Quarterly Report

Q3

For the nine months ended
October 1, 2016

Hammond Power Solutions Inc.

CONTENTS

Letter to Shareholders	3
Management's Discussion and Analysis	4
Selected Annual and Quarterly Information	15
Consolidated Financial Statements	16
Notes to Consolidated Financial Statements	22

GLOBAL FACILITIES

Canada
Hammond Power Solutions Inc.

Corporate Head Office
595 Southgate Drive
Guelph, Ontario N1G 3W6

15 Industrial Road
Walkerton, Ontario N0G 2V0

10 Tawse Place
Guelph, Ontario N1H 6H9

Delta Transformers Inc.

795 Industriel Boul.
Granby, Quebec J2G 9A1

3850 place de Java
Suite 200
Brossard, Québec J4Y 0C4

India
PETE – Hammond Power Solutions Private Limited

G-9 to 11, Bhavya's Sree Arcade,
D.No. 8-3-166/6&7
Erragadda, Hyderabad – 500 018

Italy
Hammond Power Solutions S.p.A.

Via dell'Agricoltura, 8/F (Z.I.)
36040 Meledo di Sarego (VI) Italy

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

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

Ave. Avante #810
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Ave. Avante #900
Parque Industrial Guadalupe
Guadalupe, Nuevo Leon, C.P. 67190
Monterrey, Mexico

Mexico
Corefficient, S. de R.L. de C.V.

Ave. Avante #840
Parque Industrial Guadalupe
Guadalupe, Nuevo León, México
C.P. 67190

United States
Hammond Power Solutions, Inc.

1100 Lake Street
Baraboo, Wisconsin 53913

17715 Susana Road
Compton, California 90224

Fellow Shareholder,

Despite a tough third quarter, Hammond Power Solutions Inc. ("HPS") is certain of an upturn in the remaining quarter of the year.

Quarter 3, 2016 results were impacted by a much slower economic environment than expected in the United States ("U.S.") and Europe. It has become very clear that the U.S. Presidential election has generated considerable uncertainty in the U.S., our largest market. Several key customers have delayed projects into the next quarter, which reduced our planned shipments. The slow global economy continues to weigh on exports as well as commodity markets. Sales of manufactured cores from our joint venture, Corefficient S. de R.L. de C.V. ("Corefficient") have been lower than planned, however we are forecasting stronger sales and improved margins from this new venture in 2017.

We are pleased to report that booking levels during the third quarter were higher than a year ago, especially in the U.S. and India. Quotation activity remains strong, and non-resource related activity at the consultant level is the highest in years. There are also a number of sizable industrial projects which must be shipped by the end of the year. In addition, we have been able to hold our margins in a very competitive market. Looking forward, the outcome of the U.S. election will have an impact on confidence and investment in that country. We are hopeful however that this outcome will be positive and we can get this year of political, trade and economic uncertainty behind us. Until then, we are taking full advantage of our diversity in geography, channel, markets, and products to grow our sales where possible and anticipate better times ahead.

We are engaged in a number of projects to expand our sales over the coming year, while constantly working on a range of cost reductions to help improve our margins in this very competitive environment. These are indeed volatile times where we must be mindful of both the opportunities and risks that are in front of us and remain ready to respond to unexpected changes in our environment.

HPS HAS A REPUTATION OF BEING AN INDUSTRY LEADER AND REMAINS BOTH OPERATIONALLY AND FINANCIALLY STRONG.

We are constantly working on a range of cost reductions to help improve our margins in this very competitive environment.

We are engaged in a number of projects to expand our sales over the coming year.

Q3 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

The following is Management's Discussion and Analysis ("MD&A") of the Company's consolidated operating results for the nine months ended October 1, 2016, and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of the Company for the third quarter of fiscal 2016.This information is based on Management's knowledge as at November 3, 2016. 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 2015 Annual Report and accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2015 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 October 1, 2016, and September 26, 2015, 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 October 1, 2016, were $62,860, a decrease of $2,518 or 3.9% from Quarter 3, 2015 sales of $65,378. Year-to-date 2016 sales increased $6,821 or 3.5% and were $200,720 compared to $193,899 in 2015.

Sales in the United States ("U.S.") decreased by $2,264 or 5.9%, finishing at $36,350 for Quarter 3, 2016 compared to $38,614 in Quarter 3, 2015. Year-to-date U.S. sales were $114,207 in 2016 and $115,046 in 2015, a slight decrease of $839 or 0.7%. The motor control and mining markets were stronger in the U.S. in Quarter 3, 2016 compared to the same quarter in 2015. These increases were offset by softness in the North American Electrical Distributor ("NAED"), alternative energy, switchgear and capital equipment markets during Quarter 3, 2016. Year-to-date the power control market has seen the largest increase, while sales have been negatively impacted by declines in the motor control, switch gear and mining industries. U.S. third quarter sales were favourably affected by a 1.5% stronger U.S. dollar ("USD"), $1.00 USD = $1.32 Canadian dollar ("CAD") compared against $1.00 USD = $1.30 CAD in Quarter 3, 2015. U.S. sales, when stated in U.S. dollars were $27,843 in Quarter 3, 2016, compared to Quarter 3, 2015 of $29,655, a decrease of $1,812 or 6.1%. Year-to-date U.S. sales stated in U.S. dollars were $86,395 in 2016 compared to $91,648, a decrease of $5,253 or 5.7%. The decrease in the year-to-date U.S. sales was expected given the abnormally strong Quarter 4, 2015 sales demand generated by the new Department of Energy ("DOE") regulations which came into effect January 1, 2016.

Canadian sales were $19,177 for the quarter, a decrease of $498 or 2.5% from Quarter 3, 2015 sales of $19,675. Year-to-date Canadian sales were $59,598 in 2016 compared to $55,519 in 2015, an increase of $4,079 or 7.3%. During the current quarter, a decline in the mining industry was the main contributor to the decrease in sales compared to the same quarter last year. Year-to-date, Canadian sales experienced strong surges in a number of markets compared to the same period last year, specifically in motor control, utilities, alternative energy and switch gear markets.

