



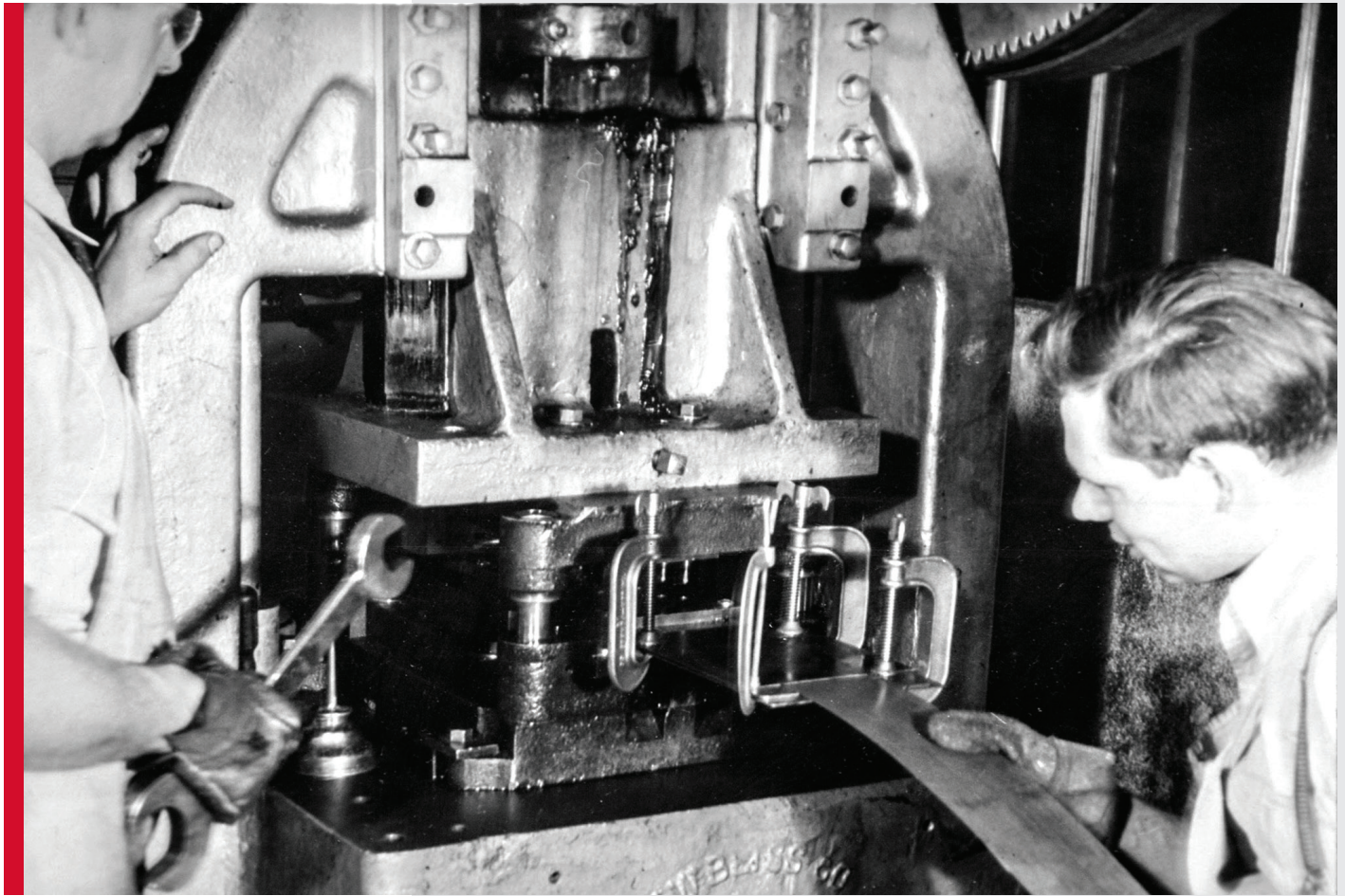
2024

ANNUAL REPORT

Over 100 Years
& Four Generations

- Server Racks and Cabinets
- Electrical Enclosures
- Power Distribution
- Small Enclosures
- Electronic Transformers

Over 100 years
& four generations
in business.
Established 1917.



Fred Hammond, VE3HC
(right) was part of the
second generation of a fast
growing family run business.
Fred was one of six brothers
and two sisters.

Quality Products. Service Excellence.

We have a broad product offering
to serve our customers in multiple
markets and industries.

We promise ten day back order
recovery on standard product. We
work hard to provide you with your
required product in a prompt time
line.

Value added services
(modifications, assembly and
drop shipment): we go above
and beyond our competition and
provide our customers with the
exact solution required.

Our Values:

- We are dedicated to our customers. We provide quality products and service that create value to our customers.
- We are responsible to our shareholders. We provide an adequate return on their investment over the long term.
- We are committed to our employees. We provide competitive pay, open and frank communication and a safe work environments.
- We recognize the importance of our suppliers assisting us in our ability to serve our customers.

Hammond Manufacturing Company Limited

2024 Annual Report

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REPORT TO SHAREHOLDERS

Dear fellow shareholders, employees, and stakeholders:

We are pleased to communicate the results for 2024.

The strong performance of our US operations contributed to the solid results described in the attached statements.

As we enter the uncertainties of 2025, our strength to respond as a team will continue to be important.

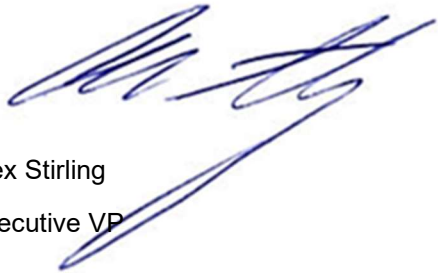
We supply good products with super service and competitive prices to global customers. This is our strategy for security and continued growth.

We continue to build long term security and success for all our associates and once again want to express our appreciation for everyone's involvement in the year's success.

Sincerely,



Robert F. Hammond
Chairman & CEO



Alex Stirling
Executive VP

ANNUAL MEETING

The meeting of the Shareholders will be held on
April 29, 2025, at

Cutten Fields
190 College Avenue East, Guelph, Ontario
Commencing at 10:00 a.m.

MANAGEMENT DISCUSSION AND ANALYSIS

This management discussion and analysis (MD&A) comments on the consolidated financial position and financial performance of Hammond Manufacturing Company Limited (“HMCL” or “the Company”) for the year ended December 31, 2024. This discussion should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2024, and related notes. Additional information about the Company can be found on its website, www.hammfg.com, or through the SEDAR website at www.sedar.com which includes the Company’s Annual Information Form. The information contained herein is dated as of March 4, 2025.

The annual consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS).

All amounts in this report are in Canadian dollars unless otherwise stated.

Cautionary advisory—Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. This MD&A contains forward-looking statements that involve a number of risks and uncertainties, including statements that relate to among other things, HMCL 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 HMCL 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. HMCL 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.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY PROFILE

Hammond Manufacturing Company Limited manufactures electronic and electrical enclosures, outlet strips and electronic transformers that are used by manufacturers of a wide range of electronic and electrical products. Products are sold directly to Original Equipment Manufacturers (OEM) and through a global network of distributors and agents.

Facilities are situated in Canada, the United States of America (US), the United Kingdom (UK), Taiwan, the Netherlands and Australia, with agents and distributors located worldwide. The Company also maintains a 40% ownership share of RITEC Enclosures Inc. (RITEC) located in Taiwan. RITEC produces a line of small cases for sale through the Hammond Manufacturing Company's sales channels and also manages the sourcing of die cast and plastic enclosures.

OPERATIONS

Founded in Guelph, Ontario, Canada in 1917. In the early years, the Company manufactured radios, power amplifiers and battery eliminators. The Company has grown over the years and has established a global name for quality products of Electrical Enclosures, Racks and Cabinets, Small Electronic Cases, Outlet strips and Electronic Transformers. Our customers include electrical, electronic and datacom OEM's/MRO's, utilities and institutions which are served through a network of agents and distributors.

Hammond has a team of over 900 employees supported by a commitment to ongoing capital investment and our continuous improvement programs combine to affirm the Hammond reputation for quality. Ongoing efforts to differentiate ourselves through high levels of service and customer satisfaction are a key corporate focus. These are the cornerstones to our future success.

Demand for Hammond products remained steady in 2024, Hammond realized its highest annual revenues in the company history.

Primary manufacturing is in Ontario, Canada with supporting manufacturing capabilities in the USA and United Kingdom. In summer of 2024 Hammond purchased 11.49 acres of land in Fergus, Ontario. This will secure our needs for future growth.

The company holds high levels of inventory to ensure our customers are serviced well. This policy serves the company well to ensure that our customer demands are met and serviced in a timely manner.

MANAGEMENT DISCUSSION AND ANALYSIS

QUARTERLY INFORMATION

HAMMOND MANUFACTURING COMPANY LIMITED

Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

	2024				Year-to-date Total
	Q1	Q2	Q3	Q4	
Net product sales	\$59,086	\$61,944	\$62,166	\$61,702	\$244,898
Income from operating activities	6,859	7,329	6,463	6,949	27,600
Net income for the period	4,457	4,712	4,399	4,806	18,374
Earnings per share - Basic & diluted	\$0.39	\$0.42	\$0.39	\$0.42	\$1.62

	2023				Year-to-date Total
	Q1	Q2	Q3	Q4	
Net product sales	\$62,492	\$61,417	\$57,101	\$57,275	\$238,285
Income from operating activities	6,238	8,006	6,575	7,269	28,088
Net income for the period	4,155	5,540	3,995	5,071	18,761
Earnings per share - Basic & diluted	\$0.37	\$0.49	\$0.35	\$0.45	\$1.66

FOURTH QUARTER RESULTS

(amounts in thousands of dollars)

NET PRODUCT SALES

Net product sales for the three months ended December 31, 2024, were \$61,702, down 0.7% compared to net product sales of \$62,166 in the third quarter of 2024. The US, UK and European markets were down in local currencies over the prior quarter but the gain from USD foreign exchange helped to mitigate some of this drop. In local currencies the Canadian market was up 5.2% while the US market was down slightly by 1.2%. Our UK & European market was down 10.3%. We are attributing lower sales in this quarter compared to the prior quarter to the impact of the year-end holidays and customers deferring taking inventory for a better balance sheet presentation for those with a December 31 year end.

Net product sales for the current quarter were up, 7.7%, compared to net product sales of \$57,275 for the three months ended December 31, 2023. Comparatively in local currencies, Canada was up 7.5% and the UK & European markets were up 8.2% compared to the fourth quarter of 2023. The US market was up compared to the fourth quarter of 2023 in USD by 10.2%. Foreign exchange from the USD provided a lift of \$1,067.

GROSS PROFIT

Gross profit of \$23,494 for the fourth quarter of 2024 was 38.1% of net sales compared to 35.3% in the third quarter of 2024. If we adjust for the impact of foreign exchange this quarter's gross margin is closer to 35.3% compared to the 36.2% in the prior quarter.

MANAGEMENT DISCUSSION AND ANALYSIS

When we compare the gross profit level between the comparative fourth quarter of 2023 and 2024 we can see a decrease from 38.9% to 38.1%. The impact of foreign exchange compared to levels in the fourth quarter of 2024 helped mitigate some of the decrease in margin levels by approximately 1.7%.

SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Fourth quarter selling and distribution, general and administrative expenses and gain / loss on the disposal of property plant and equipment of \$16,567 was 26.9% of net product sales for the three months ended December 31, 2024. This compared with spending of \$15,499 in the previous quarter, that was 24.9% of net sales. The fourth quarter of 2023 saw spending levels of \$15,029 which was 26.2% of net sales.

Selling and distribution spending in the fourth quarter of 2024 was \$14,685 (23.8% of net product sales) up from \$13,938 (22.4% of net product sales) in the third quarter of 2024. Freight expenses were up with increases coming from our prepaid freight and trailer rental costs.

Selling and distribution spending was up \$1,596 over the fourth quarter spending of \$13,089 in 2023 (22.9% of net product sales). General freight and warehousing costs are up.

General and administrative expenses of \$1,875 (3.0% of net product sales) in the fourth quarter are up 20.7% (or \$321) over the previous quarter's spending of \$1,554 (2.5% of net product sales). Wages were up \$75, as well as Marketing and advertising, and depreciation.

This quarter's spending was down \$55 compared to the fourth quarter of 2023 general and administrative expenses of \$1,930 (3.4% of net product sales). In 2024 the bad debt reserve was reduced, due to a push to reduce aged receivables from June to December.

INCOME FROM OPERATING ACTIVITIES

This quarter's income from operating activities was \$6,949 (11.3% of net product sales). This is up from the prior quarter of \$6,463 (10.4% of net product sales) and down from the fourth quarter of 2023 amount of \$7,269 (12.7% of net product sales).

INTEREST

The fourth quarter net interest expense on bank indebtedness and loans was \$742 compared to an expense of \$725 for the fourth quarter 2023. The comparative borrowing base has been reduced throughout the year and is down by \$3.7 million from the end of 2023 to the end of 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a breakdown of the interest expenses.

