foreign exchange contracts in place for 13,600 Euros ("EUR") and $7,500 USD, both implemented as an economic hedge against translation gains and losses on inter-company loans. A $29,000 USD loan is in place to economically hedge the U.S. dollar denominated accounts payable in HPS Canadian operations.

JOINT VENTURE

The joint venture, Corefficient S. de R.L. de C.V. ("Corefficient"), designs, manufactures and sells energy efficient electrical cores – a major component used in dry-type and liquid filled transformers. These electrical cores comply with new U.S. energy efficiency standards that came into effect January 1, 2016. The Quarter 1, 2017 share of loss of investment in the joint venture was $257. These losses were primarily a result of start-up costs and lower manufacturing capacity utilization.

INCOME TAXES

Quarter 1, 2017 income tax expense was $648 as compared to $710 in Quarter 1, 2016, a decrease of $62 or 8.7%.

The consolidated effective tax rate for Quarter 1, 2017 was 37.4% versus 44.5% for Quarter 1, 2016, a decrease of 7.1%. The changes in the effective tax rates were greatly impacted by changes in the earnings mix of the Company and the share of the loss of investment in the joint venture. The Company's income is generated from different tax jurisdictions and is subject to different tax rates and regulations.

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

NET EARNINGS

Net earnings for Quarter 1, 2017 finished at $1,084 compared to net earnings of $884 in Quarter 1, 2016, an increase of $200 or 22.6%. This increase in the quarter earnings is a result of higher sales, increased gross margin, and a decline in the loss on investment in the joint venture.

Excluding the share of loss of investment in the joint venture, adjusted net earnings for the quarter would have been $1,341 and Quarter 1, 2016 earnings would have been $1,412, a decrease of $71 or 5.0%.

EARNINGS PER SHARE

Basic earnings per share were $ 0.09 for Quarter 1, 2017 versus $0.07 in Quarter 1, 2016. Adjusting for the share of loss of investment in the joint venture, the basic earnings per share would have been $0.11 as compared to $0.12 earnings per share in Quarter 1, 2016.

EBITDA

EBITDA for Quarter 1, 2017 was $3,902 versus $3,787 in Quarter 1, 2016, an increase of $115 or 3.0%. Adjusted for foreign exchange gains and restructuring charges, adjusted EBITDA for Quarter 1, 2017 was $4,785 versus $4,108 in Quarter 1, 2016, an increase of $677 or 16.5%.

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

	Q1, 2017	Q1, 2016
Net earnings	$ 1,084	$ 884
Add:		
Interest expense	316	201
Income tax expense	648	710
Depreciation and amortization	1,854	1,992
EBITDA	$ 3,902	$ 3,787
Add:		
Foreign exchange losses	67	321
Restructuring charges	816	–
Adjusted EBITDA	$ 4,785	$ 4,108

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Fiscal 2017 Quarters	Q1, 2017
Sales	$ 72,362
Net earnings	$ 1,084
Net earnings per share – basic	$ 0.09
Net earnings per share – diluted	$ 0.09
Average U.S. to Canadian exchange rate	$ 1.3225

Fiscal 2016 Quarters	Q1, 2016	Q2, 2016	Q3, 2016	Q4, 2016	Total
Sales	$ 68,722	$ 69,138	$ 62,860	$ 74,073	$ 274,793
Net earnings	$ 884	$ 517	$ 99	$ 293	$ 1,793
Net earnings per share – basic	$ 0.07	$ 0.05	$ 0.01	$ 0.03	$ 0.16
Net earnings per share – diluted	$ 0.07	$ 0.05	$ 0.01	$ 0.03	$ 0.16
Average U.S. to Canadian exchange rate	$ 1.376	$ 1.287	$ 1.306	$ 1.332	$ 1.325

Quarter 1, 2017 sales are higher than Quarter 1, 2 and 3 of 2016. This is commendable given the high Quarter 4, 2016 sales which in prior years have caused softness in the first quarter sales. Sales for 2016 have been impacted due to the favourable fluctuations in exchange rates, as well as improvements in general economic conditions. There continues to be significant fluctuations of sales volumes in various markets.

