



**FIRAN TECHNOLOGY GROUP
CORPORATION**

**First Quarter Report
For the period ended
February 28, 2020**

April 7, 2020

April 7, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

(dollar amounts stated in thousands of Canadian dollars unless otherwise specified)

This Management's Discussion and Analysis ("MD&A") for the three months ended February 28, 2020 (first quarter of fiscal 2020 or Q1 2020) is as of April 7, 2020 and provides information on the operating activities, performance and financial position of Firan Technology Group Corporation ("FTG" or the "Corporation") and should be read in conjunction with the interim condensed consolidated financial statements of the Corporation for the first quarter of fiscal 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. Corporation assumes that the reader of this MD&A has access to, and has read the audited consolidated financial statements prepared in accordance with IFRS and MD&A of the Corporation for the year ended November 30, 2019 (Fiscal 2019) and, accordingly, the purpose of this document is to provide a first quarter update to the information contained in fiscal 2019 MD&A. Additional information is contained in the Corporation's filings with Canadian securities regulators, including its Annual Information Form dated February 13, 2020, found on SEDAR at www.sedar.com and on the Corporation's website at www.ftgcorp.com.

CORE BUSINESS AND STRATEGY

FTG is a leading global supplier of aerospace and defence electronic products and subsystems, with facilities in Canada, the United States and China. It is a publicly traded corporation on the Toronto Stock Exchange listed under the trading symbol "FTG".

FTG has two operating segments: FTG Circuits and FTG Aerospace.

FTG Circuits is a leading manufacturer of high technology/high reliability printed circuit boards within the Global marketplace. Currently, FTG Circuits has manufacturing operations in Canada (Toronto, Ontario), USA (Chatsworth, California, and Fredericksburg, Virginia), as well as a joint venture and sourcing arrangements with operating facilities in China. In July, 2019, FTG acquired Colonial Circuits, Inc., which has been subsequently renamed FTG Circuits Fredericksburg Inc. ("Colonial" or "Circuits Fredericksburg"). FTG Circuits' customers are technological and market leaders in the aviation, defence and other high technology industries.

FTG Aerospace designs and manufactures illuminated cockpit panels, keyboards, bezels, sub-assemblies and assemblies for original equipment manufacturers ("OEMs") of avionics products as well as for airframe manufacturers. FTG Aerospace has manufacturing operations in Toronto, Ontario, Canada, Chatsworth, California, USA. and Tianjin, China, and an engineering office in Fort Worth, Texas, USA. These products are interactive devices that display information and contain buttons and switches that can be used to input signals into an avionics box or aircraft.

For the past number of years, FTG has had a strategic goal of expanding its operations in both the operating segments. In FTG's printed circuit board business represented by the FTG Circuits operating segment, many of its customers now look at FTG as an important part of their global sourcing plans and this has led to growth in the business. In FTG's cockpit product business represented by the FTG Aerospace operating segment, FTG has seen similar positive reactions from customers and again this is leading to increased opportunities.

With these facilities in place in North America and China, FTG has completed some key strategic goals including expanding its presence in the large US aerospace and defense market, penetrating the rapidly growing Asian aerospace market, reducing its exposure to the ever changing value of the Canadian dollar, and becoming a more strategic supplier to many of its customers. FTG has become a truly global company with revenues coming from all geographic regions of the world and our current strategy is to increase the utilization and operational leverage of those facilities and realize the significant margin expansion opportunities as fixed costs are already in place.

A key element of FTG's strategy has been its continued focus on Operational Excellence. This has led to improved performance across the Corporation. By weaving *Operational Excellence* into its day-to-day operations, FTG continues to create a corporate culture where quality products, on time delivery and customer service are the paramount forces driving the Corporation forward.

FTG continues to increase its technical skills in both segments to support the demands from customers for more complex, challenging solutions on new programs and opportunities.

The FTG management team is focused on and committed to running a healthy business, offering stability to its customers, suppliers and employees while delivering long-term value to all of its stakeholders.

FTG continues to strive to balance its sales between commercial aerospace and defence customers. This should help maintain a stable revenue stream as each market goes through its normal cycles.

FTG remains clearly positioned as an aerospace and defence electronics company. FTG is now engaged with most of the top aerospace and defence prime contractors in North America and it is making significant progress penetrating markets beyond this continent. FTG's focus on this market is based on a belief that it can provide a unique solution to its customers and attain a sustainable competitive advantage.

Going forward, the Corporation's focus and initiatives will continue to revolve around controlling the Corporation's infrastructure, material and labour costs while increasing the utilization of our facilities realizing significant operational leverage and margin expansion. Simultaneously, management continues to look for accretive business combinations that can add to FTG's strengths and offerings.

RESULTS OF OPERATIONS FOR THE FIRST QUARTER OF 2020 FISCAL YEAR

<i>(thousands of dollars except per share amounts)</i>	Q1 2020	Q1 2019
Sales	\$ 24,538	\$ 25,390
Gross margin	3,960	6,754
Net (loss) earnings to equity holders of FTG	(2,597)	1,218
Number of Common and preferred shares, in aggregate (in thousands)	24,491	24,491
Net (loss) earnings per share – basic	(\$0.11)	\$0.05
Net (loss) earnings per share – diluted	(\$0.11)	\$0.05
Total assets	84,602	69,458
Net, cash (bank debt) position	\$ 5,186	(\$ 4,272)

Sales

Sales for the first quarter of fiscal 2020 were \$24,538, a decrease of \$852 or 3.4% from the first quarter of fiscal 2019. The significant variances in first quarter sales in 2020 as compared to 2019 were as follows:

- As a result of COVID-19, our operations in China were shut-down for the month of February, 2020. These operations typically contribute \$500 in revenue per month. Operations partially resumed in March, 2020 in compliance with local regulations and protocols.
- Shipments of products for the Simulator market, which is an important product line of the FTG Aerospace segment, were approximately \$2,000 lower in the first quarter of 2020 as compared to the prior year. Previous orders were completed and new orders could not be assembled until the arrival of longer lead components. With a current backlog of orders amounting to \$8,100, Simulator revenues are expected to recover in late Q2 or through the second half of fiscal 2020.
- Net sales during first quarter of fiscal 2020 also included an impact of net realized foreign exchange (“f/x”) loss of \$313 (Q1 2019, loss of \$72) on foreign exchange forward contracts (“f/x forward contracts”). These contracts were designated as cash flow hedges during the period ended February 28, 2020, which reduced sales and profitability in the first quarter of fiscal 2020 as compared to same period in the last year.
- Partially offsetting the negative variances above, the Circuits Fredericksburg operation, acquired in July, 2019 and included in the FTG Circuits business segment, contributed approximately \$2,100 of sales,

The following table compares net sales by reportable segment for the first quarter fiscal 2020 and 2019.

<i>(thousands of dollars)</i>	Q1 2020	Q1 2019
Circuits	\$ 16,457	\$ 15,207
Aerospace	8,081	10,183
Net sales	\$ 24,538	\$ 25,390

Net sales in the Circuits segment increased by \$1,250 or 8.2% as a result of the Circuits Fredericksburg acquisition which contributed \$2,100 in sales, partially offset by COVID-19 impact in China and unfavourable foreign exchange. Net sales to the top five customers represented 62.7% of the FTG Circuits net segment sales for the first quarter of fiscal 2020 (69.6% in 2019).

The decrease in Aerospace segment net sales of \$2,102 or 20.6% is the result of lower sales in the Simulator market and the COVID-19 impact in China. Net sales to the top five customers represented 57.2% of the FTG Aerospace net segment sales for the first quarter of fiscal 2020 (54.5% in 2019).