	December 31, 2024		December 31, 2023	
Long term debt interest	\$	643	\$	614
Bank indebtedness interest		34		1
Interest expense	\$	677	\$	615
Interest income earned on cash		(132)		(29)
Net Interest Expense	\$	545	\$	586
Interest expense leases	\$	197	\$	139
Total Interest and lease interest expense	\$	742	\$	725

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

During the fourth quarter of 2024, the Company recognized a loss on transactional foreign exchange of \$14 compared to a gain of \$191 in the three months ended December 31, 2023. The intercompany balance payable to our US entity accounts was a driver of this movement earlier in the year. There is an offset to the intercompany impact found in the foreign exchange translation of foreign operations as the offsetting US receivable is due from the Canadian entity and is part of the translational adjustment of the US entities balance sheet on consolidation.

INCOME TAX EXPENSE

Fourth quarter taxes of \$1,502 and 23.8% of income before taxes, which brings the overall year's tax rate to 25.1% of income before taxes.

NET INCOME FOR THE PERIOD

Net income of \$4.806 (7.5% return on net product sales) was recognized for the fourth quarter ending December 31, 2024. This is up from a net return of \$4,399 (7.1% return on net product sales) in the previous quarter and down from the net return of \$5,071 (8.9% return on net product sales) recognized in the fourth quarter of 2023.

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

The translation adjustment for the fourth quarter of 2024 was a gain of \$2,095 compared to a translation loss of \$602 in the fourth quarter of 2023.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for the fourth quarter ended December 31, 2024, was \$6,901 (11.2% of net product sales) up from the 3 months ended December 31, 2023, of \$4,469 (7.8% of net product sales) and up from the previous quarter's total comprehensive income of \$4,065 (6.5% of net product sales).

MANAGEMENT DISCUSSION AND ANALYSIS

FULL YEAR RESULTS

(amounts in thousands of dollars)

NET PRODUCT SALES

Net product sales of \$244,898 in 2024 were up 2.8% compared to net sales of \$238,285 reported in 2023. Foreign exchange had a positive impact on year-over-year reporting of approximately \$2,620, 1.1% of the sales increase. Our Canadian market is down by 2.4% compared to 2023. The US market is up 4.3% when measured in USD. Due to the impact of foreign exchange the US sales are up 5.8% when measured in CAD. The rest of the world's activity is up 4.5%, this segment is mostly made up of UK & European sales.

GROSS PROFIT

In 2024, gross profit was \$90,901 or 37.1% of net product sales compared to \$86,206 or 36.2% achieved in 2023. If we remove the foreign exchange impact in 2024, gross margin would be closer to 36.3 %. Pricing remained relatively stable in 2024 consistent with 2023.

SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE, AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Selling and distribution, general and administrative, including the net impact of the disposal of property, plant and equipment of \$63,301 (25.8% of net product sales) was up 8.9% compared to the 2023 spend of \$58,118 (24.4% of net product sales). Of the change, \$520 (0.8%) can be attributed to foreign exchange. This compares to a year-over-year sales increase of 2.8%.

Selling and distribution expenses of \$56,186 increased \$5,168 or 10.1% compared to 2023. Foreign exchange had the impact of increasing comparative costs by \$519. Including the foreign exchange impact, freight expenses are up \$3,718 or 13.2%. Selling expenses were up \$1,623, or 8.0%. Largely driven by the fact that post Covid travel volumes are returning, additional sales staff and warehousing costs in the UK.

Our general and administrative expenses of \$7,101 were down \$129 or 1.8% compared to 2023 spending levels of \$7,230. The foreign exchange impact was negligible year over year. The largest driver of the cost reduction came from a reduction in the bad debt reserve.

This year we saw a small impact on the disposal of property, plant and equipment with a loss of \$14. This compares to a net gain on disposals of \$130 recognized in 2023.

INCOME FROM OPERATING ACTIVITIES

Overall, 2024 income from operating activities was \$27,600 (11.3% of net product sales) which is down compared to 2023 earnings of \$28,088 (11.8% of net product sales).

INTEREST

Interest Expense was up in 2024 to \$2,815 versus \$2,548 in 2023, the main driver was the timing of the \$25,833 loan that was taken out in late 2023 at a higher interest rate, in 2024 the full impact of the annual interest was recorded. In 2023 interest rates were lower and rose throughout the year. Despite a lower borrowing base year over year the interest expense was higher. This was offset by improved interest income leading to a net interest expense of \$2,220 in 2024 versus \$2,508 in 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a breakdown of the interest expenses.

	December 31, 2024	December 31, 2023
Long term debt interest	\$ 2,566	\$ 1,668
Bank indebtedness interest	249	880
Interest expense	\$ 2,815	\$ 2,548
Interest income earned on cash	(595)	(40)
Net Interest Expense	\$ 2,220	\$ 2,508
Interest expense leases	\$ 655	\$ 544
Total Interest and lease interest expense	\$ 2,875	\$ 3,052

FOREIGN EXCHANGE TRANSACTIONAL IMPACT

A \$221 foreign exchange transactional loss was reported in 2024, compared to a transactional gain of \$29 in 2023. The Canadian dollar averaged 2023 at \$1.00 USD to \$1.350 CAD closed 2023 at \$1.00 USD to \$1.323 CAD. The value fluctuated throughout the year, closing 2024 at \$1.00 USD to \$1.439 CAD. In 2024 the average rate was \$1.00 USD to \$1.369 CAD level.

INCOME TAX EXPENSE

2024 tax expenses of \$6,148 were 25.1% of income before income tax. This compares to a 2023 tax expense of \$6,238 which was 25.0% of income before income tax.

NET INCOME FOR THE YEAR

Net income for the year ending December 31, 2024, was \$18,374 (7.5% of net product sales) compared to the prior year net income of \$18,761 (7.9% of net product sales).

FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

During 2024, a gain of \$2,842 on translational foreign exchange was recorded compared to a loss of \$627 in 2023. As noted earlier, a part of the transactional impact is offset by the foreign exchange transactional impact of intercompany loans.

TOTAL COMPREHENSIVE INCOME

Comprehensive income for 2024 was \$21,216 (8.7% of net product sales) compared to comprehensive income of \$18,134 (7.6% of net product sales) in 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

SELECTED ANNUAL INFORMATION

Consolidated Statements of Comprehensive Income	2024	2023	2022
Net product sales	\$ 244,898	\$ 238,285	\$ 225,922
Income from operating activities	27,600	28,088	19,442
Net income for the year	18,374	18,761	12,003
Per share - basic & fully diluted net earnings for the year	\$1.62	\$1.66	\$1.06
Consolidated Statement of Financial Position	2024	2023	2022
Total assets	\$ 214,789	\$ 189,132	\$ 168,005
Total funded debt and lease liabilities	56,728	56,451	48,392
Working capital	56,044	43,075	32,665
Net cash generated from operating activities	33,665	16,895	4,824
Dividends declared and paid	680	680	680
Shareholders' equity	\$ 119,535	\$ 98,999	\$ 81,545

CAPITAL RESOURCES AND LIQUIDITY

Net cash generated in operating activities for 2024 was \$33,665 (net cash generated in 2023 - \$16,935). Cash flows from financing activities used \$7,371 to paying down long-term debt and leases (2023 – financing activities generated \$5,195, with the \$26,000 of new debt set up). Net cash used in investing activities was \$12,039 (2023 - \$13,624).

Trade and other receivables of \$32,491 as at December 31, 2024 have increased 5.3% compared to 2023. The increase can be attributed to higher sales and timing of incoming payments in the corresponding periods.

The year-end investment in inventory of \$66,654 saw a decrease of 1.6% from the 2023 inventory value of \$67,772. Inventory turnover was consistent year over year at 2.3 (cost of sales for the year divided by the twelve-month average inventory level). Turns of 2 to 3 reflect our historical levels. Our value statement hinges on having our standard product on our shelves.

Trade and other liabilities increased by \$1,571, or 6.3% over 2023 to \$26,386. Total long-term debt, lease liabilities and bank indebtedness increased by \$277 over the prior year to \$56,728. Our debt-to-equity ratio at year-end (excluding lease liabilities) was approximately 0.35:1 (2023 - 0.46:1). Debt-to-equity calculated inclusive of the lease liabilities was 0.47:1 (2023 – 0.57:1). Debt is made up of Bank Indebtedness, Long-term Debt and Lease Liabilities.

Total dividends paid in 2024 were \$680 (2023 - \$680).

Property, plant, equipment and intangible asset additions excluding the right of use assets in 2024 were \$12,051 from \$13,764 in 2023.

The overall cash position increased by \$15,820 in 2024 compared to a cash position increase of \$7,988 in 2023. The excess cash will be utilized to fund future growth projects.

In the second quarter the company set up a new lease for warehouse property located in Guelph. It is 31,766 sq. ft. The present value of the lease is \$2,056, and it ends May 31, 2029. Also set up a new

MANAGEMENT DISCUSSION AND ANALYSIS

lease in a newly renovated UK facility adding an additional 10,200 sq. ft., this is a 10-year lease that ends in June 2034, the present value is \$1,688, this is the fifth unit in the UK.

The Company is compliant with all the bank covenants, and the credit facilities are well designed to meet expected on-going requirements.

As at December 31, 2024 the contractual obligations showing demand loans as current are as follows.

Contractual obligations (In thousands)	Total	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Long-term debt	\$ 41,135	\$ 36,238	\$ 1,476	\$ 1,551	\$ 1,553	\$ 317	\$ -
Lease Liabilities	15,310	3,317	2,758	2,023	1,838	1,490	3,884
Total contractual obligations	\$ 56,445	\$ 39,556	\$ 4,234	\$ 3,574	\$ 3,391	\$ 1,807	\$ 3,884

As at December 31, 2024 the contractual obligations based on repayment not being called early.

Contractual obligations (In thousands)	Total	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years	After 5 Years
Long-term debt	\$ 41,135	\$ 4,869	\$ 8,416	\$ 2,082	\$ 25,451	\$ 317	\$ -
Lease Liabilities	15,310	3,317	2,758	2,023	1,838	1,490	3,884
Total contractual obligations	\$ 56,445	\$ 8,186	\$ 11,174	\$ 4,105	\$ 27,289	\$ 1,807	\$ 3,884

In addition to the contractual obligations above, the Company has current obligations of \$998 (2023 - \$395) against open purchase orders for outstanding capital expenditures.

The Company also has open purchase commitments with RITEC as at December 31, 2024 of \$985 (2023 - \$452). This expenditure should be completed in the first half of 2025.

SHARE CAPITAL

As of March 4, 2025, 8,556,000 Class A subordinate voting shares and 2,778,300 Class B common shares were issued and outstanding. The Company also has a management share option plan, with no options currently outstanding.

EBITDA

EBITDA for 2024 was \$37,809. This showed improvement over EBITDA of \$36,500 achieved in 2023.

EBITDA adjusted for transactional impact of foreign exchange was \$38,030 in 2024 compared to an adjusted EBITDA of \$36,471 in 2023. EBITDA and adjusted EBITDA are calculated as outlined in the following table:

Reconciliation of Net Earnings to Earnings Before Interest, Taxes Depreciation and Amortization (EBITDA)*.

MANAGEMENT DISCUSSION AND ANALYSIS

(In thousands of Canadian dollars)

	Years Ended:		Three Months Ended:	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Net income for the period	\$ 18,373	\$ 18,761	\$ 4,805	\$ 5,071
Add				
Income tax expense	6,148	6,238	1,502	1,646
Depreciation and amortization	6,840	5,769	2,506	1,435
Right-of-use depreciation	2,978	2,680	982	684
Finance costs on debt	2,220	2,508	82	575
Right-of-use finance costs	655	544	198	139
Subtotal	18,841	17,739	5,270	4,479
EBITDA*	\$ 37,214	\$ 36,500	\$ 10,075	\$ 9,550
Add:				
FX transactional loss (gain)	221	(29)	14	(191)
Adjusted EBITDA *	\$ 37,435	\$ 36,471	\$ 10,089	\$ 9,359

* EBITDA and Adjusted EBITDA are non-IFRS earnings measures, therefore they do not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA removes the impact of foreign exchange transactional so management can assess the impact of this on the operating results. Management uses these measurements to evaluate the operating results of the Company. These measures are also important to management since they are used by the Company's lenders to evaluate the ongoing cash generating capability of the Company and therefore the amounts those lenders are willing to lend to the Company. Investors find EBITDA and Adjusted EBITDA to be useful information because they provide measures of the Company's operating performance.

ENVIRONMENTAL ISSUES

The Glen Ewing Property is 50% co-tenancy with Hammond Power Solutions Inc. (HPSI) of a vacant property located at 2 Glen Road, Georgetown. The soil has been contaminated by diesel oil, which is believed to be related to site operations of prior owners. The Company and HPSI, as co-tenants, have been working co-operatively with our environmental consultant, the Ministry of the Environment, Conservation and Parks ("MECP") and the adjacent property owner to contain and remove any free-flowing contaminants. The parties have cooperatively developed a remediation action plan to contain and remove any free-flowing contaminants and began remediation in October 2009. The MECP is aware of the remediation and the process being used. It does not include obtaining a record of site condition. The Company's estimate of the remaining portion of the environmental remediation costs for the October 2009 plan for this site is \$225 (2023 \$225) with \$80 (2023- \$80) presented as a current liability in the consolidated financial statements. The provision covers the next four years' activities.

