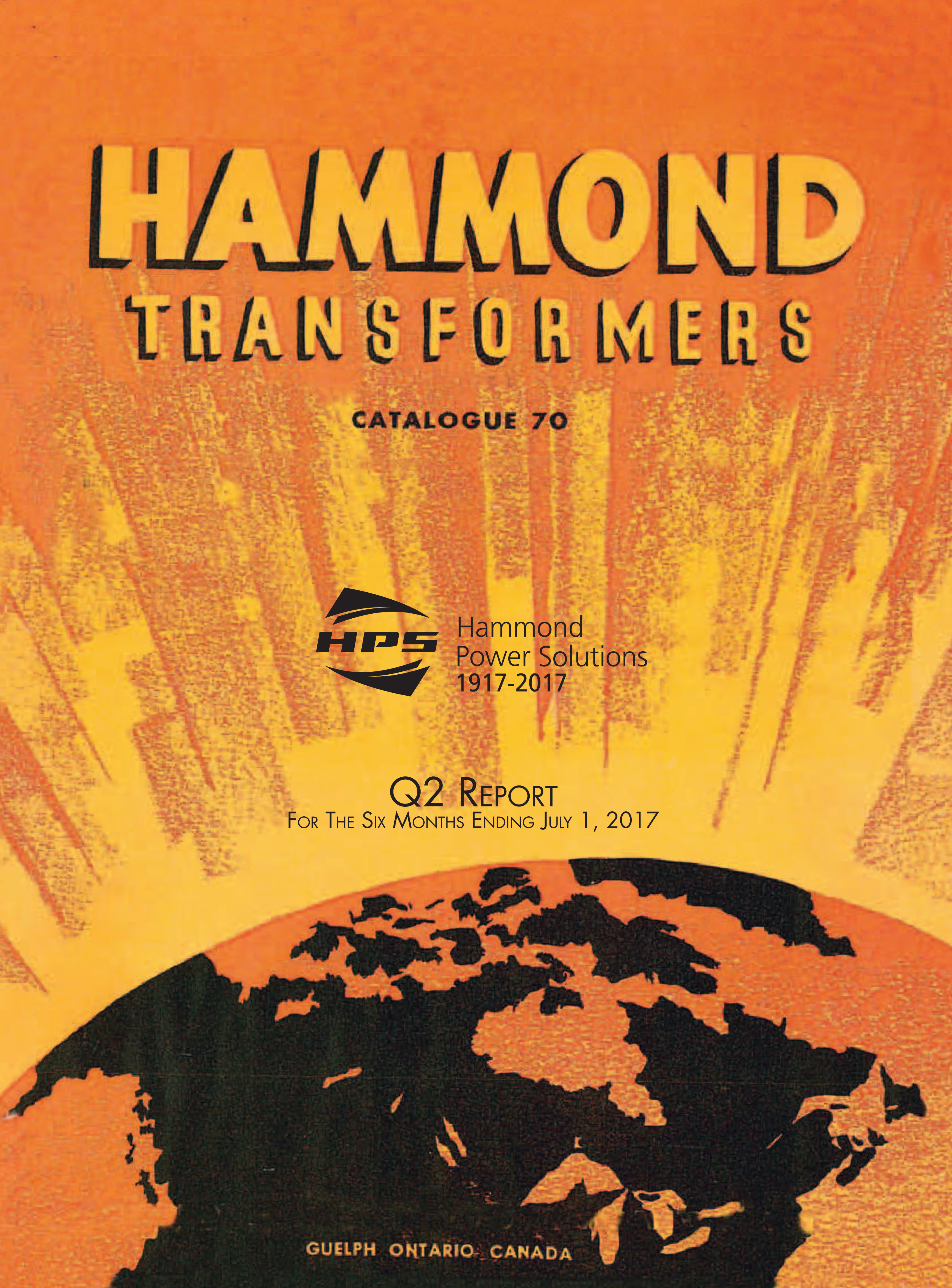

Hammond
Power Solutions
1917-2017

Q2 Report

For The Six Months Ending July 1, 2017

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Cover:

Based on the 1936 Hammond Manufacturing Co. Catalogue Cover

DRIVING FORWARD
FELLOW SHAREHOLDER:

Through the combined efforts and contributions of our global organizations, sales in the second quarter increased by 14% over last year while our earnings surged significantly.

I am pleased to report strong financial results in Quarter 2, 2017. Both sales and profits are up significantly over the same period in 2016. Through the combined efforts and contributions of our global organizations, sales in the second quarter increased by 14% over last year while our earnings surged significantly.

We are particularly positive with our improved results in light of the uneven recovery in the global economy as well as continued softness in certain markets. Hammond Power Solutions Inc. ("HPS") continues to benefit from several key strategic advantages including our diversity of geography, channels, markets and the range of our product capabilities. These advantages give HPS a strong position over most of our competitors.

Sales in North America, our largest geographical market, are up nearly 7% over 2016, while sales in Europe are up 15%, and in India up an impressive 212%. In terms of end markets, we have experienced strong growth in sectors like alternative energy, data centers, mining, oil and gas, commercial construction and infrastructure projects. In spite of a highly competitive market environment we have also been successful in holding our margins through cost containment, better factory absorption and a more profitable product mix.