The Corporation’s consolidated net sales by location of its customers are as follows:

<i>(thousands of dollars)</i>	Q1 2020	%	Q1 2019	%
Canada	\$ 1,739	7.1	\$ 2,657	10.5
United States	18,332	74.7	17,729	69.8
Asia	3,257	13.3	3,741	14.7
Europe	908	3.7	960	3.8
Other	302	1.2	303	1.2
Total	\$ 24,538	100.0	\$ 25,390	100.0

Net sales in Canada decreased by \$918 or 34.5% as compared to same period last year primarily as a result of lower Simulator revenues and net sales in Asia decreased by \$484 or 12.9% as a result of the COVID-19 shutdown in China. Net sales in the United States were higher by \$603 or 3.4%, as a result of the acquisition of the Circuits Fredericksburg business, which has a U.S. customer base, partially offset by lower Simulator revenues to U.S. based customers.

The Corporation's top five customers represent 56.2% of net sales for the first quarter of fiscal 2020 as compared to 56.8% for the same period last year. The Corporation's two largest customers accounted for 23.1% (23.2% in 2019) and 11.7% (10.2% in 2019) of net sales for the first quarter of fiscal 2020.

Gross Margin

Gross margin on a consolidated basis decreased by \$2,794 or 41.4% for the first quarter of fiscal 2020 to \$3,960 or 16.1% of net sales compared to \$6,754 or 26.6% of net sales for the same period last year. The decrease in gross margin dollars is primarily the result of reduced operating leverage on lower sales volumes, particularly the Simulator market. The reduction in contribution margin on the negative sales variances described above, ranged from 50% to 100% depending on the item. During the COVID-19 shut-down in China, we continued to incur both fixed costs and labour costs according to local regulations. Although the incremental revenue from Circuits Fredericksburg added to gross margin dollars, the impact was net of incremental fixed costs of that site.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the first quarter of fiscal 2020 were \$3,431 or 14.0% of net sales as compared to \$3,242 or 12.8% of net sales for the same period last year. The increase of \$189 or 5.8% in SG&A expense during the first quarter of fiscal 2020 is mainly due to the impact of added headcount and operating facilities of \$493 at the Circuits Fredericksburg site acquired in July 2019, which was not present in the same period last year, partially offset by reduced performance compensation expense by \$304. Employee Termination costs of \$93 were incurred in Q1 2020 and included in SG&A (Q1 2019 - \$nil).

Research and Development Costs

Research and development ("R&D") costs include the cost of direct labour, materials and an allocation of overhead specifically incurred in activities regarding technical uncertainties in production processes, product development and upgrading. Generally, these costs represent specific activities regarding the technical uncertainty of production processes and exotic materials.

R&D costs for the first quarter of fiscal 2020 were \$1,081 or 4.5% of net sales as compared to \$1,116 or 4.4% of net sales for the same period last year. R&D costs were slightly lower in the current quarter, in which both U.S and Canadian operations focused on process and product improvements as well as testing of new techniques, technology and special materials.

Recovery of Investment Tax Credits

The Corporation records the tax benefit of investment tax credits ("ITCs") when there is reasonable assurance that such credits will be realized. The Corporation has, as at February 28, 2020, \$2,983 (November 30, 2019 - \$3,035) of Canadian investment tax credits available to be applied against future income taxes payable in Canada. Incremental ITCs of \$172 have been recognized as a recovery during the first quarter ended February 28, 2020 (\$205 in 2019).

Depreciation of Plant and Equipment

Depreciation of plant and equipment for the first quarter of fiscal 2020 was \$1,040, an increase of \$169 or 19.4% as compared to depreciation of \$871 for the same period last year. The increase in depreciation during the first quarter of fiscal 2020 includes \$137 related to the Circuits Fredericksburg operation that was not present in the same period last year and the remaining increase of \$32 was mainly due to the timing of capital expenditures being put into service.

Depreciation of right-of-use assets

Depreciation of right-of-use assets for the first quarter of fiscal 2020 was \$397, as compared to \$nil for the same period last year. Effective December 1, 2019, the Corporation adopted IFRS 16, Leases. Subsequent to the adoption, operating costs decreased due to the removal of rent expense for leases, depreciation expense increased due to depreciation of right-of-use assets, and finance costs increased due to accretion of the lease liability.

Amortization/Impairment of Intangible Assets

Amortization of intangible assets for the first quarter of fiscal 2020 was \$299, an increase of \$28 or 10.3% as compared to amortization of \$271 for last year. The increases in amortization included \$32 related to the acquisition of the Circuits Fredericksburg business that was not present in the same period last year, offset by decrease of \$4 due to the effect of changes in the f/x rates for the intangibles held in FTG's US divisions in the current period as compared to the same period last year.

The Corporation determined that the carrying value of intangible assets recognized following the acquisition of the Teledyne PCT business in July, 2016, exceeded its recoverable amount as of February 28, 2020 by an amount of \$1,145. The recoverable amount was determined through a value in use analysis of the present value of the future cash flows to be derived from the relevant cash-generating unit.

Interest Expense

In the first quarter of fiscal 2020, interest costs were \$41, a decrease of \$36 or 46.8% as compared to \$77 for the same period last year. The decrease in interest expense in the first quarter of fiscal 2020 was mainly due to the decrease in bank debt as compared to same period last year.

Accretion on lease liabilities

Accretion on lease liabilities for the first quarter of fiscal 2020 was \$137, as compared to \$nil for the same period last year. As a result of the adoption of IFRS 16 effective December 1, 2019, operating costs decreased due to the removal of rent expense for leases, depreciation expense increased due to depreciation of right-of-use assets, and finance costs increased due to accretion of the lease liability.

Foreign Exchange Loss (Gain)

The foreign exchange loss for the first quarter of fiscal 2020 was \$49 compared to a foreign exchange loss of \$156 for the same period last year. The foreign exchange loss for the first quarter of fiscal 2020 was mainly as a result of net realized loss of \$4 (2019 – net loss of \$46) on foreign exchange contracts and net loss of \$45 (2019 – net loss of \$110) on the re-valuation of the U.S. dollar assets and liabilities on the respective balance sheets. These foreign exchange fluctuations are due to the variance in US dollar balances held by the Corporation, the changes in average and quarter-end Canadian dollar versus U.S. dollar exchange rates and the foreign exchange hedging contracts that the Corporation has in place. The

quarter-end Canadian dollar, as compared to the U.S. dollar exchange rate, depreciated by approximately \$0.0140 or 1.05% from 1.3289 as at November 30, 2019 to 1.3429 as at February 28, 2020, as compared to an appreciation of approximately \$0.0041 or 0.31% from 1.3301 as at November 30, 2018 to 1.3260 as at March 1, 2019.

In the first quarter of fiscal 2020, a net realized loss of \$313 was recognized in sales with respect to foreign exchange forward contracts designed as cash flow hedges, this compares to a net realized loss of \$72 recognized in sales with respect to foreign exchange forward contracts designed as cash flow hedges in the first quarter of fiscal 2019. The table below includes the effect of the net realized gain (loss) on foreign exchange forward contracts on net sales.