In March 2024, the MECP performed an inspection of the Glen Ewing Property which resulted in the MECP recommending certain additional remedial actions: including further monitoring and implementation of systems to prevent migration of certain other contaminants. The MECP did not issue a formal regulatory order. However, a formal order may be issued if certain steps are not taken. The costs of the additional remedial actions are currently contingent on the completion of a feasibility study. However, the anticipated costs will be based on an external consultant's remediation plan and management's estimate, discounted for expected timing of expenditures. The cost of the initial feasibility study is estimated to be between \$50 - \$100, and shared with Hammond Power Solutions Incorporated.

MANAGEMENT DISCUSSION AND ANALYSIS

A third-party statement of claim was issued on March 6, 2019, against the Company with respect to an adjacent property to one of our Waterloo facilities. Our records do not show any spills of chemicals at this location and management has made the decision not to make any provision/contingency in these consolidated financial statements.

Other than the above noted sites, management is not aware of any unusual or significant environmental issues.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management periodically reviews its estimates and underlying assumptions relating to the following items:

i) Inventory

Inventories are valued at the lower of cost or net realizable value. When necessary, the write-down of inventory to its net realizable value is recorded as a result of industry conditions. We have made certain assumptions when determining expected future demand by utilizing information such as inventory quantities and aging, historical sales of inventory and general market understanding. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of write-down expenses in future periods.

ii) Amortization

Management makes estimates of the appropriate useful lives to be assigned to intangible assets based on the individual circumstances of an acquisition. Management reviews the appropriateness of the lives assigned and adjusts prospectively, where necessary.

iii) Impairment tests

Management makes estimates of sustainable earnings, future expected cash flows and discount rates in the determination of the value-in-use or fair value less costs of disposal of cash-generating units ("CGUs").

iv) Provision against accounts receivable

Management makes estimates on the expected credit losses ("ECLs") of accounts receivable balances based on customer specific facts and circumstances as well as experience of write-offs. Changes in the economic conditions in which the Company's customers operate and their underlying financial stability may impact on these estimates.

v) Employee future benefits

MANAGEMENT DISCUSSION AND ANALYSIS

Management estimates the discount rates, retirement age and future costs of benefits associated with providing future employee benefits and exercises judgment to determine how many employees will utilize these benefits.

vi) Tax assets

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

vii) Depreciation

Management estimates future residual values and the rate at which the useful lives of property and equipment are consumed to determine appropriate depreciation charges. Estimates of residual value and useful lives are based on data and information from various sources, including vendors, industry practice and Company-specific history. Management reviews the appropriateness of the lives assigned and adjusts prospectively, where necessary.

viii) Property value

Management estimates the value of the investment property to assess if impairment has occurred. The estimate is made by reviewing local land prices and current sales of similar properties as well as property tax value assessment.

ix) Environmental remediation:

Management estimates the value to complete the remediation project on the Glen Ewing Property each year by reviewing the project status and activities still to be completed. Any changes to the project scope are updated in the cost estimation model and any change in the required reserve is recorded in the current year.

x) Sales returns:

Management estimates the value of product that will be returned based on a historical analysis. Any change to the estimate is recorded as a reduction of revenue in the current period.

xi) Leases:

For the purpose of initial and subsequent measurement of leases the Company utilizes a discounted interest rate in the lease that is readily available or the Groups incremental borrowing rate. The group also utilizes its best estimate of any costs to dismantle and remove the assets at the end of the lease.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies and the interpretation of accounting standards. Management periodically reviews its judgments and underlying assumptions relating to the following items:

xii) Provision for claims

Judgment is exercised in deciding whether liability for a claim meets the criteria of a present obligation and in assessing the probability of the outflow of economic resources.

xiii) Leases

The Company exercises judgement as to whether it is likely to extend the term of the lease when the option is provided.

xiv) Impairment tests

Management exercises judgment to determine whether there are factors that would indicate that an asset or a CGU is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Company's operations.

CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

- (i) financial statements prepared for external purposes are in accordance with the Company's Generally Accepted Accounting Principles,
- (ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,
- (iii) receipts and expenditures of the Company are made only in accordance with the authorizations of the Company's management and directors, and
- (iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected to prevent material error in financial statements.

Internal controls over financial reporting, no matter how well designed have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future

MANAGEMENT DISCUSSION AND ANALYSIS

periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Evaluation of Disclosure Controls and Procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures. Under the supervision and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), management evaluated the effectiveness of the Company's disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, including the Company's certifying officers, as appropriate to allow timely decisions regarding required disclosure. Management concluded that the Company's disclosure controls and procedures were effectively designed as at the December 31, 2024 year end.

Evaluation of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining internal control over financial reporting. Under the supervision and with the participation of the Company's CEO and the CFO, management evaluated the effectiveness of the Company's internal control over financial reporting. Internal control is a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the annual financial statements or interim financial statements. The CEO and CFO did not identify any material weaknesses in their evaluation of internal control, and concluded that the Company's internal control over financial reporting was effective, as at December 31, 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES

As with most businesses, the Company is subject to a few marketplaces, industry and economic related business risks, which could have some material impact on our operating results.

These risks include:

- Security Breaches or Disruptions of Information Technology Systems Risk;
- Key personnel;
- The cyclical effects, unpredictability and volatility of market driven commodity costs, raw materials such as copper and steel pricing and supply and demand;
- A significant, unexpected change in the global demand for resources;
- The variability of the Canadian dollar versus the US dollar;
- Rising interest rates;
- Economic slowdown in the US and Canada;
- Trade restrictions;
- Labour costs and labour relations;
- Competition; and
- Global political unrest;
- Pandemics
- Tariffs

The Company continuously works to minimize the negative impact of these risks and strengthen its position through diversification of its core business, market channel expansion, geographic diversity of its operations and business hedging strategies. There are, however, several risks that deserve particular attention.

Security Breaches or Disruptions of Information Technology Systems Risk

The Company utilizes a variety of information technology systems to manage and operate its businesses. These information systems may be owned and maintained by the Corporation, outsource providers or third parties such as customers, vendors and contractors. These information systems are subject to attacks, failures, and access denials from several potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, hard drives, communication lines and networking equipment. Despite the implementation of extensive security measures (including access controls, data encryption, vulnerability assessments, continuous monitoring, and maintenance of back-up and protective systems), the Corporation's information technology systems are potentially vulnerable to interruptions or delays, unauthorized access, computer viruses, cyber-attack and other events, ranging from individual attempts to advanced persistent threats. It is possible a security breach could result in theft of trade secrets or other intellectual property or disclosure of confidential customer, supplier or employee information. Should the Corporation be unable to prevent security breaches, disruptions could have an adverse effect on the Corporation's operations and financial results, as well as expose the Corporation to litigation, increased cyber security protection costs, and reputational damage.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Personnel

The Company is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If the Company were to experience a substantial turnover in its leadership or other key employees, business results from operations and financial condition could be materially adversely affected.

Commodity Prices

An area that has had a definite effect 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 market. Due to this unpredictability and volatility, particularly with copper pricing, the Company does not currently utilize future contracts. Strategic supply line agreements and alliances are in place with our major steel suppliers to ensure adequate supply and competitive market pricing.

Foreign Exchange

The Company's operating results are reported in Canadian dollars. A significant portion of our sales is denominated in US dollars. A change in the value of the Canadian dollar against the US dollar will impact revenues and earnings. We have created a bit of a natural hedge as this is partially offset by a corresponding change in the cost of materials purchased from the US and commodities tied to US dollar pricing. In general, a lower value for the Canadian dollar compared to the US dollar will have a beneficial impact on the Company's results; or, inversely, a higher value for the Canadian dollar compared to the US dollar will have a negative impact on the Company's profitability. In a sensitivity review, if we did not react in any way to a one cent change in the value of the Canadian to US dollar value it would have an approximate impact on income from operations of \$1,104 for each cent movement in 2024. The Company also has a US operating subsidiary and US dollar assets. The exchange rate between the Canadian and US dollar can vary significantly from year to year. There is a corresponding positive or negative impact to the Company's Consolidated Statements of Comprehensive Income solely related to the foreign exchange translation of its Consolidated Statements of Financial Position. We have partially reduced the impact of foreign exchange fluctuations through increasing our US dollar-driven manufacturing output. Finally, the Company periodically institutes price increases / reductions to help offset the negative / positive impact of changes in foreign exchange and product cost increases / decreases. The Company is also exposed to the impact from the British pound sterling and Euro as well as to the Australian dollar but not to the level of exposure of the US dollar.

Interest Rates

The interest rates have been reducing over the last half of the year. The Company is cognizant that a rise in interest rates negatively impacts the financial results of the Company. The Company continuously reviews this strategy of hedging this risk by fixing interest rates on part of its total debt.

North American Economy

We will continue to react to the market conditions to grow our business. Our efforts over the next 12 months will continue to be on projects that will reduce our costs and improve our manufacturing flexibility. We believe that being nimble as an organization will become even more important in order to respond quickly to both unexpected opportunities as well as

MANAGEMENT DISCUSSION AND ANALYSIS

challenges. We also believe that our growing access to a variety of markets, both global and domestic, through our OEM and distributor channels will help the Company expand its market share.

Global Political Unrest

Today's politics can have significant repercussions on business. Issues are constantly changing, and management must assess the potential outcomes of the different issues and be prepared to react to or mitigate anything that would have a negative impact on our business.

Pandemics

Global Pandemics such as the COVID outbreak that started in 2020 can have dramatic impacts on markets as supply chains, labour forces, logistics etc. become susceptible to disruption. It is important to get ahead of these situations and be prepared to react to mitigate the issues as they arise.

Tariffs

With pending tariffs from our American trading partner and retaliatory counter tariffs, these actions could cause disruption within our supply chain due potential cost impacts. At this time, the nation is waiting as the decision was pushed out until early March so the impact is currently unknown. The company will remain diligent and educated on the topic and be prepared to react as needed to support the business.

ACCOUNTING POLICY CHANGES

The International Accounting Standards Board (IASB) has issued the following Standards, Interpretations and Amendments to Standards that were adopted by the Group.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction.

The amendments were adopted January 1, 2024. The impact of adoption of these amendments did not have an impact on the business.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. On October 31, 2022, the IASB issued *Non-current Liabilities with Covenants* (amendments to IAS 1), to improve the information a company provides about long-term debt with covenants.

The amendments were adopted January 1, 2024. The impact of adoption of these amendments did not have an impact on the business.

MANAGEMENT DISCUSSION AND ANALYSIS

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

On May 25, 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

The amendments were adopted January 1, 2024. The impact of adoption of these amendments did not have an impact on the business.

FUTURE ACCOUNTING CHANGES

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group and it is still to be determined if any will have a material impact or if they are applicable for the Group's financial statements.

Lack of Exchangeability (Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates) applies when one currency cannot be exchanged into another. This may occur, for example, because of government-imposed controls on capital imports and exports, or a limitation on the volume of foreign currency transactions that can be undertaken at an official exchange rate. The amendments clarify when a currency is considered exchangeable into another currency, and how an entity estimates a spot rate for currencies that lack exchangeability. The amendments introduce new disclosures to help financial statement users assess the impact of using an estimated exchange rate.

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures) clarify financial assets and financial liabilities are recognized and derecognized at settlement date except for regular way purchases or sales of financial assets and financial liabilities meeting conditions for new exception. The new exception permits companies to elect to derecognize certain financial liabilities settled via electronic payment systems earlier than the settlement date.

They also provide guidelines to assess contractual cash flow characteristics of financial assets, which apply to all contingent cash flows, including those arising from environmental, social, and governance (ESG)-linked features.

Additionally, these amendments introduce new disclosure requirements and update others.

Power Purchase Agreements (PPAs) (Amendments to IFRS 9 and IFRS 7) address the application of 'own use' and hedge accounting requirements for agreements which meet specified criteria. If a PPA qualifies for the 'own use' exemption, it is accounted for as an executory contract rather than as a derivative. In contrast, if a PPA does not qualify for the 'own use' exemption, it is accounted for as a derivative to which hedge accounting considerations may apply. The amendments apply to contracts that reference electricity generated from nature dependent sources and for which cash flows vary based on the amount of electricity generated by a reference production facility. New disclosures have also been introduced.

MANAGEMENT DISCUSSION AND ANALYSIS

IFRS 18 replaces IAS 1, which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes.

Further, operating expenses are presented directly on the face of the income statement – classified either by nature (e.g. employee compensation), by function (e.g. cost of sales) or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature.

IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures (MPMs)* and eliminates classification options for interest and dividends in the statement of cash flows.

*Non-GAAP measures that meet the definition of MPMs will be subject to the disclosure requirements.

IFRS 19 is a voluntary standard that applies to entities without public accountability, but whose parents prepare consolidated financial statements under IFRS Accounting Standards.

For in-scope companies, IFRS 19 simplifies disclosures on various topics, including leases, exchange rates, income taxes, statement of cash flows, etc.

If elected, IFRS 19 is expected to reduce the cost of preparing in-scope financial statements while maintaining the usefulness of those financial statements for stakeholders.

OUTLOOK FACTORS FOR 2025

The feedback we have from our North American markets is that we will see growth in the low-single digit area in 2025 compared to the level of activity we experienced in the latter half of 2024. Our UK and European markets remain weak, and we are watching this closely and will react accordingly.