International sales for Quarter 3, 2016 finished at $7,333 versus $7,089 in Quarter 3, 2015, an increase of $244 or 3.4%. Year-to-date international sales were $26,915 in 2016 compared to $23,334 in 2015, an increase of $3,581 or 15.3%. Increases in international sales this quarter were impacted by a slight improvement in sales from our Italy operation. While there was some improvement, the prolonged sluggishness in the European market continues to be a challenge and an impact to the Company's profitability. Year-to-date the international sales have been positively impacted by expansion in the India markets, where growth rates are considerably higher than in North America.

Quarter 3, 2016 sales stated by geographic segment were derived from U.S. sales of 57.8% (Quarter 3, 2015 – 59.1%) of total sales, Canadian sales of 30.5% (Quarter 3, 2015 – 30.1%), European sales of 6.4% (Quarter 3, 2015 – 5.6%) and Indian sales of 5.3% (Quarter 3, 2015 – 5.2%).

HPS' focus is on providing value to our customers through uncompromised quality, competitive custom engineered designs, new product development and product breadth. These factors combined with an effective distribution channel and multi-national manufacturing capabilities, continue to be a strength to the Company and vital to revenue growth.

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. Past acquisitions have 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' growth strategy is evidenced by its acquisition activities, commitment to capital investment and vertical integration strategies, such as the Corefficient joint venture. HPS' market diversification strategies provide a business hedge, as the Company is not single market or industry dependent.

Order bookings and backlog

Bookings increased 1.3% over Quarter 3, 2015 and 4.2% over Quarter 2, 2016 due to a lift in the North American direct channel. This offset the distributor channel booking rate decline of 10.8% from Quarter 3, 2015 due to lackluster economic activity in the mining and oil production sectors.

Direct channel bookings were higher than Quarter 3, 2015 by 14.8%, primarily a result of a moderate lift in the U.S. North American Original Equipment Manufacturer ("OEM") market in the quarter. On a year-to-date basis, overall Company bookings have increased 5.9% over the same period as last fiscal year. The distributor channel bookings increased by 4.2% and the direct channel bookings increased by 7.4%.

Backlog increased 8.9% over Quarter 2, 2016 and 25.3% over Quarter 4, 2015. The quarter change was primarily due to significant project bookings in the U.S.

Despite the volatile and flat global economy and wavering North American OEM market conditions, quotation activity remains active. The combination of the Company's strategic sales initiatives, expanded distributor network and new products will translate into a rise in booking rates.

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

Gross margin

The gross margin rate for Quarter 3, 2016 was 22.7% compared to the Quarter 3, 2015 rate of 23.8%, a decline of 1.1% of sales. The year-to-date gross margin rate was 23.8% in 2016 versus 23.4% in 2015, an improvement of 0.4%. The improvement in year-to-date rates can be attributed to a combination of pricing gains, cost reductions, product and customer mix, and geographic blend, as well as a moderate lift in manufacturing throughput due to the increased sales levels. A stronger U.S. exchange rate to the Canadian dollar also resulted in a net favourable impact on gross margin rates.

While the Company has maintained a consistent margin year-over-year, the markets continue to experience selling price pressure due to the available excess industry capacity. Selling price stresses due to weaker market conditions negatively impacted Quarter 3, 2016 gross margin rates. The Company continues to observe a myopic pricing strategy which is yielding unsustainable pricing from many of its competitors.

There are some indications of very moderate economic improvement particularly in the U.S. with slight growth in some markets and a decline in others. This supports the unpredictability 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.

The Company's current diversified geographic approach supports anticipated growth from implemented market strategies and eventual economic improvement. Currently, 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 and have an accretive effect through increased sales. 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. 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 improve margin rates and overall profitability.

Selling and distribution expense

Total selling and distribution expenses were $7,131 in Quarter 3, 2016 or 11.3% of sales versus $7,286 in Quarter 3, 2015 or 11.1% of sales, a decrease of $155 or 0.2% of sales. Year-to-date selling and distribution expenses were $22,669 or 11.3% of sales in 2016 compared to $21,108 or 10.9% in 2015, an increase of $1,561 or 0.4% of sales. The foreign exchange translation of our U.S. denominated expenses had minimal impact of additional expense in Quarter 3, 2016 and $472 year-to-date. The year-over-year increase in selling and distribution expenses is due to additional commission and freight, a result of the increased sales during 2016.

General and administrative expense

General and administrative expenses for Quarter 3, 2016 totaled $6,145 or 9.8% of sales, compared to Quarter 3, 2015 expenses of $5,794 or 8.9% of sales, an increase of $351 and 0.9% of sales. Year-to-date general and administrative expenses were $18,839 or 9.4% of sales in 2016, compared to $17,661 or 9.1% of sales in 2015, an increase of $1,178 or 0.3% of sales. Quarter 3, 2016 expenses were minimally impacted by the foreign exchange translation of our U.S. denominated expenses which had a $245 year-to-date impact. The remaining year-to-date increase in expenses was a combination of employee investment costs of $363 and increased travel costs of $212.

Earnings from operations

Quarter 3, 2016 earnings from operations were $1,003, a decrease of $1,472 or 59.5% from $2,475 for the same quarter last year. The year-to-date earnings from operations were $6,240 in 2016 compared to $6,544 in 2015, a decrease of $304 or 4.6%. The change in the quarter and year-to-date values is a result of lower net earnings, higher income tax expense and a higher loss of investment in the joint venture.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

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

	Quarter 3, 2016	Quarter 3, 2015	YTD 2016	YTD 2015
Net earnings	$ 99	$ 1,092	$ 1,500	$ 2,969
Add:				
Income tax expense	39	970	1,913	2,463
Interest expense	347	296	874	676
Foreign exhange (gain) loss	(139)	(69)	201	117
Share of loss of investment in joint venture	614	153	1,643	220
Other	43	33	109	99
Earnings from operations	$ 1,003	$ 2,475	$ 6,240	$ 6,544

Interest expense

Interest expense for Quarter 3, 2016 was $347, an increase of $51 or 17.2% compared to the Quarter 3, 2015 expense of $296. Year-to-date interest cost was $874, an increase of $198 or 29.3% when compared to the 2015 year-to-date expense of $676. Interest expense in 2016 was generated as a result of higher operating debt levels due to joint venture investment and working capital requirements. Interest expense includes all bank fees.

