

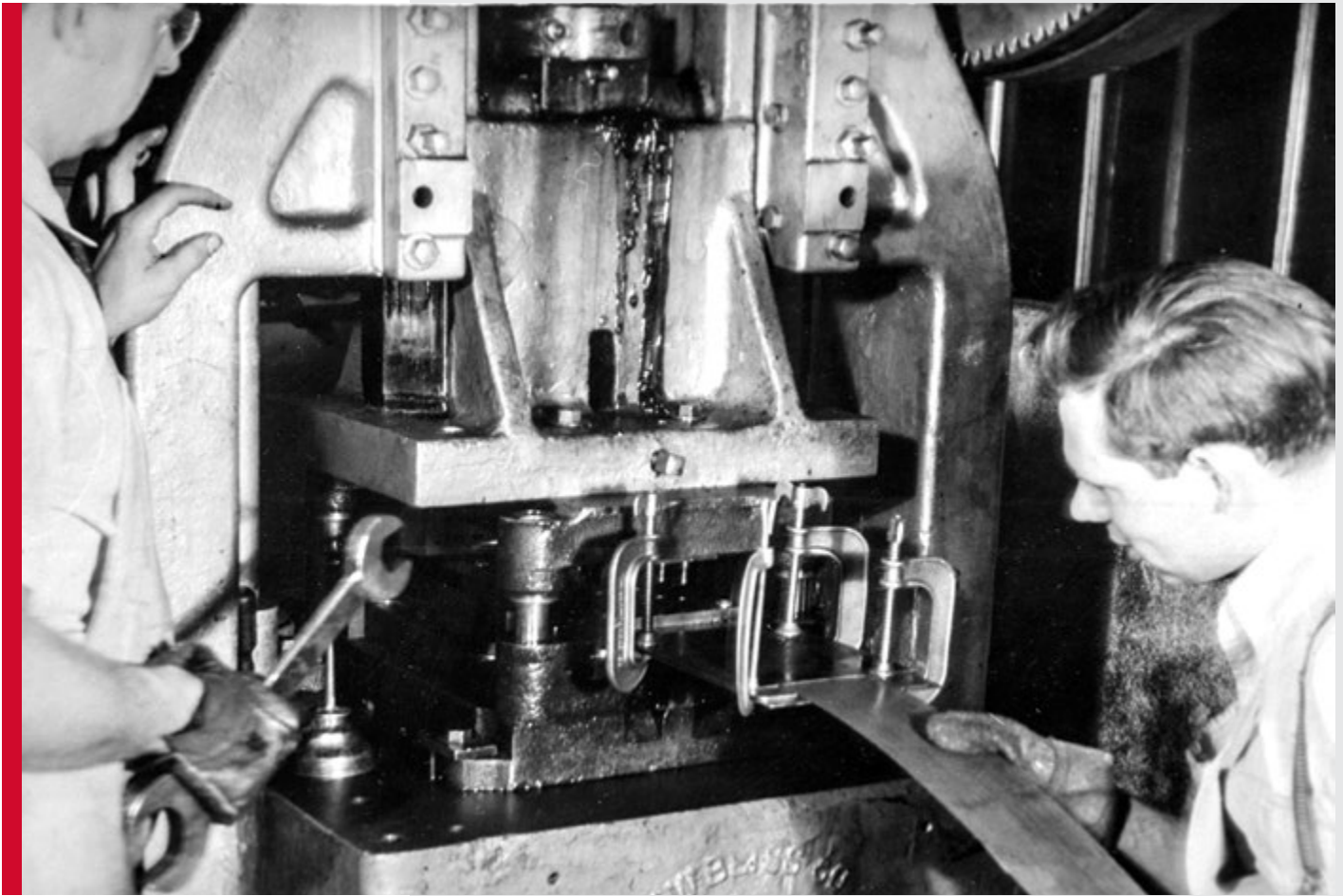


# 2020

## 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**

## **2020 Annual Report**

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# REPORT TO SHAREHOLDERS

Dear fellow shareholders, employees, and stakeholders:

We are pleased to report our 2020 results.

Business levels strengthened toward the end of the year and a number of exceptional events contributed to an unusually good quarterly profit.

The main contributor was a COVID-19 relief payment under the Canadian Emergency Wage Subsidy (CEWS) program of \$2,308,000. This related to our decision to avoid layoffs during the depths of the COVID-19 shutdowns and maintain full employment.

We continue to manage for growth during the COVID-19 situation. We are increasing employment and buying new equipment while operating with an aggressive protocol of COVID defense.

Our outlook for the quarters ahead are for continued growth in North American and European markets as the markets recover.

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

Sincerely,



Robert F. Hammond  
Chairman & CEO



Alex Stirling  
CFO

## ANNUAL MEETING

The meeting of the Shareholders will be held on  
April 26, 2021 at

Hammond Manufacturing Company Limited  
394 Edinburgh Rd North, 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, 2020. This discussion should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2020 and related notes. Additional information about the Company can be found on its website, [www.hammfg.com](http://www.hammfg.com), or through the SEDAR website at [www.sedar.com](http://www.sedar.com) which includes the Company’s Annual Information Form. The information contained herein is dated as of March 8, 2021.

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

**Advisory**—Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “project”, “predict”, “potential”, “could”, “might”, “should” and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements speak only to the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

# 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 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 sourcing of die cast and plastic enclosures. In 2019 the Company established an entity in the Netherlands that can serve as a European based company. The intent is to minimize any disruption to our European channels due to BREXIT. In October of 2020 the Company officially started utilizing this entity for business in Europe.

## OPERATIONS

Coronavirus (COVID-19) has taken the headlines for 2020. Operations at all our facilities had to react quickly at the onset of the Pandemic. Procedures, guidelines and physical changes all needed to be implemented timely to ensure our work places remained safe for our employees. It remains an ongoing process of review and adjustment as the situation continues to unfold. Our products are deemed essential so we were able to keep our doors open and production going. At the onset of the crisis we had a number of employees who had taken leave of absences in order to care for children or parents, out of precaution due to exposure to family members or in some cases just fear of the situation. In our main production facilities in Guelph we had experienced as high as a 20% reduction in work force due to COVID-19 related absences. For the most part most employees are all back at work at this time.

The Company applied for the Canadian Emergency Wage Subsidy (CEWS) to assist with the situation. At the time of this report the Company had received \$2,308,000 in federal assistance for the 2020 year. This year the Company has successfully renewed the employee association agreement until November 27, 2023 for our Guelph area work force.

Our facilities are all fully utilized and we continue with projects to stream line activities and improve efficiencies.

In October of 2019 our insurer of our Guelph area warehouse advised they would no longer cover this facility as it does not have a sprinkler system. The building is in an area without a municipal water supply and only has well water available which cannot be utilized for a sprinkler system. The insurance market for property coverage has become very tight and we were forced to go into special markets overseas to get coverage. The new coverage has added \$456,000 in additional annual insurance coverage. We have begun construction of a water tank system that would allow us to properly sprinkler the facility. The expected cost for this system for the facility is approximately \$1,100,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## QUARTERLY INFORMATION

### HAMMOND MANUFACTURING COMPANY LIMITED

#### Summary of Quarterly Financial Information

(In thousands of Canadian dollars except earnings per share)

|   | 2020     |          |          |          | Year-to-date |
|---|----------|----------|----------|----------|--------------|
|   | Q1       | Q2       | Q3       | Q4       | Total        |
| Net product sales                       | \$39,641 | \$34,137 | \$35,581 | \$38,864 | \$148,223    |
| Income from operating activities        | 2,284    | 2,604    | 1,314    | 5,480    | 11,682       |
| Net income for the period               | 570      | 1,810    | 921      | 4,423    | 7,724        |
| Earnings per share<br>- Basic & diluted | \$0.05   | \$0.16   | \$0.08   | \$0.39   | \$0.68       |

|   | 2019     |          |          |          | Year-to-date |
|---|----------|----------|----------|----------|--------------|
|   | Q1       | Q2       | Q3       | Q4       | Total        |
| Net product sales                       | \$38,056 | \$38,262 | \$37,229 | \$35,045 | \$148,592    |
| Income from operating activities        | 2,511    | 2,010    | 1,768    | 1,180    | 7,469        |
| Net income for the period               | 1,726    | 1,217    | 839      | 967      | 4,749        |
| Earnings per share<br>- Basic & diluted | \$0.15   | \$0.11   | \$0.07   | \$0.09   | \$0.42       |

Note: Interim consolidated financial information has not been reviewed by an auditor.

## FOURTH QUARTER RESULTS

### NET PRODUCT SALES

Overall a strong sales quarter as we returned to levels more in line with pre COVID activity. Net product sales for the three months ended December 31, 2020 were \$38,864,000, up 9.2% compared to net product sales of \$35,581,000 in the third quarter of 2020. North America, which comprises over 91% of sales, was up just over 9.2% in both the Canadian and the US markets. Our European sales were up 7% over the previous quarter and may have been helped by distributors bolstering their inventories before the BREXIT transition on January 1, 2021. The foreign exchange impact this quarter lowered sales by approximately \$197,000 as the Canadian dollar continued to strengthen against the USD. Days of available sales was up 1 day to 63 over last quarter that could add upwards of \$600,000 to sales although the holiday season does make this measurement a bit suspect.

Net product sales for the current quarter were up 10.9% compared to net product sales of \$35,045,000 for the three months ended December 31, 2019. The fourth quarter of 2019 was the lowest in 2019 by over \$2,000,000. This quarter was helped by having 63 sale days' vs 61 sale days in the fourth quarter of 2019. This could account for approximately \$1,200,000 of the additional \$3,819,000 in sales. Foreign exchange compared to the fourth quarter of 2019 also provided currency gain of \$272,000 while price increase are estimated to have a upside of \$350,000. The remaining \$2,408,000 is all from improved market conditions and more indicative of what we saw in the first three quarters of 2019.

### GROSS PROFIT

Gross profit of \$14,641,000 for the fourth quarter of 2020 was 37.7% of net sales compared to 29.8% in the third quarter of 2020. CEWS lowered reported production expenses in the fourth quarter by

## MANAGEMENT DISCUSSION AND ANALYSIS

\$1,850,000. This brings the comparative gross profit to 32.9%. This year some of our major distributors failed to attain their expected sales milestones for certain rebates. The release of the reserve for these had an impact on gross profit of approximately \$450,000 (or 1.2%). Shop floor production levels were up this quarter providing improved absorption levels that contributed approximately \$350,000 (or 0.9%) toward the improved gross profit. This year we experienced a pickup in our annual physical inventory that added approximately \$330,000 (or 0.8%) upside to the quarter. Spend relating to COVID-19 safety measures was approximately \$99,000 in this quarter. This cost does not reflect the countless hours of our team's time managing the situation.

Gross profits adjusted for CEWS of 32.9% are up from the fourth quarter of 2019 level of 31.1%. Foreign exchange provided an upside of approximately \$270,000 (or 0.7%) while the remainder of the difference can be attributed to the release of the rebate reserve noted above.

### SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE, RESEARCH AND DEVELOPMENT ("R&D") EXPENSES AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Fourth quarter selling and distribution, general and administrative, R&D expenses and loss on the disposal of property plant and equipment of \$9,161,000 was 23.6% of net sales for the three months ended December 31, 2020. This compared with spending of \$9,275,000 in the previous quarter that was 26.1% of net sales. Foreign exchange impact lowered expenses by approximately \$33,000 compared to last quarter. The fourth quarter of 2019 saw spending levels of \$9,730,000 which was 27.8% of net sales. Foreign exchange increased the expense levels approximately \$46,000 over this comparative period. The recognition of CEWS lowered expenses in this quarter by \$458,000 (or 1.2%).

Selling and distribution spending in the fourth quarter of 2020 was \$7,927,000 (20.4% of net product sales). The impact of CEWS was \$356,000 (or 0.9% of net product sales). The prior quarter spend was \$7,865,000 (or 22.4% of net product sales). Net product sales grew 9.2% while expenses only grew 5.1% with the CEWS impact removed. The fixed components of selling and distribution expenses account for the difference.

Selling and distribution spending in the fourth quarter of 2019 was \$8,085,000 (23.1% of net product sales). Despite sales being up 10.9%, selling and distribution expenses are only up 2.5%. The restrictions from COVID has reduced the fourth quarter spend of Marketing, Travel and Entertainment from a 2019 fourth quarter spend of \$991,000 to \$610,000 in the fourth quarter of 2020. Our insurance rates for our Canadian distribution center increased significantly in December of last year as the insurer cited the risk of not having a sprinkler system. The increased cost is approximately \$113,000 per quarter. The additional warehouse space added in the first quarter of this year has also added an additional \$93,000 per quarter.

General and administrative expenses of \$1,184,000 included \$90,000 upside from CEWS. Spend of \$1,274,000 before CEWS compares to the previous quarter's spending of \$1,281,000. Directors fees included the annual retainer of \$120,000 was paid but offset by a \$20,000 reduction in computer related hardware and \$53,000 lower legal and consulting fees.