Going forward, we anticipate our current positive momentum to continue as conditions improve in many markets, including market share growth in North America, Europe and India. However, we remain mindful of the potential macro effects of political volatility and economic uncertainty on segments of our business, as we keep pushing for further growth in our sales and profits.

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

Q2 MANAGEMENT'S DISCUSSION AND ANALYSIS

We are committed to investing in capital and integral recruits ensuring our strategic advantage going forward. We will continue to concentrate on our disciplined cost management initiatives and in 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 HPS. We will deliver solid sales and financial performance through the second half 2017.

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. HPS 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 six months ended July 1, 2017, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the second quarter of fiscal 2017. This information is based on Management's knowledge as at August 8, 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 second 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 term "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 July 1, 2017 and July 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 July 1, 2017 were $78,874, an increase of $9,736 or 14.1% from Quarter 2, 2016 sales of $69,138. Year-to-date 2017 sales increased $13,376 or 9.7% and were $151,236 compared to $137,860 in 2016.

Sales in the United States ("U.S.") increased by $5,913 or 15.1%, finishing at $45,080 for Quarter 2, 2017 compared to $39,167 in Quarter 2, 2016. Year-to-date U.S. sales were $87,751 in 2017 and $77,857 in 2016, an increase of $9,894 or 12.7%. The increase in the Quarter 2, 2017 sales is a result of improvements in the mining, motor control, North American Electrical Distributor ("NAED") and petro chemical markets – partially offset by softness in the switchgear market during the quarter. Second quarter sales were favourably affected by a 4.7% stronger U.S. dollar ("USD") $1.00 USD = $1.35 Canadian dollar ("CAD") compared against $1.00 USD = $1.29 CAD in Quarter 2, 2016. U.S. sales, when stated in U.S. dollars were $33,473 in Quarter 2, 2017, compared to Quarter 2, 2016 of $30,432, an improvement of $3,041 or 10.0%. Year-to-date U.S. sales stated in U.S. dollars were $65,737 in 2017 compared to $58,552, an increase of $7,185 or 12.3%.

Canadian sales were $19,726 for the quarter, a decrease of $2,770 or 12.3% from Quarter 2, 2016 sales of $22,496. Year-to-date Canadian sales were $36,665 in 2017 compared to $40,421 in 2016, a decrease of $3,756 or 9.3%. Canadian sales experienced declines in a number of markets this quarter compared to the same quarter last year – specifically in the capital equipment, utilities, motor control and switchgear markets.

International sales for Quarter 2, 2017 finished at $14,068 versus $7,475 in Quarter 2, 2016, an increase of $6,593 or 88.2%. The increase in international sales was impacted by sales growth of 212.0% in India due to stronger solar market activity, organic and new customer growth and an increase in general economic activity. Despite the prolonged sluggishness in the European market, which continues to be a challenge, the Italian operations sales improved 14.8% during the quarter. Year-to-date international sales were $26,820 in 2016 compared to $19,582 in 2016, an increase of $7,238 or 37.0%. This increase is a result of increased market share gains in both Italy and India.

Quarter 2, 2017 sales stated by geographic segment were derived from U.S. sales of 57.2% (Quarter 2, 2016 – 56.7%) of total sales, Canadian sales of 25.0% (Quarter 2, 2016 – 32.5%) and International sales of 17.8% (Quarter 2, 2016 – 10.8%).

The Company continues to increase both its market share and sales through distributor conversions. Past acquisitions have resulted in expanded product offerings, the addition of new customers, geographically diverse manufacturing capabilities and global market reach. Specifically, this International expansion has broadened the Company's product offering and manufacturing capabilities in cast resin transformer technology as well as expanded the HPS footprint in India and Europe.

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

The Company is unwavering in their commitment to producing transformers with uncompromised quality and compliance standards, competitive custom engineered designs, new product development and product breadth. These factors, combined with a strong, effective distribution channel and multi-national manufacturing capabilities, will continue to be a competitive advantage to the Company and important to revenue growth.

ORDER BOOKINGS AND BACKLOG

The Company increased bookings 1.1% over Quarter 2, 2016 due to stronger bookings in the direct channel in North America offset by decreases in the Indian direct orders due to record bookings in the previous two quarters.

Booking rates in the distributor channel decreased 5.2% over Quarter 2, 2016. On a direct channel basis, bookings were higher than Quarter 2, 2016 by 7.1% – primarily a result of additional bookings in the company's traditional markets of mining, oil drilling and construction.

On a year-to-date basis, overall Company bookings have increased 4.0% over the same period as last fiscal year. The distributor channel bookings decreased by 4.6% and the direct channel bookings increased by 12.2%.

Backlog increased 10.2% over Quarter 4, 2016. HPS has experienced increased order activity from North American Original Equipment Manufacturers ("OEM") customers in the more traditional markets of mining and oil drilling as well as increased orders in the project/ construction market.

Despite the lethargic global economy, quotation activity continues to be active – a good indicator of future sales. It is expected 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 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 2, 2017 were 25.0% comparable to Quarter 2, 2016 margin rate of 24.2%, an improvement of 0.8% of sales. Year-to-date, the gross margin rate was 24.7% in 2017 versus 24.3% in 2016, an improvement of 0.4%. The improvement in year-to-date margin rates can be attributed to a combination of restructuring cost reductions, pricing gains, product cost reductions, product and customer mix, geographic blend and efficiency increases as well as higher manufacturing throughput.