Foreign exchange loss

The foreign exchange gain in Quarter 3, 2016 was $139 compared to a foreign exchange gain of $69 in Quarter 3, 2015. This gain relates primarily to the transactional exchange pertaining to the Company's U.S. dollar trade accounts payable in Canada. The year-to-date foreign exchange loss for 2016 was $201, compared to a loss of $117 for the same period last year. The earnings impact of foreign exchange gains and losses are related to the increased volatility in the exchange rates during the past year, where the U.S. dollar declined 1.5% from September 2015.

As at October 1, 2016, the Company had outstanding foreign exchange contracts in place for 12,500 Euros ("EUR") and $7,500 USD – both implemented as an economic hedge against translation gains and losses on inter-company loans in addition to a $30,000 USD loan to economically hedge the U.S. dollar denominated accounts payable in HPS Canada 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 3, 2016 share of loss of investment in the joint venture was $614, and the year-to-date share of loss of investment in the joint venture was $1,643. These losses were primarily a result of start-up costs and lower manufacturing capacity utilization.

Income taxes

Quarter 3, 2016 income tax expense was $39 as compared to $970 in Quarter 3, 2015, a decrease of $931 or 96.0%. Year-to-date income tax expense was $1,913 in 2016 and $2,463 in 2015, a decrease of $550 or 22.3%.

The consolidated effective tax rate for Quarter 3, 2016 was 28.3% versus 47.0% for Quarter 3, 2015, a decrease of 18.7%. The year-to-date effective tax rate for the first nine months of 2016 was 56.1% compared to 45.3% for the same period in 2015, an increase of 10.8%. 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 the 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 3, 2016 finished at $99 compared to net earnings of $1,092 in Quarter 3, 2015, a decrease of $993 or 90.9%. This decline in the quarter earnings is a result of higher loss on investment in the joint venture, additional interest, decreased sales dollars and lower gross margin. Year-to-date net earnings were $1,500 in 2016 compared to $2,969 in 2015, a decrease of $1,469 or 49.5%.

Excluding the share of loss of investment in the joint venture, adjusted net earnings for the quarter would have been $713 and Quarter 3, 2015 earnings would have been $1,245, a decrease of $532 or 42.7% while year-to-date adjusted net earnings would have been $3,143 in 2016 and $3,189 in 2015, a slight decrease of $46 or 1.4%.

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Earnings per share

Basic earnings per share were $ 0.01 for Quarter 3, 2016 versus $0.10 in Quarter 3, 2015. Adjusting for the share of loss of investment in the joint venture the basic earnings per share would have been $0.06 as compared to $0.11 earnings per share in Quarter 3, 2015.

EBITDA

EBITDA for Quarter 3, 2016 was $1,858 versus $4,163 in Quarter 3, 2015, a decrease of $2,305 or 55.4%. Adjusted for foreign exchange gains, adjusted EBITDA for Quarter 3, 2016 was $1,719 versus $4,094 in Quarter 3, 2015, a decrease of $2,375 or 58.0%.

Year-to-date EBITDA was $9,246 in 2016 and $11,155 in 2015, a decrease of $1,909 or 17.1%. Adjusted year-to-date EBITDA was $9,477 in the current year, a decrease of $1,795 and 15.9% from $11,272 in 2015.

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

	Q3, 2016	Q3, 2015	**YTD 2016**	YTD 2015
Net earnings	**$ 99**	$ 1,092	**$ 1,500**	$ 2,969
Add:				
Interest expense	**347**	296	**874**	676
Income tax expense	**39**	970	**1,913**	2,463
Depreciation and amortization	**1,373**	1,805	**4,959**	5,047
EBITDA	**1,858**	4,163	**9,246**	11,155
Add:				
Foreign exchange (gain) loss	**(139)**	(69)	**201**	117
Adjusted EBITDA	**$ 1,719**	$ 4,094	**$ 9,447**	$ 11,272

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Summary of quarterly financial information (unaudited)

Fiscal 2016 Quarters	Q1, 2016	Q2, 2016	Q3, 2016		YTD Total
Sales	$ 68,722	$ 69,138	$ 62,860		$ 200,720
Net earnings	$ 884	$ 517	$ 99		$ 1,500
Net earnings per share – basic	$ 0.07	$ 0.05	$ 0.01		$ 0.13
Net earnings per share – diluted	$ 0.07	$ 0.05	$ 0.01		$ 0.13
Average U.S. to Canadian exchange rate	$ 1.376	$ 1.287	$ 1.306		$ 1.323

Fiscal 2015 Quarters	Q1, 2015	Q2, 2015	Q3, 2015	Q4, 2015	Total
Sales	$ 63,137	$ 65,384	$ 65,378	$ 80,740	$ 274,639
Net earnings	$ 781	$ 1,096	$ 1,092	$ 3,351	$ 6,320
Net earnings per share – basic	$ 0.07	$ 0.09	$ 0.10	$ 0.27	$ 0.53
Net earnings per share – diluted	$ 0.07	$ 0.09	$ 0.10	$ 0.27	$ 0.53
Average U.S. to Canadian exchange rate	$ 1.235	$ 1.231	$ 1.302	$ 1.329	$ 1.274

Quarter 3, 2016 sales fell below 2015 levels for the first time in the year. Sales for 2016 have been impacted due to the favourable fluctuations in exchange rates as well as small improvements in general economic conditions. Quarter 4, 2015 sales were significantly impacted by customer demand for product affected by the U.S. DOE regulation changes that became effective January 1, 2016. Quarter 1, 2016 sales were expected to decrease due to Quarter 4, 2015 customer inventory build, but were favorably impacted by the U.S. exchange rate strengthening and unexpected demand for DOE compliant product. 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 an increased gain in foreign exchange in the third quarter of 2016 to $139 compared to a gain of $69 in the third quarter of 2015.