<i>(thousands of dollars)</i>	Q1 2020	Q1 2019
Sales before adjustment for net realized (loss) on f/x forward contracts designed as cash flow hedges	\$ 24,851	\$ 25,462
Less: adjustment for net realized (loss) on hedged f/x forward contracts designed as cash flow hedges	(313)	(72)
Net sales	24,538	25,390
Costs of sales	19,199	17,808
Depreciation of plant and equipment and right-of-use assets	1,379	828
Total cost of sales	20,578	18,636
Gross margin	3,960	6,754
Gross margin %	16.1%	26.6%
Gross margin before f/x (loss)	\$ 4,273	\$ 6,826
Gross margin % before f/x (loss)	17.2%	26.8%

Income Tax Expense (Recovery)

During the three months period ended February 28, 2020, current income tax of \$434 (2019 – current income tax of \$777) was recognised in the interim condensed consolidated statement of earnings which included current income tax expense of \$414 (2019 - \$754) related to income tax on earnings in the Canadian entity, and expense of \$3 (2019 - \$3) related to taxes for the U.S. subsidiaries, and withholding taxes of \$17 (2019 – \$20) related to source deductions on remittances from the Chinese subsidiary to the Corporation.

Deferred tax expense of \$35 (\$30 in 2019) related to the tax effect of recovery of investment tax credits of \$172 (\$205 in 2019) in the first quarter of fiscal 2020.

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in. The effective tax rate on Canadian earnings for the period ended February 28, 2020 was 25% (2019: 25%) which was based on projected annualized Manufacturing and Processing rates.

Net (Loss) Earnings

The net (loss) for the first quarter of fiscal 2020 was (\$2,629) which included net (loss) of (\$2,597) attributable to equity holders of FTG, offset by net (loss) of (\$32) relating to non-controlling interests. The net (loss) for the first quarter of fiscal 2020 attributable to equity holders of FTG translated into basic and diluted (loss) per share of (\$0.11).

The net earnings for the first quarter of fiscal 2019 were \$1,173 which included net earnings of \$1,218 attributable to equity holders of FTG, offset by net (loss) of (\$45) relating to non-controlling interests. The net earnings for the first quarter of fiscal 2019 attributable to equity holders of FTG translated into basic and diluted earnings per share of \$0.05.

OVERVIEW OF HISTORICAL QUARTERLY RESULTS

(thousands of dollars except per share amounts and exchange rates)

	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20
Circuit Segment Sales	\$16,196	\$16,395	\$17,362	\$15,207	\$19,265	\$18,336	\$18,634	\$16,457
Aerospace Segment Sales	12,682	8,606	10,651	10,183	12,970	9,617	8,441	8,081
Total Net Sales	28,878	25,001	28,013	25,390	32,235	27,953	27,075	24,538
Earnings (Loss) before income taxes	2,367	1,574	2,006	1,980	3,798	2,838	1,112	(2,160)
Net Earnings (Loss) Attributable to Equity holders of FTG	1,295	647	1,226	1,218	2,482	1,783	575	(2,597)
Earnings (Loss) per share: Basic	\$0.06	\$0.03	\$0.05	\$0.05	\$0.11	\$0.08	\$0.03	(\$0.11)
Earnings (Loss) per share: Diluted	\$0.05	\$0.03	\$0.05	\$0.05	\$0.10	\$0.07	\$0.03	(\$0.11)
Quarterly average CDN\$ U.S.\$ exchange rates	\$1.2847	\$1.3106	\$1.3011	\$1.3322	\$1.3401	\$1.3214	\$1.3223	\$1.3169

The Corporation was profitable during all prior seven quarters of fiscal 2019 and 2018 except for the current quarter (first quarter of fiscal 2020).

The Corporation's net sales over the last eight quarters continue to be derived from major technological and market leaders in the aviation, defence and other high technology industries, each following their own cycles. The principal markets served over the last eight quarters continue to be the commercial aerospace and military markets primarily in Canada and the United States, though FTG continues to increase its activity in Europe and Asia.

The Corporation is exposed to foreign exchange fluctuations as the vast majority of sales are earned in U.S. dollars, while a significant amount of operating expenses are incurred in Canadian dollars. The Corporation regularly enters into foreign exchange forward contracts to sell excess U.S. dollars generated from its Canadian operations.

LIQUIDITY AND CAPITAL RESOURCES

As at February 28, 2020, the Corporation's primary sources of liquidity totalled \$50,643 (\$51,154 as at November 30, 2019), made up of cash, accounts receivable, contract assets, income taxes receivable and inventory but excluding US\$9,000 (or equivalent in Canadian dollars) of availability remaining on its

revolving line of credit and approximately US\$2,900 (or equivalent in Canadian dollars) of availability remaining on its revolving term loan with its primary lender as at February 28, 2020. Working capital at February 28, 2020 was \$25,784 as compared to \$28,603 at November 30, 2019.

Outstanding bank debt of \$4,966 has been classified as a current liability, and hence a reduction of working capital, as the Corporation's 5 year bank facility agreement expires in November 2020. FTG expects to finalize a new banking facility on terms which are comparable to the current one.

Accounts receivable days outstanding were 72 as at February 28, 2020 compared to 70 as of November 30, 2019, inventory turns were 3.7 as at February 28, 2020 as compared to 3.7 as of November 30, 2019, and accounts payable days outstanding were 74 as at February 28, 2020 as compared to 81 as of November 30, 2019. All of the Corporation's credit facilities with its primary lender are secured by a first charge on all of the Corporation's assets.

The Corporation was in compliance with all of its financial loan covenants as at February 28, 2020.

Management believes the Corporation has sufficient liquidity and capital resources to meet its obligations for the foreseeable future.

The following table outlines the contractual obligations of the Corporation as at February 28, 2020.

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE IN \$000'S					
	Total	First Year	Second Year	Third Year	Fourth Year	Beyond Fourth Year
Bank debt ^{1,2}	4,975	4,975				
Accounts payable and accrued liabilities, and provisions	15,486	15,486	-	-	-	-
Contract liabilities	4,154	4,154	-	-	-	-
Operating Leases	914	406	285	123	75	25

¹ Bank debt includes a \$9 offset for deferred financing charges.

² Bank debt is presented as a First Year obligation as a result of the expiry of the current bank facility agreement in 2020. The Corporation expects to reschedule a portion of these obligations to subsequent years, upon concluding a new bank facility agreement.

The Corporation does not have any off consolidated statements of financial position arrangements that have or reasonably are likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, the Corporation is not exposed materially to any financing, liquidity, market or credit risk that could arise if it had engaged in these arrangements.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation follows hedge accounting on its derivative financial instruments and as a result, has designated certain derivative financial instruments as cash flow hedges. The fair value of the Corporation's foreign exchange forward contracts, gold forward contracts, interest rate swap is based on the current market values of similar contracts with similar remaining durations as if the contract had been entered into on February 28, 2020. The forward current value (fair value) of these financial instruments as at February 28, 2020 had an net unrealized loss of \$2,616 (an unrealized loss on foreign exchange forward contracts of \$2,484, and an unrealized loss on gold forward contracts of \$5, and an unrealized

loss on interest rate swaps of \$127, and included in other comprehensive (loss) income, net of \$654 in tax, and relates to derivatives designated as cash flow hedges. The forward current value (fair value) of these financial instruments as at November 30, 2019 had an net unrealized loss of \$2,234 (an unrealized loss on foreign exchange forward contracts of \$2,127, and an unrealized loss on gold forward contracts of \$30, and an unrealized loss on interest rate swaps of \$77, and included in other comprehensive (loss) income, net of \$558 in tax, and relates to derivatives designated as cash flow hedges.