The Company has implemented cost reduction strategies and continues to identify additional opportunities for savings, which are having an impact on controlling expenses and improving profitability. The fluctuations in exchange rates resulted in a decreased loss in foreign exchange in the first quarter of 2017 to $67 compared to a loss of $321 in the first quarter of 2016.

Corefficient, the recently established joint venture, achieved a reduced loss in Quarter 1, 2017 with the share of loss of investment in the joint venture of $257 compared to Quarter 1, 2016 loss of $528, an improvement of $271. Excluding the share of loss of investment in the joint venture, adjusted net earnings for the quarter would have been $1,341 and Quarter 1, 2016 earnings would have been $1,412, a decrease of $71 or 5.0%.

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

CAPITAL RESOURCES AND LIQUIDITY

Net cash used in operating activities for Quarter 1, 2017 was $7,622 versus $3,380 in Quarter 1, 2016, an increase of $4,242. This increase is a result of an increase in cash utilized for working capital.

In Quarter 1, 2017, non-cash working capital used cash of $11,455 compared to cash used of $3,731 for the same quarter last year, an increase of $7,724. The working capital changes are primarily related to a significant increase in accounts receivable, inventory and foreign exchange impacts on working capital changes.

Total cash used in financing activities increased by $4,230 from $63 in the first three months of 2016 to $4,293 in the same period of 2017. The key driver of this change is the repayment of bank operating lines.

Cash used in investing activities decreased by $3,395 from $4,684 in Quarter 1, 2016 to $1,289 in Quarter 1, 2017. The first three months of 2017 consisted of a significant decrease in the investment in joint venture, as HPS' contributions declined from $3,981 in Quarter 1, 2016 to $626 in Quarter 1, 2017. These amounts primarily fund Corefficient's working capital and operational needs. Capital expenditures were $520 in Quarter 1, 2017 compared to $545 for Quarter 1, 2016, a decrease of $25. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Bank operating lines of credit have increased from prior year levels finishing Quarter 1, 2017 at $33,232 compared to $30,050 at the end of Quarter 1, 2016, an increase of $3,182. The bank operating lines of credit have decreased $3,275 since the year-end balance of $36,507.

The Company's overall operating debt balance net of cash was $21,475 in Quarter 1, 2017 compared to $17,579 in Quarter 1, 2016, an increase in debt position of $3,896 primarily reflecting funding of the joint venture and working capital requirements.

All bank covenants for the year continue to be met as at April 1, 2017.

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.

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.

	2017	2018	2019	2020	2021	Total
Operating leases	$ 2,126	$ 1,801	$ 1,563	$ 469	$ 83	$ 6,042
Accounts payable and accrued liabilities	42,508	–	–	–	–	42,508
Capital expenditure purchase commitments	444	–	–	–	–	444
Bank operating lines	33,232	–	–	–	–	33,232
Total	$ 78,310	$ 1,801	$ 1,563	$ 469	$ 83	$ 82,226

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.

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 24, 2017, to shareholders of record at the close of business on March 17, 2017. The ex-dividend date was March 19, 2017.

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, 2017 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or were 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

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

- U.S. political uncertainty and risk;
- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or stagnation;
- 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;
- Fluctuations of interest rates;
- Unpredictable weather trends and conditions;
- Government protectionism or regulation changes;
- Competition;
- Credit risk, and
- Global political unrest.

The Company is very aware of these risks and continually assesses the current and potential impacts that they may have on the business. HPS continuously works to lessen 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:

U.S political uncertainty

The results of the recent 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.

Currency fluctuations

With HPS' current global footprint, currency fluctuations and volatility have a significant impact on the financial results and continues to be an area of attention. The Company's functional currency is the Canadian dollar and its operating results are reported in Canadian dollars ("CAD"). A significant portion of the Company sales and material purchases are denominated in U.S. dollars ("USD"). While 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.

Generally, 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 within quarters. 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. operations.

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

The acquisitions in Italy and India created assets 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 these foreign entities.

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

Global economic conditions

Current global economic conditions influence the Company's focus, priorities, direction and financial results. To address the current uncertainty we are concentrating our efforts on projects that will increase our cost competitiveness, capacity and improve our manufacturing flexibility.

The Company believes that being an agile organization will become even more important in order to respond quickly to both unexpected opportunities and challenges. Our focus is on expanding our market share during this economic slowdown and considers the key to achieving this 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.