Corefficient, the recently established joint venture, has had a significant impact on 2016 quarter profitability. Quarter 3, 2016 net earnings include a share of loss of investment in the joint venture of $614 and year-to-date $1,643. Excluding the share of loss of investment in joint venture, net earnings for the quarter would have been $713, and Quarter 3, 2015 earnings would have been $1,245 a decrease of $532 or 42.7%. Year-to-date net earnings would have been $3,143 in 2016 and $3,189 in 2015, a slight decrease of $46 or 1.4%.

Changes in Canadian foreign exchange rates, 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 provided by operating activities for Quarter 3, 2016 was $6,282 versus $6,077 in Quarter 3, 2015, an increase of $205. Year-to-date net cash used in operating activities was $2,039 compared to $6,958 cash generated by operating activities in 2015, a decrease of $8,997. This decrease is a result of an increase in income tax payments and an increase in cash utilized for working capital.

In Quarter 3, 2016, non-cash working capital generated cash of $4,330 compared to $1,845 for the same quarter last year. The year-to-date change in non-cash working capital was a usage of cash of $6,141 in 2016 compared to $3,646 in 2015. The working capital changes are primarily related to a decrease in accounts receivable, a decrease in accounts payable and foreign exchange impacts on working capital changes.

Cash used in investing activities increased by $2,172 from $6,994 in the first nine months of 2015 to $9,166 in the same period of 2016. A key driver of this year-to-date change was the Quarter 2, 2016 purchase of an additional 15% equity ownership of PETE-Hammond Power Solutions Private Limited ("PETE") in India for $3,326. Capital expenditures were $99 in Quarter 3, 2016 compared to $449 for

DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED

Quarter 3, 2015, a decrease of $350. Year-to-date capital expenditures were $1,111 in the current year compared to $881 in 2015, an increase of $230. The Company continues to invest in the areas of manufacturing processes and capabilities and new product development.

Quarter 3, 2016 investment in the joint venture, was $425 compared to $860 in Quarter 3, 2015, a decrease of $435. Year-to-date, the investment in the joint venture was $4,580 in 2016, a decrease of $1,303 from the 2015 balance of $5,883. These amounts primarily fund Coefficient's working capital and operational needs.

Total cash used in financing activities for Quarter 3, 2016 was $1,118 as compared to cash provided by of $2,771 in Quarter 3, 2015. The key driver of this change is a reduction in the bank operating lines during Quarter 3, 2016, due to additional cash generated by operations during the period. Year-to-date financing activities have generated cash of $552 compared to $9,392 in the first nine months of 2015.

Bank operating lines of credit have increased from prior year levels finishing Quarter 3, 2016 at $32,742 compared to $29,514 at the end of Quarter 3, 2015, an increase of $3,228. The bank operating lines of credit have increased $3,576 since the year-end balance of $29,166, and decreased $69 since the Quarter 2, 2016 balance of $32,811.

The Company's overall operating debt balance net of cash was $22,735 in Quarter 3, 2016 compared to $14,727 in Quarter 3, 2015, an increase in debt position of $8,008 primarily reflecting funding of the joint venture, the purchase of an additional 15% equity ownership in PETE and working capital requirements.

Total debt net of cash was $26,640 in Quarter 3, 2016 compared to $18,866 in Quarter 3, 2015, an increase in debt position of $7,774.

All bank covenants for the year continue to be met as at October 1, 2016.

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.

Credit agreement

During the second quarter of 2016, the Company entered into an amended credit agreement which expires in July 2020, consisting of a $35,000 U.S. revolving credit facility, a $5,000 U.S. overdraft facility, a 4,000 EUR overdraft facility, 110,000 Indian Rupees ("INR") overdraft facility and a $10,000 U.S. delayed draw credit facility. The Company also has access to 70 EUR and 160,000 INR letters of credit. This new agreement provides an additional $10,000 U.S. of credit to HPS. Based on exchange rates in effect at October 1, 2016, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $76,890.

This is an unsecured 5-year committed facility that provides financing certainty for the future. This agreement better aligns our Canadian, U.S. and European banking requirements, supports our hedging strategies and provides financing for our operational requirements and capital for our strategic initiatives.

Minority interest

On March 5, 2016, HPS signed an agreement to acquire the shares of K. Linga Reddy, a minority shareholder of PETE in India, acquiring an additional 15% equity ownership of its transformer business for 172,625,181 Indian Rupees (approximately $3,326 CAD). The Company completed the transaction on April 21, 2016. This increases HPS' equity ownership of PETE to 85%.

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.

	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	$ 1,950	$ 1,096	$ 1,055	$ 743	$ 15	–	$ 4,859
Accounts payable and accrued liabilities	36,781	–	–	–	–	–	36,781
Capital expenditure purchase commitments	233	–	–	–	–	–	233
Bank operating lines	32,742	–	–	–	–	–	32,742
Long-term debt	3,905	–	–	–	–	–	3,905
Total	**$ 75,611**	**$ 1,096**	**$ 1,055**	**$ 743**	**$ 15**	**–**	**$78,520**

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 September 30, 2016 to shareholders of record at the close of business on September 23, 2016. The ex-dividend date was September 21, 2016. The Company has paid a cash dividend of eighteen cents ($0.18) per Class A Subordinate Voting Share and eighteen cents ($0.18) 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 3, 2016 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

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

- Instability in currency rates, particularly the Canadian dollar versus the U.S. dollar;
- Persistent global economic decline or recession;
- 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 global unexpected change in 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 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.

