

Unaudited Condensed Consolidated Interim Financial Statements of

**HAMMOND MANUFACTURING COMPANY LIMITED**

Six months ended July 1, 2022 and June 25, 2021

Quarter 2, 2022 Report

# **MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim consolidated financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Hammond Manufacturing Company Limited (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with accounting principles generally accepted in Canada (these statements are prepared under International Financial Reporting Standards (IFRS)) and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# HAMMOND MANUFACTURING COMPANY LIMITED

## Condensed Consolidated Statements of Financial Position

### Unaudited

(in thousands of Canadian dollars)

	Note	July 1, 2022	December 31, 2021
<b>Assets</b>			
<b>Current assets:</b>			
Cash		\$ 2,659	\$ 4,069
Trade and other receivables	4	30,811	27,143
Income taxes receivable		-	76
Inventories	5	53,071	45,516
Prepaid expenses		1,906	1,723
<b>Total current assets</b>		<b>88,447</b>	<b>78,527</b>
<b>Non-current assets:</b>			
Property, plant and equipment	6	45,813	41,141
Intangible assets and goodwill	7	348	428
Right-of-use assets	8	13,130	15,000
Investment property	9	1,044	1,044
Equity investment		836	836
<b>Total non-current assets</b>		<b>61,171</b>	<b>58,449</b>
<b>Total assets</b>		<b>\$ 149,618</b>	<b>\$ 136,976</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Bank indebtedness	10	\$ 6,626	\$ 995
Trade and other payables	13	26,998	26,929
Income taxes payable		820	-
Current portion of provisions	14	220	220
Current portion of employee future benefits	15	85	89
Current portion of long-term debt	11	14,541	14,551
Current portion of lease liabilities	8	3,062	2,957
<b>Total current liabilities</b>		<b>52,352</b>	<b>45,741</b>
<b>Non-current liabilities:</b>			
Employee future benefits	15	308	304
Long-term debt	11	9,206	6,125
Lease liabilities	8	9,501	10,905
Provisions	14	145	145
Deferred tax liabilities		5,081	5,064
<b>Total non-current liabilities</b>		<b>24,241</b>	<b>22,543</b>
<b>Total liabilities</b>		<b>76,593</b>	<b>68,284</b>
<b>Equity:</b>			
Share capital		10,249	10,249
Contributed surplus		290	290
Accumulated other comprehensive income		2,056	1,883
Retained earnings		60,430	56,270
<b>Total equity</b>		<b>73,025</b>	<b>68,692</b>
<b>Total liabilities and equity</b>		<b>\$ 149,618</b>	<b>\$ 136,976</b>

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

# HAMMOND MANUFACTURING COMPANY LIMITED

## Condensed Consolidated Statements of Comprehensive Income

### Unaudited

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

	Note	Six Months Ended:		Three Months Ended:	
		July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Net product sales	18	\$ 112,227	\$ 88,642	\$ 57,251	\$ 46,502
Cost of sales		78,430	61,854	39,738	32,559
<b>Gross profit</b>		<b>33,797</b>	<b>26,788</b>	<b>17,513</b>	<b>13,943</b>
Selling and distribution		23,071	18,109	11,893	9,789
General and administrative		3,204	2,767	1,639	1,157
Loss (gain) on disposal of property, plant and equipment		12	(17)	1	(11)
<b>Income from operating activities</b>		<b>7,510</b>	<b>5,929</b>	<b>3,980</b>	<b>3,008</b>
Interest expense	12	(523)	(405)	(261)	(204)
Interest expense leases	12	(296)	(333)	(147)	(164)
Foreign exchange gain (loss)		(575)	472	(458)	344
<b>Net finance expense</b>		<b>(1,394)</b>	<b>(266)</b>	<b>(866)</b>	<b>(24)</b>
Share of expenses from investment property	9	(69)	(56)	(34)	(31)
<b>Income before income tax</b>		<b>6,047</b>	<b>5,607</b>	<b>3,080</b>	<b>2,953</b>
Income tax expense		1,547	1,433	785	756
<b>Net income for the period</b>		<b>\$ 4,500</b>	<b>\$ 4,174</b>	<b>\$ 2,295</b>	<b>\$ 2,197</b>
Other comprehensive loss:					
Foreign currency translation differences for foreign operations		173	(762)	559	(504)
Other comprehensive loss for the period, net of income tax		173	(762)	559	(504)
<b>Total comprehensive income for the period</b>		<b>\$ 4,673</b>	<b>\$ 3,412</b>	<b>\$ 2,854</b>	<b>\$ 1,693</b>
<b>Earnings per share</b>					
Basic earnings per share	16	\$ 0.40	\$ 0.37	\$ 0.21	\$ 0.19
Diluted earnings per share	16	\$ 0.40	\$ 0.37	\$ 0.21	\$ 0.19