While the Company has maintained strong margin rates year-over-year, there are downward pricing pressures as a result of industry overcapacity. The Company continues to combat competitor shortsighted pricing strategies through its total value-added engineered solutions and excellent customer service.

During Quarter 1, 2017, the Company implemented a restructuring strategy to reduce managed salary costs, which favourably contributed 0.4% to the gross margin rate. This cost reduction supported the margin rate growth.

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 capacity expansion are dilutive to net margin rates in the short-term, but as sales grow, the impact that higher manufacturing throughput will have on the absorption of factory overheads, will favourably impact margin rates. This effect was evident in the Quarter 2, 2017 financial results. 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.

The quarter quotation activity, backlog growth and increased sales continue to provide certain indications of economic improvement. Looking forward, the Company remains cautiously optimistic, as it will realize growth in some markets and 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 in the entire organization. The Company is confident that these actions will enhance margin rates and overall profitability.

SELLING AND DISTRIBUTION EXPENSE

Total selling and distribution expenses were $8,627 in Quarter 2, 2017 or 10.9% of sales versus $7,901 in Quarter 2, 2016 or 11.4% of sales, an increase of $726 and a decrease 0.5% of sales. Year-to-date selling and distribution expenses were $16,832 or 11.1% of sales in 2017 compared to $15,538 or 11.3% in 2016, an increase of $1,294 and a decrease of 0.2% of sales. The increased sales in the first six months of 2017 resulted in increased variable selling expenses in the quarter and year-over-year, namely; additional commission expense of $82 in the quarter, $147 year-to-date and higher freight expenses of $186 in the quarter and $297 year-to-date. The foreign exchange translation of our U.S. denominated expenses was $95 of additional expense year-to-date.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses for Quarter 2, 2017 totaled $6,128 or 7.8% of sales, compared to Quarter 2, 2016 expenses of $6,283 or 9.1% of sales, a slight decrease of $155 or 1.3% of sales. Quarter 2, 2017 general and administrative expenses were reduced by the Company's restructuring strategy and cost containment, partially offset by a foreign exchange translation impact of our U.S. denominated expenses.

Year-to-date general and administrative expenses were $12,366 or 8.2% of sales in 2016, compared to $12,694 or 9.2% of sales in 2016, a decrease of $328 or 1.0% of sales. Year-to-date 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 year-to-date impact of the $34 foreign exchange translation impact of our U.S. denominated expenses.

EARNINGS FROM OPERATIONS

Quarter 2, 2017 earnings from operations were $4,953, a significant increase of $2,393 or 93.5% from $2,560 for the same quarter last year. The year-to-date earnings from operations were $7,358 in 2017 compared to $5,237 in 2016, an increase of $2,121 or 40.5%. The change in the quarter and year-to-date values is a result of higher sales and increased gross margin.

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

	Quarter 2, 2017	Quarter 2, 2016	YTD 2017	YTD 2016
Net earnings	$ 2,842	$ 517	$ 3,926	$ 1,401
Add:				
Income tax expense	1,559	1,164	2,207	1,874
Interest expense	286	326	602	527
Foreign exchange (gain) loss	(22)	19	45	340
Share of loss of investment in joint venture	255	501	512	1,029
Other	33	33	66	66
Earnings from operations	$ 4,953	$ 2,560	$ 7,358	$ 5,237

INTEREST EXPENSE

Interest expense for Quarter 2, 2017 was $286, a decrease of $40 or 12.3% compared to the Quarter 2, 2016 expense of $326. Year-to-date interest cost was $602, an increase of $75 or 14.2% when compared to the 2016 year-to-date expense of $527. Interest expense year-to-date in 2017 was generated as a result of higher operating debt levels due to the joint venture investment and working capital requirements, particularly due to a rise in accounts receivable. Interest expense includes all bank fees.

FOREIGN EXCHANGE GAIN/LOSS

The foreign exchange gain in Quarter 2, 2017 was $22. 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 loss of $19 in Quarter 2, 2016. The year-to-date foreign exchange loss for 2017 was $45, compared to $340 for the same period last year. The earnings impact of the foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past year.

As at July 1, 2017, the Company had outstanding foreign exchange contracts in place for 14,000 Euros ("EUR") and $7,900 USD – both implemented as an economic hedge against translation gains and losses on inter-company loans – as well as $35,000 USD to economically hedge the U.S. dollar denominated accounts payable in Canadian HPS 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. Quarter 2, 2017 share of loss of investment in joint venture was $255, a decrease of $246 or 49.1% from the Quarter 2, 2016 loss of $501. The year-to-date share of loss of investment in joint venture was $512 in 2017 and $1,029 in 2016, a decrease of $517 or 50.2%. These losses were a result of lower manufacturing capacity utilization due to lower than anticipated trade sales. The reduction in losses from prior year is a result of lower startup costs, reduced manufacturing variances and higher manufacturing throughput, however operational results may struggle with lower trade sales.