In the fourth quarter of 2019 general and administrative expenses of \$1,550,000 included just over \$200,000 in severance expenses and \$32,000 of social benefits related to yearend holiday celebrations that did not take place in 2020.

This quarter includes Research and development spend of \$81,000 was down from the previous quarter spend of \$109,000. CEWS accounts for \$12,000 of this drop. The third quarter includes \$9,000 spend



## MANAGEMENT DISCUSSION AND ANALYSIS

on computer hardware and \$17,000 less spend on CSA approvals. Compared to the fourth quarter 2019 spend of \$64,000 this quarter was up \$29,000 excluding CEWS. Wages and benefits were up \$10,000, while CSA approval expenses were up \$14,000.

This quarter we had a net gain of \$31,000 on disposal of property, plant and equipment.

### INCOME FROM OPERATING ACTIVITIES

This quarter income from operating activities was \$5,480,000 (14.1% of net product sales), without CEWS it would have been \$3,173,000 (8.2% of net product sales). This is up from the prior quarter of \$1,314,000 (3.7% of net product sales) and up from the 2019 fourth quarter amount of \$1,180,000 (3.4% of net product sales).

### INTEREST

Fourth quarter interest expense on bank indebtedness and loans was \$225,000 compared to an expense of \$281,000 for the fourth quarter 2019. The comparative loan base has dropped throughout the year and is down just over \$3.4 million from the end on 2019 to 2020.

Interest expense is comprised as follows:

|  | Three Months Ended: |                   |
|--|---------------------|-------------------|
|  | December 31, 2020   | December 31, 2019 |
| Long Term debt, excluding capital finance leases | \$ 204              | \$ 209            |
| Bank indebtedness                                | 21                  | 72                |
| Interest expense                                 | \$ 225              | \$ 281            |
| Interest expense leases                          | \$ 215              | \$ 78             |
| Total Interest and Lease Interest expense        | \$ 440              | \$ 359            |

### FOREIGN EXCHANGE TRANSACTIONAL IMPACT

During the fourth quarter of 2020, the Company recognized a gain on transactional foreign exchange of \$897,000 compared to a gain of \$357,000 in the three months ended December 31, 2019. The spot rate at the opening of the fourth quarter of 2019 was 1.00 USD to 1.3249 CAD. The closing spot rate for 2019 was 1.00 USD to 1.2988 CAD. In 2020 the fourth quarter spot rate opened at 1.00 USD to 1.3396 and closed at 1.00 USD to 1.2732 CAD. The intercompany balance payable to our US entity accounts for approximately \$615,000 of the \$897,000 gain in the fourth quarter of 2020 compared to the intercompany impact gain of approximately \$185,000 in the fourth quarter of 2019. 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 would be part of the translational adjustment of the US entities balance sheet on consolidation.

### INCOME TAX EXPENSE

Fourth quarter taxes of \$1,439,000 is 24.5% of income before taxes. In 2019 the final true up for the year's activities combined with a low income before tax provided for tax expense of \$230,000 (19.2% of income before tax).

### NET INCOME FOR THE PERIOD

Net income of \$4,423,000 (11.4% return on net product sales) was recognized for the fourth quarter ended December 31, 2020. If we adjust for CEWS net income for the quarter would have been

## MANAGEMENT DISCUSSION AND ANALYSIS

\$2,115,000 (5.4% return on net product sales). This is up from a net return of \$921,000 (2.6% return on net product sales) in the previous quarter and up from the net return of \$967,000 (2.8% return on net product sales) recognized in the fourth quarter of 2019.

### FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

The translation adjustment for the fourth quarter of 2020 was a loss of \$1,040,000 compared to a translation loss of \$288,000 in the fourth quarter of 2019. The Canadian dollar strengthening against our foreign entity currencies provided a negative impact from foreign currency translation.

### TOTAL COMPREHENSIVE INCOME

Comprehensive income for the fourth quarter ended December 31, 2020 was \$3,383,000 (8.7% of net product sales) up from the 3 months ended December 31, 2019 of \$679,000 (1.9% of net product sales) and up from the previous quarters total comprehensive income of \$504,000 (1.4% of net product sales).

## FULL YEAR RESULTS

### NET PRODUCT SALES

Net product sales of \$148,223,000 in 2020 were flat compared to net sales of \$148,592,000 reported in 2019. Foreign exchange had a positive impact on the year over year reporting by approximately \$1,059,000 (0.7%). Pricing is estimated to have had a positive impact of roughly \$1,114,000 (0.8%), therefore sales were actually down 1.5% in constant dollars. 2020 started out strong but fell off in the second and third quarters, we are attributing this primarily to the fallout from COVID-19. The fourth quarter returned to sales levels more indicative of the levels seen before COVID-19 hit. Our Canadian market was down 4.7% while the US was up 2.9% (on a USD basis). Our European markets were down 11.9% with COVID-19 and BREXIT having a negative effect on sales levels in these markets.

### GROSS PROFIT

In 2020, gross profit was \$49,170,000 or 33.2% of net product sales compared to \$45,528,000 or 30.6% achieved in 2019. If we remove the impact of CEWS (\$1,850,000) the gross profit would be 31.9%. The positive impact of foreign exchange and cost reductions have helped increase the margins over 2019. Spend relating to COVID-19 safety measures this year is approximately \$277,000. This only reflects the direct expenses and not the time and effort put in by staff members to manage the situation.

### SELLING AND DISTRIBUTION, GENERAL AND ADMINISTRATIVE, RESEARCH AND DEVELOPMENT ("R&D") EXPENSES AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Selling and distribution, general and administrative, R&D expenses including the net impact of the disposal of property, plant and equipment of \$37,488,000 (25.3% of net product sales) was down 1.5% compared to the 2019 spend of \$38,059,000 (25.6% of net product sales). CEWS provided a cost reduction of \$458,000 (or 0.3% of net product sales). Foreign exchange had the impact of increasing the reported expense levels in 2020 by approximately \$178,000 compared to the cost base in 2019.

Selling and distribution expenses of \$31,907,000 decreased \$352,000 or 1.1% compared to 2019. CEWS accounts for \$356,000 of this reduction. Foreign exchange had the impact of increasing comparative costs by \$161,000. With the restrictions of COVID-19 we saw our marketing and advertising expenses drop by \$540,000 along with a decline in travel meals and entertainment declined by \$514,000. Representative commissions were also down \$130,000. These cost reductions were offset by the following cost increases. Wages and Salaries were up \$346,000. We took some additional warehousing space this year that increased or cost \$430,000 for the space and related expenses. IT

## MANAGEMENT DISCUSSION AND ANALYSIS

related expenses were up \$76,000 as we started to upgrade operating systems no longer supported. Buildings grounds and maintenance also saw an increase of \$76,000. The last notable increase in spending compared to 2019 comes from increased insurance expense on our main distribution warehouse. The increase of \$448,000 is driven by a requirement to now have a sprinkler system in this facility. The main issue is the facility is serviced by well water so we need to put in a water storage tank to feed the sprinkler system. We have assigned a contractor to put in a sprinkler system and it should be completed by late spring of 2021. At this time we should be able to negotiate our insurance rates back to a more reasonable level.

Our general and administrative expenses of \$5,216,000 were down \$270,000 or 4.9% compared to 2019 spending levels of \$5,486,000. CEWS accounts for \$90,000 of this reduction. Foreign exchange had the impact of increasing comparative costs by \$17,000. Wages and related expenses were up \$121,000 over 2019 and IT related expenses were up \$52,000 as we upgraded our operating systems. The following are the cost reductions compared to 2019. Severances were down \$149,000, legal and professional fees were down \$105,000. Recruitment fees were down \$26,000, bad debt expenses were down 36,000 and finally due to COVID-19 social function expenses were down \$36,000.

In 2020 the research and development spending level was up 20.4% to \$354,000 over 2019 spending levels. We were down an employee for the last three quarters of 2019 who was added back in 2020. This increased expenses by \$72,000 with a \$12,000 offset from CEWS.

This year we saw a net loss of \$11,000 on the disposal of property, plant and equipment. This compares to a net loss on disposals of \$20,000 recognized in 2019.

### INCOME FROM OPERATING ACTIVITIES

Overall, 2020 earnings from operating activities of \$11,682,000 (7.9% of net product sales). Adjusted for CEWS we are at 6.3% of net product sales which is up compared to 2019 earnings of \$7,469,000 (5.0% of net product sales).

### INTEREST

Interest expense on bank indebtedness and loans was \$886,000 compared to an expense of \$1,145,000 for 2019. The comparative loan base has dropped throughout the year and is down just over \$3.4 million from the end on 2019 to 2020.

The following is a breakdown of the interest expenses.

Interest expense is comprised as follows:

|  | December 31, 2020 |       | December 31, 2019 |       |
|--|-------------------|-------|-------------------|-------|
| Long Term debt, excluding capital finance leases | \$                | 747   | \$                | 794   |
| Bank indebtedness                                |                   | 139   |                   | 351   |
| Interest expense                                 | \$                | 886   | \$                | 1,145 |
| Interest expense leases                          | \$                | 737   | \$                | 605   |
| Total Interest and Lease Interest expense        | \$                | 1,623 | \$                | 1,750 |

### FOREIGN EXCHANGE TRANSACTIONAL IMPACT

A \$395,000 foreign exchange transactional gain was reported in 2020, compared to a transactional gain of \$626,000 in 2019. The Canadian dollar strengthened against the US dollar throughout 2019. It opened at \$1.00 USD to \$1.364 CAD and closed the year at \$1.00 USD to \$1.2988 CAD. In 2020 the trend

## MANAGEMENT DISCUSSION AND ANALYSIS

reversed and the Canadian dollar weakened against the US dollar right at the start of the year but then proceeded to strengthen throughout the year and closed at \$1.00 US dollar to 1.2732 CAD. A large portion of the gain is from our intercompany receivable. Our Canadian entity has a payable to our US entity in US dollars. The opening payable was \$7.4 million USD and the closing balance was \$10.6 million. This year it created transaction gain of approximately \$209,000 with the offset going to translational gains of other foreign operations.

### INCOME TAX EXPENSE

2020 tax expenses of \$2,575,000 were 25.0% of income before income tax. This compares to a 2019 tax expense of \$1,533,000 which was 24.4% of income before income tax.

### NET INCOME FOR THE YEAR

Net income for the year ended December 31, 2020 was \$7,724,000 (5.2% of net product sales) up 62.6% from the prior year net income of \$4,749,000 (3.2% of net product sales). This year's net income adjusted to remove the impact of CEWS (after tax impact is \$1,731,000) is \$5,993,000 (4.0% of net product sales).

### FOREIGN EXCHANGE TRANSLATION OF FOREIGN OPERATIONS

During 2020 a loss of \$459,000 on translational foreign exchange was recorded compared to a loss of \$966,000 in 2019. The strengthening Canadian dollar caused a decrease in the valuation of our foreign entities. As noted earlier a large part (approximately \$209,000) of this is offset by the foreign exchange transactional impact of intercompany loans.

### TOTAL COMPREHENSIVE INCOME

Comprehensive income for 2020 was \$7,265,000 (4.9% of net product sales) this was up from comprehensive income of \$3,783,000 (2.5% of net product sales) in 2019.

## SELECTED ANNUAL INFORMATION

### Three year financial summary:

For the years ended December 31,  
(In thousands except per share amounts)

| <b>Consolidated Statements of Comprehensive Income</b>         | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|-------------|
| Net product sales  | \$ 148,223  | \$ 148,592  | \$ 145,602  |
| Income from operating activities                               | 11,682      | 7,469       | 7,713       |
| Net income for the year  | 7,724       | 4,749       | 3,764       |
| Per share - basic & fully diluted<br>net earnings for the year | \$0.68      | \$0.42      | \$0.33      |

| <b>Consolidated Statement of Financial Position</b>    | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|-------------|
| Total assets   | \$ 120,255  | \$ 111,402  | \$ 100,813  |
| Total funded debt                                      | 35,715      | 36,565      | 31,210      |
| Working capital  | 28,018      | 20,532      | 20,152      |
| Net cash generated from (used in) operating activities | 15,689      | 11,707      | 1,354       |
| Dividends declared and paid                            | 453         | 454         | 452         |
| Shareholders' equity                                   | \$ 61,542   | \$ 54,730   | \$ 51,401   |

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL RESOURCES AND LIQUIDITY

Net cash generated in operating activities for 2020 was \$15,689,000 (net cash generated in 2019 - \$11,707,000). Cash flows from financing activities used \$7,548,000 (2019 - \$7,970,000). Cash used in investing activities was \$5,527,000 (2019 - \$2,840,000).