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.

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 that may impact delivery and capacity requirements.

Interest rates

There has been an increase in operating line balances over the last few years related to strategic acquisitions, investment in the joint venture and working capital needs. The Company's debt financing has been structured to take advantage of the current lower interest rates and minimize interest costs. The Company continues to be mindful that a rise in interest rates will negatively impact financial results. The Company continuously reviews its interest rate strategy. Due to current lower short-term interest rates, HPS 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 however, that the interest rate premium to secure longer-term interest rates does not currently provide an economic advantage. The Company believes that a more significant rise in interest rates would impact 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.

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 2016 Annual Report.

TRANSACTIONS WITH RELATED PARTIES

The Company had no transactions with related parties in 2017, other than transactions disclosed in Note 10 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 1, 2017 Report.

PROPOSED TRANSACTIONS

The Company continues to evaluate potential business expansion initiatives and has no firm transactions as at April 1, 2017 other than disclosed in subsequent events.

FINANCIAL INSTRUMENTS

As at April 1, 2017 the Company had outstanding foreign exchange contracts in place for 13,600 EUR and $7,500 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $29,000 USD to hedge the U.S. dollar denominated accounts payable in the 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.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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:

8,921,624	Class A Shares
2,778,300	Class B Common Shares
11,699,924	Total Class A and B Shares

There have been no material changes to the outstanding share data as of the date of this report.

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.

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, 2018. 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 Involving Advertising Services. On April 12, 2016, the IASB issued Clarification to IFRS 15, Revenue from Contracts with Customers, which is effective at the same time as IFRS 15.

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 contract-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 and is effective for fiscal years beginning on or after January 1, 2018. 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 (IFRS 9 (2014)). 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 Group intends to adopt IFRS 9 (2014) in its consolidated 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.

Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities from all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The Group intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of this standard has yet to be determined.

Annual Improvements to IFRS Standards (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Group intends to adopt this amendment in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Foreign Currency Transactions with Advance Consideration

On December 8, 2016 the IASB issued IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consolidation. The Interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advanced payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Interpretation clarifies that the date of the transaction for the purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The interpretation may be applied either:

- Retrospectively; or
- Prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after:
  - the beginning of the reporting period in which the entity first applies the Interpretation; or
  - the beginning of a prior reporting period presented as comparative information in the consolidated financial statements

The Group intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on January 1, 2018. The Group does not expect the Interpretation to have a material impact on the consolidated financial statements.

STRATEGIC DIRECTION AND OUTLOOK

2017 marks Hammond Power Solutions 100th anniversary. This is a significant accomplishment and a testament to the strength and perseverance of the Company's ability to navigate the past century. The last 100 years has seen significant changes in markets, customers, capacity, technology and economic conditions.

Our most recent history includes international expansion in India and Italy. This addition to the Company had the impact of expanding product offerings and opened up additional markets and customers that had previously not been accessible. These acquisitions also provided HPS with cast resin technology, which has introduced new markets.

HPS continues to focus on customer service – expanding existing relationships while exploring new opportunities. Our past requirement to comply with the U.S. Department of Energy regulations and the upcoming Canadian efficiency standard changes (NRCan) has created opportunities for the Company to deliver to our customers and ensure their needs and regulations are being met. These regulation changes have resulted in new product development and manufacturing techniques.

The Company has state-of-the-art facilities throughout the world that continue to be enhanced through capital investment. The most recent evidence of this investment in the future, is the joint venture Corefficient, a new state-of-the-art facility in Mexico. This is further evidence of HPS' strategic investment in facilities and technology to continue to remain competitive.

A significant change for the Company was the implementation of an ERP system that has enhanced information availability and quality as well as streamlining processes. This system has been implemented in most of the North American facilities and will continue to be implemented in other remaining locations to eventually provide one global, consistent source of information and data.

While the Company has achieved moderate success during the first quarter of 2017, 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 experienced the adverse impact of variability of foreign currency exchange rates, raw material commodity costs, manufacturing throughput and market pricing pressures. These deterrents are being prudently managed through the Company's operational plans and strategic initiatives and projects.