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

Currency fluctuations

As HPS has expanded their global footprint, currency fluctuations and volatility have had a more significant impact on the financial results and continues to be an area of awareness for the Company. The Company's functional currency is the Canadian dollar and its operating results are reported in Canadian dollars. A significant portion of the Company sales and material purchases are denominated in U.S. dollars. While there is a natural hedge, as sales denominated in U.S. dollars partially offset by the cost of raw materials purchased from the U.S., and commodities tied to U.S. dollar pricing, a change in the value of the Canadian dollar against the U.S. dollar will impact earnings. 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.

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

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

HPS has partially reduced the impact of foreign exchange fluctuations by increasing our U.S. dollar driven manufacturing output. Entering into forward foreign exchange contracts has lessened the Company's intercompany loan transactional exchange rate risk.

Periodically HPS will institute 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, 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.

Commodity prices

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

Interest rates

There has been an increase in the operating line balance over the last few years related to strategic acquisitions, investment in the joint venture, capital expenditures and working capital needs. The Company's debt financing has been structured to take advantage of the current lower interest rates, minimize interest costs and ensure adequate financing availability. The Company continues to be aware that a rise in interest rates will negatively impact the financial results. The Company continuously reviews its interest rate strategy and with current lower short-term interest rates has not entered into any long-term contracts.

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

Natural disasters and unpredictable weather

Extreme weather conditions such as heavy rains, flooding, snowfall, tornadoes and hurricanes can potentially have a negative impact on the Company's sales trends and booking rates. When these conditions are present, the Company may see short-term effects of such occurrences due to their unpredictability. This may impact delivery and capacity requirements.

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 2015 Annual Report.

Transactions with related parties

The Company had no transactions with related parties in 2016, other than transactions disclosed in Note 11 in the Condensed Notes to the Condensed Consolidated Interim Financial Statements contained in our Quarter 3, 2016 Report.

Proposed transactions

The Company continues to evaluate potential business expansion initiatives and has no firm transactions as at October 1, 2016 other than disclosed in subsequent events.

Financial instruments

As at October 1, 2016, the Company had outstanding foreign exchange contracts in place for 12,500 EUR and $7,500 USD with both implemented as a hedge against translation gains and losses on inter-company loans as well as $30,000 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.

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

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. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contact-based five-step analysis of transactions to determine whether how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers 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 Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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 Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of these standards has yet to be determined.

Strategic direction and outlook

HPS has undergone a significant transformation over the past few years.

- Expansion through strategic acquisitions in India and Italy;
- New global customers;
- Expanded relationships with existing customers;
- Compliance with new U.S. Department of Energy regulations and new design and product development and launch;
- Implementing new technology cast resin transformers in the North American market;
- Capital investment in North American manufacturing facilities in Canada, the U.S. and Mexico;
- Development, set-up and operation of a joint venture, Corefficient, in a new state of the art facility in Mexico; and
- Implementation of an ERP system to enhance availability of information and streamline processes.

HPS is pleased with these accomplishments and the strategic direction of the Company.

While the Company has achieved moderate success during the nine months of 2016, the unpredictable and fluctuating global economic climate has had a pervasive and persistent impact on HPS' profitability. The Company has experienced the adverse impact of an unpredictable and erratic economy, as well as the 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.

These adverse influences have impacted the Company's current operational and financial performance over the shorter term, however management is confident that the business fundamentals that have been developed will grow and sustain HPS in the future. The Company continues to respond to these conditions through key initiatives which are having a positive impact on HPS' performance. 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.

HPS has a reputation of being an industry leader and remains 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 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 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.

Management is determined to deliver long-term value to our shareholders and remains focused on the success of all stakeholders of the company.

HISTORY HAS DEMONSTRATED THE COMPANY'S PROVEN ABILITY TO NAVIGATE THROUGH THE ENDURING ECONOMIC UNCERTAINTY AND WE REMAIN CONFIDENT IN OUR VISION OF THE FUTURE.

Selected Annual and Quarterly Information

(tabular amounts in thousands of dollars)

The information contained in the following table presents the historic audited annual financial information as at December 31 and the unaudited financial information for the previous eight quarters up to, and including the Third Quarter of 2016. 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

	2011	2012	2013	2014	**2015**
Sales	221,323	257,376	242,941	247,756	**274,639**
Earnings from operations	13,039	18,180	11,036	6,460	**12,644**
EBITDA	15,538	24,352	16,924	12,327	**18,748**
Net earnings	5,993	12,611	6,104	2,520	**6,320**
Total assets	137,520	160,049	186,878	184,291	**222,969**
Non-current liabilities	5,436	5,424	10,220	9,527	**5,454**
Total liabilities	46,072	58,404	77,827	69,854	**90,668**
Total shareholders' equity attributable to equity holders of the Company	91,448	99,387	107,014	112,271	**129,665**
Total cash (debt)	1,681	(990)	(21,104)	(14,833)	**(13,202)**
Cash provided by operations	6,592	21,371	765	18,450	**16,065**
Basic earnings per share	0.52	1.08	0.52	0.22	**0.53**
Diluted earnings per share	0.51	1.08	0.52	0.22	**0.53**
Dividends declared and paid	1,738	2,098	2,328	2,800	**2,807**
Average exchange rate (USD$=CAD$)	0.989	1.0005	1.029	1.1025	**1.274**
Book value per share	7.89	8.54	9.17	9.61	**11.08**