INCOME TAXES

Quarter 2, 2017 income tax expense was $1,559 as compared to $1,164 in Quarter 2, 2016, an increase of $395 or 33.9%. Year-to-date income tax expense was $2,207 in 2017 and $1,874 in 2016, an increase of $333 or 17.8%.

The consolidated effective tax rate for Quarter 2, 2017 was 35.4% versus 69.2% for Quarter 2, 2016, a decrease of 33.8%. The year-to-date effective tax rate for the first six months of 2017 was 36.0% compared to 57.2% for the same period in 2016, a decrease of 21.2%. The changes in the effective tax rates are greatly impacted by changes in the earnings mix of the Company and the share of the loss of investment in joint venture. The Company 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 2, 2017 finished at $2,842 compared to net earnings of $517 in Quarter 2, 2016, an increase of $2,325 or 449.7% Year-to-date net earnings were $3,926 in 2017 compared to $1,401 in 2016, an increase of $2,525 or 180.2%. The improvement in the quarter and year-to-date earnings is a result of higher sales, sales mix, improved gross margin rate, decreased losses on investment in the joint venture and a lower effective tax rate.

Excluding the share of loss of investment in the joint venture, adjusted net earnings for the quarter would have been $3,097 compared to Quarter 2, 2016 earnings of $1,018 – a significant increase of $2,079 or 204.2%, while year-to-date adjusted net earnings would have been $4,438, in 2017 and $2,430 in 2016, an increase of $2,008 or 82.6%.

EARNINGS PER SHARE

Basic earnings per share were $ 0.25 for Quarter 2, 2017, an increase of $0.20 from prior year value of $0.05. Adjusting for the share of loss of investment in the joint venture the basic earnings per share would have been $0.27 as compared to $0.09 earnings per share in Quarter 2, 2016. Year-to-date the basic earnings per share was $0.34 in 2017 and $0.12 in 2016. Adjusting for the share of loss of the investment in the joint venture, the year-to-date basic earnings per share would have been $0.38 as compared to $0.21 as of Quarter 2, 2016.

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

EBITDA

EBITDA for Quarter 2, 2017 was $6,273 versus $3,601 in Quarter 2, 2016, an increase of $2,672 or 74.2%. Adjusted for foreign exchange gains and losses, adjusted EBITDA for Quarter 2, 2017 was $6,251 versus $3,620 in Quarter 2, 2016, an increase of $2,631 or 72.7%.

Year-to-date EBITDA was $10,175 in 2017 and $7,388 in 2016, an increase of $2,787 or 37.7%. Adjusted year-to-date EBITDA was $10,220 in the current year, an increase of $2,492 and 32.2% from $7,728 in 2016.

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

	Q2, 2017	Q2, 2016	**YTD 2017**	YTD 2016
Net earnings	$ 2,842	$ 517	$ 3,926	$ 1,401
Add:				
Interest expense	286	326	602	527
Income tax expense	1,559	1,164	2,207	1,874
Depreciation and amortization	1,586	1,594	3,440	3,586
EBITDA	6,273	3,601	10,175	7,388
Add (deduct):				
Foreign exchange (gain) loss	(22)	19	45	340
Adjusted EBITDA	$ 6,251	$ 3,620	$ 10,220	$ 7,728

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of Quarterly Financial Information (Unaudited)

Fiscal 2017 Quarters	Q1, 2017	Q2, 2017	**YTD Total**
Sales	$ 72,362	$ 78,874	$ 151,236
Net earnings	$ 1,084	$ 2,842	$ 3,926
Net earnings per share – basic	$ 0.09	$ 0.25	$ 0.34
Net earnings per share – diluted	$ 0.09	$ 0.25	$ 0.34
Average U.S. to Canadian exchange rate	$ 1.3225	$ 1.3468	$ 1.3346

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 2, 2017 sales were at the highest level in the last eighteen months. Sales for Quarter 2, 2017 have been impacted due to the improvements in general economic conditions and growth, namely the OEM, solar and power conditioning markets. 2017 sales have benefited from improvements in market conditions particularly in the U.S. and India and from a stronger U.S. dollar exchange rate.

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 significant decrease in foreign exchange losses for the first six months of 2017 to $45, compared to a loss of $340 as of the second quarter of 2016.

Corefficient, our joint venture that manufactures transformer cores, had a reduced loss of $512 year-to-date for 2017 compared to year-to-date losses in 2016 of $1,029, an improvement of $517. Excluding the share of loss of investment in the joint venture, net earnings for the quarter would have been $3,097, and Quarter 2, 2016 earnings would have been $1,018 a noteworthy increase of $2,079 or 204.2%. Year-to-date net earnings would have been $4,438 in 2017 and $2,430 in 2016, a surge of $2,008 or 82.6%.

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

CAPITAL RESOURCES AND LIQUIDITY

Net cash provided by operating activities for Quarter 2, 2017 was $2,315 versus cash used in operating activities of $4,941 in Quarter 2, 2016, an improvement of $7,256. Year-to-date net cash used in operating activities was $5,307 compared to $8,321 in 2016, a decrease of $3,014. This decrease is a result of a decrease in income tax payments and an increase in net earnings.

During the quarter, non-cash working capital used cash of $1,746 compared to $6,740 for the same quarter last year. The year-to-date change in non-cash working capital was a usage of cash of $13,201 in 2017 compared to $10,471 in 2016. The working capital changes are primarily related to an increase in accounts receivable, an increase in accounts payable and foreign exchange impacts on working capital changes.