In December 2015, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (5.0 year U.S. \$4,000 term loan, amortized over 5 years, repayable in equal monthly principal payments of approximately U.S. \$67 plus interest at LIBOR rate plus 200 basis points) over the five year term at a fixed rate of 1.44% plus applicable margin of 200 basis points for an aggregate fixed interest rate of 3.44%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$1) (November 30, 2019 – unrealised gain of \$1) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

In July 2016, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (7.0 year U.S. \$2,600 term loan, amortized over 7 years, repayable in equal monthly principal payments of approximately U.S. \$31 plus interest at LIBOR rate plus 215 basis points) over the seven year term at a fixed rate of 1.20% plus applicable margin of 215 basis points for an aggregate fixed interest rate of 3.35%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$10) (November 30, 2019 - unrealized gain of \$10) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

In February 2018, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (7.0 year U.S. \$1,500 term loan, amortized over 7 years, repayable in equal monthly principal payments of approximately U.S. \$18 plus interest at LIBOR rate plus 215 basis points) over the seven year term at a fixed rate of 2.81% plus applicable margin of 215 basis points for an aggregate fixed interest rate of 4.96%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$64) (November 30, 2019 - unrealized (loss) of (\$48) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

In April 2018, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (7.0 year U.S. \$1,000 term loan, amortized over 7 years, repayable in equal monthly principal payments of approximately U.S. \$12 plus interest at LIBOR rate plus 215 basis points) over the seven year term at a fixed rate of 2.93% plus applicable margin of 215 basis points for an aggregate fixed interest rate of 5.08%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$52) (November 30, 2019 - unrealized (loss) of (\$40) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

CAPITAL EXPENDITURES (PLANT AND EQUIPMENT)

For the first quarter of fiscal 2020, the Corporation invested \$1,046 in net capital expenditures which mainly included purchase of a deburring machine, sprint inkjet printers and various upgrades to machinery and equipment at its existing facilities. The Corporation also invested in an automated, highly secure system to ensure that critical Information Technology data and software is backed up and retrievable.

For the first quarter of fiscal 2019, the Corporation invested \$391 in net capital expenditures which included various upgrades to machinery and equipment, computer hardware and software at its existing facilities.

CASH FLOW

Operating Activities

Operating activities in first quarter of fiscal 2020 provided net cash inflow of \$4,325 as compared to net cash outflow of \$1,406 in the first quarter of fiscal 2019. The primary period over period variances in cash flow from operating activities are a \$4,022 increase due to timing impacts within the individual components of non-cash working capital. In first quarter of fiscal 2019, timing factors within individual components of non-cash working capital resulted in cash usage of \$4,087 offset by changes in earnings. The favourable variance in changes in non-cash working capital in Q1 2020, relative to Q1 2019, of \$8,109 is primarily result of lower inventories and higher contract liabilities. The increased balance in contract liabilities is the result of receiving advance payments on Simulator business contracts.

Investing Activities

Investing activities in first quarter of fiscal 2020 resulted in the net use of cash of \$1,040 which included \$1,046 for capital expenditures offset by \$6 towards recovery of contract and other costs. Investing activities in first quarter of fiscal 2019 resulted in the net use of cash of \$409 which included \$391 for capital expenditures and \$18 towards additions of contract and other costs.

Financing Activities

Cash used by financing activities in the first quarter of fiscal 2020 resulted in a cash outflow of \$949 which included \$503 towards repayments of bank debt and \$446 towards lease liability payments.

Cash provided by financing activities in the first quarter of fiscal 2019 resulted in a cash inflow of \$486 which included proceeds from bank indebtedness of \$995, offset by repayments of bank debt of \$509.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the first quarter of fiscal 2020 and 2019.

FINANCIAL RISK MANAGEMENT

Disclosures regarding the nature and extent of the Corporation's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk and how the Corporation manages those risks can be found under the heading "Financial Instruments" in Note 8 of the interim condensed consolidated financial statements as at February 28, 2020 and are designed to meet the requirements of the set out by the IASB in IFRS 7 *Financial Instruments: Disclosures*.

OUTSTANDING SHARES

The authorized capital of the Corporation consists of an unlimited number of common shares ("Common Shares") and an unlimited number of preference shares issuable in series, of which are outstanding a series of convertible preference shares, Series 1 (the "Preferred Shares"). As at February 28, 2020 and November 30, 2019, the Corporation had outstanding 22,716,201 Common Shares and 1,775,000 Preferred Shares. The Preferred Shares are convertible into Common Shares on a one-for-one basis. Each Common Share and Preferred Share carries the right to one vote. Holders of Preferred Shares are entitled to a preference over holders of Common Shares in respect of any distribution of assets in connection with the liquidation, dissolution or winding up of the Corporation and shall be entitled to receive an amount

equal to \$2.50 per Preferred Share before any amount is paid or any assets of the Corporation are distributed to the holders of Common Shares.

During the three months period ended February 28, 2020, there were no grants of performance share units (“PSUs”) (2019 – 22,500), PSU’s vest based on the achievement of a non-market performance condition. PSUs vest at the end of their respective terms, generally three years, to the extent that the applicable performance conditions have been met. As at February 28, 2020, 184,444 of the 201,944 outstanding PSUs had vested/ exercisable (November 30, 2019, 184,444 of the 206,944 outstanding PSUs had vested/ exercisable).

RISK FACTORS

FTG operates in a dynamic and rapidly changing environment and industry, which exposes the Corporation to numerous risk factors. Additional information about the Corporation, including risks and uncertainties about FTG’s business, is provided in the Corporation’s Annual Information Form dated February 13, 2020 which is available on SEDAR at www.sedar.com.

ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation has adopted IFRS 16 *Leases* (“IFRS 16”) Effective December 1, 2019. The Corporation adopted IFRS 16 under the modified retrospective approach and did not restate the comparatives for 2019. At transition, the Corporation applied the practical expedient available to the Corporation as lessee that allows the continuation of the lease assessments under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts existing as at December 1, 2019 and not expiring before November 30, 2020. Refer to Note 3 and Note 4 of the interim condensed consolidated financial statements as at February 28, 2020 for additional details.

ETHICAL BUSINESS CONDUCT

The Corporation has a written code of conduct for Directors, Officers and employees (the “Policy of Business Conduct”) and a “Whistle Blowing Policy”, which are each available on www.sedar.com. The Board monitors compliance with the Policy of Business Conduct through an annual review and sign off procedure from all of its Directors, Officers and employees.

SUBSEQUENT EVENT

Management has evaluated the impact of all subsequent events through April 7, 2020, which is the date that these interim condensed consolidated financial statements were approved to be issued. Management has determined that there were no subsequent events requiring adjustment in the interim condensed consolidated financial statements. Management has identified a potential risk relating to the recent outbreak of COVID-19 in many countries around the world including Canada, U.S. and in Asia, which continues to adversely impact the global economy. The global impact of the outbreak has been rapidly evolving and the disruption from this outbreak is adversely impacting many industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19 on the aerospace industry. Nevertheless, COVID-19 presents uncertainty and risk with respect to the Corporation’s future performance and future financial results.

OUTLOOK

The world economy and the outlook for the Aerospace industry is very uncertain at this time. By far the largest negative impact is the spread of COVID-19 around the world. This has resulted in an almost complete halt to air travel, and has hurt the overall world economy badly, but at an as yet undetermined amount.

On a global scale, the airline industry is dramatically weakened with huge drops in passenger travel. Both the demand for and the capacity to finance new aircraft in the short term is expected to be reduced. This could impact the overall aerospace industry through 2020 with no clear end to this situation.

Specifically at FTG, the COVID-19 pandemic is causing production disruptions at all sites. FTG's operations in Tianjin China were closed for February. While they have subsequently reopened, there are a number of rules and regulations that must be followed that have some negative impacts on operations.

In California, the State closed many businesses and ordered people to stay at home. FTG's Chatsworth Operations were deemed an essential business, due to the defense activity at these sites, but again the restrictions in California that has resulted in some suppliers closing, and rules FTG has implemented to keep employees safe, are impacting operations.