Trade and other receivables of \$20,541,000 as at December 31, 2020 have increased 7.5% compared to the 2019 year end. This includes a receivable for CEWS of \$2,308,000. Trade and other receivables excluding CEWS is \$18,233,000 which is down 4.6% compared to 2019 year end. Day's sales outstanding (DSO) (excluding CEWS) calculated as at December 31, 2020 was 44.3 compared to 52.4 days as calculated on December 31, 2019. This was unusual for our customer base as we received payments earlier than normal. We can only assume this was a function of year end and when offices were going to be closed. We have no reason to expect this level of DSO going forward and would expect it to return to the low 50's DSO level going forward. The quality of accounts receivable remains high.

The year-end investment in inventory of \$42,062,000 was an increase of 1.5% from the 2019 inventory value of \$41,426,000. Inventory turnover increased slightly to 2.4 from 2.5 (cost of sales divided by the twelve month average inventory level). Our value statement of having our standard product on our shelves combined with the increasing number of stock keeping units makes for a low turn ratio.

Trade and other liabilities increased by \$755,000, or 4.6% over 2019 to \$17,117,000. Total long-term debt, lease liabilities and bank indebtedness decreased by \$850,000 over the prior year to \$35,715,000. Our debt-to-equity ratio at year-end (excluding lease liabilities) was approximately 0.32:1 (2019 - 0.42:1). Debt-to-equity calculated inclusive of the lease liabilities was 0.58:1 (2019 - 0.67:1).

Total dividends paid in 2020 were \$453,000 (2019 - \$454,000).

Property, plant, equipment and intangible asset additions excluding right of use assets in 2020 were \$5,571,000 up from \$2,949,000 in 2019. The Company spent \$409,000 (2019 - \$201,000) on building and leasehold improvements. \$953,000 (2019 - \$324,000) was invested toward replacing machinery and equipment, \$3,443,000 (2019 - \$1,761,000) was invested toward machinery and equipment for capacity growth, \$639,000 (2019 - \$338,000) was invested in tooling, \$20,000 (2019 - \$244,000) was invested in office equipment. In 2020 we spent \$61,000 on computer hardware. \$19,000 (2019 - \$47,000) was spent on software and development costs. 2020 spending on product development of \$27,000 was down from \$34,000 in 2019.

The overall cash position increased by \$2,066,000 in 2020 compared to a cash position increase of \$94,000 in 2019. The unexpected improvement in DSO's created a surplus of cash on hand.

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 \$3,461,500 on eligible spending. As at December 31, 2020, the Group had received \$3,461,500 of this funding (2019 - \$3,461,500). In January of 2020 we began to pay this back over 5 years in \$58,000 even monthly installments.

The government funding noted above is contingent on adding new jobs and retaining existing jobs at our Guelph, Ontario locations. As at the time of this report the Group has met all the requirement and there are no further requirements to be met.

In January the Company leased an additional 37,000 square feet of warehouse space in Guelph. The facility is part of an existing leased facility so the lease term was set to match the existing lease and runs until March 31, 2027. The present value of the lease that was set up as a lease liability and Right-of-use asset was \$1,419,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

In the second quarter we successfully renewed the lease of several of our buildings comprising of approximately 65,620 sq. ft. The leases will run until December 31, 2025. The present value of the lease that was setup as a lease liability and Right-of-use asset was \$1,642,000.

In the fourth quarter we renewed the lease of several more of our buildings in Canada and the USA of approximately 60,539 sq. ft. These leases will run until April of 2026 and February of 2026. The present value of these leases that were setup as a lease liability and Right-of-use asset was \$1,533,000.

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

As at December 31, 2020 the contractual obligations showing demand loans as current was as follows.

| <b>Contractual obligations</b><br>(In thousands) | <b>Total</b> | <b>Current</b> | <b>1-2 Years</b> | <b>2-3 Years</b> | <b>3-4 Years</b> | <b>4-5 Years</b> | <b>After 5<br/>Years</b> |
|--|--------------|----------------|------------------|------------------|------------------|------------------|--------------------------|
| Long-term debt                                   | \$16,942     | \$15,086       | \$ 611           | \$ 644           | \$ 601           | \$ -             | \$ -                     |
| Lease Liabilities                                | 16,084       | 2,805          | 2,792            | 2,218            | 1,888            | 1,967            | 4,414                    |
| Total contractual obligations                    | \$33,026     | \$17,891       | \$ 3,403         | \$ 2,862         | \$ 2,489         | \$ 1,967         | \$ 4,414                 |

As at December 31, 2020 the contractual obligations based on repayment not being called early.

| <b>Contractual obligations</b><br>(In thousands) | <b>Total</b> | <b>Current</b> | <b>1-2 Years</b> | <b>2-3 Years</b> | <b>3-4 Years</b> | <b>4-5 Years</b> | <b>After 5<br/>Years</b> |
|--|--------------|----------------|------------------|------------------|------------------|------------------|--------------------------|
| Long-term debt                                   | \$16,942     | \$ 1,861       | \$ 1,900         | \$ 1,990         | \$ 7,423         | \$ 2,601         | \$ 1,167                 |
| Lease Liabilities                                | 16,084       | 2,805          | 2,792            | 2,218            | 1,888            | 1,967            | 4,414                    |
| Total contractual obligations                    | \$33,026     | \$ 4,666       | \$ 4,692         | \$ 4,208         | \$ 9,311         | \$ 4,568         | \$ 5,581                 |

In addition to the contractual obligations above, the Company has current obligations of \$3,585,000 (2019 - \$975,000) against open purchase orders for outstanding capital expenditures. The Company also has open purchase commitments with RITEC as at December 31, 2020 of \$1,241,000 (2019 - \$535,000). These expenditures should be completed in the first half of 2021.

## SHARE CAPITAL

As of March 8, 2021, 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 2020 was \$18,298,000. This showed improvement over EBITDA of \$14,202,000 achieved in 2019.

EBITDA adjusted for transactional impact of foreign exchange lowered the EBITDA in 2020 as it did in 2019. EBITDA and adjusted EBITDA is 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,<br>2020 | December 31,<br>2019 | December 31,<br>2020 | December 31,<br>2019 |
| Net income for the period     | 7,724                | 4,749                | 4,423                | 967                  |
| Add                           |                      |                      |                      |                      |
| Income tax expense            | 2,575                | 1,533                | 1,439                | 230                  |
| Depreciation and amortization | 3,540                | 3,533                | 925                  | 990                  |
| Right-of-use depreciation     | 2,836                | 2,537                | 740                  | 690                  |
| Finance costs on debt         | 996                  | 1,145                | 335                  | 281                  |
| Right-of-use finance costs    | 627                  | 605                  | 105                  | 78                   |
| Subtotal                      | 10,574               | 9,353                | 3,544                | 2,269                |
| EBITDA*                       | 18,298               | 14,102               | 7,967                | 3,236                |
| Add:                          |                      |                      |                      |                      |
| FX transactional loss (gain)  | (395)                | (626)                | (897)                | (357)                |
| Adjusted EBITDA *             | 17,903               | 13,476               | 7,070                | 2,879                |

\* 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 a 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 Environment and the adjacent property owner to contain and remove any free flowing contaminants. The Company's share of expense for legal and consulting work for 2020 related to this property was \$141,000 (2019 - \$119,000).

The parties started remediation of the site in October 2009. The Company has relied on its consultant's best estimate for the remaining environmental remediation costs. The remediation plans intent is to contain and collect any mobile pollutants. It does not include obtaining a record of site condition. The provision for this activity was increased by \$55,000 in 2020 based on the levels of product being removed from the ground. Our provision covers the next four years activities. The Company's remaining portion of environmental remediation costs for this site is \$225,000 (2019 - \$170,000) with \$80,000 (2019 - \$70,000) presented as a current liability in the consolidated financial statements.

A statement of claim was issued on June 19, 2013, against the Company with respect to a property once held by the Company. The claim alleges that contaminants originating from the property once owned by the Company have migrated to a nearby, but not adjoining property owned by the claimants. The amount of the claim is not fully known but includes \$3,500,000 which is the estimated cost of construction of a

## MANAGEMENT DISCUSSION AND ANALYSIS

barrier and related expenses. At this point in time, there is no certainty that the contaminants emanated from the property once owned by the Company. Furthermore, given the nature of the claim, there remains significant uncertainty as to any costs to be incurred as a result of the claim and accordingly management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these consolidated financial statements. The trial for this claim has been set down for September 2022. We have seen corresponding legal fees in 2019 and 2020.

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. The claim alleges that contaminants originating from our property have migrated to the adjoining property owned by the claimants. The amount of the claim is estimated at \$160,000 to \$670,000. Our records do not show any spills of chemicals at this location and management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these condensed 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 makes adjustments 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 past



## MANAGEMENT DISCUSSION AND ANALYSIS

experience of write-offs. Changes in the economic conditions in which the Company's customers operate and their underlying financial stability may impact these estimates.

v) Employee future benefits

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 makes adjustments 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 under IFRS 16:

For the purpose of valuing 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 asset 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 a liability for a claim meets the criteria of a present obligation and in assessing the probability of the outflow of economic resources.

### xiii) Leases under IFRS 16

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.

### xv) Intangible assets

Management exercises judgment to determine whether identifiable intangible assets were acquired in a business combination, separate from goodwill and whether they will provide future economic benefits to the Company.

## 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 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 in order 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

## MANAGEMENT DISCUSSION AND ANALYSIS

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 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, 2020 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, 2020.

There has been no change to internal controls in the most recent quarter ended on December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## RISKS AND UNCERTAINTIES

As with most businesses, the Company is subject to a number of 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;

## MANAGEMENT DISCUSSION AND ANALYSIS

- 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;
- Brexit;
- Trade restrictions;
- Labour costs and labour relations;
- Competition; and
- Global political unrest;
- Pandemics

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 Corporation 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 a number of 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.

### 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

## MANAGEMENT DISCUSSION AND ANALYSIS

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 \$696,000 for each cent movement. 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

Bank indebtedness makes up close to 11.8% of the Company's debt financing (excluding Right of use obligations). The rates for this financing are low but variable. The Company is cognizant that a rise in interest rates will negatively impact 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 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 market share.

### Global Political Unrest

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

BREXIT is currently playing out overseas. We have operations in the UK that service the UK and Europe. The landscape of doing business has changed as a result of the situation although no one can determine what the final result will look like. Management have set up and is utilizing a European company in the Netherlands so that we have representation within the European Union. Management is closely watching the situation and is looking at different options for doing business overseas as the situation evolves.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PANDEMICS

In 2020 a global pandemic started. The outbreak of the COVID-19 has disrupted our workforce, supply chains and the market place.

Our products are utilized in many essential services so we have been able to keep our operations going.

The first quarter sales activity did not see much impact from the outbreak as major actions only started in early March. We did see market activity drop in the second and third quarter and have attributed this to COVID-19's impact on markets. In the fourth quarter we did see sales activities increase back to pre-pandemic levels despite the ongoing situation. We do not have an estimate of a future market outlook as these are unprecedented times. We are hopeful the impact will be short and businesses will get back to a new normal before too long. We will take cost control measures to best mitigate the impacts.

We have engaged our supply chain from the onset of the pandemic warnings and to date we have not experienced any major disruption in production caused by COVID-19 related shortages.

We have adopted all the prescribed health and safety recommendations from Health Canada and have some employees working from home where possible.

Initially we had a number of employees who had taken leave of absences in order to care for children or parents, out of precaution due to exposure to family members or in some cases just fear of the situation. In our main production facilities in Guelph we had experienced as high as a 20% reduction in work force due to COVID-19 related absences. This was at the initial onset of the stay at home initiative. At this time most of our work force has returned with some still out with child care issues. We have been able to meet production demand with the utilization of overtime. As the bulk of our product is standard inventory we do have a buffer to work with. We promote all the recommended actions of Health Canada such as social distancing, a regiment of cleaning individual work stations and general work areas on a regular basis. We encourage employees who are not feeling well for any reason to stay at home until their symptoms clear. We have plans in place should an employee test positive with COVID-19.

Financially we are still in a stable condition. We have had customers request extended terms but have resisted at this time. We do have financing available if we are forced to stretch things for a short time.

We do have capital equipment on order with cash requirements of approximately \$3.6 million over the next three to six months.

We have applied for and subsequently received CEWS as this was available to the Company based on program criteria.

We continue to monitor the situation and adjust where needed to mitigate the negative impact created by the pandemic.

## ACCOUNTING POLICY CHANGES

### **Amendments to Hedge Accounting Requirements - IBOR Reform and its Effects on Financial Reporting (Phase 1)**

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, as well as the related Standard on disclosures, IFRS 7 Financial Instruments: Disclosures in relation to Phase 1 of IBOR Reform and its Effects on Financial Reporting project. The amendments were adopted on January 1, 2020. There was no material impact from the adoption of these amendments on the consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Amendments to References to the Conceptual Framework in IFRS Standards**

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. The amendments were adopted on January 1, 2020. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Definition of a Business (Amendments to IFRS 3)**

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments were adopted on January 1, 2020. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Definition of Material (Amendments to IAS 1 and IAS 8)**

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8.