During the first quarter of 2017, HPS made the difficult decision to restructure its people investment. This reduction in staffing levels will better position the Company's cost structure for the future, while ensuring that all vital activities and processes continue to operate efficiently and ensure the stakeholders of the company continue to receive a high level of service and quality product.

HPS has a reputation of being an industry leader and is both operationally and financially strong. Historically the Company has proven its ability to navigate through the enduring economic uncertainty and management continues to remain confident in the vision of the future. HPS is positioned to meet the evolving needs of both our traditional markets, while becoming a leading player in a growing number of other market sectors. The Company 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 drive, resilience, decades of experience, commitment, engineering expertise, solid supplier relationships and a broad and unique business perspective are all key factors critical to the success of the Company.

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 positioned to meet the evolving needs of our traditional markets while becoming a crucial player in a growing number of emerging sectors. Our success lies in our resilience, dedication and commitment, our 100 years of experience, our engineering expertise, our solid supplier relationships, and our unique business perspective gained through diverse products, customers and markets.

We are committed to investing in capital and in the people that are essential to securing a strategic advantage going forward. We will continue to focus on disciplined cost management initiatives and on bringing quality and value to all stakeholders of the Company. We will make every effort to deliver solid financial performance, provide a sustainable return to our shareholders and maintain the financial strength of the Company.

As we look to 2017 and beyond, we believe in the strength of the HPS model and continue to be confident in the Company's future.

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 2017. 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

(tabular amounts in thousands of dollars)

	2012	2013	2014	2015	**2016**
Sales	257,376	242,941	247,756	274,639	274,793
Earnings from operations	18,180	11,036	6,460	12,644	10,873
EBITDA	24,352	16,924	12,327	18,748	14,356
Net earnings	12,611	6,104	2,520	6,320	1,793
Total assets	160,049	186,878	184,291	222,969	205,177
Non-current liabilities	5,424	10,220	9,527	5,454	4,131
Total liabilities	58,404	77,827	69,854	90,668	84,524
Total shareholders' equity attributable to equity holders of the Company	99,387	107,014	112,271	129,665	120,441
Total debt	(990)	(21,104)	(14,833)	(13,202)	(11,318)
Cash provided by operations	21,371	765	18,450	16,065	15,216
Basic earnings per share	1.08	0.52	0.22	0.53	0.16
Diluted earnings per share	1.08	0.52	0.22	0.53	0.16
Dividends declared and paid	2,098	2,328	2,800	2,807	2,808
Average exchange rate (USD$=CAD$)	1.0005	1.029	1.1025	1.274	1.325
Book value per share	8.54	9.17	9.61	11.08	10.29

QUARTERLY INFORMATION

	2015			2016				**2017**
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	65,384	65,378	80,740	68,722	69,138	62,860	74,073	72,362
Earnings from operations	2,623	2,475	6,100	2,677	2,560	1,003	4,633	2,405
EBITDA	3,403	4,163	7,593	3,787	3,601	1,858	5,110	3,902
Net earnings	1,096	1,092	3,351	884	517	99	293	1,084
Total assets	193,039	206,687	222,969	208,810	203,379	200,896	205,177	204,371
Non-current liabilities	5,857	5,990	5,454	5,740	5,663	5,241	4,131	4,549
Total liabilities	73,347	80,859	90,668	82,534	76,846	79,364	84,524	81,639
Total shareholders' equity attributable to equity holders of the Company	117,283	123,375	129,665	123,910	120,677	121,333	120,441	122,732
Total debt	(21,828)	(18,886)	(13,202)	(21,515)	(31,217)	(26,640)	(11,318)	(21,475)
Cash provided (used) by operations	460	6,077	8,887	(3,380)	(4,941)	6,282	17,255	(7,622)
Basic earnings per share	0.09	0.10	0.27	0.07	0.05	0.01	0.03	0.09
Diluted earnings per share	0.09	0.10	0.27	0.07	0.05	0.01	0.03	0.09
Dividends declared and paid	701	702	702	702	702	702	702	702
Average exchange rate (USD$=CAD$)	1.231	1.302	1.329	1.376	1.287	1.306	1.332	1.323
Book value per share	10.03	10.54	11.08	10.59	10.31	10.37	10.29	10.46