We continue to competitively price our products and stimulate market share growth as we keep an eye on currency fluctuations. This is tied closely to the pending tariffs from our US partner. If implemented, it is expected that the Canadian dollar would weaken in the immediate term.

The Company continues with the objective of sales growth and increased market share but will weigh this against achieving acceptable margins.

Capital spending will continue to be focused on high impact projects as accommodated by cash flows.

Our primary focus continues to be productivity and margin improvements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements are the responsibility of the management of Hammond Manufacturing Company Limited. These statements have been prepared in accordance with IFRS Accounting Standards, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements and other financial information contained in the report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgment and have been properly reflected in the accompanying consolidated financial statements.

Management is responsible for the maintenance of a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors assists in exercising its responsibilities through the Audit Committee of the Board, which is composed of four non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend the approval of the consolidated financial statements to the Board of Directors.

KPMG LLP, the independent auditors appointed by the shareholders, has audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting process.

R.F. Hammond

A handwritten signature in black ink, appearing to be 'R.F. Hammond'.

Chairman & CEO

A. Stirling

A handwritten signature in blue ink, appearing to be 'A. Stirling'.

Secretary & EVP

Guelph, Ontario

March 5, 2024



KPMG LLP
120 Victoria Street South
Suite 600
Kitchener, ON N2G 0E1
Canada
Telephone 519 747 8800
Fax 519 747 8811

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hammond Manufacturing Company Limited

Opinion

We have audited the consolidated financial statements of Hammond Manufacturing Company Limited (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2024 and 2023
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditor’s Responsibilities for the Audit of the Financial Statements***” section of our auditor’s report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2024. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the write-down of inventory for excess or obsolescence

Description of the matter

We draw attention to notes 2(d)(i), 3(c) and 5 to the financial statements. The Company has inventory with a carrying value of \$66,654 thousand. Inventory is valued at the lower of cost or net realizable value. When necessary, the Company will write-down inventory to its net realizable value. The determination of net realizable value requires the Company to make certain assumptions including forecasted demand.

Why the matter is a key audit matter

We identified the evaluation of the write-down of inventory for excess and obsolescence as a key audit matter. There is a high degree of estimation uncertainty as well as complexity in predicting forecasted demand. Significant auditor judgement was required to evaluate the results of our audit procedures due to the estimation uncertainty associated with the determination of net realizable value.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Company's ability to accurately forecast demand by comparing the Company's prior year expectations of forecasted demand to actual sales data, inventory usage, and publicly available industry outlook reports.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the Annual Report as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.



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- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a single, long, horizontal, slightly wavy line.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Matthew Betik.

Kitchener, Canada

March 4, 2025

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Financial Position (in thousands of Canadian dollars)

	Note	December 31, 2024	December 31, 2023
Assets			
Current assets:			
Cash		\$ 24,710	\$ 8,890
Trade and other receivables	4, 26	32,491	30,856
Income taxes receivable		96	799
Inventories	5	66,654	67,772
Prepaid expenses		2,134	1,890
Total current assets		126,085	110,207
Non-current assets:			
Property, plant and equipment	6	72,150	66,817
Intangible assets and goodwill	7	383	383
Right-of-use assets	8	14,135	10,378
Investment property	9	1,044	1,044
Equity investment	10	992	929
Total non-current assets		88,704	79,551
Total assets		\$ 214,789	\$ 189,758
Liabilities			
Current liabilities:			
Bank indebtedness	11	\$ 283	\$ 431
Trade and other payables	14	26,386	24,815
Income taxes payable		3,177	406
Current portion of provisions	15	500	480
Current portion of employee future benefits	16	140	137
Current portion of long-term debt	12	36,238	38,428
Current portion of lease liabilities	8	3,317	2,435
Total current liabilities		70,041	67,132
Non-current liabilities:			
Provisions	15	145	145
Employee future benefits	16	310	336
Long-term debt	12	4,897	6,299
Lease liabilities	8	11,993	8,858
Deferred tax liabilities	17	7,868	7,989
Total non-current liabilities		25,213	23,627
Total liabilities		95,254	90,759
Equity:			
Share capital	19	10,249	10,249
Contributed surplus		290	290
Accumulated other comprehensive income		5,628	2,786
Retained earnings		103,368	85,674
Total equity		119,535	98,999
Total liabilities and equity		\$ 214,789	\$ 189,758

The notes on pages 34 to 69 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars, except earnings per share)

For The Years ended December 31,	Note	Twelve Months Ended:	
		2024	2023
Net product sales	27	\$ 244,898	\$ 238,285
Cost of sales		153,997	152,079
Gross profit		90,901	86,206
Selling and distribution		56,186	51,018
General and administrative		7,101	7,230
(Gain) Loss on disposal of property, plant and equipment		14	(130)
Income from operating activities		27,600	28,088
Interest expense	13	(2,815)	(2,548)
Interest expense leases	13	(655)	(544)
Interest income	13	595	40
Foreign exchange gain (loss)		(221)	29
Net finance expense		(3,096)	(3,023)
Share of profit of equity accounted investee	10	110	12
Share of expenses from investment property	9	(92)	(78)
Income before income tax		24,522	24,999
Income tax expense	18	6,148	6,238
Net income for the period		\$ 18,374	\$ 18,761
Other comprehensive Income (Loss):			
Foreign currency translation for foreign operations, net of income tax		2,842	(627)
Total comprehensive income for the period		\$ 21,216	\$ 18,134
Earnings per share			
Basic earnings per share	22	\$ 1.62	\$ 1.66
Diluted earnings per share	22	\$ 1.62	\$ 1.66

The notes on pages 34 to 69 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Changes in Equity
For the years December 31, 2024 and December 31, 2023
(in thousands of Canadian dollars)

	Attributable to equity holders of the Company				
	Share Capital	Contributed Surplus	AOCI**	Retained earnings	Total equity
Balance at January 1, 2023	\$ 10,249	\$ 290	\$ 3,413	\$ 67,593	\$ 81,545
Net income for the year	-	-	-	18,761	18,761
Other comprehensive loss:					
Foreign currency translation differences	-	-	(627)	-	(627)
Total comprehensive income (loss) for the year	-	-	(627)	18,761	18,134
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(680)	(680)
Balance at December 31, 2023	\$ 10,249	\$ 290	\$ 2,786	\$ 85,674	\$ 98,999
Balance at January 1, 2024	\$ 10,249	\$ 290	\$ 2,786	\$ 85,674	\$ 98,999
Net income for the year		-	-	18,374	18,374
Other comprehensive income:					
Foreign currency translation differences	-	-	2,842	-	2,842
Total comprehensive income for the year	-	-	2,842	18,374	21,216
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(680)	(680)
Balance at December 31, 2024	\$ 10,249	\$ 290	\$ 5,628	\$ 103,368	\$ 119,535

** Accumulated other comprehensive income (loss)

The notes on pages 34 to 69 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

For The Years ended December 31,	Note	2024	2023
Cash flows from operating activities			
Net income for the period		\$ 18,374	\$ 18,761
Adjustments for:			
Depreciation of property, plant and equipment	6	6,760	5,691
Amortization of intangible assets	7	80	78
Depreciation of right-of-use assets	8	2,978	2,680
Net Interest expense	13	2,220	2,508
Interest expense on leases	13	655	544
Income tax expense	18	6,148	6,238
Loss (gain) on disposal of property, plant and equipment		14	(130)
Provisions and employee future benefits		(3)	113
Equity investments		(16)	(106)
Change in inventory allowance for lower of cost or net realizable value	5	305	251
		37,515	36,628
Change in non-cash working capital:			
Inventories		1,308	(4,386)
Trade and other receivables		(255)	(1,159)
Prepaid expenses		(209)	(29)
Trade and other payables		1,026	(4,812)
Cash generated in operating activities		39,385	26,242
Interest expense paid	13	(2,815)	(2,508)
Interest income received	13	595	40
Interest paid on leases	13	(655)	(544)
Income tax paid		(2,845)	(6,295)
Net cash generated in operating activities		33,665	16,935
Cash flows from financing activities			
Bank indebtedness repayment		(193)	(14,015)
Payment of long-term debt	13	(3,741)	(3,429)
Payment of lease liabilities	13	(2,757)	(2,681)
Advances of long-term debt		-	26,000
Payment of dividends		(680)	(680)
Net cash generated (used) in financing activities		(7,371)	5,195
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		12	140
Acquisition of property, plant and equipment		(11,979)	(13,653)
Intangible asset additions		(72)	(111)
Net cash used in investing activities		(12,039)	(13,624)
Net increase in cash		14,255	8,506
Cash at beginning of period		8,890	942
Foreign exchange gain on cash and cash equivalents in a foreign currency		1,565	(518)
Cash at end of period		\$ 24,710	\$ 8,930

The notes on pages 34 to 69 are an integral part of these consolidated financial statements.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

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(amounts (except share amounts) in thousands of Canadian dollars)

1) Introduction:

a) Reporting entity:

Hammond Manufacturing Company Limited ("HMCL" or the "Company") is a public company traded on the Toronto Stock Exchange under the symbol "HMM.A" and is incorporated under the Ontario Business Corporations Act. The address of the Company's registered office is 394 Edinburgh Road North, Guelph, Ontario. The consolidated financial statements of the Company as at and for the year ended December 31, 2024, include the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled entities. The Group primarily is involved in the design, manufacture and sale of electrical and electronic components. Facilities are located in Canada, the US, the UK, the Netherlands, Taiwan and Australia, with agents and distributors located worldwide. The Company also maintains a 40% ownership share of RITEC Enclosures Inc. (RITEC) located in Taiwan. RITEC produces plastic and die cast enclosures for sale through the Company's sales network and its own existing market channels.

2) Basis of preparation:

a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS).

The Board of Directors approved these consolidated financial statements on March 4, 2025.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars. The functional currency of the Group's entities is the currency of their primary economic environment. Foreign currency translation differences are recognized in other comprehensive income which is included in accumulated other comprehensive income. The functional currency of the Company's subsidiary operations located in the US, UK, Netherlands, Taiwan and Australia are the US dollar, the British pound sterling, and Euro dollar respectively. The functional currency of the Company's Canadian operations is the Canadian dollar.

d) Use of estimates:

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management periodically reviews its estimates and underlying assumptions relating to the following items:

i) Inventory

Inventories are valued at the lower of cost or net realizable value. When necessary, the write-down of inventory to its net realizable value is recorded as a result of industry conditions. Management has made certain assumptions including expected forecasted

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demand by utilizing information such as inventory quantities and aging, historical sales of inventory and general market understanding. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of write-down expenses in future periods.

ii) Amortization

Management makes estimates of the appropriate useful lives to be assigned to intangible assets based on the individual circumstances of an acquisition. Management reviews the appropriateness of the lives assigned and adjusts prospectively, where necessary.

iii) Impairment tests

Management makes estimates of sustainable earnings, future expected cash flows and discount rates in the determination of the value-in-use or fair value less costs of disposal of cash-generating units ("CGUs").

iv) Provision against accounts receivable

Management makes estimates on the expected credit losses ("ECLs") of accounts receivable balances based on customer specific facts and circumstances as well as experience of write-offs. Changes in the economic conditions in which the Company's customers operate and their underlying financial stability may have an impact on these estimates.

v) Employee future benefits

Management estimates the discount rates, retirement age and future costs of benefits associated with providing employee future benefits and exercises judgment to determine how many employees will utilize these benefits.

vi) Tax assets

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

vii) Depreciation

Management estimates future residual values and the rate at which the useful lives of property and equipment are consumed to determine appropriate depreciation charges. Estimates of residual value and useful lives are based on data and information from various sources, including vendors, industry practice and Company-specific history. Management reviews the appropriateness of the lives assigned and makes adjustments prospectively, where necessary.

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viii) Property value

Management estimates the value of the investment property to assess if impairment has occurred. The estimate is made by reviewing local land prices and current sales of similar properties as well as property tax value assessment.

ix) Environmental remediation:

Management estimates the value to complete the remediation project on the Glen Ewing Property each year by reviewing the project status and activities still to be completed. Any changes to the project scope are updated in the cost estimation model and any change in the required reserve is recorded in the current year.

x) Sales returns:

Management estimates the value of product that will be returned based on a historical analysis. Any change to the estimate is recorded as an increase or reduction of revenue in the current period.

xi) Leases:

For the purpose of initial and subsequent measurement of leases the Company utilizes a discount rate in the lease that is readily available or the Group's incremental borrowing rate. The Group also utilizes its best estimate of any costs to dismantle and remove the asset at the end of the lease.

e) Use of judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgements that affect the application of accounting policies and the interpretation of accounting standards. Management periodically reviews its judgments and underlying assumptions relating to the following items:

i) Provision for claims

Management exercises judgement in deciding whether liability for a claim meets the criteria of the present obligation and in assessing the probability of the outflow of economic resources.

ii) Leases

Management exercises judgement as to whether it is likely to extend the term of a lease when the option is provided.

iii) Impairment tests

Management exercises judgement to determine whether there are factors that would indicate that an asset or a CGU is impaired. The determination of CGUs is also based on management's judgement and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about the Company's operations.