The following amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. The amendments were adopted on January 1, 2020. Early adoption is permitted. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Covid-19-Related Rent Concessions (Amendment to IFRS 16)**

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16). The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications.

The amendments have been adopted and did not have an impact on the consolidated financial statements.

## **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.

## **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 July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period.

# MANAGEMENT DISCUSSION AND ANALYSIS

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted

## **Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)**

On May 14, 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)*. The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

## **Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)**

On May 14, 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous.

The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

## **Annual Improvements to IFRS Standards 2018–2020**

On May 14, 2020, the IASB issued *Annual Improvements to IFRS Standards 2018–2020*.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

### **IFRS 9 *Financial Instruments***

Clarifies which fees are included for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities.

### **IFRS 16 *Leases***

Removes the illustration of payments from the lessor relating to leasehold improvements.

The impact of adoption of these improvements is not expected to have an impact on the business.

## **Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments are effective for annual periods beginning on or after January 1, 2021. Earlier application is permitted. The impact of adoption of these amendments is not expected to have an impact on the business.

## **Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture**

On September 11, 2014 the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*. The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016,



## MANAGEMENT DISCUSSION AND ANALYSIS

however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. Adoption is still permitted. The impact of adoption of these amendments is not expected to have an impact on the business.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

### OUTLOOK FACTORS FOR 2021

Our current market expectation remains cautious. The coronavirus impact continues to play out with unknown consequences. The US dollar has weakened and this does lower the returns from our US markets as we continue to competitively price our products and stimulate market share growth.

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 on productivity and margin improvement.

## 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 International Financial Reporting 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 is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of three 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 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 black ink signature of R.F. Hammond, consisting of a large, stylized 'R' followed by a smaller 'F'.

Chairman & CEO

A. Stirling

A blue ink signature of A. Stirling, featuring a series of fluid, overlapping loops and strokes.

Secretary & CFO

Guelph, Ontario

March 8, 2021



KPMG LLP  
115 King Street South  
2nd Floor  
Waterloo ON N2J 5A3  
Canada  
Tel 519-747-8800  
Fax 519-747-8830

## INDEPENDENT AUDITORS' 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, 2020 and 2019
- 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 significant accounting policies

(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 December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### *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 "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' 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 Matter***

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, 2020. 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 auditors' 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 \$42,062 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 Entity 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 Entity's ability to accurately forecast demand by comparing the Entity's prior year expectations of forecasted demand to actual sales data, inventory usage, and publicly available industry outlook reports.

We performed sensitivity analyses over the forecasted demand to assess the impact on the Entity's determination of net realizable value.



### ***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 auditors' report thereon, included in a document likely to be entitled "Glossy 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 as at the date of this auditors' 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 auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### ***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 International Financial Reporting Standards (IFRS), 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.



### ***Auditors' 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 auditors' 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 auditors' 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 auditors' 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- 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 auditors' 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 auditors' 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 and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

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

Waterloo, Canada

March 8, 2021

# HAMMOND MANUFACTURING COMPANY LIMITED

## Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

| As at December 31,                          | Note    | 2020              | 2019              |
|---|---------|-------------------|-------------------|
| <b>Assets</b>                               |         |                   |                   |
| <b>Current assets:</b>                      |         |                   |                   |
| Cash  |         | \$ 2,785          | \$ 719            |
| Trade and other receivables                 | 4       | 20,541            | 19,107            |
| Inventories                                 | 5       | 42,062            | 41,426            |
| Prepaid expenses                            |         | 1,857             | 1,800             |
| <b>Total current assets</b>                 |         | <b>67,245</b>     | <b>63,052</b>     |
| <b>Non-current assets:</b>                  |         |                   |                   |
| Property, plant and equipment               | 6       | 33,637            | 31,712            |
| Intangible assets and goodwill              | 7       | 349               | 314               |
| Right-of-use assets                         | 8       | 17,116            | 14,434            |
| Investment property                         | 9       | 1,044             | 1,044             |
| Equity investment                           | 10      | 864               | 846               |
| <b>Total non-current assets</b>             |         | <b>53,010</b>     | <b>48,350</b>     |
| <b>Total assets</b>                         |         | <b>\$ 120,255</b> | <b>\$ 111,402</b> |
| <b>Liabilities</b>                          |         |                   |                   |
| <b>Current liabilities:</b>                 |         |                   |                   |
| Bank indebtedness                           | 11      | \$ 2,689          | \$ 4,393          |
| Trade and other payables                    | 14      | 17,117            | 16,362            |
| Income taxes payable                        |         | 1,303             | 181               |
| Current portion of provisions               | 15      | 164               | 145               |
| Current portion of employee future benefits | 16      | 63                | 73                |
| Current portion of long-term debt           | 12      | 15,086            | 18,640            |
| Current portion of lease liabilities        | 8       | 2,805             | 2,726             |
| <b>Total current liabilities</b>            |         | <b>39,227</b>     | <b>42,520</b>     |
| <b>Non-current liabilities:</b>             |         |                   |                   |
| Employee future benefits                    | 16      | 152               | 192               |
| Long-term debt                              | 12      | 1,856             | -                 |
| Lease liabilities                           | 8       | 13,279            | 10,806            |
| Provisions                                  | 15      | 145               | 100               |
| Deferred tax liabilities                    | 17      | 4,054             | 3,054             |
| <b>Total non-current liabilities</b>        |         | <b>19,486</b>     | <b>14,152</b>     |
| <b>Total liabilities</b>                    |         | <b>58,713</b>     | <b>56,672</b>     |
| <b>Equity:</b>                              |         |                   |                   |
| Share capital                               | 18      | 10,249            | 10,249            |
| Contributed surplus                         |         | 290               | 290               |
| Accumulated other comprehensive income      |         | 1,982             | 2,441             |
| Retained earnings                           |         | 49,021            | 41,750            |
| <b>Total equity</b>                         |         | <b>61,542</b>     | <b>54,730</b>     |
| Commitments                                 | 19      |                   |                   |
| Contingency                                 | 20 & 26 |                   |                   |
| <b>Total liabilities and equity</b>         |         | <b>\$ 120,255</b> | <b>\$ 111,402</b> |

The notes on pages 36 to 73 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 | 2020            | 2019            |
|---|------|-----------------|-----------------|
| Net product sales   |      | \$ 148,223      | \$ 148,592      |
| Cost of sales   |      | 99,053          | 103,064         |
| <b>Gross profit</b>   |      | <b>49,170</b>   | <b>45,528</b>   |
| Selling and distribution  |      | 31,907          | 32,259          |
| General and administrative  |      | 5,216           | 5,486           |
| Research and development  |      | 354             | 294             |
| Loss on disposal of property, plant and equipment                   |      | 11              | 20              |
| <b>Income from operating activities</b>                             |      | <b>11,682</b>   | <b>7,469</b>    |
| Interest expense  | 13   | (996)           | (1,145)         |
| Interest expense leases   | 13   | (627)           | (605)           |
| Foreign exchange gain (loss)  |      | 395             | 626             |
| <b>Net finance income (expense)</b>                                 |      | <b>(1,228)</b>  | <b>(1,124)</b>  |
| Share of profit (loss) of equity accounted investees                | 10   | (14)            | 56              |
| Share of expenses from investment property                          | 9    | (141)           | (119)           |
| <b>Income before income tax</b>                                     |      | <b>10,299</b>   | <b>6,282</b>    |
| Income tax expense  | 21   | 2,575           | 1,533           |
| <b>Net income for the period</b>                                    |      | <b>\$ 7,724</b> | <b>\$ 4,749</b> |
| Other comprehensive gain (loss):                                    |      |                 |                 |
| Foreign currency translation differences for foreign operations     |      | (459)           | (966)           |
| Other comprehensive income (loss) for the period, net of income tax |      | (459)           | (966)           |
| <b>Total comprehensive income for the period</b>                    |      | <b>\$ 7,265</b> | <b>\$ 3,783</b> |
| <b>Earnings per share</b>   |      |                 |                 |
| Basic earnings per share  | 22   | \$ 0.68         | \$ 0.42         |
| Diluted earnings per share  | 22   | \$ 0.68         | \$ 0.42         |

The notes on pages 36 to 73 are an integral part of these consolidated financial statements.

# HAMMOND MANUFACTURING COMPANY LIMITED

## Consolidated Statements of Changes in Equity

For the years December 31, 2020 and December 31, 2019

(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, 2019                             | \$ 10,249                                     | \$ 290              | \$ 3,407 | \$ 37,455         | \$ 51,401    |
| Net income for the year                                |   | -                   | -        | 4,749             | 4,749        |
| Other comprehensive loss:                              |   |                     |          |                   |              |
| Foreign currency translation differences               | -   | -                   | (966)    | -                 | (966)        |
| Total comprehensive income (loss) for the year         | -   | -                   | (966)    | 4,749             | 3,783        |
| Transactions with owners, recorded directly in equity: |   |                     |          |                   |              |
| Dividends to equity holders                            | -   | -                   | -        | (454)             | (454)        |
| Balance at December 31, 2019                           | \$ 10,249                                     | \$ 290              | \$ 2,441 | \$ 41,750         | \$ 54,730    |
| Balance at January 1, 2020                             | \$ 10,249                                     | \$ 290              | \$ 2,441 | \$ 41,750         | \$ 54,730    |
| Net income for the year                                |   | -                   | -        | 7,724             | 7,724        |
| Other comprehensive loss:                              |   |                     |          |                   |              |
| Foreign currency translation differences               | -   | -                   | (459)    | -                 | (459)        |
| Total comprehensive income (loss) for the year         | -   | -                   | (459)    | 7,724             | 7,265        |
| Transactions with owners, recorded directly in equity: |   |                     |          |                   |              |
| Dividends to equity holders                            | -   | -                   | -        | (453)             | (453)        |
| Balance at December 31, 2020                           | \$ 10,249                                     | \$ 290              | \$ 1,982 | \$ 49,021         | \$ 61,542    |

\*\* Accumulated other comprehensive income (loss)

The notes on pages 36 to 73 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,   | 2020           | 2019           |
|--|----------------|----------------|
| <b>Cash flows from operating activities</b>  |                |                |
| Net income for the year  | \$ 7,724       | \$ 4,749       |
| Adjustments for:   |                |                |
| Depreciation of property, plant and equipment  | 3,502          | 3,485          |
| Amortization of intangible assets  | 38             | 48             |
| Depreciation of leased assets  | 2,836          | 2,537          |
| Interest expense   | 996            | 1,145          |
| Interest expense on leases   | 627            | 605            |
| Income tax expense   | 2,575          | 1,533          |
| Loss on disposal of property, plant and equipment                                      | 11             | 20             |
| Provisions and employee future benefits  | 50             | 15             |
| Equity investments   | (18)           | (49)           |
|  | 18,341         | 14,088         |
| Change in non-cash working capital:  |                |                |
| Inventories  | (604)          | (1,395)        |
| Trade and other receivables  | (1,523)        | (436)          |
| Prepaid expenses   | (58)           | (495)          |
| Trade and other payables   | 775            | 764            |
| <b>Cash generated from operating activities</b>  | 16,931         | 12,526         |
| Interest paid  | (799)          | (996)          |
| Income tax paid  | (443)          | 177            |
| <b>Net cash generated (used) from operating activities</b>                             | <b>15,689</b>  | <b>11,707</b>  |
| <b>Cash flows from financing activities</b>  |                |                |
| Bank indebtedness  | (1,704)        | (3,202)        |
| Payment of long-term debt  | (1,861)        | (1,276)        |
| Payment of lease liabilities   | (3,530)        | (3,384)        |
| Advances of long-term debt   | -              | 346            |
| Payment of dividends   | (453)          | (454)          |
| <b>Net cash generated (used) from financing activities</b>                             | <b>(7,548)</b> | <b>(7,970)</b> |
| <b>Cash flows from investing activities</b>  |                |                |
| Proceeds from disposal of property, plant and equipment                                | 44             | 109            |
| Acquisition of property, plant and equipment   | (5,500)        | (2,868)        |
| Intangible asset additions   | (71)           | (81)           |
| <b>Net cash used in investing activities</b>   | <b>(5,527)</b> | <b>(2,840)</b> |
| <b>Net increase in cash</b>  | <b>2,614</b>   | <b>897</b>     |
| Cash at beginning of period  | 719            | 625            |
| <b>Foreign exchange gain (loss) on cash and cash equivalents in a foreign currency</b> | <b>(548)</b>   | <b>(803)</b>   |
| Cash at end of period  | \$ 2,785       | \$ 719         |

The notes on pages 36 to 73 are an integral part of these consolidated financial statements.

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

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

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## 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, 2020 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.