Quarterly Information

	2014		2015				**2016**	
	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**
Sales	64,529	63,137	65,384	65,378	80,740	**68,722**	**69,138**	**62,860**
Earnings from operations	2,472	1,446	2,623	2,475	6,100	**2,677**	**2,560**	**1,003**
EBITDA	3,521	3,589	3,403	4,163	7,593	**3,787**	**3,601**	**1,858**
Net earnings	804	781	1,096	1,092	3,351	**884**	**517**	**99**
Total assets	184,291	191,972	193,039	206,687	222,969	**208,810**	**203,379**	**200,896**
Non-current liabilities	9,527	5,867	5,857	5,990	5,454	**5,740**	**5,663**	**5,241**
Total liabilities	69,854	70,482	73,347	80,859	90,668	**82,534**	**76,846**	**79,364**
Total shareholders' equity attributable to equity holders of the Company	112,271	119,094	117,283	123,375	129,665	**123,910**	**120,677**	**121,333**
Total debt	(14,833)	(18,357)	(21,828)	(18,886)	(13,202)	**(21,515)**	**(31,217)**	**(26,640)**
Cash provided (used) by operations	4,788	421	460	6,077	8,887	**(3,380)**	**(4,941)**	**6,282**
Basic earnings per share	0.08	0.07	0.09	0.10	0.27	**0.07**	**0.05**	**0.01**
Diluted earnings per share	0.08	0.07	0.09	0.10	0.27	**0.07**	**0.05**	**0.01**
Dividends declared and paid	700	702	701	702	702	**702**	**702**	**702**
Average exchange rate (USD$=CAD$)	1.130	1.235	1.231	1.302	1.329	**1.376**	**1.287**	**1.306**
Book value per share	9.61	10.18	10.03	10.54	11.08	**10.59**	**10.31**	**10.37**

Consolidated Statements of Financial Position

(unaudited)

(tabular amounts in thousands of dollars)

	As at			
		October 1, 2016		December 31, 2015
Assets				
Current assets				
Cash	$	10,007	$	19,991
Accounts receivable		51,494		61,951
Inventories		43,412		43,549
Income taxes recoverable		2,437		662
Prepaid expenses and other assets		1,083		2,186
Total current assets	$	108,433	$	128,339
Non-current assets				
Property, plant and equipment (note 4)	$	41,751	$	45,225
Investment in properties		1,044		1,044
Investment in joint venture (note 5)		16,186		13,162
Deferred tax assets		2,066		1,735
Goodwill		18,843		19,606
Intangible assets (note 6)		12,573		13,858
Total non-current assets		92,463		94,630
Total assets	$	200,896	$	222,969
Liabilities				
Current liabilities				
Bank operating lines of credit (note 7)	$	32,742	$	29,166
Accounts payable and accrued liabilities		36,781		48,165
Income tax liabilities		–		3,089
Provisions		537		506
Derivative liabilities		158		261
Current portion of long-term debt (note 8)		3,905		4,027
Total current liabilities	$	74,123	$	85,214
Non-current liabilities				
Employee future benefits	$	–	$	389
Provisions		100		100
Deferred tax liabilities		5,141		4,965
Total non-current liabilities		5,241		5,454
Total liabilities	$	79,364	$	90,668
Shareholders' Equity				
Share capital (note 9)		13,843		13,843
Contributed surplus		2,586		2,434
Accumulated other comprehensive income (note 10)		11,485		18,492
Retained earnings		93,419		94,896
Total shareholders' equity attributable to equity holders of the Company	$	121,333	$	129,665
Non-controlling interests		199		2,636
Total shareholders' equity		121,532		132,301
Total liabilities and shareholders' equity	$	200,896	$	222,969

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Earnings

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending October 1, 2016	Quarter Ending September 26, 2015	Nine Months Ending October 1, 2016	Nine Months Ending September 26, 2015
Sales	$ 62,860	$ 65,378	$ 200,720	$ 193,899
Cost of sales	48,581	49,823	152,972	148,586
Gross margin	14,279	15,555	47,748	45,313
Selling and distribution	7,131	7,286	22,669	21,108
General and administrative	6,145	5,794	18,839	17,661
Earnings from operations	1,003	2,475	6,240	6,544
Finance and other costs				
Interest expense	347	296	874	676
Foreign exchange (gain) loss	(139)	(69)	201	117
Share of loss of investment in joint venture (note 5)	614	153	1,643	220
Other	43	33	109	99
Net finance and other costs	865	413	2,827	1,112
Earnings before income taxes	138	2,062	3,413	5,432
Income tax expense	39	970	1,913	2,463
Net earnings	$ 99	$ 1,092	$ 1,500	$ 2,969
Net earnings attributable to non-controlling interests	$ (18)	$ (42)	$ (39)	65
Net earnings attributable to equity holders of the Company	117	1,134	1,539	2,904
Net earnings	$ 99	$ 1,092	$ 1,500	$ 2,969
Earnings per share				
Basic earnings per share (dollars)	$ 0.01	$ 0.10	$ 0.13	$ 0.25
Diluted earnings per share (dollars)	$ 0.01	$ 0.10	$ 0.13	$ 0.25

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Comprehensive Income

(unaudited)

(tabular amounts in thousands of dollars)	Quarter Ending October 1, 2016	Quarter Ending September 26, 2015	Nine Months Ending October 1, 2016	Nine Months Ending September 26, 2015
Net earnings	$ 99	$ 1,092	$ 1,500	$ 2,969
Other comprehensive income (loss)				
Foreign currency translation differences for foreign operations	1,247	5,710	(6,989)	10,396
Other comprehensive income (loss) for the period, net of income tax (note 10)	1,247	5,710	(6,989)	10,396
Total comprehensive income (loss) for the period	$ 1,346	$ 6,802	$ (5,489)	$ 13,365
Attributable to:				
Equity holders of the Company	$ 1,340	$ 6,758	$ (5,343)	13,078
Non-controlling interest	$ 6	44	(146)	287
Total comprehensive income (loss) for the period	$ 1,346	$ 6,802	$ (5,343)	$ 13,365

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended October 1, 2016

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	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	–	–	–	1,539	(39)	1,500
Other comprehensive (loss) income						
Foreign currency translation differences (note 10)	–	–	(6,882)	–	(107)	(6,989)
Total other comprehensive loss	–	–	(6,882)	–	(107)	(6,989)
Total comprehensive (loss) income for the year	–	–	(6,882)	1,539	(146)	(5,489)
Transactions with shareholders, recorded directly in equity						
Minority interest (note 9)	–	–	(125)	(910)	(2,291)	(3,326)
Share-based payment transactions	–	152	–	–	–	152
Dividends to equity holders (note 9)	–	–	–	(2,106)	–	(2,106)
Total transactions with shareholders	–	152	(125)	(3,016)	(2,291)	(5,280)
Balance at October 1, 2016	$ 13,843	$ 2,586	$ 11,485	$ 93,419	$ 199	$ 121,532