In Fredericksburg, the same situation has occurred, but not until more recently. FTG Circuits Fredericksburg remains open but with various negative impacts to operations.

In Canada, again a similar situation has happened. FTG's operations in Toronto are deemed essential businesses, and remain operational, however government and self-imposed guidelines are negatively impacting operations.

In January of 2020, Boeing halted production of the 737 MAX aircraft for an undetermined period of time as they continue to try and get that aircraft re-certified for service. More recently Boeing halted all production of aircraft in Seattle for a period of time, due to COVID-19. These will negatively impact the Aerospace industry in 2020.

And in Canada, Bombardier has entered into sales agreements to sell many of their operations to others. The Q-400 program has been sold, their ownership in the A220 has been sold, and the regional jet business is being sold. While this is not expected to negatively impact FTG, it has created more uncertainty in the market.

The defense market is not expected to be significantly impacted by the COVID-19 pandemic. In fact, defense spending is one tool governments can use to stimulate the global economy.

There are other economic factors, outside the aerospace and defense market, that can also impact the outlook for FTG. The relative strength, or weakness, of the Canadian dollar could also be a factor as about 50-60% of FTG's operations are located in Canada but FTG competes primarily in U.S. dollars. Strengthening of the Canadian dollar would hurt FTG's competitiveness whereas a weakening of the Canadian dollar, as seen recently, would enhance FTG's competitiveness.

CONTROLS AND PROCEDURES

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in 1992. In May 2013, COSO released an updated version of the 1992 internal control integrated framework. The Company is in the process adopting the new framework.

Internal control over financial reporting

Management, including the CEO and CFO, does not expect that the Corporation’s disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met.

During the first quarter ended February 28, 2020, there have been no changes in the Corporation’s internal controls over financial reporting, other than the limitation of scope of design as noted above, that may have materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

Caution Regarding Forward-Looking Statements

Certain statements in this MD&A other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the current expectations of FTG. These statements include without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of FTG, as well as the outlook for North American and international economies, for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as “expects”, “anticipates”, “plans”, “believes”, “estimates”, “seeks”, “considers”, “intends”, “targets”, “projects”, “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may”, “will”, “should”, “would” and “could”. Forward-looking statements are provided for the purpose of conveying information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes.

Forward-looking information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including FTG’s perception of historical trends, current conditions and expected future developments as well as other factors FTG believes are appropriate in the circumstances.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond FTG’s control, affect the operations, performance and results of FTG and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: impact or unanticipated impact of general economic, political and market factors in North America and internationally; intense business competition

and uncertain demand for products; technological change; customer concentration; foreign currency exchange rates; dependence on key personnel; ability to retain and develop sufficient labour and management resources; ability to complete strategic transactions, integrate acquisitions and implement other growth strategies; litigation and product liability proceedings; increased demand from competitors with lower production costs; reliance on suppliers; credit risk of customers; compliance with environmental laws; possibility of damage to manufacturing facilities as a result of unforeseeable events, such as natural disasters or fires; fluctuations in operating results; possibility of intellectual property infringement claims; demand for the products of FTG's customers; ability to obtain continued debt and equity financing on acceptable terms; ability of a significant shareholder to influence matters requiring shareholder approval; historic volatility in the market price of the Corporation's common shares and risk of price decreases; production warranty and casualty claim losses; conducting business in foreign jurisdictions; income and other taxes; and government regulation and legislation and FTG's ability to successfully anticipate and manage the foregoing risks.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of FTG's forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

Other than as specifically required by law, FTG undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to gross margin which represents net sales less cost of sales and expenses. Not included in the calculation of gross margin are selling, administrative and general expenses, research and development costs and recoveries, foreign exchange, gains or losses on the sale of assets, interest and income taxes. Gross margin is not generally accepted earnings measures and should not be considered as an alternative to net earnings or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's gross margin may not be directly comparable with similarly titled measures used by other companies. Management believes the gross margin measure is important to many of the Corporation's shareholders, creditors and other stakeholders. The risks, uncertainties and other factors that could influence actual results are described in this MD&A based on information available as of April 7, 2020 and the Corporation's Annual Information Form (including documents incorporated by reference) dated February 13, 2020 which is available on SEDAR at www.sedar.com.

FIRAN TECHNOLOGY GROUP CORPORATION

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements of the Corporation have been prepared by management and approved by the Audit Committee and Board of Directors of the Corporation.

The Corporation's independent auditors have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim condensed consolidated financial statements by an entity's auditors.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited) (in thousands of Canadian dollars)	February 28, 2020	November 30, 2019
ASSETS		
Current assets		
Cash	\$ 10,152	\$ 7,647
Accounts receivable	19,199	21,085
Contract assets	556	432
Income tax receivable	247	-
Inventories	20,489	21,990
Prepaid expenses	1,476	1,770
	52,119	52,924
Non-current assets		
Plant and equipment, net	13,923	13,830
Right-of-use assets (<i>Note 3, Note 4</i>)	13,434	-
Deferred income tax assets	724	724
Investment tax credits receivable	2,983	3,035
Deferred development costs	267	279
Intangible assets and other assets, net	1,152	2,585
Total assets	\$ 84,602	\$ 73,377
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 14,566	\$ 17,104
Provisions	920	946
Contract liabilities	4,154	216
Bank debt	4,966	5,416
Current portion of lease liabilities (<i>Note 3, Note 4</i>)	1,729	-
Income tax payable	-	639
	26,335	24,321
Non-current liabilities		
Lease liabilities (<i>Note 3, Note 4</i>)	11,792	-
Deferred tax payable	1,332	1,297
Total liabilities	39,459	25,618
Equity		
Retained earnings	\$ 15,148	\$ 17,745
Accumulated other comprehensive loss	(1,610)	(1,554)
	13,538	16,191
Share capital		
Common Shares (<i>Note 5.1</i>)	19,323	19,323
Preferred Shares	2,218	2,218
Contributed surplus	8,984	8,933
Total equity attributable to FTG's shareholders	44,063	46,665
Non-controlling interest	1,080	1,094
Total equity	45,143	47,759
Total liabilities and equity	\$ 84,602	\$ 73,377
See accompanying notes.		

Interim Condensed Consolidated Statements of (Loss) Earnings

(Unaudited) (in thousands of Canadian dollars, except per share amounts)	Three months ended	
	February 28, 2020	March 1, 2019
Sales	\$ 24,538	\$ 25,390
Cost of sales		
Cost of sales	19,199	17,808
Depreciation of plant and equipment	994	828
Depreciation of right-of-use assets (<i>Note 3, Note 4</i>)	385	-
Total cost of sales	20,578	18,636
Gross margin	3,960	6,754
Expenses		
Selling, general and administrative	3,431	3,242
Research and development costs	1,081	1,116
Recovery of investment tax credits	(172)	(205)
Depreciation of plant and equipment	46	43
Depreciation of right-of-use assets (<i>Note 3, Note 4</i>)	12	-
Amortization of intangible assets	299	271
Interest expense on bank debt, net	41	77
Accretion on lease liabilities (<i>Note 3, Note 4</i>)	137	-
Stock based compensation	51	74
Foreign exchange loss (<i>Note 8.2</i>)	49	156
Impairment of intangible assets (<i>Note 10</i>)	1,145	-
Total expenses	6,120	4,774
(Loss) earnings before income taxes	(2,160)	1,980
Current income tax expense	434	777
Deferred income tax expense	35	30
Total income tax expense	469	807
Net (loss) earnings	\$ (2,629)	\$ 1,173
Attributable to:		
Non-controlling interest	\$ (32)	\$ (45)
Equity holders of FTG	\$ (2,597)	\$ 1,218
(Loss) earnings per share, attributable to the equity holders of FTG		
Basic (<i>Note 5.2</i>)	\$ (0.11)	\$ 0.05
Diluted (<i>Note 5.2</i>)	\$ (0.11)	\$ 0.05

See accompanying notes.