### b) COVID-19 Pandemic:

In early 2020, COVID-19 quickly spread in multiple countries and was declared a pandemic by the World Health Organization in Mid-March of 2020. The pandemic and resulting economic contraction made an impact in all markets. The Company's products are considered essential and we have not seen any significant decline in our market activity. The Company took quick action with our COVID-19 Global Task Force and Action Response Plan. Public and private sector regulations included setting policies, and other measures aimed at reducing the transmission of COVID-19, travel restrictions, the promotion of social distancing, and the adoption of work-from-home and online continuity plans by companies and various institutions. Globally, various governments have provided assistance to those affected including individuals and businesses through a number of taxation deferral, subsidy, and other relief programs. The full extent and impact of the COVID-19 pandemic is unknown and at this stage it is very difficult to project what will occur. Potential adverse impacts of the pandemic include, but are not limited to: the risk of material reduction in demand for our products, a delay in collection of accounts receivables which may lead to increased allowance provisions; the risk of suppliers and/or customers having financial difficulties up to and including entering restructuring proceedings, insolvency proceedings and/or ceasing operations, difficulties in delivering products to customers due to supply chain disruptions; and higher capital costs for servicing or paying debt as it comes due.

## 2) Basis of preparation:

### a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Board of Directors approved these consolidated financial statements on March 8, 2021.

### b) Basis of measurement:

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

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

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

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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. In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. Any resulting exchange differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. On consolidation, assets and liabilities of Group entities reported in their functional currencies are translated into the Canadian dollar, being the presentation currency, at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the months during which the transactions occurred. 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, Euro, Taiwan dollar and the Australian 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. We have made certain assumptions including expected forecasted 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 makes adjustments prospectively, where necessary.

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

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

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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 past experience of write-offs. Changes in the economic conditions in which the Company's customers operate and their underlying financial stability may impact these estimates.

v) Employee future benefits

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 makes adjustments 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.

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

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

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xi) Leases under IFRS 16:

For the purpose of valuing 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 asset at the end of the lease.

e) 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:

i) Provision for claims

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

ii) Leases under IFRS 16

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

iii) 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.

iv) Intangible assets

Management exercises judgment to determine whether identifiable intangible assets were acquired in a business combination, separate from goodwill and whether they will provide future economic benefits to the Company.

### 3) Summary of significant 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

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consolidated financial statements include the investment in RITEC, which is accounted for using the equity method.

b) Revenue recognition:

The Company determines revenue recognition through the following steps: a) identification of the contract with a customer, b) identification of the performance obligations in the contract, c) determination of the transaction price, d) allocation of the transaction price to the performance obligations in the contract and e) recognition of revenue when the Company satisfies a performance obligation.

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 valued 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.

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 asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs



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directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Depreciation is provided on components that have homogenous useful lives by using the straight-line method or unit of production method so as to depreciate the initial cost down to the residual value over the estimated useful lives.

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

| Asset                   | Rate                             |
|-------------------------|----------------------------------|
| Buildings               | 2.5% - 5%                        |
| Office equipment        | 10% - 25%                        |
| Machinery and equipment | 10% - 25%                        |
| Tooling general use     | 10% - 25%                        |
| Tooling specific part   | Based on anticipated life 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 have been externally acquired. 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             | Rate |
|-------------------|------|
| Computer software | 20%  |
| Development costs | 20%  |

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

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

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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's determination of significant influence is based on consideration of voting interest in the investees along with other indicators such as representation on the board of directors, participation in policy-making processes, material intercompany transactions, interchange of managerial personnel or provision of technical information. The Company uses the equity method to account for its 40% interest in RITEC.

h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, 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) Goodwill:

Acquisitions are accounted for using the acquisition method required by IFRS 3. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amount allocated to the identifiable assets acquired less liabilities assumed based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's CGUs that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least annually and upon the occurrence of an indication of impairment.

j) 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. Environmental provisions consider the present value of the anticipated clean-up costs.

k) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number

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of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

l) 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 assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

m) 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.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

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

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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. Usually, the cash flows correspond to estimates made by Group management in financial and strategic business plans covering a period of five years. They are then projected beyond five years using a steady or declining growth rate given that the Group businesses are of a long-term nature. The discount rate used approximates the Company's weighted average cost of capital. The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates exclude inflation. An impairment loss in respect of goodwill is never subsequently reversed. The Group completed its annual impairment test at December 31, 2020 and December 31, 2019, and concluded there was no impairment.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset is allocated.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

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n) Employee Benefits:

i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into 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 in future payments is available.

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.

v) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes. Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity

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instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

o) Segment reporting:

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

p) Finance costs:

Finance costs consist of interest on borrowings and finance leases.

q) 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 attached conditions.

Government grants in respect of capital expenditures are credited to the carrying amount of the related asset 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 so as to net them against the expense to which they relate.

r) Leases:

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

As a Lessee:

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

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

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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 the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payment in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

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.

s) New standards and interpretations adopted:

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

**Amendments to Hedge Accounting Requirements - IBOR Reform and its Effects on Financial Reporting (Phase 1)**

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, as well as the related Standard on disclosures, IFRS 7 Financial Instruments: Disclosures in relation to Phase 1 of IBOR Reform and its Effects on Financial Reporting project.

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The amendments were adopted on January 1, 2020. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Amendments to References to the Conceptual Framework in IFRS Standards**

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. The amendments were adopted on January 1, 2020. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Definition of a Business (Amendments to IFRS 3)**

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments were adopted on January 1, 2020. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Definition of Material (Amendments to IAS 1 and IAS 8)**

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8.

The following amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. The amendments were adopted on January 1, 2020. Early adoption is permitted. There was no material impact from the adoption of these amendments on the consolidated financial statements.

## **Covid-19-Related Rent Concessions (Amendment to IFRS 16)**

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16). The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications.

The amendments have been adopted and did not have an impact on the consolidated financial statements.

### **t) New standards and interpretations not yet adopted:**

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 on the Group's financial statements.

## **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 July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments



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removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead such a right must have substance and exist at the end of the reporting period.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted

## **Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)**

On May 14, 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)*. The amendments clarify that proceeds from selling items before the related item of Property, Plant and Equipment is available for use should be recognised in profit or loss, together with the cost of producing those items.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

## **Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)**

On May 14, 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. This amendment clarifies which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous.

The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

## **Annual Improvements to IFRS Standards 2018–2020**

On May 14, 2020, the IASB issued *Annual Improvements to IFRS Standards 2018–2020*.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

### **IFRS 9 *Financial Instruments***

Clarifies which fees are included for the purpose of performing the ‘10 per cent test’ for derecognition of financial liabilities.

### **IFRS 16 *Leases***

Removes the illustration of payments from the lessor relating to leasehold improvements.

The impact of adoption of these improvements is not expected to have an impact on the business.

## **Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments are effective for annual periods beginning on or after January 1, 2021. Earlier application is permitted. The impact of adoption of these amendments is not expected to have an impact on the business.

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## Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

On September 11, 2014 the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*. The amendments were to be applied prospectively for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. Adoption is still permitted. The impact of adoption of these amendments is not expected to have an impact on the business.

### 4) Trade and other receivables:

|                             | December 31, 2020 | December 31, 2019 |
|-----------------------------|-------------------|-------------------|
| Trade receivables           | \$ 17,707         | \$ 18,609         |
| Employee receivables        | 18                | 27                |
| Other receivables           | 2,987             | 696               |
|                             | 20,712            | 19,332            |
| Estimated credit losses     | (171)             | (225)             |
| Trade and other receivables | \$ 20,541         | \$ 19,107         |

Other receivables in 2020 includes \$2,308,000 from the Canada Emergency Wage Subsidy ("CEWS") grant. See note 23.

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, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Raw materials and work-in-process           | \$ 12,632         | \$ 12,052         |
| Finished goods                              | 29,430            | 29,374            |
| Inventories                                 | \$ 42,062         | \$ 41,426         |
| Inventories carried at net realizable value | \$ 1,803          | \$ 1,344          |

In 2020, raw materials, consumables and changes in finished goods and work in progress recognized as cost of sales amounted to approximately \$98,753,000 (2019 - \$102,954,000). In 2020, the write-down of inventories to net realizable value net of recovery was \$300,000 (2019 - \$110,000).

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## 6) Property, plant and equipment:

| <b>Cost</b>                           |                       |                               |           |                     |           |
|---------------------------------------|-----------------------|-------------------------------|-----------|---------------------|-----------|
|                                       | Land and<br>buildings | Machinery<br>and<br>equipment | Tooling   | Office<br>equipment | Total     |
| Balance at December 31, 2018          | \$ 21,964             | \$ 51,242                     | \$ 10,493 | \$ 5,621            | \$ 89,320 |
| Reclass on Adoption of IFRS 16        | -                     | (5,834)                       | (221)     | -                   | (6,055)   |
| Additions                             | 201                   | 2,085                         | 338       | 244                 | 2,868     |
| Disposals                             | (33)                  | (1,129)                       | (94)      | (3,478)             | (4,734)   |
| Effect of movements in exchange rates | (2)                   | (107)                         | (78)      | (12)                | (199)     |
| Balance at December 31, 2019          | \$ 22,130             | \$ 46,257                     | \$ 10,438 | \$ 2,375            | \$ 81,200 |
| Additions                             | \$ 273                | \$ 4,412                      | \$ 759    | \$ 56               | \$ 5,500  |
| Disposals                             | (41)                  | (1,192)                       | (70)      | (6)                 | (1,309)   |
| Effect of movements in exchange rates | 1                     | (13)                          | (18)      | (2)                 | (32)      |
| Balance at December 31, 2020          | \$ 22,363             | \$ 49,464                     | \$ 11,109 | \$ 2,423            | \$ 85,359 |

At December 31, 2020, the amount of expenditures recognized in the carrying amount that were in the course of construction was \$47,785 (2019 - \$9,266) in land and buildings, \$601,396 (2019 - \$241,388) in machinery and equipment, \$162,599 (2019 - \$51,395) in tooling and \$60,016 (2019 - \$36,671) in office equipment.

## Accumulated depreciation

|                                       | Land and<br>buildings | Machinery<br>and<br>equipment | Tooling  | Office<br>equipment | Total     |
|---------------------------------------|-----------------------|-------------------------------|----------|---------------------|-----------|
| Balance at December 31, 2018          | \$ 6,687              | \$ 32,978                     | \$ 7,623 | \$ 4,973            | \$ 52,261 |
| Reclass on Adoption of IFRS 16        | -                     | (1,373)                       | (125)    | -                   | (1,498)   |
| Depreciation for the period           | 712                   | 2,236                         | 351      | 186                 | 3,485     |
| Disposals                             | (33)                  | (1,007)                       | (87)     | (3,478)             | (4,605)   |
| Effect of movements in exchange rates | (2)                   | (78)                          | (67)     | (8)                 | (155)     |
| Balance at December 31, 2019          | \$ 7,364              | \$ 32,756                     | \$ 7,695 | \$ 1,673            | \$ 49,488 |
| Depreciation for the period           | \$ 718                | \$ 2,263                      | \$ 317   | \$ 204              | \$ 3,502  |
| Disposals                             | (41)                  | (1,114)                       | (70)     | (6)                 | (1,231)   |
| Effect of movements in exchange rates | 1                     | (23)                          | (14)     | (1)                 | (37)      |
| Balance at December 31, 2020          | \$ 8,042              | \$ 33,882                     | \$ 7,928 | \$ 1,870            | \$ 51,722 |

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

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## Carrying amounts

|                      | Land and<br>buildings | Machinery<br>and<br>equipment | Tooling  | Office<br>equipment | Total     |
|----------------------|-----------------------|-------------------------------|----------|---------------------|-----------|
| At December 31, 2018 | \$ 15,277             | \$ 18,264                     | \$ 2,870 | \$ 648              | \$ 37,059 |
| At December 31, 2019 | \$ 14,766             | \$ 13,501                     | \$ 2,743 | \$ 702              | \$ 31,712 |
| At December 31, 2020 | \$ 14,321             | \$ 15,582                     | \$ 3,181 | \$ 553              | \$ 33,637 |

Depreciation of \$3,502,000 (2019 - \$3,485,000) was recorded in the consolidated statement of comprehensive income (loss) as follows: cost of sales \$3,144,000 (2019 - \$3,153,000), selling and distribution \$193,000 (2019 - \$153,000) and general and administrative \$165,000 (2019 - \$179,000).