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3) Summary of material accounting policies:

Except for the changes explained in “new standards and interpretations adopted” below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. These accounting policies have been consistently applied by all Group entities.

a) Basis of consolidation:

The consolidated financial statements include the accounts of Hammond Manufacturing Company Limited, its wholly owned subsidiaries, Hammond Manufacturing Company Inc., Hammond Electronics Limited, Hammond Electronics Pty Limited, Les Fabrications Hammond (Quebec) Inc., Hammond Electronics Asia Limited, Hammond Electronics B.V. and its proportionate share of the Glen Ewing Property, an unincorporated co-tenancy (50%). All significant intercompany balances and transactions have been eliminated on consolidation. The consolidated financial statements include the investment in RITEC, which is accounted for using the equity method.

b) Revenue recognition:

The Company principally generates revenue through the manufacturing and sale of industrial enclosures, electronic enclosures, racks and cabinets, transformers and other products. Revenue is recognized when control of a product is transferred to a customer. This is generally at the point in time when product is available for physical delivery, and the customer has legal title to, physical possession of (or through their carrier), and the risks and rewards of ownership of the product have transferred; therefore, the customer is able to direct the use of and obtain substantially all of the benefits of the product. There is only a single performance obligation, except for where delivery is provided by Hammond after the point of transfer.

Revenue is measured based on the consideration specified in a contract with a customer, net of variable consideration, including rebates, returns and discounts. Rebates are accrued using sales data and rebate percentages specific to each customer contract. Accruals for sales returns are calculated based on the best estimate of the amount of product that will ultimately be returned by customers. All customer receivables are expected to be paid within one year and therefore the Company does not adjust for the effects of a financing component.

Contract liabilities are recorded when cash payments are received or due in advance of the Company's performance.

c) Inventories:

Inventories are measured at the lower of cost, determined on a first-in, first-out basis, and net realizable value, and include expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, costs include an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When circumstances that previously gave rise to an inventory write down no longer exist, the previous impairment is reversed.

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d) Investment property:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group measures its investment property, being the land held by Glen Ewing Property, at historical cost.

e) Property, plant and equipment:

Property, plant and equipment are shown in the statements of financial position at their historical cost. Costs include expenditures that are directly attributable to the acquisition of the assets. Assets are amortized over their useful life on a straight-line basis, except for specific tooling items which are amortized based on units of production method.

The depreciation rates based on the estimated useful lives for the current and comparative periods are as follows:

Asset	Useful Life
Buildings	20 to 40 years
Office equipment	4 to 10 years
Machinery and equipment	4 to 10 years
Tooling general use	4 to 10 years
Tooling specific part	Based on anticipated life unit output

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

f) Intangible assets other than goodwill:

Intangible assets are stated at cost, less accumulated amortization. Intangible assets with a finite life are amortized using the straight-line method at rates calculated to amortize the cost of these assets over their estimated useful lives.

The amortization rates based on the estimated useful lives for the current and comparative periods are as follows:

Asset	Straight-Line Method
Computer software	5 years
Development costs	5 years

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

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g) Investments measured using equity method:

The Company uses the equity method as a basis of accounting for investments in companies over which it exercises significant influence or joint control. Under the equity method, the Company records these investments initially at cost and the carrying values are adjusted thereafter to include the Company's pro rata share of post-acquisition earnings of the investees, computed by the consolidation method. The adjustments are included in the determination of net income by the Company, and the investment accounts of the Company are also increased or decreased to reflect the Company's share of capital transactions (including amounts recognized in other comprehensive income). Profit distributions received from investees reduce the carrying values of the investments. Unrealized intercompany gains or losses are eliminated.

The Company uses the equity method to account for its 40% interest in RITEC.

h) Income taxes:

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

i) Provisions:

Provisions may include liabilities of uncertain timing or amounts that arise from environmental, litigation, commercial or other risks. Provisions are recognized when a legal or constructive obligation exists stemming from a past event and when the future cash outflows can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

j) Financial assets and financial liabilities:

Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial liabilities are initially measured at fair value, net of transaction costs incurred. They are subsequently carried at amortized cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as an adjustment to interest expense over the period of the borrowings.

Financial liabilities include bank indebtedness, trade and other payables and long-term debt.

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k) Impairment:

i) Financial assets:

ECLs are recognized on all financial assets not carried at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

ii) Non-financial assets:

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. The value in use is based on their future projected cash flows discounted to the present value at an appropriate pre-tax discount rate.

The Group completed its annual impairment test at December 31, 2024 and December 31, 2023, and concluded there was no impairment.

l) Employee Benefits:

i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the periods during which services are rendered by the employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction on future payments is available.

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ii) Other long-term employee benefits:

The Group's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

iii) Termination benefits:

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

iv) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

m) Segment reporting:

The continuing operations of the Company are in one operating segment, electrical and electronic components.

n) Finance costs:

Finance costs consist of interest on borrowings and finance leases.

o) Government Grants:

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Company will comply with all the attached conditions.

Government grants in respect of capital expenditures are credited to the carrying amount of the related assets and are released to income over the expected useful lives of the relevant assets. Government grants which are not associated with an asset are credited to income to net them against the expense to which they relate.

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p) Leases:

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

q) New standards and interpretations adopted:

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction.

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The amendments were adopted on January 1, 2024. The impact of adoption of these amendments did not have an impact on the business.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On October 31, 2022, the IASB issued Non-current Liabilities with Covenants (amendments to IAS 1), to improve the information a company provides about long-term debt with covenants.

The amendments were adopted on January 1, 2024. The impact of adoption of these amendments did not have an impact on the business.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

On May 25, 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

The amendments were adopted on January 1, 2024. The impact of the adoption of these amendments did not have an impact on the business.

- r) New standards and interpretations have not yet been adopted (if applicable):

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group and it is still to be determined if any will have a material impact or if they are applicable for the Group's financial statements.

Lack of Exchangeability (Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates) applies when one currency cannot be exchanged into another. This may occur, for example, because of government-imposed controls on capital imports and exports, or a limitation on the volume of foreign currency transactions that can be undertaken at an official exchange rate. The amendments clarify when a currency is considered exchangeable into another currency, and how an entity estimates a spot rate for currencies that lack exchangeability. The amendments introduce new disclosures to help financial statement users assess the impact of using an estimated exchange rate.

Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures) clarify financial assets and financial liabilities are recognized and derecognized at settlement date except for regular way purchases or sales of financial assets and financial liabilities meeting conditions for new exception. The new exception permits companies to elect to derecognize certain financial liabilities settled via electronic payment systems earlier than the settlement date.

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They also provide guidelines to assess contractual cash flow characteristics of financial assets, which apply to all contingent cash flows, including those arising from environmental, social, and governance (ESG)-linked features.

Additionally, these amendments introduce new disclosure requirements and update others.

Power Purchase Agreements (PPAs) (Amendments to IFRS 9 and IFRS 7) address the application of 'own use' and hedge accounting requirements for agreements which meet specified criteria. If a PPA qualifies for the 'own use' exemption, it is accounted for as an executory contract rather than as a derivative. In contrast, if a PPA does not qualify for the 'own use' exemption, it is accounted for as a derivative to which hedge accounting considerations may apply. The amendments apply to contracts that reference electricity generated from nature dependent sources and for which cash flows vary based on the amount of electricity generated by a reference production facility. New disclosures have also been introduced.

IFRS 18 replaces IAS 1, which sets out presentation and base disclosure requirements for financial statements. The changes, which mostly affect the income statement, include the requirement to classify income and expenses into three new categories – operating, investing and financing – and present subtotals for operating profit or loss and profit or loss before financing and income taxes.

Further, operating expenses are presented directly on the face of the income statement – classified either by nature (e.g. employee compensation), by function (e.g. cost of sales) or using a mixed presentation. Expenses presented by function require more detailed disclosures about their nature.

IFRS 18 also provides enhanced guidance for aggregation and disaggregation of information in the financial statements, introduces new disclosure requirements for management-defined performance measures (MPMs)* and eliminates classification options for interest and dividends in the statement of cash flows.

*Non-GAAP measures that meet the definition of MPMs will be subject to the disclosure requirements.

IFRS 19 is a voluntary standard that applies to entities without public accountability, but whose parents prepare consolidated financial statements under IFRS Accounting Standards.

For in-scope companies, IFRS 19 simplifies disclosures on various topics, including leases, exchange rates, income taxes, statement of cash flows, etc.

If elected, IFRS 19 is expected to reduce the cost of preparing in-scope financial statements while maintaining the usefulness of those financial statements for stakeholders.

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4) Trade and other receivables:

	December 31, 2024	December 31, 2023
Trade receivables	\$ 32,158	\$ 30,895
Employee receivables	4	15
Other receivables	685	487
	32,847	31,397
Estimated credit losses	(356)	(541)
Trade and other receivables	\$ 32,491	\$ 30,856

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 26.

5) Inventories:

	December 31, 2024	December 31, 2023
Raw materials	\$ 16,015	\$ 17,120
Work-in-process	6,028	5,615
Finished goods	44,381	44,817
Right to recover returned goods	230	220
Inventories	\$ 66,654	\$ 67,772

Inventories carried at net realizable value	\$ 1,973	\$ 1,788
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In 2024, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to approximately \$153,795 (2023 - \$151,828). In 2024, the write-down of inventories to net realizable value net of recovery was \$305 (2023 - \$251). The current banking agreement pledges 40% of this value as security up to \$15,000.

6) Property, plant and equipment:

Cost	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2022	\$ 40,777	\$ 60,768	\$ 12,499	\$ 3,059	\$ 117,103
Reclassifications	\$ -	\$ 5,377	\$ 181	\$ -	\$ 5,558
Additions	4,275	8,150	804	424	13,653
Disposals	(146)	(1,008)	(175)	(54)	(1,383)
Effect of movements in exchange rates	3	(44)	(17)	(1)	(59)
Balance at December 31, 2023	\$ 44,909	\$ 73,243	\$ 13,292	\$ 3,428	\$ 134,872
Additions	6,528	3,922	789	740	11,979
Disposals	(227)	(575)	(255)	(50)	(1,107)
Effect of movements in exchange rates	10	289	162	33	494
Balance at December 31, 2024	\$ 51,220	\$ 76,879	\$ 13,988	\$ 4,151	\$ 146,238

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At December 31, 2024, the amount of expenditures recognized in the carrying amount that was in the course of construction was \$Nil (2023 - \$Nil) in land and buildings, \$786 (2023 - \$166) in machinery and equipment and \$93 (2023 - \$47) in tooling.

In 2023, assets previously classified as right-of-use assets (note 8) were reclassified to property, plant and equipment as a result of the buyout of the leased assets.

Accumulated depreciation

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2022	\$ 9,662	\$ 38,258	\$ 9,217	\$ 2,680	\$ 59,817
Reclassifications	\$ -	\$ 3,772	\$ 181	\$ -	\$ 3,953
Depreciation for the period	1,120	3,650	702	219	5,691
Disposals	(141)	(1,007)	(171)	(54)	(1,373)
Effect of movements in exchange rates	3	(22)	(14)	-	(33)
Balance at December 31, 2023	\$ 10,644	\$ 44,651	\$ 9,915	\$ 2,845	\$ 68,055
Depreciation for the period	1,268	4,570	727	195	6,760
Disposals	(224)	(573)	(238)	(46)	(1,081)
Effect of movements in exchange rates	8	183	135	28	354
Balance at December 31, 2024	\$ 11,696	\$ 48,831	\$ 10,539	\$ 3,022	\$ 74,088

Carrying amounts

	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
At December 31, 2022	\$ 31,115	\$ 22,510	\$ 3,282	\$ 379	\$ 57,286
At December 31, 2023	\$ 34,265	\$ 28,592	\$ 3,377	\$ 583	\$ 66,817
At December 31, 2024	\$ 39,524	\$ 28,048	\$ 3,449	\$ 1,129	\$ 72,150

Depreciation of \$6,760 (2023 - \$5,691) was recorded in the consolidated statement of comprehensive income as follows: cost of sales \$6,332 (2023 - \$5,254), selling and distribution \$369 (2023 - \$336) and general and administrative \$59 (2023 - \$101).

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7) Intangible assets and goodwill:

Cost					
		Goodwill	Computer software	Development costs	Total
Balance at December 31, 2022	\$	109	\$ 682	\$ 396	\$ 1,187
Additions	\$	-	\$ 75	\$ 36	\$ 111
Disposal		-	(109)	-	(109)
Effect of movement in exchange rates		3	(2)	-	1
Balance at December 31, 2023	\$	112	\$ 646	\$ 432	\$ 1,190
Additions	\$	-	\$ 8	\$ 64	\$ 72
Disposal		-	-	-	-
Effect of movement in exchange rates		8	7	-	15
Balance at December 31, 2024	\$	120	\$ 661	\$ 496	\$ 1,277
Amortization					
		Goodwill	Computer software	Development costs	Total
Balance at December 31, 2022	\$	-	\$ 499	\$ 341	\$ 840
Amortization for the period	\$	-	\$ 48	\$ 30	\$ 78
Disposal		-	(109)	-	(109)
Effect of movement in exchange rates		-	(2)	-	(2)
Balance at December 31, 2023	\$	-	\$ 436	\$ 371	\$ 807
Amortization for the period	\$	-	\$ 55	\$ 25	\$ 80
Disposal		-	-	-	-
Effect of movement in exchange rates		-	7	-	7
Balance at December 31, 2024	\$	-	\$ 498	\$ 396	\$ 894
Carrying amounts					
		Goodwill	Computer software	Development costs	Total
At December 31, 2022	\$	109	\$ 183	\$ 55	\$ 347
At December 31, 2023	\$	112	\$ 210	\$ 61	\$ 383
At December 31, 2024	\$	120	\$ 163	\$ 100	\$ 383

Amortization expense of \$80 (2023 - \$78) was recorded in the consolidated statement of comprehensive income as follows: cost of sales \$42 (2023 - \$33), selling and distribution \$19 (2023 - \$32) and general and administrative \$19 (2023 - \$13).