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(tabular amounts in thousands of dollars)	As at April 1, 2017	December 31, 2016
Current assets		
Cash	$ 11,757	$ 25,189
Accounts receivable	60,277	49,969
Inventories	42,639	41,163
Income taxes recoverable	1,142	1,155
Prepaid expenses and other assets	1,627	1,826
Total current assets	117,442	119,302
Non-current assets		
Property, plant and equipment (note 4)	39,798	40,510
Investment in properties	1,044	1,044
Investment in joint venture (note 5)	14,423	13,272
Deferred tax assets	1,981	1,548
Goodwill (notes 10 and 11)	17,613	17,220
Intangible assets (note 6)	12,070	12,281
Total non-current assets	86,929	85,875
TOTAL ASSETS	$ 204,371	$ 205,177
LIABILITIES		
Current liabilities		
Bank operating lines of credit	$ 33,232	$ 36,507
Accounts payable and accrued liabilities	42,508	42,789
Income tax liabilities	736	557
Provisions	570	540
Derivative liabilities	44	–
Total current liabilities	$ 77,090	$ 80,393
NON-CURRENT LIABILITIES		
Provisions	100	100
Deferred tax liabilities	4,449	4,031
Total non-current liabilities	4,549	4,131
TOTAL LIABILITIES	$ 81,639	$ 84,524
SHAREHOLDERS' EQUITY		
Share capital (note 7)	13,843	13,843
Contributed surplus	2,619	2,605
Accumulated other comprehensive income (note 8)	12,500	10,992
Retained earnings	93,365	93,001
Total shareholders' equity attributable to equity holders of the Company	$ 122,327	$ 120,441
Non-controlling interests	405	212
TOTAL SHAREHOLDER'S EQUITY	122,732	120,653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 204,371	$ 205,177

See accompanying Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending April 1, 2017	Quarter Ending April 2, 2016
Sales	$ 72,362	$ 68,722
Cost of sales	54,698	51,997
Gross margin	17,664	16,725
Selling and distribution	8,205	7,637
General and administrative	6,238	6,411
Restructuring charges (note 9)	816	–
Earnings from operations	2,405	2,677
FINANCE AND OTHER COSTS		
Interest expense	316	201
Foreign exchange loss	67	321
Share of loss of investment in joint venture (note 5)	257	528
Other	33	33
Net finance and other costs	673	1,083
EARNINGS BEFORE INCOME TAXES	1,732	1,594
Income tax expense	648	710
Net earnings	$ 1,084	$ 884
Net earnings attributable to non-controlling interest	$ 18	$ 37
Net earnings attributable to the equity holders of the Company	1,066	847
Net earnings	$ 1,084	$ 884
EARNINGS PER SHARE		
Basic earnings per share (dollars)	$ 0.09	$ 0.07
Diluted earnings per share (dollars)	$ 0.09	$ 0.07

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending **April 1, 2017**	April 2, 2016
Net earnings	$ 1,084	$ 884
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation differences for foreign operations	1,683	(6,323)
Other comprehensive income (loss) for the period, net of income tax (note 8)	1,683	(6,323)
Total comprehensive income (loss) for the period	$ 2,767	$ (5,439)
Attributable to:		
Equity holders of the Company	$ 2,574	$ (5,169)
Non-controlling interest	193	(270)
Total comprehensive income (loss) for the period	$ 2,767	$ (5,439)

See accompanying Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) For three months ended April 1, 2017

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2017	$ 13,843	$ 2,605	$ 10,992	$ 93,001	$ 212	$ 120,653
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
Net earnings	–	–	–	1,066	18	1,084
OTHER COMPREHENSIVE INCOME						
Foreign currency translation differences related to the joint venture (note 5)	–	–	782	–	–	782
Foreign currency translation differences (note 8)	–	–	726	–	175	901
Total other comprehensive income	–	–	1,508	–	175	1,683
Total comprehensive income for the year	–	–	1,508	1,066	193	2,767
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY						
Share-based payment transactions	–	14	–	–	–	14
Dividends to equity holders (note 7)	–	–	–	(702)	–	(702)
Total transactions with shareholders	–	14	–	(702)	–	(688)
BALANCE AT APRIL 1, 2017	$ 13,843	$ 2,619	$ 12,500	$ 93,365	$ 405	$ 122,732