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

# HAMMOND MANUFACTURING COMPANY LIMITED

## Unaudited Condensed Consolidated Statements of Changes in Equity

For the six months ended July 1, 2022

(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, 2022	\$ 10,249	\$ 290	\$ 1,883	\$ 56,270	\$ 68,692
Net income for the six months ended July 1, 2022		-	-	4,500	4,500
Other comprehensive loss:					
Foreign currency translation differences	-	-	173	-	173
<b>Total comprehensive income (loss) for the per</b>	<b>-</b>	<b>-</b>	<b>173</b>	<b>4,500</b>	<b>4,673</b>
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(340)	(340)
<b>Balance at July 1, 2022</b>	<b>\$ 10,249</b>	<b>\$ 290</b>	<b>\$ 2,056</b>	<b>\$ 60,430</b>	<b>\$ 73,025</b>

\*\* Accumulated other comprehensive income (loss)

# HAMMOND MANUFACTURING COMPANY LIMITED

## Unaudited Condensed Consolidated Statements of Changes in Equity

For the three months ended June 25, 2021

(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, 2021	\$ 10,249	\$ 290	\$ 1,982	\$ 49,021	\$ 61,542
Net income for six months ended June 25, 2021		-	-	4,174	4,174
Other comprehensive loss:					
Foreign currency translation differences	-	-	(762)	-	(762)
<b>Total comprehensive income (loss) for the per</b>	<b>-</b>	<b>-</b>	<b>(762)</b>	<b>4,174</b>	<b>3,412</b>
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(226)	(226)
<b>Balance at June 25, 2021</b>	<b>\$ 10,249</b>	<b>\$ 290</b>	<b>\$ 1,220</b>	<b>\$ 52,969</b>	<b>\$ 64,728</b>

\*\* Accumulated other comprehensive income (loss)