Cash used in investing activities decreased by $7,071 from $8,710 in the first six months of 2016 to $1,639 in the same period of 2017. One key driver of this change was the prior year purchase of an additional 15% equity ownership of PETE-Hammond Power Solutions Limited ("PETE") in India for $3,326. The remainder of the large decrease is a result of less funding of the Corefficient joint venture, which reduced from $4,155 in 2016 to $626 in 2017. Capital expenditures were $348 in Quarter 2, 2017 compared to $467 for Quarter 2, 2016, a decrease of $119. Year-to-date capital expenditures were $868 in the current year compared to $1,012 in 2016, a decrease of $144. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Total cash used in financing activities for Quarter 2, 2017 was $8,342 as compared to cash provided of $1,733 in Quarter 2, 2016. The source of this change was lower borrowings in Quarter 2, 2017 from the bank operating lines of credit to fund changes in working capital. Year-to-date financing activities have used cash of $12,635 compared to generating cash of $1,670 in the first six months of 2016. Bank operating lines of credit have decreased from prior year levels finishing Quarter 2, 2017 at $25,878 compared to $32,811 at the end of Quarter 2, 2016, a decrease of $6,933. The bank operating lines of credit have decreased $10,629 since the year-end balance of $36,507, and decreased $7,354 since the Quarter 1, 2017 balance of $33,232.

The Company's overall operating debt balance net of cash was $20,416 in Quarter 2, 2017 compared to $27,404 in Quarter 2, 2016, a decrease in debt position of $6,988 primarily reflective of increased net income, decreased funding of the joint venture, lower tax payments, partially offset with higher working capital usage.

All bank covenants continue to be met as at July 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	45,114	–	–	–	–	45,114
Capital expenditure purchase commitments	290	–	–	–	–	290
Bank operating lines	25,878	–	–	–	–	25,878
Total	$ 78,408	$ 1,801	$ 1,563	$ 469	$ 83	$ 77,324

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 June 23, 2017 to shareholders of record at the close of business on June 16, 2017. The ex-dividend date was June 18, 2017. The Company has paid a cash dividend of twelve cents ($0.12) per Class A Subordinate Voting Share and twelve cents ($0.12) per Class B Common Share year-to-date.

CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and for establishing and maintaining adequate internal controls over financial reporting. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the 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 2, 2017 there were no material changes identified in HPS' internal controls over financial reporting that had materially affected, or was reasonably likely to materially affect HPS' internal control over financial reporting. HPS does carry out ongoing improvements to its internal controls over financial reporting but nothing considered at a material level.

RISKS AND UNCERTAINTIES

The Company's goal is to proactively manage risks in a structured approach in conjunction with strategic planning, with the intent to preserve and enhance shareholder value. However, as with most businesses, HPS is subject to a number of market place, industry and economic-related business risks, which could cause our results to vary materially from anticipated future results. The Company is acutely cognizant of these risks and continually assesses the current and potential impacts that they have on the business. HPS continuously strives to curtail the negative impact of these risks through diversification of its core business, market channel expansion, breadth of product offering, geographic diversity of its operations and business hedging strategies. If any of the following risks were to occur they could materially adversely affect HPS' financial condition, liquidity or results of operations.

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

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

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

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

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

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

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

HPS' global footprint exposes the Company to currency fluctuations and volatility and, at times, has had a significant impact on the financial results of the Company. The Company's functional currency is the Canadian dollar 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. 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, significantly at times. Generally, a lower value for the Canadian dollar compared to the U.S. dollar will have a beneficial impact on the Company's results, while a higher value for the Canadian dollar compared to the U.S. dollar will have a corresponding negative impact on the Company's profitability.

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

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

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

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

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

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

The results of the 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.

Our industry is highly competitive.

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

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

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

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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

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

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 2, 2017 Report.

PROPOSED TRANSACTIONS

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

FINANCIAL INSTRUMENTS

As at July 1, 2017 the Company had outstanding foreign exchange contracts in place for 14,000 EUR and $7,900 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $35,000 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:

8,921,624	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, trade 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 opening up additional markets and customers that had previously not been accessible. These acquisitions also provided HPS with cast resin technology, which has further expanded new customers and markets.

HPS continues to focus on customer service and 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 was the new state-of-the-art facility in Mexico, joint venture, Corefficient. 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 success during the first half 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.

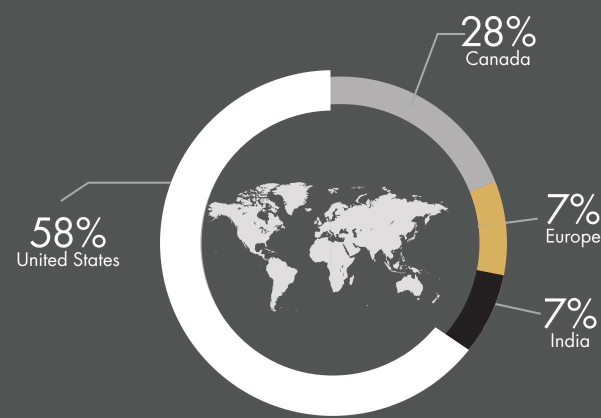
During the first quarter of 2017, HPS made the difficult decision to restructure its people investment. This reduction in staffing levels has better positioned the Company's cost structure for the future, while ensuring that all vital activities and processes continue to operate efficiently and ensure 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 gained through our diverse

WHAT WE DO

- Solar and Wind Power Generation
- Powering Commercial Infrastructure
- Motor Control
- Switchgear
- Specialty/Custom Transformers
- Capital Projects
- Construction and Mining
- Utilities
- Oil and Gas

GLOBAL SALES FOOTPRINT



products, customers and markets are all key success 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, by taking advantage of our 100 years of experience, our engineering expertise, solid supplier relationships, and a unique business perspective gained through our diverse products, customers and markets.