Impairment testing for CGUs:

The Company has defined its CGUs as each individual legal entity since each location is largely independent of the other entities and each is ultimately responsible for sales generated in their markets. The Company monitors the performance through the use of profitability analysis based on the most recent business plan in place as at December 31, 2024.

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Impairment testing for CGUs containing goodwill:

The Company performed an impairment test on the goodwill of its UK entity using the value-in-use method, under which a five-year present value cash flow projection was completed using Hammond Electronics Limited weighted average pre-tax cost of capital of 7.0%. The cash flow model also incorporated growth rates in the range of 2% – 4% based on the market location and the facility's operating history. This was then compared to the carrying value of the facility's assets, including goodwill, to determine if there was impairment. Effective December 31, 2024, and December 31, 2023, the assets, including goodwill of \$120 (2023 - \$112), of the Company's wholly owned subsidiary, Hammond Electronics Limited, were tested and no impairment was found.

8) Leases:

Right-of-use assets	in thousands of dollars					
	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2022	\$ 15,178	\$ 5,699	\$ 181	\$ 10	\$ 2,850	\$ 23,918
Reclassifications (see note 6)	\$ -	\$ (5,377)	\$ (181)	\$ -	\$ -	\$ (5,558)
Additions for the period	1,647	-	-	19	499	2,165
Disposals	-	-	-	-	(294)	(294)
Effect of movements in exchange rates	73	16	-	(1)	(3)	85
Balance at December 31, 2023	\$ 16,898	\$ 338	\$ -	\$ 28	\$ 3,052	\$ 20,316
Additions for the period	4,567	-	-	-	1,881	6,448
Disposals	-	-	-	-	(632)	(632)
Effect of movements in exchange rates	512	24	-	2	6	544
Balance at December 31, 2024	\$ 21,977	\$ 362	\$ -	\$ 30	\$ 4,307	\$ 26,676
Accumulated depreciation						
	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2022	\$ 6,665	\$ 3,572	\$ 181	\$ 3	\$ 1,074	\$ 11,495
Reclassifications (see note 6)	\$ -	\$ (3,772)	\$ (181)	\$ -	\$ -	\$ (3,953)
Depreciation for the period	1,826	267	-	4	583	2,680
Disposals	-	-	-	-	(294)	(294)
Effect of movements in exchange rates	11	1	-	-	(2)	10
Balance at December 31, 2023	\$ 8,502	\$ 68	\$ -	\$ 7	\$ 1,361	\$ 9,938
Depreciation for the period	2,218	35	-	5	720	2,978
Disposals	-	-	-	-	(632)	(632)
Effect of movements in exchange rates	247	6	-	1	3	257
Balance at December 31, 2024	\$ 10,967	\$ 109	\$ -	\$ 13	\$ 1,452	\$ 12,541

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Carrying amounts							Total
	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles		
At December 31, 2022	\$ 8,513	\$ 2,127	\$ -	\$ 7	\$ 1,776	\$	12,423
At December 31, 2023	\$ 8,396	\$ 270	\$ -	\$ 21	\$ 1,691	\$	10,378
At December 31, 2024	\$ 11,010	\$ 253	\$ -	\$ 17	\$ 2,855	\$	14,135

Depreciation of \$2,978 (2023 - \$2,680) was recorded in the consolidated statement of comprehensive income as follows: cost of sales \$801 (2023 - \$967) selling and distribution \$2,152 (2023 - \$1,700) and general and administrative \$25 (2023 - \$13).

Total Lease obligations:

	December 31, 2024	December 31, 2023
Total Leases	\$ 15,310	\$ 11,293
Less current portion due in the next 12 months	(3,317)	(2,435)
Non-current leases	\$ 11,993	\$ 8,858

The Group leases warehouse and factory facilities. These leases typically run for a period of 5 years with an option to renew the lease after that date. Lease payments generally are renegotiated every five years to reflect current market rates of office and production buildings.

The Group leases automobiles with a typical lease period of 3 years. The Company provides for a guaranteed residual value when the vehicle is turned in.

The Group's fleet trucks are generally leased for a five-year term after which they are turned in. The lease rates for the trucks are a fixed rate plus a variable charge per kilometer driven. The variable charge is excluded from the initial measurement of the lease liability and asset. The variable charge is expensed in the month it is incurred.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2024 were as follows:

Minimum lease payments due							After 5 Years	Total
	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years			
December 31, 2024								
Lease Payments	\$ 4,066	\$ 3,348	\$ 2,482	\$ 2,194	\$ 1,749	\$ 4,326		18,165
Finance Charge	(749)	(590)	(459)	(356)	(259)	(442)		(2,855)
Net Present Value	\$ 3,317	\$ 2,758	\$ 2,023	\$ 1,838	\$ 1,490	\$ 3,884		\$ 15,310
							After 5 Years	
	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years		Years	Total
December 31, 2023								
Lease Payments	\$ 2,930	\$ 2,914	\$ 2,107	\$ 1,293	\$ 1,030	\$ 2,812		\$ 13,086
Finance Charge	(495)	(385)	(282)	(209)	(161)	(261)		(1,793)
Net Present Value	\$ 2,435	\$ 2,529	\$ 1,825	\$ 1,084	\$ 869	\$ 2,551		\$ 11,293

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Lease payments not recognized as a liability:

The Group has elected not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

Year to date	December 31, 2024	December 31, 2023
Short Term leases	\$ 616	\$ 628
Variable lease payments	55	55
Total	\$ 671	\$ 683

9) Investment property:

The Group has a 50% ownership of a property in Georgetown, Ontario (referred to as the Glen Ewing Property), which is classified as an investment property under IAS 40. It is a vacant plot of land and currently under environmental remediation. The property value represents the actual historical cost of the property. The fair value of this property cannot be reliably determined due to the following reasons:

Market Inactivity: The property is situated in a region with limited market activity, resulting in a lack of comparable sales data.

Unique Characteristics: Due to the state of the environmental condition of the property it is difficult to compare with other properties in the area.

Given these factors, the Company has opted to carry the property at its historical cost of \$1,044. The Company will continue to monitor the market conditions and reassess the valuation of the property in future reporting periods.

No independent evaluation has been performed. The property is currently vacant, and no income is derived from it. The Company's direct operating expense in 2024 related to the property was \$92 (2023- \$78).

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10) Equity investment:

Since 2008, the Company has had 40% ownership of RITEC. All dividends paid since taking the 40% holding in 2008 have been reinvested in RITEC.

	2024	2023
Non-current Assets	\$ 259	\$ 223
Current Assets (including cash and cash equivalents)	3,183	4,847
Non-Current Liabilities	(515)	(492)
Current Liabilities (including non-current)	(1,083)	(2,628)
Net Assets (100%)	1,844	1,727
Percentage of Ownership	40%	40%
Group's Share of net assets (40%)	738	691
Dividend receivable	206	198
Foreign exchange impact	48	40
Carrying amount of interest in joint venture	992	929
Revenue	3,241	6,144
Cost of Sales	2,691	5,164
Selling Expenses	599	772
Net Profit	(49)	208
Loss on Exchange	(19)	(100)
Interest (and other Gains)	117	268
Income tax	(9)	(83)
Profit and total comprehensive income (100%)	40	293
Profit and total comprehensive income (40%)	16	117
Elimination of unrealised profit on downstream sales	94	(105)
Group's share of total comprehensive income	110	12
Dividends received by the Group	\$ -	\$ -

11) Bank indebtedness:

Bank indebtedness is due on demand and secured by inventories, a general assignment of trade receivables and a charge on specific assets of the Company. The Company has established operating lines for the entities in Canada, the US and the UK. The following chart depicts the amount utilized on each of the entities' lines of credit.

December 31, 2024				December 31, 2023			
	Local currency	CAD		Local currency	CAD		
Canadian entities	CAD \$	-	\$	-	\$	-	
UK entity	GBP	£ 157		£ 256		431	
Bank indebtedness			\$ 283			\$ 431	

Interest was payable at the rate of bank prime for all of 2023 and 2024.

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12) Long term debt:

	December 31, 2024	December 31, 2023
Demand term loan amortized over 25 years (expiring in Jan 2042) drawn in USD funds with a current fixed interest rate of 5.30% through November 2025 secured by the assets of HMCL. Monthly blended installments of 9 USD.	\$ 1,763	\$ 1,675
Demand term loan amortized over 25 years (expiring in Dec 2041) drawn in CAD funds with a current fixed interest rate of 5.20% through December 2026 secured by the assets of HMCL. Monthly blended	1,213	1,255
Demand term loan amortized over 25 years (expiring in Jan 2042) drawn in CAD funds with a current fixed interest rate of 4.10% through December 2026 secured by the assets of HMCL. Monthly blended installments of 43 CAD.	5,460	5,632
Demand term loan amortized over 7 years (expiring in Oct 2025) drawn in CAD funds with a current fixed interest rate of 4.43% through October 2025 secured by the assets of HMCL. Monthly blended installments of 71 CAD.	693	1,490
Demand term loan amortized over 7 years (expiring in Dec 2025) drawn in CAD funds with a current fixed interest rate of 4.00% through December 2025 secured by the assets of HMCL. Monthly blended installments of 26 CAD.	309	606
Demand term loan amortized over 7 years (expiring in Nov 2028) drawn in CAD funds with a current fixed interest rate of 3.85% through November 2028 secured by the assets of HMCL. Monthly blended installments of 77 CAD.	3,353	4,131
Demand term loan amortized over 7 years (expiring in May 2029) drawn in CAD funds with a current fixed interest rate of 6.50% through May 2029 secured by the assets of HMCL. Monthly blended installments of 64 CAD.	2,947	3,504
Demand term loan amortized over 25 years (expiring in Feb 2049) drawn in CAD funds with a current fixed interest rate of 6.25% through July 2028 secured by the assets of HMCL. Monthly blended installments of 170 CAD.	25,397	25,833
Interest free term loan of \$385 CAD made in 2015, \$1,150 CAD in 2016, \$958 CAD in 2017, \$624 CAD in 2018 and \$346 CAD in 2019 through the Federal Economic Development Agency for Southern Ontario. Repayment will be over 60 equal monthly installments ending Nov 2024. Value represents the present value of the stream of payments to repay utilizing a 5.2% discount factor.	-	601
Subtotal	\$ 41,135	\$ 44,727
Less current portion of long-term debt	36,238	38,428
Non-current long-term debt	\$ 4,897	\$ 6,299

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The following reflects the aggregate number of principal payments required to meet the existing long-term debt obligations in each of the next five years if the loans are not placed on demand:

2025	\$	4,869
2026		8,416
2027		2,082
2028		25,452
2029		316
Thereafter		-
	\$	41,135

13) Interest expense

	December 31, 2024	December 31, 2023
Long term debt interest	\$ 2,566	\$ 1,668
Bank indebtedness interest	249	880
Interest expense	\$ 2,815	\$ 2,548
Interest income earned on cash	(595)	(40)
Net Interest Expense	\$ 2,220	\$ 2,508
Interest expense leases	\$ 655	\$ 544
Total Interest and lease interest expense	\$ 2,875	\$ 3,052

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Lease Liabilities	Long-term debt	Bank indebtedness	Total
Balance at December 31, 2022	\$ 11,748	\$ 22,198	\$ 14,446	\$ 48,392
Changes from financing cash flows				
Proceeds from loans and borrowings	-	26,000	-	26,000
Repayment of lease liabilities	(2,681)	-	-	(2,681)
Repayment of borrowings	-	(3,429)	(14,015)	(17,444)
Total changes from financing cash flows	(2,681)	22,571	(14,015)	5,875
Liability related				
Interest earned on cash	-	-	(40)	(40)
Interest expense	544	1,668	880	3,092
Interest paid	(544)	(1,668)	(840)	(3,052)
Total liability-related other changes	-	-	-	-
Non-cash added liabilities	2,165	-	-	2,165
Foreign exchange impact	61	(42)	-	19
Balance at December 31, 2023	\$ 11,293	\$ 44,727	\$ 431	\$ 56,451

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	Lease Liabilities	Long-term debt	Bank indebtedness	Total
Balance at December 31, 2023	\$ 11,293	\$ 44,727	\$ 431	\$ 56,451
Changes from financing cash flows				
Proceeds from loans and borrowings	-	-	-	-
Repayment of lease liabilities	(2,757)	-	-	(2,757)
Repayment of borrowings	-	(3,741)	(193)	(3,934)
Total changes from financing cash flows	(2,757)	(3,741)	(193)	(6,691)
Liability related				
Interest earned on cash	-	-	(595)	(595)
Interest expense	655	2,566	249	3,470
Net Interest (paid) / received	(655)	(2,566)	346	(2,875)
Total liability-related other changes	-	-	-	-
Non-cash added liabilities	6,448	-	-	6,448
Foreign exchange impact	326	149	45	520
Balance at December 31, 2024	\$ 15,310	\$ 41,135	\$ 283	\$ 56,728

14) Trade and other payables:

	December 31, 2024	December 31, 2023
Trade payables	\$ 11,099	\$ 8,500
Non-trade payables and accrued expenses	15,287	16,315
	\$ 26,386	\$ 24,815

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

15) Provisions:

	Environmental remediation	Sales returns	Total
Balance at December 31, 2022	\$ 225	\$ 321	\$ 546
Provisions made during the period	57	5,199	5,256
Provisions used during the period	(57)	(5,120)	(5,177)
Balance at December 31, 2023	\$ 225	\$ 400	\$ 625
Provisions made during the period	51	5,077	5,128
Provisions used during the period	(51)	(5,057)	(5,108)
Balance at December 31, 2024	\$ 225	\$ 420	\$ 645
Non-current	145	-	145
Current	80	420	500
Balance at December 31, 2024	\$ 225	\$ 420	\$ 645

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Environmental Remediation

The Glen Ewing Property is 50% co-tenancy with Hammond Power Solutions Inc. (HPSI) of a vacant property located at 2 Glen Road, Georgetown. The soil has been contaminated by diesel oil, which is believed to be related to site operations of prior owners. The Company and HPSI, as co-tenants, have been working co-operatively with our environmental consultant, the Ministry of the Environment, Conservation and Parks ("MECP") and the adjacent property owner to contain and remove any free-flowing contaminants. The parties have cooperatively developed a remediation action plan to contain and remove any free-flowing contaminants and began remediation in October 2009. The MECP is aware of the remediation and the process being used. It does not include obtaining a record of site condition. The Company's estimate of the remaining portion of the environmental remediation costs for the October 2009 plan for this site is \$225 (2023 \$225) with \$80 (2023- \$80) presented as a current liability in the consolidated financial statements. The provision covers the next four years' activities.