## 7) Intangible assets and goodwill:

### Cost

|                                      | Goodwill | Computer<br>software | Development<br>costs | Total    |
|--------------------------------------|----------|----------------------|----------------------|----------|
| Balance at December 31, 2018         | \$ 116   | \$ 2,127             | \$ 300               | \$ 2,543 |
| Additions                            | -        | 47                   | 34                   | 81       |
| Disposal                             | -        | (1,187)              | -                    | (1,187)  |
| Effect of movement in exchange rates | (2)      | (4)                  | -                    | (6)      |
| Balance at December 31, 2019         | \$ 114   | \$ 983               | \$ 334               | \$ 1,431 |
| Additions                            | \$ -     | \$ 44                | \$ 27                | \$ 71    |
| Disposal                             | -        | (16)                 | -                    | (16)     |
| Effect of movement in exchange rates | 2        | (1)                  | -                    | 1        |
| Balance at December 31, 2020         | \$ 116   | \$ 1,010             | \$ 361               | \$ 1,487 |

### Amortization

|                                      | Goodwill | Computer<br>software | Development<br>costs | Total    |
|--------------------------------------|----------|----------------------|----------------------|----------|
| Balance at December 31, 2018         | \$ -     | \$ 2,039             | \$ 220               | \$ 2,259 |
| Amortization for the period          | -        | 16                   | 32                   | 48       |
| Disposal                             | -        | (1,187)              | -                    | (1,187)  |
| Effect of movement in exchange rates | -        | (3)                  | -                    | (3)      |
| Balance at December 31, 2019         | \$ -     | \$ 865               | \$ 252               | \$ 1,117 |
| Amortization for the period          | \$ -     | \$ 11                | \$ 27                | \$ 38    |
| Disposal                             | -        | (16)                 | -                    | (16)     |
| Effect of movement in exchange rates | -        | (1)                  | -                    | (1)      |
| Balance at December 31, 2020         | \$ -     | \$ 859               | \$ 279               | \$ 1,138 |

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## Carrying amounts

|                      | Goodwill | Computer software | Development costs | Total  |
|----------------------|----------|-------------------|-------------------|--------|
| At December 31, 2018 | \$ 116   | \$ 88             | \$ 80             | \$ 284 |
| At December 31, 2019 | \$ 114   | \$ 118            | \$ 82             | \$ 314 |
| At December 31, 2020 | \$ 116   | \$ 151            | \$ 82             | \$ 349 |

All the intangible assets have been externally acquired. Amortization expense of \$38,000 (2019 - \$48,000) was recorded in the consolidated statement of comprehensive income (loss) as follows: cost of sales \$4,000 (2019 - \$36,000), selling and distribution \$7,000 (2019 - \$nil) and general and administrative \$27,000 (2019 - \$12,000).

Impairment testing for CGUs:

The Company has defined its CGUs as each individual legal entity, due to the fact that 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 of each legal entity through the use of profitability analysis based on the most recent business plan in place as at December 31, 2020.

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 the Hammond Electronics Limited weighted average pre-tax cost of capital of 9.0%. 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, 2020 and December 31, 2019, the assets, including goodwill of \$116,000 (2019 - \$114,000), of the Company's wholly owned subsidiary, Hammond Electronics Limited, were tested and no impairment was found.

## 8) Leases:

### Right-of-use assets

|                                       | Buildings | Machinery and equipment | Tooling | Office equipment | Trucks and Vehicles | Total     |
|---------------------------------------|-----------|-------------------------|---------|------------------|---------------------|-----------|
| Balance at December 31, 2018          | \$ -      | \$ -                    | \$ -    | \$ -             | \$ -                | \$ -      |
| Reclass on Adoption of IFRS 16        | \$ -      | \$ 5,834                | \$ 221  | \$ -             | \$ -                | \$ 6,055  |
| IFRS 16 Transition January 1, 2019    | \$ 6,997  | \$ 58                   | \$ -    | \$ 76            | \$ 873              | \$ 8,004  |
| Additions                             | 3,659     | 236                     | -       | -                | 587                 | 4,482     |
| Effect of movements in exchange rates | (74)      | 8                       | -       | -                | (2)                 | (68)      |
| Balance at December 31, 2019          | \$ 10,582 | \$ 6,136                | \$ 221  | \$ 76            | \$ 1,458            | \$ 18,473 |
| Additions for the period              | \$ 4,751  | \$ -                    | \$ -    | \$ 19            | \$ 765              | \$ 5,535  |
| Disposals                             | -         | -                       | -       | -                | (332)               | (332)     |
| Effect of movements in exchange rates | (30)      | 6                       | -       | -                | (3)                 | (27)      |
| Balance at December 31, 2020          | \$ 15,303 | \$ 6,142                | \$ 221  | \$ 95            | \$ 1,888            | \$ 23,649 |

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| <b>Accumulated depreciation</b>       |           |                         |         |                  |                     |          |
|---------------------------------------|-----------|-------------------------|---------|------------------|---------------------|----------|
|                                       | Buildings | Machinery and equipment | Tooling | Office equipment | Trucks and Vehicles | Total    |
| Balance at December 31, 2018          | \$ -      | \$ -                    | \$ -    | \$ -             | \$ -                | \$ -     |
| Reclass on Adoption of IFRS 16        | -         | 1,373                   | 125     | -                | -                   | 1,498    |
| Depreciation for the period           | 1,476     | 526                     | 45      | 43               | 447                 | 2,537    |
| Effect of movements in exchange rates | 3         | 1                       | -       | -                | -                   | 4        |
| Balance at December 31, 2019          | \$ 1,479  | \$ 1,900                | \$ 170  | \$ 43            | \$ 447              | \$ 4,039 |
| Depreciation for the period           | \$ 1,734  | \$ 541                  | \$ 46   | \$ 42            | \$ 473              | \$ 2,836 |
| Disposals                             | -         | -                       | -       | -                | (332)               | (332)    |
| Effect of movements in exchange rates | (11)      | 2                       | -       | -                | (1)                 | (10)     |
| Balance at December 31, 2020          | \$ 3,202  | \$ 2,443                | \$ 216  | \$ 85            | \$ 587              | \$ 6,533 |

| <b>Carrying amounts</b> |           |                         |         |                  |                     |           |
|-------------------------|-----------|-------------------------|---------|------------------|---------------------|-----------|
|                         | Buildings | Machinery and equipment | Tooling | Office equipment | Trucks and Vehicles | Total     |
| At December 31, 2018    | \$ -      | \$ -                    | \$ -    | \$ -             | \$ -                | \$ -      |
| At December 31, 2019    | \$ 9,103  | \$ 4,236                | \$ 51   | \$ 33            | \$ 1,011            | \$ 14,434 |
| At December 31, 2020    | \$ 12,101 | \$ 3,699                | \$ 5    | \$ 10            | \$ 1,301            | \$ 17,116 |

Depreciation of \$2,836,000 (2019 - \$2,537,000) was recorded in the consolidated statement of comprehensive income (loss) as follows: cost of sales \$1,209,000 (2019 - \$1,181,000), selling and distribution \$1,287,000 (2019 - \$1,047,000) and general and administrative \$340,000 (2019 - \$309,000).

Total Lease obligations:

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Total Leases                                   | \$ 16,084         | \$ 13,532         |
| Less current portion due in the next 12 months | 2,805             | 2,726             |
| Non-current leases                             | \$ 13,279         | \$ 10,806         |

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.

# HAMMOND MANUFACTURING COMPANY LIMITED

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The lease liabilities are secured by the related underlying assets. Future minimum lease payments at December 31, 2020 were as follows:

|                          | Minimum lease payments due |                 |                 |                 |                 | After 5         |                  |
|--------------------------|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
|                          | Current                    | 1-2 Years       | 2-3 Years       | 3-4 Years       | 4-5 Years       | Years           | Total            |
| <b>December 31, 2020</b> |                            |                 |                 |                 |                 |                 |                  |
| Lease Payments           | \$ 3,479                   | \$ 3,350        | \$ 2,667        | \$ 2,252        | \$ 2,249        | \$ 5,027        | \$ 19,024        |
| Finance Charge           | (674)                      | (558)           | (449)           | (364)           | (282)           | (613)           | (2,940)          |
| <b>Net Present Value</b> | <b>\$ 2,805</b>            | <b>\$ 2,792</b> | <b>\$ 2,218</b> | <b>\$ 1,888</b> | <b>\$ 1,967</b> | <b>\$ 4,414</b> | <b>\$ 16,084</b> |
| <b>December 31, 2019</b> |                            |                 |                 |                 |                 |                 |                  |
| Lease Payments           | \$ 3,241                   | \$ 2,563        | \$ 2,342        | \$ 1,673        | \$ 1,128        | \$ 5,320        | \$ 16,267        |
| Finance Charge           | (515)                      | (483)           | (394)           | (314)           | (260)           | (769)           | (2,735)          |
| <b>Net Present Value</b> | <b>\$ 2,726</b>            | <b>\$ 2,080</b> | <b>\$ 1,948</b> | <b>\$ 1,359</b> | <b>\$ 868</b>   | <b>\$ 4,551</b> | <b>\$ 13,532</b> |

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, 2020 | December 31, 2019 |
|-------------------------|-------------------|-------------------|
| Short Term leases       | \$ 241            | \$ 239            |
| Leases of low values    | 7                 | 7                 |
| Variable lease payments | 83                | 71                |
| <b>Total</b>            | <b>\$ 331</b>     | <b>\$ 317</b>     |

## 9) Investment property:

The Group has a 50% ownership of a property in Georgetown, Ontario (referred to as the Glen Ewing Property). It is a vacant plot of land and currently under environmental remediation. The property value represents the actual historical cost of the property. Management has reviewed the property and local market conditions as well as the environmental condition of the property in estimating the property's fair value. Management estimates its interest in the property's fair market value to be approximately \$1,250,000. This estimate is unchanged from December 31, 2019. No independent valuation has been performed. The property is currently vacant and no income is being derived from it. The Company's direct operating expense in 2020 related to the property was \$141,000 (2019- \$119,000).

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## 10) Equity investment:

| RITEC Enclosures Inc.   |        |
|-------------------------|--------|
|                         | Total  |
| December 31, 2018       | \$ 797 |
| Equity in 2019 earnings | 49     |
| December 31, 2019       | \$ 846 |
| Equity in 2020 earnings | 18     |
| December 31, 2020       | \$ 864 |

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.

| For the years ended December 31,                     | 2020    | 2019  |
|--|---------|-------|
| Share of profit (loss)                               | \$ (25) | \$ 58 |
| Foreign exchange gain (loss)                         | 32      | (6)   |
| Income tax expense                                   | 11      | (3)   |
| Equity investment earnings                           | \$ 18   | \$ 49 |
| Share of profit                                      | \$ (25) | \$ 58 |
| Profit (loss) in inventory movement                  | 11      | (2)   |
| Share of profit (loss) of equity accounted investees | \$ (14) | \$ 56 |

|                           | December 31, 2020 | December 31, 2019 |
|---------------------------|-------------------|-------------------|
| Assets                    | \$ 3,149          | \$ 3,692          |
| Liabilities               | 1,638             | 2,157             |
| Revenues                  | 3,665             | 4,769             |
| Profit (loss) (after tax) | \$ (63)           | \$ 145            |

## 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, 2020 |          | December 31, 2019 |          |
|-------------------|-----|-------------------|----------|-------------------|----------|
|                   |     | Local currency    | CAD      | Local currency    | CAD      |
| Canadian entities | CAD | \$ 2,500          | \$ 2,500 | \$ 4,000          | \$ 4,000 |
| UK entity         | GBP | £ 109             | 189      | £ 229             | 393      |
| Bank indebtedness |     |                   | \$ 2,689 |                   | \$ 4,393 |



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Interest was payable at the rate of bank prime plus 25 basis points through October of 2019 and then decreased to a rate of bank prime until August of 2020 when it was increased to bank prime plus 50 basis points. In December of 2020 it was then lowered to a rate of bank prime plus 25 basis points.

## 12) Long term debt:

|   | December 31,<br>2020 | December 31,<br>2019 |
|---|----------------------|----------------------|
| Demand term loan amortized over 25 years drawn in USD funds at a fixed interest rate of 5.30% through March 2026, secured by the assets of HMCL. Monthly blended installments of \$9 USD.   | \$ 1,762             | \$ 1,830             |
| Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 5.20% through March 2026, secured by the assets of HMCL. Monthly blended installments of \$9 CAD.   | 1,378                | 1,404                |
| Demand term loan amortized over 25 years drawn in CAD funds at a fixed interest rate of 4.1% through December 2023, secured by the assets of HMCL. Monthly blended installments of \$37 CAD.  | 6,245                | 6,391                |
| Demand term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 4.43% through December 2025, secured by the assets of HMCL. Monthly blended installments of \$70 CAD.  | 3,690                | 4,349                |
| Demand term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 4.0% through December 2025, secured by the assets of HMCL. Monthly blended installments of \$26 CAD.   | 1,431                | 1,682                |
| 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 starting January 1, 2020. Value represents the present value of the stream of payments to repay utilizing a 5.2% discount factor. | 2,436                | 2,984                |
| Subtotal  | \$ 16,942            | \$ 18,640            |
| Less current portion of long-term debt  | 15,081               | 18,640               |
| Non-current long-term debt  | \$ 1,861             | \$ -                 |

In 2019 the FEDEV interest free loan was all classified as current as the Company had breached its covenant with FEDDEV by issuing dividends greater than \$226,000 in a year. In January of 2020 the Company received a waiver from FEDDEV for the breach and has also amended the agreement to allow dividends of up to \$500,000 per year.