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

# HAMMOND MANUFACTURING COMPANY LIMITED

## Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Six Months Ended:		Three Months Ended:	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
<b>Cash flows from operating activities</b>				
Net income for the period	\$ 4,500	\$ 4,174	\$ 2,295	\$ 2,197
Adjustments for:				
Depreciation of property, plant and equipment	2,353	1,820	1,208	1,036
Amortization of intangible assets	24	19	12	9
Depreciation of right-of-use assets	1,400	1,415	707	594
Interest expense	523	405	261	204
Interest expense on leases	296	333	147	164
Income tax expense	1,547	1,433	785	756
Loss (gain) on disposal of property, plant and equipment	12	(17)	1	(11)
Change in inventory allowance for lower of cost or market	(75)	-	-	-
	10,580	9,582	5,416	4,949
Change in non-cash working capital:				
Inventories	(7,982)	2,278	(4,883)	(190)
Trade and other receivables	(3,585)	(5,226)	567	(2,411)
Prepaid expenses	(197)	417	38	236
Trade and other payables	219	1,264	1,373	1,585
<b>Cash generated (used) from operating activities</b>	<b>(965)</b>	<b>8,315</b>	<b>2,511</b>	<b>4,169</b>
Interest paid	(523)	(681)	(262)	(343)
Income tax paid	(614)	(2,056)	(355)	(438)
<b>Net cash generated (used) from operating activities</b>	<b>(2,102)</b>	<b>5,578</b>	<b>1,894</b>	<b>3,388</b>
<b>Cash flows from financing activities</b>				
Bank indebtedness	5,643	(918)	(798)	778
Payment of long-term debt	(1,481)	(1,456)	(592)	(985)
Payment of lease liabilities	(1,488)	(995)	(805)	(228)
Advances of long-term debt	4,340	-	4,340	-
Payment of dividends	(340)	(226)	(340)	(226)
<b>Net cash generated (used) in financing activities</b>	<b>6,674</b>	<b>(3,595)</b>	<b>1,805</b>	<b>(661)</b>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property, plant and equipment	-	19	-	13
Acquisition of property, plant and equipment	(6,752)	(3,630)	(4,028)	(2,701)
Intangible asset additions	(40)	(16)	(21)	(15)
<b>Net cash used in investing activities</b>	<b>(6,792)</b>	<b>(3,627)</b>	<b>(4,049)</b>	<b>(2,703)</b>
<b>Net decrease in cash</b>	<b>(2,220)</b>	<b>(1,644)</b>	<b>(350)</b>	<b>24</b>
Cash at beginning of period	4,069	2,785	744	678
<b>Foreign exchange loss on cash and cash equivalents in a foreign currency</b>	<b>810</b>	<b>(397)</b>	<b>1,192</b>	<b>(314)</b>
Cash at end of period	\$ 2,659	\$ 744	\$ 1,586	\$ 388

The notes on pages 7 to 19 are an integral part of these condensed consolidated interim financial statements.

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular 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 unaudited condensed consolidated interim financial statements of the Company as at and for the period ended July 1, 2022 include the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities. The Group primarily is involved in the design, manufacture and sale of electrical and electronic components. Facilities are located in Canada, the USA, 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 unaudited condensed consolidated interim financial statements have been prepared in accordance with requirements of IAS 34, International Financial Reporting Standards (IFRS) and do not include all of the information required for full annual financial statements. Accordingly, certain information and footnotes as required in the annual financial statements have been omitted or condensed and as such these interim financial statements should be read in conjunction with

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

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the Company's annual financial statements for the year ended December 31, 2021. These condensed consolidated interim financial statements and the notes thereto have not been reviewed by the Company's external auditors pursuant to a review engagement applying review standards set out in the Canadian Institute of Chartered Accountants handbook.

The Board of Directors approved these unaudited condensed consolidated interim financial statements on August 3, 2022.

(b) Basis of measurement:

The unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis.

(c) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions or conditions. Management's most critical estimates and assumptions in determining the value of assets and liabilities and most critical judgments in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year have been set-out in Note 2 of the Company's annual financial statements for the year ended December 31, 2021.

### 3. Summary of significant accounting policies:

The Company has prepared these unaudited condensed consolidated interim financial statements using the same accounting policies and methods as those used in the Company's audited consolidated annual financial statements for the year ended December 31, 2021 except for the following.

New standards and interpretations adopted:

**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 were adopted January 1, 2022. The impact of adoption of these amendments did not have an impact on the business.

**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 were adopted January 1, 2022. The impact of adoption of these amendments did not have an impact on the business.

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## Annual Improvements to IFRS Standards 2018–2020

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

The amendments were adopted January 1, 2022. The impact of adoption of these amendments did not have an impact on the business.

### 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.

## 4. Trade and other receivables:

	July 1, 2022	December 31, 2021
Trade receivables	\$ 30,294	\$ 27,214
Employee receivables	12	13
Other receivables	1,028	232
	31,334	27,459
Estimated credit losses	(523)	(316)
Trade and other receivables	\$ 30,811	\$ 27,143

The following table reflects the aging of trade receivable as at July 1, 2022 and December 31, 2021:

	July 1, 2022			December 31, 2021		
	Gross	Impairment	Carrying value	Gross	Impairment	Carrying value
Aging of trade receivables:						
1 – 30 days	\$ 17,043	\$ -	\$ 17,043	\$ 14,157	\$ -	\$ 14,157
31 – 60 days	10,815	-	10,815	10,259	-	10,259
61 – 90 days	2,274	-	2,274	2,128	-	2,128
Over 90 days	162	523	-361	670	316	354
Trade receivables	\$ 30,294	\$ 523	\$ 29,771	\$ 27,214	\$ 316	\$ 26,898

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

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

	July 1, 2022	December 31, 2021
Allowance for doubtful accounts, beginning of year	\$ 316	\$ 171
Accounts provided for in the period	213	145
Amounts written off during the period	(6)	-
Allowance for doubtful accounts	\$ 523	\$ 316
Allowance for doubtful accounts as % of net trade receivable	1.8%	1.2%

## 5. Inventories:

	July 1, 2022	December 31, 2021
Raw materials and work-in-process	\$ 22,532	\$ 18,928
Finished goods	30,539	26,588
Inventories	\$ 53,071	\$ 45,516

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## 6. Property plant and equipment:

<b>Cost</b>					
	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2020	\$ 22,363	\$ 49,464	\$ 11,109	\$ 2,423	\$ 85,359
Additions	\$ 4,252	\$ 6,203	\$ 871	\$ 119	\$ 11,445
Disposals	(6)	(664)	-	(34)	(704)
Effect of movements in exchange rates	1	(8)	(12)	(4)	(23)
Balance at December 31, 2021	\$ 26,610	\$ 54,995	\$ 11,968	\$ 2,504	\$ 96,077
Reclass	\$ (322)	\$ 798	\$ 128	\$ 509	1,113
Additions	3,784	2,450	153	3	6,390
Disposals	(21)	(356)	-	-	(377)
Effect of movements in exchange rates	(9)	(84)	(20)	(10)	(123)
Balance at July 1, 2022	\$ 30,042	\$ 57,803	\$ 12,229	\$ 3,006	\$ 103,080
<b>Accumulated depreciation</b>					
	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
Balance at December 31, 2020	\$ 8,042	\$ 33,882	\$ 7,928	\$ 1,870	\$ 51,722
Depreciation for the period	\$ 756	\$ 2,561	\$ 415	\$ 200	\$ 3,932
Disposals	(4)	(662)	-	(32)	(698)
Effect of movements in exchange rates	(1)	(5)	(12)	(2)	(20)
Balance at December 31, 2021	\$ 8,793	\$ 35,776	\$ 8,331	\$ 2,036	\$ 54,936
Reclass	\$ 42	\$ (145)	\$ 69	\$ 441	407
Depreciation for the period	420	1,481	353	99	2,353
Disposals	(10)	(356)	-	-	(366)
Effect of movements in exchange rates	(8)	(28)	(19)	(8)	(63)
Balance at July 1, 2022	\$ 9,237	\$ 36,728	\$ 8,734	\$ 2,568	\$ 57,267
<b>Carrying amounts</b>					
	Land and buildings	Machinery and equipment	Tooling	Office equipment	Total
At December 31, 2020	\$ 14,321	\$ 15,582	\$ 3,181	\$ 553	\$ 33,637
At December 31, 2021	\$ 17,817	\$ 19,219	\$ 3,637	\$ 468	\$ 41,141
At July 1, 2022	\$ 20,805	\$ 21,075	\$ 3,495	\$ 438	\$ 45,813

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## 7. Intangible assets:

<b>Cost</b>					
	Goodwill	Computer software	Development costs	Total	
Balance at December 31, 2020	\$ 116	\$ 1,010	\$ 361	\$ 1,487	
Additions	\$ -	\$ 93	\$ 27	\$ 120	
Effect of movement in exchange rates	(2)	(1)	-	(3)	
Balance at December 31, 2021	\$ 114	\$ 1,102	\$ 388	\$ 1,604	
Reclass	-	(476)	8	(468)	
Additions	\$ -	\$ 30	\$ -	\$ 30	
Effect of movement in exchange rates	(10)	1	-	(9)	
Balance at July 1, 2022	\$ 104	\$ 657	\$ 396	\$ 1,157	