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) For three months ended April 2, 2016

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2016	$ 13,843	$ 2,434	$ 18,492	$ 94,896	$ 2,636	$ 132,301
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						
Net earnings	–	–	–	847	37	884
OTHER COMPREHENSIVE INCOME						
Foreign currency translation differences (note 8)	–	–	(6,016)	–	(307)	(6,323)
Total other comprehensive income	–	–	(6,016)	–	(307)	(6,323)
Total comprehensive income for the year	–	–	(6,016)	847	(270)	(5,439)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY						
Share-based payment transactions	–	116	–	–	–	116
Dividends to equity holders (note 7)	–	–	–	(702)	–	(702)
Total transactions with shareholders	–	116	–	(702)	–	(586)
BALANCE AT APRIL 2, 2016	$ 13,843	$ 2,550	$ 12,486	$ 95,041	$ 2,366	$ 126,276

*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)	**April 1, 2017**	April 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 1,084	$ 884
Adjustments for:		
Share of loss of investment in joint venture	257	–
Amortization of property, plant and equipment	1,353	1,416
Amortization of intangible assets	501	576
Provisions	30	24
Interest expense	316	201
Income tax expense	648	710
Change in unrealized loss/(gain) on derivatives	83	(158)
Stock-based compensation expense	17	116
	4,289	3,769
Change in non-cash working capital (note 11)	(11,455)	(3,731)
Cash (used in) provided by operating activities	(7,166)	38
Income tax paid	(456)	(3,418)
Net cash used in operating activities	(7,622)	(3,380)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in joint venture (note 5)	(626)	(3,981)
Acquisition of property, plant and equipment	(520)	(545)
Acquisition of intangible assets	(143)	(158)
Cash used in investing activities	(1,289)	(4,684)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayments) advances of borrowings	(3,275)	884
Repayment of long-term debt	–	(44)
Cash dividends paid (note 8)	(702)	(702)
Interest paid	(316)	(201)
Cash used in financing activities	(4,293)	(63)
Foreign exchange on cash held in a foreign currency	(228)	607
Decrease in cash	(13,432)	(7,520)
Cash and cash equivalents at beginning of period	25,189	19,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 11,757	$ 12,471

See accompanying Notes to Consolidated Financial Statements.

The accompanying unaudited interim financial statements of Hammond Power Solutions Inc., ("HPS" or the "Company") have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of 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 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 April 1, 2017 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 as well as standard electrical transformers, serving the electrical transformer industry. The Company has manufacturing plants in Canada, the United States ("U.S."), Mexico, Italy, and India, the latter being PETE-Hammond Power Solutions Private Limited ("PETE"), a subsidiary in which the Company holds an 85% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. ("National") for the manufacturing of transformer cores. On March 25, 2015, the Company and National completed the formation of the joint venture and a new company Corefficient S. de R.L. de C.V. ("Corefficient") was established, in which HPS holds a 55% partnership interest.

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 May 9, 2017.

(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, 2016.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2016 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, 2016.

Share-based Payment Transactions

Deferred Share Unit Plan

The Company implemented a Deferred Share Unit Plan (the "DSU Plan") for its senior-executive management and Directors. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. DSUs are increased by the dividend rate on a quarterly basis.

Under IFRS, DSUs are classified as cash-settled share-based payment transactions as the participants shall receive cash following a redemption event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. As such, we recognize the expense and the liability to pay for eventual redemption when the DSUs are issued. The Company re-measures the liability at the end of each reporting date and the date of settlement, with the difference recognized in income or expense for the period. The fair value of DSUs is determined in accordance with the DSU Plan, which uses the average closing price for HPS shares for the five trading-days immediately preceding the relevant date.

Changes to accounting policies

Annual Improvements to IFRS Standards (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process.

Amendment made to the following standard:

- Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017;

The Group adopted this amendment in its consolidated financial statements for the annual period beginning on January 1, 2017. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017 with earlier applications permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Group adopted the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on January 1, 2017. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

4. PROPERTY, PLANT AND EQUIPMENT

The Group had acquisitions of fixed assets for the three months ended April 1, 2017 in the amount of $520,000 of machinery and equipment (2016 – $545,000).