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

|            |    |        |
|------------|----|--------|
| 2021       | \$ | 1,861  |
| 2022       |    | 1,900  |
| 2023       |    | 7,621  |
| 2024       |    | 1,792  |
| 2025       |    | 2,601  |
| Thereafter |    | 1,167  |
|            | \$ | 16,942 |

## 13) Interest expense

|   | December 31,<br>2020 | December 31,<br>2019 |
|---|----------------------|----------------------|
| Long Term debt, excluding lease liabilities | \$ 857               | \$ 794               |
| Bank indebtedness                           | 139                  | 351                  |
| Interest expense                            | \$ 996               | \$ 1,145             |
| Interest expense leases                     | \$ 627               | \$ 605               |
| Total Interest and Lease interest expense   | \$ 1,623             | \$ 1,750             |

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

|  | Lease<br>Liabilities | Long-term<br>debt | Bank<br>indebtedness | Total     |
|--|----------------------|-------------------|----------------------|-----------|
| Balance at December 31, 2019             | \$ 13,532            | \$ 18,640         | \$ 4,393             | \$ 36,565 |
| <b>Changes from financing cash flows</b> |                      |                   |                      |           |
| Repayment of lease liabilities           | (3,530)              | -                 | -                    | (3,530)   |
| Repayment of borrowings                  | -                    | (1,861)           | (1,704)              | (3,565)   |
| Total changes from financing cash flows  | (3,530)              | (1,861)           | (1,704)              | (7,095)   |
| <b>Liability related</b>                 |                      |                   |                      |           |
| Interest expense                         | 627                  | 857               | 139                  | 1,623     |
| Interest paid                            | -                    | (660)             | (139)                | (799)     |
| Total liability-related other changes    | 627                  | 197               | -                    | 824       |
| Non-cash added liabilities               | 5,535                | -                 | -                    | 5,535     |
| Foreign exchange impact                  | (80)                 | (34)              | -                    | (114)     |
| Balance at December 31, 2020             | \$ 16,084            | \$ 16,942         | \$ 2,689             | \$ 35,715 |

## 14) Trade and other payables:

|   | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Trade payables                          | \$ 6,996          | \$ 6,577          |
| Non-trade payables and accrued expenses | 10,121            | 9,785             |
|   | \$ 17,117         | \$ 16,362         |

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

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## 15) Provisions:

|                                   | Environmental<br>remediation | Sales returns | Total  |
|-----------------------------------|------------------------------|---------------|--------|
| Balance at December 31, 2018      | \$ 170                       | \$ 54         | \$ 224 |
| Provisions made during the year   | 43                           | 773           | 816    |
| Provisions used during the year   | (43)                         | (752)         | (795)  |
| Balance at December 31, 2019      | \$ 170                       | \$ 75         | \$ 245 |
| Provisions made during the period | 103                          | 868           | 971    |
| Provisions used during the period | (48)                         | (859)         | (907)  |
| Balance at December 31, 2020      | \$ 225                       | \$ 84         | \$ 309 |
| Non-current                       | 145                          | -             | 145    |
| Current                           | 80                           | 84            | 164    |
| Balance at December 31, 2020      | \$ 225                       | \$ 84         | \$ 309 |

The provision for environmental remediation is based on the estimated costs to setup and extract any free flowing contamination from the Glen Ewing Property. The anticipated costs are based on an external consultant's remediation plan, discounted for expected timing of expenditures. The current estimate assumes the containment plan will be completed by 2024. The Glen Ewing Property is owned equally as a co-tenant with Hammond Power Solutions Incorporated and any expenses or liabilities in respect of the property have been agreed to be shared equally. The contamination did not result from the normal operations of the Company. The parties have cooperatively developed a remediation action plan and began remediation in October 2009. The Ministry of Environment is aware of the remediation and the process being used. The Company is satisfied that their consultants have provided the best estimate available for the Company's remaining portion of the environmental remediation costs for this site of \$225,000 (2019 - \$170,000) with \$80,000 (2019 - \$70,000) presented as a current provision.

The provision for sales returns is based on estimates from historical returns of product. The provision reflects the estimated profit margin 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. This program was closed in 2014 and the obligation reflects the anticipated cost for those employees who exercised this option prior to closing.

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## 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.

In determining both the post-employment health benefit and the disability health coverage liabilities a 3.5% (2019 – 3.5%) per annum health cost increase and a discount rate of 5.0% (2019 – 6.0%) 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 \$15,000 (2019 - \$17,000). Changes in assumptions resulted in nominal gains/losses which have been included in general and administrative expense.

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Post employment health benefits              | \$ 15             | \$ 25             |
| Employee health benefits while on disability | 200               | 240               |
| <b>Total employee future benefits</b>        | <b>\$ 215</b>     | <b>\$ 265</b>     |

|                                     | Post employment health benefits | Employee health benefits while on disability | Total         |
|-------------------------------------|---------------------------------|--|---------------|
| Balance at December 31, 2018        | \$ 23                           | \$ 257                                       | \$ 280        |
| Provisions made during the period   | 9                               | 37   | 46            |
| Provisions used during the period   | (7)                             | (54)   | (61)          |
| <b>Balance at December 31, 2019</b> | <b>\$ 25</b>                    | <b>\$ 240</b>                                | <b>\$ 265</b> |
| Provisions made during the period   | -                               | 40   | 40            |
| Provisions used during the period   | (10)                            | (80)   | (90)          |
| <b>Balance at December 31, 2020</b> | <b>\$ 15</b>                    | <b>\$ 200</b>                                | <b>\$ 215</b> |
| Non-current                         | 9                               | 143  | 152           |
| Current                             | 6                               | 57   | 63            |
| <b>Balance at December 31, 2020</b> | <b>\$ 15</b>                    | <b>\$ 200</b>                                | <b>\$ 215</b> |

## 17) Deferred tax assets and liabilities:

Unrecognized deferred tax liabilities:

At December 31, 2020, temporary differences of \$21,446,000 (2019 - \$20,555,000) related to investments in subsidiaries were not recognized because the Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

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Recognized deferred tax liabilities:

Deferred tax assets and liabilities are attributable to the following:

|                                | December 31, 2020 | December 31, 2019 |
|--------------------------------|-------------------|-------------------|
| Deferred tax assets            |                   |                   |
| Investment property            | \$ 8              | \$ 8              |
| Inventories                    | 555               | 434               |
| Loans and borrowings           | 412               | 591               |
| Provisions                     | 181               | 176               |
| Other                          | -                 | 173               |
| Total deferred tax assets      | 1,156             | 1,382             |
| Deferred tax liabilities       |                   |                   |
| Other                          | (30)              | -                 |
| Property, plant and equipment  | (5,180)           | (4,436)           |
| Total deferred tax liabilities | (5,210)           | (4,436)           |
| Net deferred tax liabilities   | \$ (4,054)        | \$ (3,054)        |

## 18) 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.

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, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| 8,556,000 Class A shares (2019 - 8,556,000) | \$ 10,242         | \$ 10,242         |
| 2,778,300 Class B shares (2019 - 2,778,300) | 7                 | 7                 |
|   | \$ 10,249         | \$ 10,249         |

No shares were issued in 2020 or in 2019.

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c) Dividends:

The following dividends were declared and paid by the Company:

Special cash dividends of \$0.04 per Class A subordinate voting share were declared and paid in 2020 (2019 – \$0.04) and special cash dividends of \$0.04 per Class B common share were declared and paid in 2020 (2019 – \$0.04).

Total dividends declared and paid in 2020 were \$453,000 (2019 - \$454,000).

**19) Commitments:**

The Company has contractual obligations for outstanding capital expenditures of \$3,622,000 (2019 - \$759,000). These expenditures should be completed by the third quarter of 2021.

**20) Contingency:**

A statement of claim was issued on June 19, 2013, against the Company with respect to a property once held by the Company. The claim alleges that contaminants originating from the property once owned by the Company have migrated to a nearby, but not adjoining property owned by the claimants. The amount of the claim is not fully known but includes \$3,500,000 which is the estimated cost of construction of a barrier and related expenses. At this point in time, there is no certainty that the contaminants emanated from the property once owned by the Company. Furthermore, given the nature of the claim, there remains significant uncertainty as to any costs to be incurred as a result of the claim and accordingly management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these consolidated financial statements. The claim is set to go to trial in September of 2022.

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. The claim alleges that contaminants originating from our property have migrated to the adjoining property owned by the claimants. The amount of the claim is estimated at \$160,000 to \$670,000. Our records do not show any spills of chemicals at this location and management is unable to reasonably estimate any liability that may arise as a result of this claim. As such, no amount has been recorded in these condensed consolidated financial statements.

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## 21) Income tax expense:

|   | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Current tax expense   | \$ 1,575          | \$ 449            |
| Deferred tax expense:   |                   |                   |
| Origination and reversal of temporary differences                 | 1,000             | 1,084             |
| Total income tax expense  | \$ 2,575          | \$ 1,533          |
|   | 2020              | 2019              |
| Net income for the year   | \$ 7,724          | \$ 4,749          |
| Total income tax expense  | 2,575             | 1,533             |
| Income before income tax  | \$ 10,299         | \$ 6,282          |
| Income tax using the Company's domestic tax rate                  | 26.50% 2,729      | 26.50% 1,665      |
| Reduced rate for active business and manufacturing and processing | (130)             | (60)              |
| Effect of tax rates in foreign jurisdictions                      | (45)              | (110)             |
| Non-deductible expenses   | 69                | 42                |
| Other   | (48)              | (4)               |
|   | 25.00% \$ 2,575   | 24.40% \$ 1,533   |

## 22) Earnings per share:

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

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Net income for the year                      | \$ 7,724          | \$ 4,749          |
| Average number of common shares outstanding: |                   |                   |
| Basic and Diluted                            | 11,334,300        | 11,334,300        |
| Earnings per share:                          |                   |                   |
| Basic  | \$ 0.68           | \$ 0.42           |
| Diluted                                      | 0.68              | 0.42              |

No share options to purchase common shares were outstanding as at December 31, 2020 or December 31, 2019.

## 23) Personnel expenses:

|  | 2020      | 2019      |
|--|-----------|-----------|
| Wages and salaries                           | \$ 42,208 | \$ 43,790 |
| Health benefit plans                         | 4,645     | 4,670     |
| Canada Pension Plan and Employment Insurance | 2,572     | 2,510     |
| Contributions to defined contribution plans  | 1,440     | 1,489     |
|  | \$ 50,865 | \$ 52,459 |
|  | 2020      | 2019      |
| Cost of sales                                | \$ 36,940 | \$ 38,541 |
| Selling and distribution                     | 10,655    | 10,799    |
| General and administrative                   | 3,091     | 2,930     |
| Research and development                     | 179       | 189       |
|  | \$ 50,865 | \$ 52,459 |

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Government subsidy:

In response to the COVID-19 pandemic a wage subsidy was made available to the Company for its operations in Canada (the CEWS program). If a company met a certain level of sales reduction criteria they would be eligible for a wage subsidy for the employees that they kept employed. The company met the required criteria to apply for a subsidy of \$2,308,000 for the calendar year of 2020. The Company has recognized this grant as a reduction in related wages and salaries expenses. In the above chart, Cost of Sales was reduced by \$1,850,000, Selling and distribution was reduced by \$356,000, General and administrative expenses was reduced by \$90,000 and Research and development was reduced by \$12,000.

## 24) Management share option plan:

As at December 31, 2020, the Company has a stock-based compensation plan, which is described below. No options were granted through December 31, 2020 or in 2019 and no stock options were outstanding as of January 1, 2019, 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 accounts receivables, bank indebtedness, trade and other accounts payables approximate their fair values due to the relatively short periods to maturity of the instruments.

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

|                                       | December 31, 2020 |                  | December 31, 2019 |                  |
|---------------------------------------|-------------------|------------------|-------------------|------------------|
|                                       | Carrying amount   | Fair value       | Carrying amount   | Fair value       |
| Assets carried at amortized cost      |                   |                  |                   |                  |
| Cash                                  | \$ 2,785          | \$ 2,785         | \$ 719            | \$ 719           |
| Trade and other receivables           | 20,541            | 20,541           | 19,107            | 19,107           |
|                                       | <u>\$ 23,326</u>  | <u>\$ 23,326</u> | <u>\$ 19,826</u>  | <u>\$ 19,826</u> |
| Liabilities carried at amortized cost |                   |                  |                   |                  |
| Bank indebtedness                     | \$ 2,689          | \$ 2,689         | \$ 4,393          | \$ 4,393         |
| Trade and other payables              | 17,117            | 17,117           | 16,362            | 16,362           |
| Term loans                            | 16,942            | 17,437           | 18,640            | 18,240           |
| Lease obligations                     | 16,084            | 16,090           | 13,532            | 13,385           |
|                                       | <u>\$ 52,832</u>  | <u>\$ 53,333</u> | <u>\$ 52,927</u>  | <u>\$ 52,380</u> |



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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, 2020 |       | December 31, 2019 |       |
|------------------------------------|-------------------|-------|-------------------|-------|
|                                    | From              | To    | From              | To    |
| Nonsecured variable interest rates | 2.75%             | 3.75% | 3.95%             | 4.95% |
| Fixed rates                        |                   |       |                   |       |
| 1 to 2 year secured                | 2.85%             | 3.85% | 4.30%             | 5.40% |
| 3 to 4 year secured                | 2.95%             | 3.95% | 4.35%             | 5.45% |
| 5 year secured                     | 3.05%             | 4.05% | 4.50%             | 5.50% |
| 7 year secured                     | 3.25%             | 4.25% | 4.55%             | 5.55% |
| 10 year secured                    | 3.50%             | 4.50% | 4.60%             | 5.60% |

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
- liquidity risk
- market risk
- foreign currency risk
- interest rate risk
- operational risk

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.