<b>Amortization</b>					
	Goodwill	Computer software	Development costs	Total	
Balance at December 31, 2020	\$ -	\$ 859	\$ 279	\$ 1,138	
Amortization for the period	\$ -	\$ 11	\$ 28	\$ 39	
Effect of movement in exchange rates	-	(1)	-	(1)	
Balance at December 31, 2021	\$ -	\$ 869	\$ 307	\$ 1,176	
Reclass	-	(398)	6	(392)	
Amortization for the period	\$ -	\$ 10	\$ 14	\$ 24	
Effect of movement in exchange rates	-	1	-	1	
Balance at July 1, 2022	\$ -	\$ 482	\$ 327	\$ 809	

<b>Carrying amounts</b>					
	Goodwill	Computer software	Development costs	Total	
At December 31, 2020	\$ 116	\$ 151	\$ 82	\$ 349	
At December 31, 2021	\$ 114	\$ 233	\$ 81	\$ 428	
At July 1, 2022	\$ 104	\$ 175	\$ 69	\$ 348	

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## 8. Leases:

### Right-of-use assets

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2020	\$ 15,303	\$ 6,142	\$ 221	\$ 95	\$ 1,888	\$ 23,649
Additions for the period	\$ -	\$ 219	\$ -	\$ 9	\$ 528	\$ 756
Disposals	-	-	-	(87)	(298)	(385)
Effect of movements in exchange rates	(65)	(10)	-	-	(3)	(78)
Balance at December 31, 2021	\$ 15,238	\$ 6,351	\$ 221	\$ 17	\$ 2,115	\$ 23,942
Reclass	\$ -	\$ (606)	\$ (40)	\$ -	\$ -	\$ (646)
Additions for the period	-	-	-	-	446	446
Effect of movements in exchange rates	(304)	(82)	-	-	2	(384)
Balance at July 1, 2022	\$ 14,934	\$ 5,663	\$ 181	\$ 17	\$ 2,454	\$ 23,249

### Accumulated depreciation

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
Balance at December 31, 2020	\$ 3,202	\$ 2,443	\$ 216	\$ 85	\$ 587	\$ 6,533
Depreciation for the period	\$ 1,734	\$ 541	\$ 5	\$ 10	\$ 529	\$ 2,819
Disposals	-	-	-	(87)	(298)	(385)
Effect of movements in exchange rates	(12)	(2)	-	-	(11)	(25)
Balance at December 31, 2021	\$ 4,924	\$ 2,982	\$ 221	\$ 8	\$ 807	\$ 8,942
Reclass	\$ -	\$ 24	\$ (40)	\$ -	\$ -	\$ (16)
Depreciation for the period	860	287	-	2	251	1,400
Effect of movements in exchange rates	(77)	(22)	-	-	1	(98)
Balance at July 1, 2022	\$ 5,707	\$ 3,247	\$ 221	\$ 10	\$ 950	\$ 10,119

### Carrying amounts

	Buildings	Machinery and equipment	Tooling	Office equipment	Trucks and Vehicles	Total
At December 31, 2020	\$ 12,101	\$ 3,699	\$ 5	\$ 10	\$ 1,301	\$ 17,116
At December 31, 2021	\$ 10,314	\$ 3,369	\$ -	\$ 9	\$ 1,308	\$ 15,000
At July 1, 2022	\$ 9,227	\$ 2,416	\$ (40)	\$ 7	\$ 1,504	\$ 13,130

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

The lease liabilities are secured by related underlying assets. Future minimum payments at April 1, 2022 were as follows:

	Minimum lease payments due						After 5 Years	Total
	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years			
<b>July 1, 2022</b>								
Lease Payments	\$ 3,598	\$ 2,506	\$ 2,380	\$ 2,065	\$ 1,219	\$ 2,668	\$ 14,436	
Finance Charge	(536)	(389)	(301)	(212)	(145)	(290)	(1,873)	
<b>Net Present Value</b>	<b>\$ 3,062</b>	<b>\$ 2,117</b>	<b>\$ 2,079</b>	<b>\$ 1,853</b>	<b>\$ 1,074</b>	<b>\$ 2,378</b>	<b>\$ 12,563</b>	