We are committed to investing in capital and integral recruits ensuring our strategic advantage going forward. We will continue to concentrate on our disciplined cost management initiatives and in 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 HPS. We will deliver solid sales and financial performance through the second half 2017.

Management is fully committed to delivering long-term value to our shareholders while contributing profitable growth and remains focused on the success of HPS.

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 Second 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 cash (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**	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	65,378	80,740	68,722	69,138	62,860	74,073	72,362	78.874
Earnings from operations	2,475	6,100	2,677	2,560	1,003	4,633	2,405	4,953
EBITDA	4,163	7,593	3,787	3,601	1,858	5,110	3,902	6,273
Net earnings	1,092	3,351	884	517	99	293	1,084	2,842
Total assets	206,687	222,969	208,810	203,379	200,896	205,177	204,371	197,887
Non-current liabilities	5,990	5,454	5,740	5,663	5,241	4,131	4,549	4,291
Total liabilities	80,859	90,668	82,534	76,846	79,364	84,524	81,639	76,252
Total shareholders' equity attributable to equity holders of the Company	123,375	129,665	123,910	120,677	121,333	120,441	122,732	121,288
Total debt	(18,886)	(13,202)	(21,515)	(31,217)	(26,640)	(11,318)	(21,475)	(20,416)
Cash provided (used) by operations	6,077	8,887	(3,380)	(4,941)	6,282	17,255	(7,622)	2,315
Basic earnings per share	0.10	0.27	0.07	0.05	0.01	0.03	0.09	0.25
Diluted earnings per share	0.10	0.27	0.07	0.05	0.01	0.03	0.09	0.25
Dividends declared and paid	702	702	702	702	702	702	702	702
Average exchange rate (USD$=CAD$)	1.302	1.329	1.376	1.287	1.306	1.332	1.323	1.347
Book value per share	10.54	11.08	10.59	10.31	10.37	10.29	10.46	10.37

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)

(tabular amounts in thousands of dollars)		As at July 1, 2017		As at December 31, 2016
Current assets				
Cash	$	5,462	$	25,189
Accounts receivable		62,550		49,969
Inventories		40,922		41,163
Income taxes recoverable		1,666		1,155
Prepaid expenses and other assets		1,675		1,826
Total current assets		112,275		119,302
Non-current assets				
Property, plant and equipment (note 4)	$	39,318		40,510
Investment in properties		1,044		1,044
Investment in joint venture (note 5)		13,812		13,272
Deferred tax assets		1,971		1,548
Goodwill (notes 10 and 11)		17,690		17,220
Intangible assets (note 6)		11,777		12,281
Total non-current assets		85,967		85,875
TOTAL ASSETS	$	197,887	$	205,177
LIABILITIES				
Current liabilities				
Bank operating lines of credit	$	25,878	$	36,507
Accounts payable and accrued liabilities		45,114		42,789
Income tax liabilities		157		557
Provisions		524		540
Derivative liabilities		288		–
Total current liabilities		71,961		80,393
NON-CURRENT LIABILITIES				
Provisions		100		100
Deferred tax liabilities		4,191		4,031
Total non-current liabilities		4,291		4,131
TOTAL LIABILITIES	$	76,252	$	84,524
SHAREHOLDERS' EQUITY				
Share capital (note 7)		13,843		13,843
Contributed surplus		2,619		2,605
Accumulated other comprehensive income (note 8)		9,301		10,992
Retained earnings		95,525		93,001
Total shareholders' equity attributable to equity holders of the Company	$	121,288	$	120,441
Non-controlling interests		347		212
TOTAL SHAREHOLDER'S EQUITY		121,635		120,653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	197,887	$	205,177

See accompanying Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending **July 1, 2017**	Quarter Ending July 2, 2016	Six Months Ending **July 1, 2017**	Six Months Ending July 2, 2016
Sales	$ 78,874	$ 69,138	$ 151,236	$ 137,860
Cost of sales	59,166	52,394	113,864	104,391
Gross margin	19,708	16,744	37,372	33,469
Selling and distribution	8,627	7,901	16,832	15,538
General and administrative	6,128	6,283	12,366	12,694
Restructuring charges (note 9)	–	–	816	–
Earnings from operations	4,953	2,560	7,358	5,237
FINANCE AND OTHER COSTS				
Interest expense	286	326	602	527
Foreign exchange (gain) loss	(22)	19	45	340
Share of loss of investment in joint venture (note 5)	255	501	512	1,029
Other	33	33	66	66
Net finance and other costs	552	879	1,225	1,962
EARNINGS BEFORE INCOME TAXES	4,401	1,681	6,133	3,275
Income tax expense	1,559	1,164	2,207	1,874
Net earnings	$ 2,842	$ 517	$ 3,926	$ 1,401
Net loss attributable to non-controlling interest	$ (20)	$ (58)	$ (2)	$ (21)
Net earnings attributable to the equity holders of the Company	2,862	575	3,928	1,422
Net earnings	$ 2,842	$ 517	$ 3,926	$ 1,401
EARNINGS PER SHARE				
Basic earnings per share (dollars)	$ 0.25	$ 0.05	$ 0.34	$ 0.12
Diluted earnings per share (dollars)	$ 0.25	$ 0.05	$ 0.34	$ 0.12