### 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.

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## 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.

## 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, 2020 | December 31, 2019 |
|-----------------------------|-------------------|-------------------|
| Cash and receivables:       |                   |                   |
| Cash                        | \$ 2,785          | \$ 719            |
| Trade and other receivables | 20,541            | 19,107            |
|                             | <u>\$ 23,326</u>  | <u>\$ 19,826</u>  |

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

|                       | December 31, 2020 | December 31, 2019 |
|-----------------------|-------------------|-------------------|
| Cash and receivables: |                   |                   |
| Canada                | \$ 15,203         | \$ 10,955         |
| US                    | 6,611             | 7,681             |
| UK                    | 1,368             | 1,064             |
| Australia             | 144               | 126               |
|                       | <b>\$ 23,326</b>  | <b>\$ 19,826</b>  |

The following table reflects the net details of trade receivables as at December 31, 2020 and December 31, 2019:

|                             | December 31, 2020 |               |                  | December 31, 2019 |               |                  |
|-----------------------------|-------------------|---------------|------------------|-------------------|---------------|------------------|
|                             | Gross             | Impairment    | Carrying value   | Gross             | Impairment    | Carrying value   |
| Aging of trade receivables: |                   |               |                  |                   |               |                  |
| 1 – 30 days                 | \$ 9,230          | \$ -          | \$ 9,230         | \$ 8,722          | \$ -          | \$ 8,722         |
| 31 – 60 days                | 6,746             | -             | 6,746            | 7,698             | -             | 7,698            |
| 61 – 90 days                | 1,490             | -             | 1,490            | 1,665             | -             | 1,665            |
| Over 90 days                | 241               | 171           | 70               | 524               | 225           | 299              |
| Trade receivables           | <b>\$ 17,707</b>  | <b>\$ 171</b> | <b>\$ 17,536</b> | <b>\$ 18,609</b>  | <b>\$ 225</b> | <b>\$ 18,384</b> |

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

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Allowance for doubtful accounts, beginning of year           | \$ 225            | \$ 278            |
| Accounts provided for in the period                          | (13)              | 27                |
| Amounts written off during the period                        | (41)              | (80)              |
| Allowance for doubtful accounts                              | <b>\$ 171</b>     | <b>\$ 225</b>     |
| Allowance for doubtful accounts as % of net trade receivable | 1.0%              | 1.2%              |

The following table provides the net details of trade and other receivables:

|                             | December 31, 2020 | December 31, 2019 |
|-----------------------------|-------------------|-------------------|
| Net trade receivable        | \$ 17,536         | \$ 18,384         |
| Employee receivables        | 18                | 27                |
| Other receivable            | 2,987             | 696               |
| Trade and other receivables | <b>\$ 20,541</b>  | <b>\$ 19,107</b>  |

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 far as possible, that it will

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always have sufficient liquidity to meet its liabilities when due, under both normal and stressed 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 established a \$15,500,000 overdraft facility that is secured against inventory and accounts receivable. If drawn upon, interest would be payable at the rate of bank prime plus 25 basis points (2019 - bank prime plus 25 basis points). The Company had available unused credit facilities in the amount of \$12,832,000 at December 31, 2020 (2019 - \$11,122,000) to meet fluctuations in working capital requirements.

The Group has established a \$nil (2019 - \$16,200,000) lease line to finance new equipment purchases of which it has available \$nil (2019 - \$6,500,000).

The Group has available a \$3,000,000 Revolving Capital Loan facility (2019 - \$3,000,000) to assist in financing a maximum of 80% of new equipment purchases.

The Group has available a \$7,000,000 Non-Revolving Capital Loan facility (2019 - \$nil) to assist in financing a maximum of 80% of new equipment purchases.

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 \$3,461,500 on eligible spending. As at December 31, 2020, the group had received \$3,461,500 of this funding (2019 - \$3,461,500). The present value of this funding \$2,646,385 was set up as long term debt and \$815,115 which reflects the interest savings has been offset to property, plant and equipment. Repayment of this loan is over five years and started in January of 2020. As at December 31, 2020 the present value of the funding is \$2,435,618 (2019 - 2,986,315).

The interest free loan and grant noted above are contingent on adding new jobs and retaining existing jobs at its Guelph, Ontario locations. As at December 31, 2020, the Group was in compliance with this requirement.

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.

December 31, 2020

|                                      | Carrying<br>amount | Contractual<br>cash flows | 2021       | 2022       | 2023 to<br>2024 | Thereafter |
|--------------------------------------|--------------------|---------------------------|------------|------------|-----------------|------------|
| Non-derivative financial liabilities |                    |                           |            |            |                 |            |
| Term loans                           | \$ 16,942          | \$ (17,232)               | \$(15,202) | \$ (696)   | \$ (1,334)      | \$ -       |
| Lease obligations                    | 16,084             | (19,023)                  | (3,479)    | (3,350)    | (4,919)         | (7,275)    |
| Trade and other payables             | 17,117             | (17,117)                  | (17,117)   | -          | -               | -          |
| Bank indebtedness                    | 2,689              | (2,689)                   | (2,689)    | -          | -               | -          |
| Total                                | \$ 52,832          | \$ (56,061)               | \$(38,487) | \$ (4,046) | \$ (6,253)      | \$ (7,275) |

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| December 31, 2019                    |                 |                        |            |            |              |            |
|--------------------------------------|-----------------|------------------------|------------|------------|--------------|------------|
|                                      | Carrying amount | Contractual cash flows | 2020       | 2021       | 2022 to 2023 | Thereafter |
| Non-derivative financial liabilities |                 |                        |            |            |              |            |
| Term loans                           | \$ 18,640       | \$ (19,059)            | \$(19,059) | \$ -       | \$ -         | \$ -       |
| Lease obligations                    | 13,532          | (16,218)               | (3,221)    | (2,551)    | (3,997)      | (6,449)    |
| Trade and other payables             | 16,362          | (16,362)               | (16,362)   | -          | -            | -          |
| Bank indebtedness                    | 4,393           | (4,393)                | (4,393)    | -          | -            | -          |
| Total                                | \$ 52,927       | \$ (56,032)            | \$(43,035) | \$ (2,551) | \$ (3,997)   | \$ (6,449) |

## 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.

## 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, 2020        | Dec 31, 2019 | Dec 31, 2020      | Dec 31, 2019 |
| Australia   | AUD  | 76                  | 26           | (3)               | (2)          |
| Europe      | EURO | 180                 | 94           | -                 | (17)         |
| New Zealand | NZD  | 30                  | 52           | -                 | -            |
| Taiwan      | TWD  | 23                  | 107          | -                 | (244)        |
| UK          | GBP  | 595                 | 658          | (550)             | (427)        |
| US          | USD  | 5,806               | 5,678        | (2,086)           | (2,266)      |
| Currency    |      | Long-term debt      |              | Lease Liabilities |              |
|             |      | Dec 31, 2020        | Dec 31, 2019 | Dec 31, 2020      | Dec 31, 2019 |
| UK          | GBP  | -                   | (183)        | (2,048)           | (2,095)      |
| US          | USD  | (1,378)             | (3,581)      | (2,656)           | (278)        |

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 2020 would have increased net product sales by \$628,000 (2019 - \$610,000) and increased income from operations by \$695,000 (2019 - \$661,000). Inversely, a one cent increase in the Canadian dollar against the US dollar in 2020 would have had the equal but opposite effect.

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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.

## Interest rate risk:

Interest rate risk arises from the possibility that the cash flows related to a financial instrument would 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 2020 bank indebtedness would increase annual interest expense by \$27,000 (2019 - \$44,000). This analysis assumes that all other variables remain constant. Inversely, a one percent decrease in the variable rates charged on ending 2020 bank indebtedness would have had the equal but opposite effect.

## 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 so as 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

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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 in order 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.

The Group defines its capital as follows:

- shareholders' 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, Debt Service Ratio and Current Ratio. With the exception in 2019 described in note 12 the Group is in compliance with its covenants at December 31, 2020 and has been in compliance with its covenants through 2019 and 2020. There were no changes to the Group's approach to capital management during 2020. Neither the Company, nor any of its subsidiaries, is subject to externally imposed capital requirements.

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## 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, 2020 | December 31, 2019 |
| Net product sales:   |                    |                   |                   |
| Canada:              |                    |                   |                   |
|                      | Sales to customers | \$ 55,383         | \$ 58,242         |
| US:                  |                    |                   |                   |
|                      | Sales to customers | 81,074            | 77,318            |
| All other countries: |                    |                   |                   |
|                      | Sales to customers | 11,766            | 13,032            |
| Net product sales    |                    | \$ 148,223        | \$ 148,592        |
| Non-current assets:  |                    |                   |                   |
| Canada:              |                    |                   |                   |
|                      | Non-current assets | \$ 46,175         | \$ 42,429         |
| US:                  |                    |                   |                   |
|                      | Non-current assets | 2,776             | 1,560             |
| All other countries: |                    |                   |                   |
|                      | Non-current assets | 4,059             | 4,361             |
| Total                |                    | \$ 53,010         | \$ 48,350         |

## 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, 2020 | December 31, 2019 |
| Salaries and short-term employee benefits | \$ 801            | \$ 770            |

- b) The Company purchased \$2,334,000 of product from RITEC in 2020 (2019 - \$3,390,000). The Company sold \$4,000 of product to RITEC in 2020 (2019 - \$33,600). 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, 2020 were \$1,000 (2019 - \$4,663) while payables were \$40,300 (2019 - \$11,497). 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 Corporation, Robert Frederick Hammond, through direct and indirect ownership of Class A and Class B voting shares effectively controls the Company.



# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

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

d) Consolidated entities:

| <b>HAMMOND MANUFACTURING COMPANY LIMITED</b>                                    |                             |                      |                      |
|---|-----------------------------|----------------------|----------------------|
|   | Country of<br>incorporation | % Ownership interest |                      |
|   |                             | December 31,<br>2020 | December 31,<br>2019 |
| Les Fabrications Hammond (Quebec) Inc. /<br>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                  |

\* started March 7, 2019

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

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# Through the Years



Hammond Rack and Cabinet Division celebrates 85 years.

2019

**85 YEARS** MANUFACTURING RACKS & CABINETS SINCE 1934

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



New Factory built on Speedvale/Edinburgh Road



1955

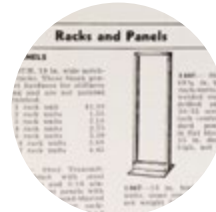
**HAMMOND**

Added NEMA Enclosures



1950

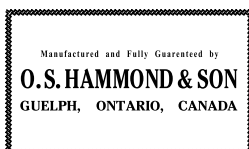
Transition into manufacture of Transformers, Wire Wound Resistors and Broadcast Racks/Cabinets



1930

*Hammond*

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



1927

Backyard Workshop - Charging batteries, installing antennas, custom machining

1917





## Corporate Directory

1-877-535-3282 (Canada) | 1-800-526-2266 (USA) | [www.hammondmfg.com](http://www.hammondmfg.com) | [@hammondmfg](https://twitter.com/hammondmfg)

### Directors

Robert F. Hammond  
Chairman and CEO

\*Edward Sehl  
Principal - Sehl Consulting  
Director Of Guelph General Hospital

\*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 of Qvella Corporation and Reunion Foods Inc.

\*William Wiener  
Chairman of the Board of 35 Oak Holdings Ltd.

Sarah Hansen  
Operations Manager of Emco Corporation in Calgary  
Director of Eramosa Group Ltd.  
Director of DKH Engineering Services Inc.

### Officers / Senior Management

Robert F. Hammond  
Chairman and CEO

Alexander Stirling  
Secretary and CFO

Ray Shatzel  
Vice-President, Electronic Sales

Ross N. Hammond  
Assistant Secretary

### Auditors

KPMG LLP  
Wise & Co., UK  
Bentleys SA Audit Partnership

### Legal Counsel

Borden Ladner Gervais

### Transfer Agent and Registrar

Computershare Investor  
Services Inc.

### Stock Listing

Toronto Stock Exchange  
Symbol: HMM.A

### Bankers

HSBC

\*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](mailto: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](mailto: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](mailto: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](mailto: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](mailto:sales@hammond-electronics.co.uk)