Interim Condensed Consolidated Statements of Comprehensive (Loss) Income

(Unaudited) (in thousands of Canadian dollars)	Three months ended	
	February 28, 2020	March 1, 2019
Net (loss) earnings	\$ (2,629)	\$ 1,173
Other comprehensive loss to be reclassified to net (loss) earnings in subsequent periods:		
Change in foreign currency translation adjustments	248	(12)
Change in net unrealized loss on derivative financial instruments designated as cash flow hedges (<i>Note 8.1, Note 8.2</i>)	(382)	(67)
Change in tax impact	96	17
	(38)	(62)
Total comprehensive (loss) income	\$ (2,667)	\$ 1,111
Attributable to:		
Equity holders of FTG	\$ (2,653)	\$ 1,116
Non-controlling interest	\$ (14)	\$ (5)
See accompanying notes.		

Interim Condensed Consolidated Statements of Changes in Equity

Three months ended February 28, 2020	Attributed to the equity holders of FTG							Non-controlling interest	Total equity
	Common shares	Preferred shares	Retained earnings	Contributed surplus	Accumulated other comprehensive loss				
(Unaudited) (in thousands of Canadian dollars)					Total				
Balance, November 30, 2019	\$ 19,323	\$ 2,218	\$ 17,745	\$ 8,933	\$ (1,554)	\$ 46,665	\$ 1,094	\$ 47,759	
Net (loss) earnings	-	-	(2,597)	-	-	(2,597)	(32)	(2,629)	
Stock-based compensation	-	-	-	51	-	51	-	51	
Change in foreign currency translation adjustments	-	-	-	-	230	230	18	248	
Change in net unrealized loss on derivative financial instruments designated as cash flow hedges, net of tax impact <i>(Note 8.1 and Note 8.2)</i>	-	-	-	-	(286)	(286)	-	(286)	
Balance, February 28, 2020	\$ 19,323	\$ 2,218	\$ 15,148	\$ 8,984	\$ (1,610)	\$ 44,063	\$ 1,080	\$ 45,143	

Three months ended March 1, 2019	Attributed to the equity holders of FTG							Non-controlling interest	Total equity
	Common shares	Preferred shares	Retained earnings	Contributed surplus	Accumulated Other Comprehensive loss				
(Unaudited) (in thousands of Canadian dollars)					Total				
Balance, November 30, 2018	\$ 19,323	\$ 2,218	\$ 11,687	\$ 8,672	\$ (774)	\$ 41,126	\$ 1,181	\$ 42,307	
Net earnings (loss)	-	-	1,218	-	-	1,218	(45)	1,173	
Stock-based compensation	-	-	-	74	-	74	-	74	
Foreign currency translation adjustments	-	-	-	-	(52)	(52)	40	(12)	
Net unrealized loss on derivative financial instruments designated as cash flow hedges net of tax impact	-	-	-	-	(50)	(50)	-	(50)	
Balance, March 1, 2019	\$ 19,323	\$ 2,218	\$ 12,905	\$ 8,746	\$ (876)	\$ 42,316	\$ 1,176	\$ 43,492	

See accompanying notes.

See accompanying notes.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited) (in thousands of Canadian dollars)	Three months ended	
	February 28, 2020	March 1, 2019
Net inflow (outflow) of cash related to the following:		
Operating activities		
Net (loss) earnings	\$ (2,629)	\$ 1,173
Items not affecting cash:		
Stock-based compensation	51	74
Loss on disposal of plant and equipment	6	7
Effect of exchange rates on US dollar debt	53	(14)
Depreciation of plant and equipment	1,040	871
Depreciation of right-of-use assets (Note 3, Note 4)	397	-
Amortization of intangible assets	299	271
Amortization of deferred financing costs	3	3
Impairment of intangible assets (Note 10)	1,145	-
Investment tax credits/deferred income taxes	87	346
Accretion on lease liabilities (Note 3, Note 4)	137	-
Increase in net unrealized loss on derivative financial instruments designated as cash flow hedges, net of taxes (Note 8.1, Note 8.2)	(286)	(50)
Net change in non-cash operating working capital (Note 7)	4,022	(4,087)
	4,325	(1,406)
Investing activities		
Additions to plant and equipment	(1,046)	(391)
Recovery (additions) of contract and other costs	6	(18)
	(1,040)	(409)
Net cash flow from (used in) operating and investing activities	3,285	(1,815)
Financing activities		
Increase in bank indebtedness	-	995
Repayments of bank debt	(503)	(509)
Lease liability payments (Note 3, Note 4)	(446)	-
	(949)	486
Effects of foreign exchange rate changes on cash flow	169	(71)
Net increase (decrease) in cash flow	2,505	(1,400)
Cash, beginning of the period	7,647	5,026
Cash, end of period	\$ 10,152	\$ 3,626
Disclosure of cash payments		
Payment for interest	\$ 55	\$ 81
Payments for income taxes	\$ 979	\$ 738

See accompanying notes.

1. NATURE OF OPERATIONS

Firan Technology Group Corporation (“FTG”) was formed as a result of the amalgamation between Circuit World Corporation and Firan Technology Group Inc. on August 30, 2003 pursuant to articles of amalgamation under the *Canada Business Corporations Act*. Prior to this, FTG was established as Helix Circuits Inc. on April 18, 1983 by articles of amalgamation pursuant to the provisions of the *Canada Business Corporations Act*. FTG, its subsidiaries and its joint venture (together referred to as the “Corporation” or the “Group”) are primarily suppliers of aerospace and defence electronic products and sub-systems.

The address of the Corporation’s registered office is 250 Finchdene Square, Toronto, Ontario, M1X 1A5.

The interim condensed consolidated financial statements of the Corporation as at and for the three months ended February 28, 2020 comprise FTG, its subsidiaries and its joint venture.

These interim condensed consolidated financial statements were approved for issuance by the Board of Directors on April 7, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Corporation for the year ended November 30, 2019, which are available on SEDAR at www.sedar.com and on the Corporation’s website at www.ftgcorp.com.

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the audited consolidated financial statements for the year ended November 30, 2019, except for the new accounting pronouncements which have been adopted as disclosed in Note 3.

2.1 Use of estimates, judgements and assumptions

The preparation of interim condensed consolidated financial statements requires the use of certain critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the end of the reporting period. It also requires management to exercise judgement in applying the Corporation’s accounting policies. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods. Estimates and judgements are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The Corporation based its assumptions and estimates on parameters available when the interim condensed consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Corporation.

3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation has adopted the new and amended pronouncements issued by IFRS and the International Financial Reporting Interpretations Committees (“IFRIC”) as listed below as at December 1, 2019, in accordance with the transitional provisions outlined in the respective standards.

Leases

Effective December 1, 2019, the Corporation adopted IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases (“IAS 17”), IFRIC 4, Determining whether an Arrangement contains a Lease (“IFRIC 4”), SIC-15, Operating Leases-Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduced a single on-balance sheet model for lessees unless the underlying asset is of low value and recognition exemption applied. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Corporation recognized a \$13,759 increase to assets and liabilities, respectively, on the interim condensed consolidated statement of financial position. Subsequent to the adoption, operating costs decrease due to the removal of rent expense for leases, depreciation and amortization expense increases due to depreciation of right-of-use assets, and finance costs increase due to accretion of the lease liability.