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending **July 1, 2017**	Quarter Ending July 2, 2016	Six Months Ending **July 1, 2017**	Six Months Ending July 2, 2016
Net earnings	$ 2,842	$ 517	$ 3,926	$ 1,401
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation differences for foreign operations	(3,237)	(1,913)	(1,554)	(8,236)
Other comprehensive loss for the period, net of income tax (note 8)	(3,237)	(1,913)	(1,554)	(8,236)
Total comprehensive (loss) income for the period	$ (395)	$ (1,396)	$ 2,372	$ (6,835)
Attributable to:				
Equity holders of the Company	$ (337)	$ (1,514)	$ 2,237	$ (6,683)
Non-controlling interest	(58)	118	135	(152)
Total comprehensive (loss) income for the period	$ (395)	$ (1,396)	$ 2,372	$ (6,835)

See accompanying Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) For the six months ended July 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	–	–	–	3,928	(2)	3,926
OTHER COMPREHENSIVE (LOSS) INCOME						
Foreign currency translation differences related to the joint venture (note 5)	–	–	427	–	–	427
Foreign currency translation differences (note 8)	–	–	(2,118)	–	137	(1,981)
Total other comprehensive (loss) income	–	–	(1,691)	–	137	(1,554)
Total comprehensive (loss) income for the year	–	–	(1,691)	3,928	135	2,372
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY						
Share-based payment transactions	–	14	–	–	–	14
Dividends to equity holders (note 7)	–	–	–	(1,404)	–	(1,404)
Total transactions with owners	–	14	–	(1,404)	–	(1,390)
BALANCE AT JULY 1, 2017	$ 13,843	$ 2,619	$ 9,301	$ 95,525	$ 347	$ 121,635

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) For the six months ended July 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	–	–	–	1,422	(21)	1,401
OTHER COMPREHENSIVE INCOME						
Foreign currency translation differences (note 10)	–	–	(8,105)	–	(131)	(8,236)
Total other comprehensive income	–	–	(8,105)	–	(131)	(8,236)
Total comprehensive income for the year	–	–	(8,105)	1,422	(152)	(6,835)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY						
Minority interest			(125)	(910)	(2,291)	(3,326)
Share-based payment transactions	–	134	–	–	–	134
Dividends to equity holders (note 7)	–	–	–	(1,404)	–	(1,404)
Total transactions with owners	–	134	(125)	(2,314)	(2,291)	(4,596)
BALANCE AT JULY 2, 2016	$ 13,843	$ 2,568	$ 10,262	$ 94,004	$ 193	$ 120,870

*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)	Six Months Ending **July 1, 2017**	July 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 3,926	$ 1,401
Adjustments for:		
Share of loss of investment in joint venture	512	1,029
Amortization of property, plant and equipment	2,575	2,563
Amortization of intangible assets	865	1,023
Provisions	(16)	(5)
Interest expense	602	527
Income tax expense	2,207	1,874
Change in unrealized gain on derivatives	327	(136)
Stock-based compensation expense	14	134
	11,012	8,410
Change in non-cash working capital (note 12)	(13,201)	(10,471)
Cash used in operating activities	(2,189)	(2,061)
Income tax paid	(3,118)	(6,260)
Net cash used in operating activities	(5,307)	(8,321)
CASH FLOWS FROM INVESTING ACTIVITIES		
Minority interest	–	(3,326)
Investment in joint venture (note 5)	(626)	(4,155)
Acquisition of property, plant and equipment	(868)	(1,012)
Acquisition of intangible assets	(145)	(217)
Cash used in investing activities	(1,639)	(8,710)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayments) advances of borrowings	(10,629)	3,645
Repayment of long-term debt	–	(44)
Cash dividends paid (note 8)	(1,404)	(1,404)
Interest paid	(602)	(527)
Cash (used in) provided by financing activities	(12,635)	1,670
Foreign exchange on cash held in a foreign currency	(146)	777
Decrease in cash	(19,727)	(14,584)
Cash and cash equivalents at beginning of period	25,189	19,991
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,462	$ 5,407

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 second quarter ended July 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 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"), a subsidiary in which the Company holds a 85% equity ownership. On October 31, 2014, the Company executed a joint venture agreement with National Material L.P. for the manufacturing of transformer cores. On March 25, 2015, the Company and National Material L.P. 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 August 8, 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 July 1, 2017 and July 2, 2016 (amounts in thousands of dollars except per share)

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. Thereafter, 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 July 1, 2017 and July 2, 2016 (amounts in thousands of dollars except per share)

4. PROPERTY, PLANT AND EQUIPMENT

The Group had acquisitions of fixed assets for the six months ended July 1, 2017 in the amount of $868,000 of machinery and equipment (2016 – $1,012,000).