5. JOINT VENTURE

The Company has a 55% economic interest and voting interest in Corefficient. By virtue of the contractual arrangement with National, the other shareholder in Corefficient, decisions about significant, relevant, operating and strategic activities require the unanimous consent of both parties, and therefore the Company jointly controls Corefficient. Distributions of dividends and returns of capital from Corefficient are subject to unanimous Corefficient shareholder approval. Accordingly, the Company has treated its investment in Corefficient as a joint arrangement, with Corefficient's principal place of business in Monterrey, Mexico. The carrying value of the Company's interest in Corefficient is as follows:

	April 1, 2017	April 2, 2016
Cost of investment in joint venture	$ 19,304	$ 17,010
Cumulative share of loss in investment in joint venture	(3,505)	(1,376)
Foreign currency translation differences related to the joint venture	(1,376)	–
	$ 14,423	$ 15,634

Selected financial information relating to Corefficient is as follows:

	April 1, 2017	April 2, 2016
Cash	$ 1,101	$ 575
Trade and other receivables	7,850	8,259
Inventories	655	665
Other current assets	104	357
Total current assets	$ 9,710	$ 9,856
Non-current assets	19,681	17,998
TOTAL ASSETS	$ 29,391	$ 27,854
Current liabilities	$ 2,702	$ 2,137
Non-current liabilities	–	–
TOTAL LIABILITIES	$ 2,702	$ 2,137

	Three Months Ending	
	April 1, 2017	April 2, 2016
Revenue	$ 3,897	$ 5,036
Loss for the period	625	960

The loss for the three months ended April 1, 2017 includes depreciation and amortization expense of $498,000 (Quarter 1, 2016 – $113,000), interest expense of $17,000 (Quarter 1, 2016 – $1,000) and an income tax recovery of $268,000 (Quarter 1, 2016 – $411,000) related to Corefficient.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

6. INTANGIBLE ASSETS

The Group had acquisitions of intangible assets for the three months ended April 1, 2017 in the amount of $143,000 (2016 – $158,000), for the addition of software. None of the intangible assets have been developed internally.

7. SHARE CAPITAL

(a) Dividends:

The following dividends were declared and paid by the Company:

	Three Months Ending			
	April 1, 2017		April 2, 2016	
6 cents per Class A common share (2016: 6 cents)	$	535	$	535
6 cents per Class B common share (2016: 6 cents)		167		167
	$	702	$	702

(b) Stock option plan

There were no stock options issued during the three months ended April 1, 2017. Stock-based compensation recognized the amount credited to contributed surplus during the period is $14,000 and relates to options granted in prior years that vested during the period.

During the three months ended April 2, 2016, the Company granted 160,000 options of which 115,000 vested immediately. Stock-based compensation recognized the amount credited to contributed surplus during the period was $116,000 and relates to options granted during Quarter 1, 2016, and to options granted in prior years that vested during the period. The weighted average fair value of the options granted during the period was $0.96.

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:

		2017		2016
Fair value of share options and assumptions				
Fair value at grant date	$	0.96	$	0.96
Share price at grant date	$	6.20	$	6.20
Exercise price	$	6.20	$	6.20
Expected volatility (weighted average volatility)		39.4%		39.4%
Option life (expected weighted average life)		3.8 years		3.8 years
Expected dividends		3.9%		3.6%
Risk-free interest rate (based on government bonds)		1.4%		1.4%

(c) Deferred Stock Units

The Company has a deferred share unit plan (the "DSU Plan") in order to issue deferred share units ("DSUs") to non-employee directors and senior-executives (collectively "participants") of HPS. The DSU Plan was adopted to allow participants the opportunity to defer compensation and encourage a sense of ownership in HPS. Under the DSU Plan, participants may elect to defer compensation and receive DSUs equal to the value of the deferred compensation. The first DSUs were issued in March 2017. The number of DSUs was determined by dividing the amount of deferred compensation by the fair market value. The fair market value of DSUs is defined in the DSU Plan as the weighted average closing price of HPS shares for the five business days immediately preceding the relevant date. Upon the occurrence of the redemption event, the affected participant will be entitled to receive a lump sum cash payment, net of applicable withholding taxes, equal to the product of number of DSUs held by that participant and the fair market value on the date of the redemption event. The DSUs do not contain any vesting conditions or forfeiture provisions, as they are issued in exchange for deferred compensation. Under the DSU Plan, outstanding DSUs as at the record date are increased by the dividend rate whenever dividends are paid to shareholders.