The Corporation adopted IFRS 16 under the modified retrospective approach and did not restate the comparatives for 2019. Also, on adoption of the modified retrospective approach, the impact on opening retaining earnings was immaterial. At transition, the Corporation applied the practical expedient available to the Corporation as lessee that allows the continuation of the lease assessments under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts existing as at December 1, 2019 and not expiring before November 30, 2020.

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the incremental borrowing rate as at December 1, 2019. Right-of-use assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease.

When applying IFRS 16 to leases previously classified as operating leases, the following practical expedients were applied:

- a single discount rate to a portfolio of leases with similar characteristics;
- used hindsight in determining the lease term where the contract contains extensions, or termination options;
- relied upon our assessment of whether leases are onerous under the requirements of IAS 37, Provisions, contingent liabilities and contingent assets as at November 30, 2019 as an alternative to reviewing our right-of-use assets for impairment; and
- excluded short-term leases or low-value leases.

There were no such contracts in which the Corporation is the lessor.

Prior to adopting IFRS 16, the total minimum operating lease commitments as at November 30, 2019 were \$9,645 which also included \$1,045 for lease commitments considered out of scope for IFRS 16. The weighted average discount rate applied to the total lease liabilities recognized on transition was 4.0%. The difference between the total of the minimum lease payments set out in Note 20 to the 2019

Notes to the Interim Condensed Consolidated Financial Statements
(in thousands of Canadian dollars, except where noted and per share amounts)

annual consolidated financial statements and the total lease liabilities recognized on transition was a result of:

- the effect of discounting on the minimum lease payments;
- effect of including extension options in determining the lease term where the contract contained extensions, where the exercise of that option by the lessee (FTG) is reasonably certain based on hindsight; and
- the exclusion of short-term leases.

4. LEASES

Accounting policy

At inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset. The Corporation assesses whether:

- the contract involves the use of an identified asset;
- it has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- it has the right to direct the use of the asset.

Lease accounting

The Corporation records a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at costs, consisting of:

- 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 restore the site on which it is located, less
- any lease incentives received.

The right-of-use asset is typically depreciated on a straight-line basis over the lease term, unless the Corporation expects to obtain ownership of the leased asset at the end of the lease. The lease term consists of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where it is reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where it is reasonably certain not to exercise the option.

If the Corporation expects to obtain ownership of the leased asset at the end of the lease, the right-of-use asset will be depreciated over the underlying asset's estimated useful life. 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 lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments;

Notes to the Interim Condensed Consolidated Financial Statements
(in thousands of Canadian dollars, except where noted and per share amounts)

- variable lease payments that depend on an index or rate;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that is reasonably certain to be exercised, lease payments in an optional renewal period if they are reasonably certain to be exercised as an extension option, and penalties for early termination of a lease unless it is reasonably certain that the lease will not be terminated early.

The lease liability 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 amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether or not the purchase, extension or termination option will be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The lease liability is also remeasured when the underlying lease contract is amended. When there is a decrease in contract scope, the lease liability and right-of-use asset will decrease relative to this change with the difference recorded in net income prior to the remeasurement of the lease liability.

Variable lease payments

Certain leases contain provisions that result in differing lease payments over the term as a result of market rate reviews or changes in the Consumer Price Index (CPI) or other similar indices. The Corporation reassess the lease liabilities related to these leases when the index or other data is available to calculate the change in lease payments.

Certain leases require us to make payments that relate to property taxes, insurance, and other non-rental costs. These non-rental costs are typically variable and not dependent on index and rate and are not included in the calculation of the right-of-use asset or lease liability.

Significant estimates and judgements

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend or terminate the lease. The lease term is estimated by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise the termination option. Both qualitative and quantitative assumptions are considered when deriving the value of the economic incentive.

The Corporation makes judgments in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset, and should provide the Corporation with the right to substantially all of the economic benefits from the use of the asset.

Judgments are made by the Corporation in determining the incremental borrowing rate used to measure the lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate that the Corporation would have to pay to borrow at a similar term and with a similar security.

Certain of the Corporation's leases contain extension or renewal options. At lease commencement, the Corporation assesses whether it will be reasonably certain to exercise any of the extension options based on its expected economic return from the lease. The Corporation periodically reassesses whether it will be reasonably certain to exercise the options and accounts for any changes at the date of the reassessment.

Notes to the Interim Condensed Consolidated Financial Statements
(in thousands of Canadian dollars, except where noted and per share amounts)

The majority of the Corporation's leases relate to the rental of land and buildings. Below is a summary of the activity related to the Corporation's lease liabilities for the three months ended February 28, 2020.

	Lease liabilities \$
At December 1, 2019	13,759
Accretion on lease liabilities	137
Payments	(446)
Foreign exchange and other	71
At February 28, 2020	13,521
Less current portion	(1,729)
	11,792

5. SHARE CAPITAL

5.1 Authorized

Authorized share capital consists of an unlimited number of Common Shares with no par value and an unlimited number of Preferred Shares with no par value, issuable in series, with the attributes of each series to be fixed by the Board of Directors. Each Common and Preferred Share carries the right to one vote. The outstanding common shares at the three months ended February 28, 2020 were 22,716,201 (22,716,201 as at November 30, 2019).

5.2 (Loss) earnings per share

	Three months ended	
	February 28, 2020	March 1, 2019
<i>Numerator</i>		
Net (loss) earnings	\$ (2,629)	\$ 1,173
Net (loss) attributable to non-controlling interests	(32)	(45)
Net (loss) earnings attributable to equity holders of FTG	\$ (2,597)	\$ 1,218
Numerator for basic (loss) earnings per share -		
net (loss) earnings applicable to Common Shares	\$ (2,597)	\$ 1,218
Numerator for diluted (loss) earnings per share -		
net (loss) earnings applicable to Common Shares	\$ (2,597)	\$ 1,218
<i>Denominator</i>		
Denominator for basic (loss) earnings per share -		
weighted average number of Common Shares outstanding	22,716,201	22,716,201
Effect of dilutive securities		
Number of Preferred Shares	-	1,775,000
Number of PSU's	-	210,833
Denominator for diluted (loss) earnings per share -		
weighted average number of Common Shares		
outstanding and assumed conversions	22,716,201	24,702,034
(Loss) earnings per share data attributable to the equity holders of FTG		
Basic (loss) earnings per share	\$ (0.11)	\$ 0.05
Diluted (loss) earnings per share	\$ (0.11)	\$ 0.05

Notes to the Interim Condensed Consolidated Financial Statements
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For the three months ended February 28, 2020, the Corporation has 1,775,000 (March 1, 2019 – 1,775,000) voting convertible Series 1 Preferred Shares outstanding, and 201,944 PSU's outstanding (March 1, 2019 – 210,833). These convertible Series 1 Preferred Shares, and PSU's were not included in calculating diluted (loss) per share for the three months February 28, 2020 as the Corporation had net (loss). These convertible Series 1 Preferred Shares, options and PSU's were included in calculating diluted earnings per share as they were dilutive for the three months ended March 1, 2019 as the Corporation had net earnings.

5.3 Management of capital

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk.

For the purpose of the Corporation's capital management, capital includes bank debt and total equity attributable to FTG's shareholders. The Corporation's primary uses of capital are to finance increases in non-cash working capital, capital expenditures and acquisitions. The Corporation currently funds these requirements from internally generated cash flows, cash, and bank debt.

The managed capital as at February 28, 2020 of \$49,029 is comprised of total equity attributable to FTG's shareholders of \$44,063 and bank debt of \$4,966. The managed capital as at November 30, 2019 of \$52,081 is comprised of total equity attributable to FTG's shareholders of \$46,665 and bank debt of \$5,416.