	Minimum lease payments due						After 5 Years	Total
	Current	1-2 Years	2-3 Years	3-4 Years	4-5 Years			
<b>December 31, 2021</b>								
Lease Payments	\$ 3,515	\$ 2,833	\$ 2,382	\$ 2,377	\$ 1,620	\$ 3,317	\$ 16,044	
Finance Charge	(558)	(443)	(352)	(265)	(184)	(380)	(2,182)	
<b>Net Present Value</b>	<b>\$ 2,957</b>	<b>\$ 2,390</b>	<b>\$ 2,030</b>	<b>\$ 2,112</b>	<b>\$ 1,436</b>	<b>\$ 2,937</b>	<b>\$ 13,862</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 expenses relating to payments not included in the measurement of lease liability is as follows:

Year to date	July 1, 2022	June 25, 2021
Short Term leases	\$ 165	\$ 141
Variable lease payments	28	40
<b>Total</b>	<b>\$ 193</b>	<b>\$ 181</b>

## 9. Investment property:

The Company's direct operating expenses in the first six months of 2022 related to the property were \$69,000 (2021 - \$56,000).

## 10. Bank indebtedness:

Bank indebtedness is due on demand and secured by inventories, a general assignment of book debts 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 in each of the entities lines of credit.

		July 1, 2022		December 31, 2021	
		Local currency	CAD	Local currency	CAD
Canadian entities	CAD	\$ 6,554	\$ 6,554	\$ 795	\$ 795
UK entity	GBP	£ 46	72	£ 116	200
<b>Bank indebtedness</b>			<b>\$ 6,626</b>		<b>\$ 995</b>

Interest is payable at the rate of bank prime (2021 - bank prime points).

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## 11. Long-term debt:

	July 1, 2022	December 31, 2021
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.	\$ 1,706	\$ 1,703
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.	1,316	1,335
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.	5,936	6,034
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.	2,621	2,982
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.	1,030	1,165
Term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 3.83% through November 2028, secured by the assets of HMCL. Monthly blended installments of \$77 CAD.	5,244	5,601
Term loan amortized over 7 years drawn in CAD funds at a fixed interest rate of 6.5% through June 2029, secured by the assets of HMCL. Monthly blended installments of \$64 CAD.	4,340	-
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.	1,554	1,856
Subtotal	\$ 23,747	\$ 20,676
Less current portion of long-term debt	14,541	14,551
Non-current long-term debt	\$ 9,206	\$ 6,125

## 12. Interest expense:

Interest expense is comprised as follows:

	Six Months Ended:		Three Months Ended:	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Long Term debt, excluding lease liabilities	\$ 457	\$ 375	\$ 203	\$ 186
Bank indebtedness	66	30	\$ 58	\$ 18
Interest expense	\$ 523	\$ 405	\$ 261	\$ 204
Interest expense leases	\$ 296	\$ 333	\$ 147	\$ 164
Total Interest and Lease interest expense	\$ 819	\$ 738	\$ 408	\$ 368

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## 13. Trade and other payables:

	July 1, 2022	December 31, 2021
Trade payables	\$ 11,679	\$ 10,224
Non-trade payables and accrued expenses	15,319	16,705
	\$ 26,998	\$ 26,929

## 14. Provisions:

	Environmental remediation	Sales returns	Total
Balance at December 31, 2020	\$ 225	\$ 84	\$ 309
Provisions made during the period	97	1,561	1,658
Provisions used during the period	(97)	(1,505)	(1,602)
Balance at December 31, 2021	\$ 225	\$ 140	\$ 365
Provisions made during the period	34	631	665
Provisions used during the period	(34)	(631)	(665)
Balance at July 1, 2022	\$ 225	\$ 140	\$ 365
Non-current	145	-	145
Current	80	140	220
Balance at July 1, 2022	\$ 225	\$ 140	\$ 365

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 2025.