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

The DSUs issued are not performance based.

The movement in DSUs for the three months ended April 1, 2017 is as follows:

		Number of DSUs at		Weighted Average Share Price
Balance at January 1, 2017	$	–	$	–
DSUs Issued	$	7,481		6.30
Balance at April 1, 2017	$	7,481	$	6.30

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes to the accumulated other comprehensive income ("AOCI") balance include foreign currency translation differences relating to the net assets of foreign operations. Total other comprehensive income for the three months ended April 1, 2017 was $1,508,000 (2016 comprehensive loss – $6,016,000), resulting in an ending balance of accumulated other comprehensive income of $12,500,000 (2016 – $12,476,000).

9. RESTRUCTURING CHARGES

The Company incurred restructuring charges of $816,000 for the three months ended April 1, 2017. These charges were 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. These charges are reported in the restructuring charge line within the consolidated statement of earnings.

The following table highlights the activity and balance of the restructuring charge for the three month period ending April 1, 2017:

		Employee Termination Benefits
Charges to expense	$	816
Cash payments		287
Accrued balance at April 1, 2017	$	529

10. RELATED PARTY TRANSACTIONS

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2016 – 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 1,055,287 (2016 – 1,052,953) Class A subordinate voting shares of the Company, representing approximately 11.8% (2016 – 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 $230,000 (Quarter 1 2016– $230,000).

Quarters ended April 1, 2017 and April 2, 2016 (tabular amounts in thousands of dollars, except for per share amounts)

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	**2017**	2016	Relationship
Purchase of goods and services	(i)	$ 63	$ 349	Companies in which key management personnel and/or their relatives have significant influence.

		2017	2016	Relationship
Amounts owed by related parties		$ 109	$ 96	Companies in which key management personnel and/or their relatives have significant influence and key management personnel.

Transactions with key management personnel

During the three months ended April 1, 2017, the Company purchased $55,000 (2016 – $60,000) 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 $29,000 (2016 – $26,000), which is owed to this company.

(i) During the three months ended April 1, 2017, the Company has paid nil (2016 – $6,000) of payments in connection with rental agreements for office space and an apartment with K. Ravi Reddy, the minority shareholder of PETE – Hammond Power Solutions Private Limited in India.

11. CHANGE IN NON-CASH WORKING CAPITAL

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

	Three Months Ending	
	April 1, 2017	April 2, 2016
Accounts receivable	$ (10,308)	$ 7,319
Inventories	(1,476)	(734)
Prepaid expenses	160	570
Accounts payable and accrued liabilities	(282)	(5,965)
Foreign exchange	451	(4,921)
	$ (11,455)	$ (3,731)

MAJOR COMPANY MILESTONES

2016
U.S. Department of Energy standards for energy efficiency became law on January 1, 2016. New legislation prompted U.S. customers to increase their inventory levels in 2015 for product manufactured and inventoried pre–2016

2015
Establishment of a joint venture – Corefficient S. de R.L. de C.V. "Corefficient", resulted in the construction of a new core production facility in Monterrey, Mexico

Considerable attention was put into expanding the sales of our operations in Europe and India

2014
Hammond Power Solutions Inc. announces joint venture agreement with National Material LP

2013
Acquisition of Marnate Trasformatori s.r.l. in Varese, Italy

2011
Acquisition of Pan-Electro Technic Enterprises in Hyderabad, India

Acquisition of Euroelettro Hammond s.p.a. in Vicenza, Italy

2010
Expansion of manufacturing capacity at Guelph, Ontario operation

2009
Expansion of manufacturing capacity and warehousing at Granby, Quebec operation

2008
Start-up of second manufacturing facility in Mexico

New logistics centre in Canada

Acquisition of Delta Transformers Inc. (largest Canadian competitor)

2001
HPS was created when the original company split into two strategic and separate entities

HPS ventures into Mexico with the construction of a state-of-the-art facility

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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

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Trading Symbol: HPS.A

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

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

Find out our 100 year story at HammondPowerSolutions.com