In March 2024, the MECP performed an inspection of the Glen Ewing Property which resulted in the MECP recommending certain additional remedial actions: including further monitoring and implementation of systems to prevent migration of certain other contaminants. The MECP did not issue a formal regulatory order. However, a formal order may be issued if certain steps are not taken. The costs of the additional remedial actions are currently contingent on the completion of a feasibility study. However, the anticipated costs will be based on an external consultant's remediation plan and management's estimate, discounted for expected timing of expenditures. The cost of the initial feasibility study is estimated to be between \$50 - \$100 and shared with Hammond Power Solutions Incorporated.

Sales Returns

The provision for sales returns is based on estimates from historical returns of product. The provision reflects the estimated sales value of the anticipated returns.

16) Employee future benefits:

The Company's net obligation in respect of its current and long-term employee benefits is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The terms of the agreements do not require the Company to fund these obligations as they accumulate. The Company has accounted for these post-employment benefits as defined benefit plans. The benefit plans are broken into two categories:

a) Benefit for post-employment health benefits:

If an employee meets the set criteria and retires between the age of 60 and 65, their health plan will continue until age 65.

b) Disability health coverage:

This benefit is for employees who are off work due to a covered disability. Health coverage will continue until they are off disability or reach the age of 65, whichever occurs first.

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In determining both the post-employment health benefit and the disability health coverage liabilities a 3.5% (2023 – 3.5%) per annum health cost increase and a discount rate of 4.0% (2023 – 4.0%) were utilized to determine its present value.

Assumed healthcare cost trend rates affect the amounts recognized in profit and loss. A 1% change in assumed healthcare cost trend rates would increase (decrease) the aggregate service and interest costs by \$20 (2023 - \$25). Changes in assumptions resulted in nominal gains/losses which have been included in general and administrative expense.

	December 31, 2024	December 31, 2023
Post employment health benefits	\$ 45	\$ 73
Employee health benefits while on disability	405	400
Total employee future benefits	\$ 450	\$ 473

	Post employment health benefits	Employee health benefits while on disability	Total
Balance at December 31, 2022	\$ 60	\$ 340	\$ 400
Provisions made during the period	31	234	265
Provisions used during the period	(18)	(174)	(192)
Balance at December 31, 2023	\$ 73	\$ 400	\$ 473
Provisions made during the period	(3)	168	165
Provisions used during the period	(25)	(163)	(188)
Balance at December 31, 2024	\$ 45	\$ 405	\$ 450
Non-current	27	283	310
Current	18	122	140
Balance at December 31, 2024	\$ 45	\$ 405	\$ 450

17) Deferred tax assets and liabilities:

Unrecognized deferred tax liabilities:

At December 31, 2024, temporary differences of \$36,393 (2023 - \$30,502) related to investments in subsidiaries were not recognized because the Company controls whether liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Recognized deferred tax liabilities:

Deferred tax assets and liabilities are attributable to the following:

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	December 31, 2024	December 31, 2023
Deferred tax assets		
Investment property	\$ 8	\$ 8
Inventories	989	755
Loans and borrowings	2,376	1,943
Provisions	281	356
Other	-	-
Total deferred tax assets	3,654	3,062
Deferred tax liabilities		
Other	(28)	(23)
Loans and borrowings	-	-
Property, plant and equipment	(11,494)	(11,028)
Total deferred tax liabilities	(11,522)	(11,051)
Net deferred tax liabilities	\$ (7,868)	\$ (7,989)

18) Income tax expense:

	December 31, 2024	December 31, 2023
Current tax expense	\$ 6,291	\$ 3,430
Deferred tax expense:		
Origination and reversal of temporary differences	(143)	2,808
Total income tax expense	\$ 6,148	\$ 6,238

	2024	2023
Income before income tax	\$ 24,522	\$ 24,999
Income tax using the Company's domestic tax rate	26.50% 6,498	26.50% 6,625
Reduced rate for active business and manufacturing and processing	(310)	(319)
Effect of tax rates in foreign jurisdictions	(180)	(205)
Non-deductible expenses	81	34
Other	59	103
	25.1% \$ 6,148	24.95% \$ 6,238

19) Share capital:

a) Authorized:

Unlimited number of Class A subordinate voting shares, no par value.

Unlimited number of Class B common shares with four votes per share, convertible into Class A subordinate voting shares on a one-for-one basis, no par value. Annual dividends on the Class B common shares may not exceed the annual dividends on the Class A subordinate voting shares.

Unlimited number of Class YA non-voting, no par value, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YA shares unless the same dividend is simultaneously declared and paid on the Class YB shares.

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Unlimited number of Class YB non-voting, no par value, redeemable, retractable shares entitled to non-cumulative discretionary dividends. No dividends shall be declared or paid on the Class YB shares unless the same dividend is simultaneously declared and paid on the Class YA shares.

b) Issued:

	December 31, 2024	December 31, 2023
8,556,000 Class A shares (2023 - 8,556,000)	\$ 10,242	\$ 10,242
2,778,300 Class B shares (2023 - 2,778,300)	7	7
	\$ 10,249	\$ 10,249

No shares were issued in 2024 or in 2023.

c) Dividends:

The following dividends were declared and paid by the Company:

Cash dividends of \$0.06 per Class A subordinate voting share were declared and paid in 2024 (2023 – \$0.06) and cash dividends of \$0.06 per Class B common share were declared and paid in 2024 (2023 – \$0.06).

Total dividends declared and paid in 2024 were \$680 (2023 - \$680).

Subsequent to year end a cash dividend of \$0.03 Class A subordinate voting share was declared on March 4, 2025, and cash dividends of \$0.03 per Class B common share were declared on March 4, 2025. For a total declared value of \$340.

20) Commitments:

The Company has contractual obligations for outstanding capital expenditures of \$998 (2023 - \$395).

21) Contingency:

Currently there is nothing out of the normal course of business that requires additional contingencies.

22) Earnings per share:

The computations for basic and diluted earnings per share are as follows:

	December 31, 2024	December 31, 2023
Net income for the period	\$ 18,374	\$ 18,761
Average number of common shares outstanding:		
Basic and Diluted	11,334,300	11,334,300
Earnings per share:		
Basic	\$ 1.62	\$ 1.66
Diluted	1.62	1.66

No share options to purchase common shares were outstanding as at December 31, 2024 or December 31, 2023.

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(amounts (except share amounts) in thousands of Canadian dollars)

23) Personnel expenses:

	2024	2023
Wages and salaries	\$ 61,150	\$ 59,658
Health benefit plans	7,920	7,387
Canada Pension Plan and Employment Insurance	4,100	4,058
Contributions to defined contribution plans	2,122	2,026
	\$ 75,292	\$ 73,129

	2024	2023
Cost of sales	\$ 56,458	\$ 56,036
Selling and distribution	14,565	13,606
General and administrative	4,269	3,487
	\$ 75,292	\$ 73,129

24) Management share option plan:

As at December 31, 2024, the Company has a stock-based compensation plan, which is described below. No options were granted through December 31, 2024, or in 2023 and no stock options were outstanding as of January 1, 2023, and, accordingly, no stock-based compensation expense has been incurred in either year.

In 1986, the Company established the management share option plan providing for the granting to directors, officers and key employees of the Company options to purchase the Class A subordinate voting shares of the Company. A maximum number of 540,000 Class A subordinate voting shares are issuable under the plan. The exercise price for purchasing Class A subordinate voting shares may not be less than the market price of the Class A subordinate voting shares at the date the option is granted.

25) Determination of fair values:

The carrying values of the Group's financial assets and liabilities, consisting of cash, trade and other receivables, bank indebtedness, trade and other accounts payables approximate their fair values due to the relatively short periods to maturity of the instruments.

The fair values of financial assets and liabilities together with the carrying amounts shown in the statements of financial position are as follows:

	December 31, 2024		December 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized cost				
Cash	\$ 24,710	\$ 24,710	\$ 8,890	\$ 8,890
Trade and other receivables	32,491	32,491	30,856	30,856
	\$ 57,201	\$ 57,201	\$ 39,746	\$ 39,746
Liabilities carried at amortized cost				
Bank indebtedness	\$ 283	\$ 283	\$ 431	\$ 431
Trade and other payables	26,386	26,386	24,815	24,815
Term loans	41,135	42,109	44,727	44,418
	\$ 67,804	\$ 68,778	\$ 69,973	\$ 69,664

Term loans are considered level 2 in the fair value hierarchy.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

Interest rates used to discount estimated cash flows, when applicable, are based on bank indication rates for similar type arrangements.

Bank indication interest rates	December 31, 2024		December 31, 2023	
	From	To	From	To
Nonsecured variable interest rates	3.75%	5.00%	7.20%	8.20%
Fixed rates				
1 year secured	4.5%	5.5%	7.00%	7.80%
2 year secured	4.8%	5.5%	6.40%	7.25%
3 to 4 year secured	4.8%	5.5%	5.65%	6.80%
5 year secured	4.9%	5.7%	5.45%	6.60%
7 year secured	5.0%	5.8%	5.45%	6.60%
10 year secured	5.3%	5.9%	5.65%	6.80%

Rates fluctuate depending on currency and jurisdiction.

26) Financial instruments and risk management:

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk (b)
- liquidity risk (c)
- market risk (d)
- foreign currency risk (e)
- interest rate risk (f)
- operational risk (g)

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) Risk management framework:

The Board of Directors has overall responsibility for the oversight of the Group's risk management framework. The Board is responsible for monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by the corporate finance group. The corporate finance group undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

b) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The carrying amount of financial assets represents the maximum credit risk exposure.

Cash carries minimal credit risk since it is held in reputable financial institutions.

Trade and other receivables:

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the accounts receivable department, and future sales are made on a prepayment basis.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for doubtful accounts that represents its estimate of expected credit losses that could arise from the failure or inability of customers to make payments when due. This allowance is determined based on historical data of payment statistics for similar financial assets and historical credit losses, adjusted for forward looking factors, specific to the debtor and the economic environment.

The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services. The Company sells to a variety of companies in a number of different industries and geographic areas. As a result, the requirement for an industry specific or geographic reserve is minimal.

The carrying amount of financial assets represents the maximum credit exposure which was as follows at the reporting date:

	December 31, 2024	December 31, 2023
Cash and receivables:		
Cash	\$ 24,710	\$ 8,890
Trade and other receivables	32,491	30,856
	<u>\$ 57,201</u>	<u>\$ 39,746</u>

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

The maximum exposure to credit risk for cash and receivables at the reporting date by geographic region was:

	December 31, 2024	December 31, 2023
Cash and receivables:		
Canada	\$ 17,458	\$ 16,090
US	38,030	22,113
UK	1,567	1,412
Australia	146	131
	\$ 57,201	\$ 39,746

The following table reflects the net details of trade receivables as at December 31, 2024 and December 31, 2023:

	December 31, 2024			December 31, 2023		
	Gross	Impairment	Carrying value	Gross	Impairment	Carrying value
Aging of trade receivables:						
1 – 30 days	\$ 13,713	\$ -	\$ 13,713	\$ 15,127	\$ -	\$ 15,127
31 – 60 days	13,850	-	13,850	12,053	-	12,053
61 – 90 days	4,031	-	4,031	2,462	-	2,462
Over 90 days	564	(356)	208	1,253	(541)	712
Trade receivables	\$ 32,158	\$ (356)	\$ 31,802	\$ 30,895	\$ (541)	\$ 30,354

The following table provides the roll forward of the allowance for doubtful accounts:

	December 31, 2024	December 31, 2023
Allowance at beginning of year	\$ 541	\$ 409
Actual accounts written off	(68)	(130)
Increase (decrease) in Provision	(117)	262
Allowance at end of period	\$ 356	\$ 541

Allowance for doubtful accounts as % of net trade receivable

1.1% 1.8%

	December 31, 2024	December 31, 2023
Trade receivables	\$ 32,158	\$ 30,895
Employee receivables	4	15
Other receivables	685	487
	32,847	31,397
Estimated credit losses	(356)	(541)
Trade and other receivables	\$ 32,491	\$ 30,856

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

c) Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressful conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses planning tools to identify future cash flow requirements.