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

Consolidated Statements of Changes in Equity

(unaudited) For the nine months ended September 26, 2015

(tabular amounts in thousands of dollars)	SHARE CAPITAL	CONTRIBUTED SURPLUS	AOCI*	RETAINED EARNINGS	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, as at January 1, 2015	$ 13,800	$ 2,339	$ 4,613	$ 91,519	2,166	$ **114,437**
Total comprehensive income for the year						
Net earnings	–	–	–	2,904	65	**2,969**
Other comprehensive income						
Foreign currency translation differences (note 10)	–	–	10,174	–	222	**10,396**
Total other comprehensive income	–	–	10,174	–	222	**10,396**
Total comprehensive income for the year	–	–	10,174	2,904	287	**13,365**
Transactions with shareholders, recorded directly in equity						
Share-based payment transactions	43	88	–	–	–	**131**
Dividends to equity holders (note 9)	–	–	–	(2,105)	–	**(2,105)**
Total transactions with shareholders	43	88	–	(2,105)	–	**(1,974)**
Balance at September 26, 2015	$ 13,843	$ 2,427	$ 14,787	$ 92,318	$ 2,453	$ **125,828**

*AOCI – Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

Consolidated Statements of Cash Flows

(unaudited)

(tabular amounts in thousands of dollars)

	Nine Months Ending October 1, 2016	Nine Months Ending September 26, 2015
Cash flows from operating activities		
Net earnings	$ 1,500	$ 2,969
Adjustments for:		
Share of loss of investment in joint venture	1,643	220
Loss on disposal of proprety, plant and equipment	10	–
Amortization of property, plant and equipment	3,761	3,617
Amortization of intangible assets	1,198	1,430
Provisions	(69)	156
Interest expense	874	676
Income tax expense	1,913	2,463
Change in unrealized gain on derivatives	(103)	5
Stock based compensation expense	152	88
	10,879	11,624
Change in non-cash working capital (note 12)	(6,141)	(3,646)
Cash provided from operating activities	4,738	7,978
Income tax paid	(6,777)	(1,020)
Net cash (used in) provided by operating activities	(2,039)	6,958
Cash flows from investing activities		
Minority interest	(3,326)	–
Investment in joint venture (note 5)	(4,580)	(5,883)
Proceeds from sale of property, plant and equipment	101	–
Acquisition of property, plant and equipment	(1,111)	(881)
Acquisition of intangible assets	(250)	(230)
Cash used in investing activities	(9,166)	(6,994)
Cash flows from financing activities		
Advances of borrowings	3,576	12,336
Issue of common shares	–	43
Repayment of long-term debt	(44)	(206)
Cash dividends paid (note 8)	(2,106)	(2,105)
Interest paid	(874)	(676)
Cash provided by financing activities	552	9,392
Foreign exchange on cash held in a foreign currency	669	(1,025)
(Decrease) increase in cash	(9,984)	8,331
Cash and cash equivalents at beginning of period	19,991	6,456
Cash and cash equivalents at end of period	$ 10,007	$ 14,787

See accompanying notes to condensed consolidated interim 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 third quarter ended October 1, 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the design and manufacture of custom electrical magnetics, cast resin, custom liquid filled distribution and power transformers and standard electrical transformers, serving the electrical and electronic industries. The Company has manufacturing plants in Canada, United States ("U.S."), Mexico, Italy, and India, the latter being PETE-Hammond Power Solutions Private Limited ("PETE"), 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 November 3, 2016.

(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, 2015.

3. Summary of significant accounting policies:

These condensed consolidated interim financial statements should be read in conjunction with the Group's 2015 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, 2015.

Changes to accounting policies

Interests in joint operations

On May 6, 2014, the International Accounting Standards Board ("IASB") issued amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations. The amendments require business combinations accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company adopted the amendments to IFRS 11 in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Quarters ended October 1, 2016 and September 26, 2015 (tabular amounts in thousands of dollars except per share)

Transfer of assets

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

Annual improvements to IFRS (2012 – 2014) cycle

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

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

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

The Company adopted these amendments in its consolidated financial statements for the year commencing January 1, 2016. The adoption of the amendment did not have a material impact on the consolidated financial statements.

Disclosure initiative

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

4. Property, plant and equipment

The Group had acquisitions of fixed assets for the nine months ended October 1, 2016, in the amount of $1,111,000 of machinery and equipment (2015 - $881,000).

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:

		October 1, 2016
Cost of investment in joint venture	$	18,677
Share of loss in investment in joint venture		(2,491)
	$	16,186

Quarters ended October 1, 2016 and September 26, 2015 (tabular amounts in thousands of dollars except per share)

Selected financial information relating to Corefficient is as follows:

	October 1, 2016
Cash	$ 575
Trade and other receivables	8,259
Inventories	665
Other current assets	357
Total current assets	$ 9,856
Non-current assets	17,998
Total assets	$ 27,854
Current liabilities	$ 2,137
Non-current liabilities	$ –
Total liabilities	$ 2,137

	Nine Months Ending October 1, 2016
Revenue	$ 13,607
Loss for the year	$ 2,987

The loss for the nine months ended October 1, 2016, includes depreciation and amortization expense of $1,649,000, interest expense of $5,000 and an income tax recovery of $1,267,000 related to Corefficient.

6. Intangible assets

The Group had acquisitions of intangible assets for the nine months ended October 1, 2016, in the amount of $250,000 (2015 - $43,000), for the addition of software. None of the intangible assets have been developed internally.