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. Corefficient's principal place of business is in Monterrey, Mexico. The carrying value of the Company's interest in Corefficient is as follows:

		July 1, 2017		July 2, 2016
Cost of investment in joint venture	$	19,304	$	18,252
Cumulative share of loss in investment in joint venture		(3,760)		(1,877)
Foreign currency translation differences related to the joint venture		(1,731)		–
	$	13,813	$	16,375

Selected financial information relating to Corefficient is as follows:

		July 1, 2017		July 2, 2016
Cash	$	820	$	228
Trade and other receivables		8,544		7,688
Inventories		553		1,516
Other current assets		126		458
Total current assets	$	10,043	$	9,890
Non-current assets		19,447		19,034
TOTAL ASSETS	$	29,490	$	28,924
Current liabilities	$	3,124	$	1,885
Non-current liabilities		–		–
TOTAL LIABILITIES	$	3,124	$	1,885

	Six Months Ending			
		July 1, 2017		July 2, 2016
Revenue	$	8,618	$	9,540
Loss for the period		1,360		1,867

The loss for the six months ended July 1, 2017 includes depreciation and amortization expense of $1,055,000, (2016 - $1,120,000) interest expense of $35,000 (2016 - $3,000) and an income tax recovery of $583,000 (2016 - $788,000) related to Corefficient.

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

6. INTANGIBLE ASSETS

The Group had acquisitions of intangible assets for the six months ended July 1, 2017 in the amount of $145,000 (2016 - $217,000), 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:

	Six Months Ending			
	July 1, 2017		July 2, 2016	
12 cents per Class A common share (2016: 12 cents)	$	1,070	$	1,070
12 cents per Class B common share (2016: 12 cents)		334		334
	$	1,404	$	1,404

(b) Stock option plan

There were no stock options issued during the six months ended July 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 six months ended July 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 $134,000 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 July 1, 2017 and July 2, 2016 (amounts in thousands of dollars except per share)

The DSUs issued are not performance based.

The movement in DSUs for the six months ended July 1, 2017 is as follows

	Number of DSUs at		Weighted Average Share Price
Balance at January 1, 2017	–	$	–
DSUs Issued	14,801		6.95
Balance at July 1, 2017	14,801	$	6.95

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 loss for the six months ended July 1, 2017 was $1,691,000 (2016 - $8,105,000), resulting in an ending balance of accumulated other comprehensive income of $9,301,000 (2016 – $10,262,000).

9. RESTRUCTURING CHARGES

The Company incurred restructuring charges of $816 for the six months ended July 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 July 1, 2017:

		Employee Termination Benefits
Charges to expense	$	816
Cash payments		(385)
Accrued balance at July 1, 2017	$	431

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 1,056,290 (2016 – 1,053,767) 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 2, 2016– $230,000).

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

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	$ 719	Companies in which key management personnel and/or their relatives have significant influence.

		2017	2016	Relationship
Amounts owed by related parties		$ 6	$ 458	Companies in which key management personnel and/or their relatives have significant influence and key management personnel.

Transactions with key management personnel

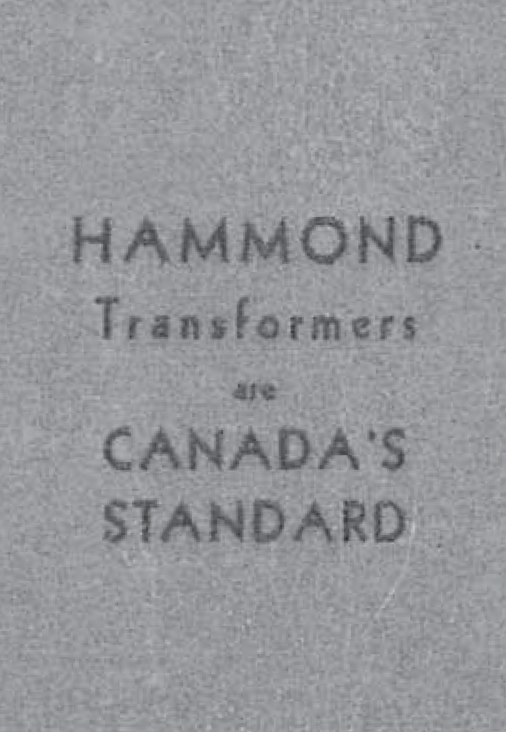
During the six months ended July 1, 2017, the Company purchased $110,000 (2016 – $131,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $24,000 (2016 – $29,000), which is owed to this company.

(i) During the six months ended July 1, 2017, the Company has paid nil (2016 – $7,000) 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:

	Six Months Ending	
	July 1, 2017	July 2, 2016
Accounts receivable	$ (12,581)	$ (5,086)
Inventories	241	(3,956)
Prepaid expenses	112	(49)
Accounts payable and accrued liabilities	2,325	(747)
Foreign exchange	(3,298)	4,414
	$ (13,201)	$ (5,424)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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

Stock Exchange Listing

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

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

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

Find out our story at hammondpowersolutions.com