The Group has a \$30,000 (2023 – \$30,000) overdraft facility that is secured against inventory and accounts receivable. If drawn upon, interest would be payable at the rate of bank prime (2023 - bank prime). The Company had available unused credit facilities in the amount of \$30,000 at December 31, 2024 (2023 - \$30,000) to meet fluctuations in working capital requirements.

The Group has available a line of credit to finance new equipment purchases of which it has available \$10,000 (2023 - \$10,000).

In 2015, the Group successfully applied for and was approved by the Federal Economic Development Agency for Southern Ontario for an interest free loan up to \$3,462 on eligible spending. As at December 31, 2024, the Group received \$3,462 of this funding (2023 - \$3,462). The present value of this funding of \$2,646 was set up as long-term debt and \$815 which reflects the interest savings that have been offset to property, plant and equipment. Repayment of this loan was over five years and started in January of 2020. As at December 31, 2024 the present value of the funding is \$Nil (2023 – \$601).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements. It is not expected that the cash flows included in the maturity analysis will occur significantly earlier or at materially different amounts.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

December 31, 2024						
	Carrying amount	Contractual cash flows	2025	2026	2027 to 2028	Thereafter
Non-derivative financial liabilities						
Term loans	41,135	(48,200)	(42,879)	(1,692)	(3,308)	(321)
Lease obligations	15,310	(18,164)	(4,066)	(3,348)	(4,676)	(6,074)
Trade and other payables	26,386	(26,386)	(26,386)	-	-	-
Bank indebtedness	283	(283)	(283)	-	-	-
Total	83,114	(93,033)	(73,614)	(5,040)	(7,984)	(6,395)
December 31, 2023						
	Carrying amount	Contractual cash flows	2024	2025	2026 to 2027	Thereafter
Non-derivative financial liabilities						
Term loans	\$ 44,727	\$ (54,337)	\$ (47,324)	\$ (1,692)	\$ (3,385)	\$ (1,936)
Lease obligations	11,293	(13,086)	(2,930)	(2,914)	(3,400)	(3,842)
Trade and other payables	24,815	(24,815)	(24,815)	-	-	-
Bank indebtedness	431	(431)	(431)	-	-	-
Total	\$ 81,266	\$ (92,669)	\$ (75,500)	\$ (4,606)	\$ (6,785)	\$ (5,778)

d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

e) Foreign currency risk:

The Group has a substantial number of transactions denominated in US dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and US dollars. The Group holds smaller positions in other foreign currencies. The Group does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Group's operating results.

The following chart depicts the foreign currency positions.

Currency		Accounts receivable		Accounts payable	
		Dec 31, 2024	Dec 31, 2023	Dec 31, 2024	Dec 31, 2023
Australia	AUD	62	65	(29)	(18)
Europe	EURO	238	300	(27)	(53)
New Zealand	NZD	30	95	-	-
Taiwan	TWD	50	50	(617)	(4,375)
UK	GBP	424	400	(536)	(530)
US	USD	12,612	11,940	(4,380)	(5,118)

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

Currency		Long-term debt		Lease Liabilities	
		Dec 31, 2024	Dec 31, 2023	Dec 31, 2024	Dec 31, 2023
UK	GBP	-	-	(2,826)	(1,541)
US	USD	(1,225)	(1,267)	(330)	(556)

Long-term debt and lease liabilities denominated in foreign currencies may affect the amount of principal and interest payments ultimately recorded.

Sensitivity Analysis:

An average one-cent decrease of the Canadian dollar against the US dollar in 2024 would have increased net product sales by \$1,126 (2023 - \$1,078) and increased income from operations by \$1,235 (2023 - \$1,183). Inversely, a one cent increase in the Canadian dollar against the US dollar in 2024 would have had the equal but opposite effect. This analysis assumes that all other variables remain constant. As noted, the Company does deal in other currencies but the level of impact of these currencies would not be significant.

f) Interest rate risk:

Interest rate risk arises from the possibility that the cash flows related to a financial instrument fluctuate as a result of changes in market interest rates. The Group is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash, bank indebtedness, and its float rate term loans. Changes in variable interest rates could cause unanticipated fluctuations in the Group's operating results.

Sensitivity Analysis:

A one percent increase in the variable rates charged on ending 2024 bank indebtedness would increase annual interest expense by \$Nil (2023 - \$4). This analysis assumes that all other variables remain constant. Inversely, a one percent decrease in the variable rates charged on ending 2024 bank indebtedness would have had the equal but opposite effect.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

g) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Group's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance, when this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the corporate finance group. The results of the reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Capital management:

In order to manage capital, the Group regularly identifies and assesses risks that threaten the ability to meet the Company's capital management objectives and determines the appropriate strategy to mitigate these risks.

The Group's objectives when managing capital are to:

- maintain financial flexibility to preserve its ability to meet financial obligations
- deploy capital to provide an appropriate investment return to its shareholders
- maintain capital structure that allows multiple financing options to the Group should a financing need arise.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

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The Group defines its capital as follows:

- equity
- long-term debt, including the current portion
- cash and cash equivalents and short-term borrowings

The Group is subject to externally imposed capital requirements through the covenants of its facility arrangements with the bank. The covenants measure Debt to Total Net Worth and Debt Service Ratio. The Group is in compliance with its covenants at December 31, 2024 and has been in compliance with its covenants through 2023 and 2024. There were no changes to the Group's approach to capital management during 2024. Neither the Company, nor any of its subsidiaries, is subject to externally imposed capital requirements.

27) Segment disclosures:

The continuing operations of the Company are in one operating segment, electrical and electronic components.

The Company and its subsidiaries operate in Canada, the US, the UK and Australia.

Geographic segments	Year ended:	
	December 31, 2024	December 31, 2023
Net product sales:		
Canada:		
Sales to customers	\$ 78,882	\$ 80,643
US:		
Sales to customers	151,909	143,958
All other countries:		
Sales to customers	14,107	13,684
Net product sales	\$ 244,898	\$ 238,285
Non-current assets:		
Canada:		
Non-current assets	\$ 81,417	\$ 74,561
US:		
Non-current assets	1,592	1,923
All other countries:		
Non-current assets	5,695	3,067
Total	\$ 88,704	\$ 79,551

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

28) Related party transactions:

- a) Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management included:

	Years ended:	
	December 31, 2024	December 31, 2023
Salaries and short-term employee benefits	\$ 1,241	\$ 893
Dividend payouts to Key Management	271	247
Total Renumeration	1,512	1,140

- b) The Company purchased \$1,718 of products from RITEC in 2024 (2023 - \$4,474). The Company sold \$6 of products to RITEC in 2024 (2023 - \$3). These transactions were made in the normal course of business and have been recorded at the exchange amounts, being the amount agreed to by the two parties.

All outstanding trade balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured. Receivables as at December 31, 2024 were \$229 (2023 - \$140) while payables were Nil (2023 - \$45). Trade receivables and payables to related parties are included within trade and other receivables and trade and other payables on the Consolidated Statement of Financial Position.

- c) The Chairman of the Company, Robert Frederick Hammond, through direct and indirect ownership of Class A and Class B voting shares, effectively controls the Company.
- d) Consolidated entities:

HAMMOND MANUFACTURING COMPANY LIMITED			
	Country of incorporation	% Ownership interest	
		December 31, 2024	December 31, 2023
Les Fabrications Hammond (Quebec) Inc. / Hammond Manufacturing (Quebec) Inc.	Canada	100	100
Hammond Electronics Pty Limited	Australia	100	100
Hammond Electronics Limited	UK	100	100
Subsidiary of above:			
Hammond Electronics Asia Limited	Taiwan	100	100
Hammond Electronics B.V.	Netherlands	100	100
Hammond Manufacturing Company Inc.	US	100	100
Subsidiaries of above:			
Hammond Holdings Inc.	US	100	100
Paulding Electrical Products, Inc	US	100	100

The year end for each of the entities listed in the table above is December 31.

HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2024, and 2023

(amounts (except share amounts) in thousands of Canadian dollars)

29) Subsequent Events

On February 1, 2025, the President of the United States initiated executive orders to impose new tariffs on all imports originating from Canada, Mexico, and China. The order has been signed for an additional 25% duty on imports into United States of Canadian-origin and Mexico-origin products and a 10% duty on China-origin products. This excludes Canadian energy resources that are subject to an additional 10% duty. This decision was postponed until March 4th by The President.

In addition to the above there could be retaliatory tariffs or other trade protectionist measures. The company will assess the impact as details become available. At this time, an estimate of impact is not available as the final implementation amounts and impact of retaliatory amounts have not been finalized.

30) Reclassification

Certain reclassifications have been made to the comparative to align with the current presentation requirements.

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Through the Years

2023

Additional contractor product capacity added in Ontario



2019

85 YEARS MANUFACTURING RACKS & CABINETS SINCE 1934

Hammond Rack and Cabinet Division celebrates 85 years.



2017

Hammond Celebrates 100 Years in Business

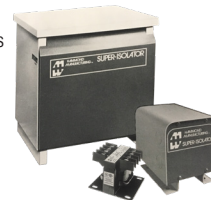


Guelph Operations Expands with an additional state-of-the-art Manufacturing Facility.



2016

Dry-Type Transformer Business split off under new company, Hammond Power Solutions. Shares of Hammond power solutions distributed as a separate public company



2000

Hammond goes Public on Toronto Stock Exchange



1986

Hammond expands to the UK opening in Basingstoke



1980's

Hammond Manufacturing re-branded to current identify



1976



1955

New Factory built on Speedvale/Edinburgh Road



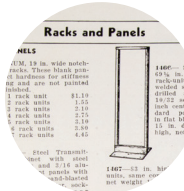
1950

Added NEMA Enclosures



1930

Transition into manufacture of Transformers, Wire Wound Resistors and Broadcast Racks/Cabinets



1927

Hammond O.S. & Son - built radios, amplifiers, and battery eliminators

Manufactured and Fully Guaranteed by
O.S. HAMMOND & SON
GUELPH, ONTARIO, CANADA

1917

Backyard Workshop - Charging batteries, installing antennas, custom machining





Corporate Directory

1-519-822-2960 (Canada) | 1-800-526-2266 (USA) | www.hammondmfg.com | [@hammondmfg](https://twitter.com/hammondmfg)

Directors

Robert F. Hammond
Chairman and CEO

*Edward Sehl
Principal - Sehl Consulting

*Paul Quigley
President - Quigley Group Inc.

Sheila Hammond B.A., B.Ed., M.Sc.
Registered Marriage & Family Therapist
Officer & Director, Eramosa Group Ltd.

*Michael Fricker
CFO at Sarku Japan
Director of Tippet Foundation
Director for Odd Burger Corporation

*Blaine Witt
Vice President – Senior Consultant of Witt Holding Company Inc.

Sarah Hansen
Western Regional Sales Manager at Hammond Manufacturing Canada Limited
Director of Eramosa Group Ltd.
Director of DKH Engineering Services Inc.

Officers / Senior Management

Robert F. Hammond
Chairman and CEO

Alexander Stirling
Secretary and Executive VP

Mike Hobbs
CFO

Ross N. Hammond
Assistant Secretary

Auditors

KPMG LLP
SHAW GIBBS Limited, UK
Australian Independent Audit Services

Legal Counsel

Borden Ladner Gervais

Transfer Agent and Registrar

Computershare Investor
Services Inc.

Stock Listing

Toronto Stock Exchange
Symbol: HMM.A

Bankers

Royal Bank of Canada (in Canada)
HSBC (Rest of World)

*Members of the Audit Committee and Compensation Committee

Head Office

Hammond
Manufacturing
394 Edinburgh Rd N,
Guelph, ON, N1H 1E5
P. (519) 822 2960
F. (519) 822 0715
ir@hammfg.com

Québec

Les Fabrications
Hammond
(Québec) Inc.
985 Rue Bergar,
Laval, QC, H7L 4Z6
P. (450) 975 1884
F. (450) 975 2098
sales@hammfg.com

USA

Hammond
Manufacturing
Company Inc.
475 Cayuga Rd,
Cheektowaga, NY
14225
P. (716) 630 7030
F. (716) 630 7042
sales@hammfg.com

Australia

Hammond
Electronics Pty. Ltd.
11-13 Port Rd,
Queenstown
SA 5014
P. +61 8 8240 2244
F. +61 8 8240 2255
australia@hammfg.com

United Kingdom

Hammond
Electronics Ltd.
1 Onslow Close,
Kingsland Business Park,
Basingstoke, Hampshire,
RG24 8QL, England
P. +44 1256 812812
F. +44 1256 332249
sales@hammond-electronics.co.uk