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.

## 15. Employee future benefits:

	July 1, 2022	December 31, 2021
Post employment health benefits	\$ 70	\$ 70
Employee health benefits while on disability	323	323
Total employee future benefits	\$ 393	\$ 393

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

Employee future benefits continued:

	Post employment health benefits	Employee health benefits while on disability	Total
Balance at December 31, 2020	\$ 15	\$ 200	\$ 215
Provisions made during the period	59	179	238
Provisions used during the period	(4)	(56)	(60)
Balance at December 31, 2021	\$ 70	\$ 323	\$ 393
Provisions made during the period	2	44	46
Provisions used during the period	(2)	(44)	(46)
Balance at July 1, 2022	\$ 70	\$ 323	\$ 393
Non-current	55	253	308
Current	15	70	85
Balance at July 1, 2022	\$ 70	\$ 323	\$ 393

## 16. Earnings per share:

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

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

	Six Months Ended:		Three Months Ended:	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Net income for the year	\$ 4,500	\$ 4,174	\$ 2,295	\$ 2,197
Average number of common shares outstanding:				
Basic and Diluted	11,344	11,344	11,344	11,344
Earnings per share:				
Basic	\$ 0.40	\$ 0.37	\$ 0.21	\$ 0.19
Diluted	\$ 0.40	\$ 0.37	\$ 0.21	\$ 0.19

No share options to purchase common shares were outstanding as at July 1, 2022 or June 25, 2021.

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

## 17. Personnel expenses:

	Six Months Ended:		Three Months Ended:	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Wages and salaries	\$ 29,911	\$ 24,202	\$ 14,693	\$ 12,969
Health benefit plans	2,950	2,580	1,441	1,336
Canada Pension Plan and Employment Insurance	2,082	1,610	1,016	826
Contributions to defined contribution plans	949	779	487	379
	\$ 35,892	\$ 29,171	\$ 17,637	\$ 15,510

  

	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
	Cost of sales	\$ 27,785	\$ 21,761	\$ 13,569
Selling and distribution	6,368	5,755	3,183	2,968
General and administrative	1,604	1,529	818	791
Research and development	135	126	67	66
	\$ 35,892	\$ 29,171	\$ 17,637	\$ 15,510

## 18. 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 United States, the United Kingdom and Australia.

Geographic segments	Six Months Ended:		Three Months Ended:	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Net product sales:				
Canada:				
Sales to customers	\$ 41,824	\$ 34,280	\$ 21,416	\$ 18,174
US:				
Sales to customers	62,504	46,589	32,281	24,452
All other countries:				
Sales to customers	7,899	7,773	3,554	3,876
Net product sales	\$ 112,227	\$ 88,642	\$ 57,251	\$ 46,502
Non-current assets:				
Canada:				
Non-current assets	\$ 55,465	\$ 47,162		
US:				
Non-current assets	2,268	2,566		
All other countries:				
Non-current assets	3,438	3,788		
Total	\$ 61,171	\$ 53,516		

# HAMMOND MANUFACTURING COMPANY LIMITED

Notes to Unaudited Condensed Consolidated Financial Statements

Six months ended July 1, 2022 and June 25, 2021

(tabular amounts in thousands of Canadian dollars)

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## 19. Related party transactions:

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

	Six Months Ended:		Three Months Ended:	
	July 1, 2022	June 25, 2021	July 1, 2022	June 25, 2021
Salaries and short-term employee benefits	\$ 417	\$ 401	\$ 239	\$ 221

- (b) The Company purchased \$1,896,000 of product from RITEC in the six months ended July 1, 2022 (\$1,477,000 in six months ended June 25, 2021). 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 6 months of the reporting date. None of the balances are secured. Trade receivable as at July 1, 2022 was \$14,000 (December 31, 2021 – \$26,000) while trade payable was \$35,000 (December 31, 2021 – \$11,000).

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.