7. Bank operating lines of credit

The Company entered into a new banking agreement during Quarter 2, 2016, which expires in July 2020, consists of a $35,000,000 U.S. revolving credit facility, a $5,000,000 U.S. overdraft facility, a 4,000,000 EUR overdraft facility, a 110,000,000 Indian rupees overdraft facility and a $10,000,000 U.S. delayed draw credit facility. The Company also has access to 70,000 EUR and 160,000,000 Indian rupees letters of credit. Based on exchange rates in effect at October 1, 2016, the combined Canadian dollar equivalent available prior to any utilization of the facilities was $76,890,000. The delayed draw facility does not charge any fees on the unutilized balance until the facility is used. The initial use of the facility needs to be approved by the bank. The facilities are unsecured.

Quarters ended October 1, 2016 and September 26, 2015 (tabular amounts in thousands of dollars except per share)

8. Long-term debt

	Nine Months Ending October 1, 2016	Nine Months Ending September 26, 2015
Opening balance	$ 4,027	$ 4,111
Repayments		
Term loan CAD	(44)	(136)
Term loan EUR	–	(63)
Term loan INR	–	(7)
Exchange	(78)	234
	3,905	4,139
Less current portion of long-term debt	3,905	4,139
Total	$ –	$ –

9. Share capital

(a) Dividends

The following dividends were declared and paid by the Company:

	Nine Months Ending October 1, 2016	Nine Months Ending September 26, 2015
18 cents per Class A common share (2015: 18 cents)	$ 1,605	$ 1,604
18 cents per Class B common share (2015: 18 cents)	501	501
	$ 2,106	$ 2,105

(b) Stock option plan

During the nine months ended October 1, 2016, the Company granted 160,000 options (2015 – 95,000) of which 115,000 vested immediately (2015 – 55,000). Stock-based compensation, recognized the amount credited to contributed surplus during the period is $152,000 (2015 - $101,000) 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 is $0.96 (2015 - $1.26).

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:

	2016	2015
Fair value of share options and assumptions		
Fair value at grant date	$ 0.96	$ 1.26
Share price at grant date	$ 6.20	$ 6.62
Exercise price	$ 6.20	$ 6.62
Expected volatility (weighted average volatility)	39.4%	33.8%
Option life (expected weighted average life)	3.8 years	3.5 years
Expected dividends	3.6%	3.48%
Risk-free interest rate (based on government bonds)	1.4%	0.63%

(c) Purchase of Minority Interest

On March 5, 2016, HPS signed an agreement to acquire the shares of K. Linga Reddy, a minority shareholder of PETE in India, acquiring an additional 15% equity ownership of its transformer business for 172,625,181 Indian Rupees (approximately$3,326 CAD). The Company completed the transaction on April 21, 2016. This increases HPS' equity ownership of PETE to 85%. The impact of this transaction was a reduction in minority interest in the amount of $2,291, a decrease in accumulated other comprehensive income in the amount of $125 and a reduction in retained earnings in the amount of $910.

Quarters ended October 1, 2016 and September 26, 2015 (tabular amounts in thousands of dollars except per share)

10. 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 nine months ended October 1, 2016, was $6,882,000 (2015 comprehensive income - $10,174,000), resulting in an ending balance of accumulated other comprehensive income of $11,485,000 (2015 – $14,787,000).

11. Related party transactions

Related parties

Arathorn Investments Inc. beneficially owns 2,778,300 (2015 – 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 1,053,767 (2015 – 1,050,921) Class A subordinate voting shares of the Company, representing approximately 11.8% (2015 – 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 3, 2015 – $230,000).

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

	Note	**2016**	2015	**Relationship**
Purchase of goods and services	(i)	**$ 770**	$ 761	Companies in which key management personnel and/or their relatives have significant influence.

		2016	2015	**Relationship**
Amounts owed by related parties		**$ 78**	$ 249	Companies in which key management personnel and/or their relatives have significant influence.

Transactions with key management personnel

During the nine months ended October 1, 2016, the Company purchased $159,000 (2015 – $180,000) of inventory from ILSCO of Canada Limited ("ILSCO"), a company in which HPS director David J. FitzGibbon serves as a Vice Chairman and CEO. The Company purchases a component part from ILSCO, which is utilized in the manufacture of transformers. The purchases were measured at the exchange amount. Accounts payable and accrued liabilities include $32,000 (2015 – $13,000), which is owed to this company.

(i) During the nine months ended October 1, 2016, the Company has paid $12,000 (2015 – $16,000) 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.

12. Change in non-cash operating working capital

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

	Nine Months Ending	
	October 1, 2016	September 26, 2015
Accounts receivable	**$ 10,457**	$ (6,117)
Inventories	**137**	(8,004)
Prepaid expenses	**1,103**	410
Accounts payable and accrued liabilities	**(11,384)**	1,807
Foreign exchange	**(6,454)**	8,258
	$ (6,141)	$ (3,646)

Corporate Officers and Directors

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

Chris R. Huether
Corporate Secretary and
Chief Financial Officer

Donald H. MacAdam *+
Director

Douglas V. Baldwin *+
Director

Grant C. Robinson *+
Director

David J. FitzGibbon *+
Director

Dahra Granovsky *+
Director

Fred M. Jaques *+
Director

Richard S. Waterman *+
Director

* Corporate Governance Committee
+ Audit and Compensation Committee

Stock Exchange Listing

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

Registrar and Transfer Agent

Computershare Investor Share Services Inc.
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Auditors

KPMG LLP
115 King Street South
Waterloo, Ontario N2J 5A3

Legal Representation

Borden Ladner Gervais LLP
Scotia Plaza
40 King Street West
Toronto, Ontario
Canada M5H 3Y4

Banking Institution

JP Morgan Chase
Bank N.A. 66 Wellington Street West,
Suite 4500
Toronto, ON M5K 1E7

Investor Relations

Contact: Dawn Henderson, Manager
Investor Relations
Phone: 519.822.2441
Email: ir@hammondpowersolutions.com

The Hammond Museum of Radio
is one of North America's premiere wireless museums. It is home to thousands of receivers and transmitters dating back to the turn of the century. The museum is open regular business hours Monday to Friday; evenings and weekends by special appointment. Tours can be arranged by calling: 519-822-2441 x590.

Hammond Power
Solutions Inc.

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