The Corporation manages its capital structure and makes adjustments to it as necessary, taking into account the economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, may increase or repay bank debt, issue shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors review and approve any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. There were no changes in the Corporation's approach to capital management during the period.

The Corporation does not currently have a policy to pay a dividend. The credit facilities are secured by a first charge on all assets of the Corporation.

6. INCOME TAX EXPENSE

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in. The effective tax rate on Canadian earnings for the three months ended February 28, 2020 was 25% (2019: 25%) which was based on projected annualized Manufacturing and Processing rates.

Notes to the Interim Condensed Consolidated Financial Statements
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7. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

Changes in non-cash operating working capital comprise of the following:

	Three months ended	
	February 28,	March 1,
	2020	2019
	\$	\$
Accounts receivable, contract assets	1,743	1,133
Income taxes receivable	(247)	(55)
Inventories	1,485	(1,853)
Prepaid expenses	293	53
Contract liabilities	3,938	(581)
Accounts payable and accrued liabilities, and provisions	(2,550)	(2,344)
Income tax payable	(640)	(440)
	4,022	(4,087)

8. FINANCIAL INSTRUMENTS

8.1 Fair value

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments carried at fair value:

Level 1: Quoted (Unadjusted) Prices in Active Markets for Identical Assets or Liabilities: This level includes equity securities traded on an active market and quoted corporate and government-backed debt instruments. The Corporation did not have any Level 1 financial instruments carried at fair value as at February 28, 2020 and November 30, 2019.

Level 2: Valuation Techniques with Observable Parameters: The financial instruments held by the Corporation in this level included cash, accounts receivable, contract assets, accounts payable and accrued liabilities and provisions, contract liabilities, bank debt, foreign exchange forward contracts, gold forward contracts and interest rate swaps as at February 28, 2020 and November 30, 2019.

Level 3: Valuation Techniques with Significant Unobservable Parameters: Instruments classified in this category have a parameter input or inputs that are unobservable and have more than insignificant impact on either the fair value of the instrument or the profit or loss of the instrument. The Corporation did not have any Level 3 financial instruments carried at fair value as at February 28, 2020 and November 30, 2019.

There were no transfers between levels during the period. The estimated fair value amounts approximate the amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. For financial instruments that lack an available trading market, the Corporation applies present value and valuation techniques that use observable or unobservable market inputs. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, accounts receivable, contract assets, accounts payable, accrued liabilities and provisions, and contract liabilities:

Notes to the Interim Condensed Consolidated Financial Statements (in thousands of Canadian dollars, except where noted and per share amounts)

The Corporation determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying value as at the consolidated statements of financial position dates because of the short-term maturity of those instruments.

Bank debt:

The fair value of bank debt bearing interest at variable rates approximates its carrying value as interest rate charges fluctuate with changes in the bank's prime rate.

Foreign exchange forward contracts, gold forward contracts and interest rate swap:

The fair value of the Corporation's foreign exchange forward contracts, gold forward contracts, interest rate swap (per details in *Note 8.2*) is based on the current market values of similar contracts with similar remaining durations as if the contract had been entered into on February 28, 2020. The forward current value (fair value) of these financial instruments as at February 28, 2020 had an net unrealized loss of \$2,616 (an unrealized loss on foreign exchange forward contracts of \$2,484, and an unrealized loss on gold forward contracts of \$5, and an unrealized loss on interest rate swaps of \$127, before taxes of \$654, and included in other comprehensive (loss) income, and relates to derivatives designated as cash flow hedges. The forward current value (fair value) of these financial instruments as at November 30, 2019 had an net unrealized loss of \$2,234 (an unrealized loss on foreign exchange forward contracts of \$2,127, and an unrealized loss on gold forward contracts of \$30, and an unrealized loss on interest rate swaps of \$77, before taxes of \$558, and included in other comprehensive (loss) income, and relates to derivatives designated as cash flow hedges.

8.2 Financial risks

Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Corporation's interest rate and cash flow risks are primarily related to the Corporation's revolving credit facilities, for which amounts drawn are subject to varying rates at the time of borrowing. The interest rates on amounts currently drawn on the revolving facility and on any future borrowings will vary and are unpredictable. The Corporation monitors its exposure to interest rates and has entered into derivative contracts to mitigate this risk which include four (November 30, 2019 – four) interest rate swaps as at February 28, 2020.

Based on the value of interest bearing financial instruments for the three months ended February 28, 2020, an assumed 50 basis points increase in interest rates during such period would have decreased earnings before income taxes by \$nil (period ended March 1, 2019 – decrease of \$1), with an equal but opposite effect for an assumed 50 basis points decrease in interest rates.

Currency risk

Currency risk arises because of fluctuations in exchange rates. The Corporation conducts a significant portion of its business activities in foreign currencies, primarily in U.S. dollars. The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. The Corporation's bank debt and most of the manufacturing materials are sourced in U.S. dollars, and also a significant portion of the headcount and operations are now located in United States, providing a natural economic hedge for a portion of the Corporation's currency exposure. The foreign exchange loss for the reporting periods is set out in the table below:

Notes to the Interim Condensed Consolidated Financial Statements
(in thousands of Canadian dollars, except where noted and per share amounts)

	Three months ended	
	February 28, 2020	March 1, 2019
	\$	\$
Realized loss relating to financial assets and liabilities, excluding foreign exchange forward contracts	45	110
Realized loss relating to foreign exchange forward contracts	4	46
Foreign exchange loss	49	156

In addition, net realized loss for foreign exchange forward contracts designated as cash flow hedges that were settled during the three months ended February 28, 2020 of \$313 (period ended March 1, 2019 - net realized loss of \$72) was offset against sales in the interim condensed consolidated statements of (loss) earnings.

The foreign exchange exposure for the reporting periods, covering the period-end balances of financial assets during the periods presented that were denominated in U.S. dollars, is set out in the table below:

	February 28, 2020		November 30, 2019
	Canadian and other operations	U.S. operations	Consolidated financial statements
	\$	\$	\$
<i>(In thousands of U.S. dollars)</i>			
Cash	6,026	587	6,613
Accounts receivable, contract assets	9,205	4,597	13,802
Accounts payable and accrued liabilities, contract liabilities	(4,691)	(3,307)	(7,998)
Total bank borrowings	(3,705)	-	(3,705)
Balance sheet exposure, excluding financial derivatives	6,835	1,877	8,712
Reporting date Cdn.\$:U.S.\$ exchange rate			1.3429

	Three months ended		
	February 28, 2020		March 1, 2019
	Canadian and other operations	U.S. operations	Total
	\$	\$	\$
<i>(In thousands of U.S. dollars)</i>			
Net sales	11,817	6,205	18,022
Operating expenses	(3,181)	(9,102)	(12,283)
Net exposure	8,636	(2,897)	5,739

Notes to the Interim Condensed Consolidated Financial Statements
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With all variables remaining constant, assuming a 1% strengthening of the Canadian dollar versus the U.S. dollar, net earnings before tax for the three months ended February 28, 2020 and March 1, 2019 would decrease as follows in the tables below. An assumed 1% weakening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on the amounts shown below.

	Three months ended			March 1,
	February 28,		2020	2019
Source of net earnings/loss variability from changes in foreign exchange rates	Canadian and other operations \$	U.S. operations \$	Total \$	Total \$
Balance sheet exposure, excluding financial derivatives	(68)	(19)	(87)	(27)
Net sales and operating expenses (net exposure)	(86)	29	(57)	(64)
Net exposure	(154)	10	(144)	(91)

The Corporation also holds RMB arising from its Circuits and Aerospace facilities in the People's Republic of China. Total consolidated statements of financial position exposure as at February 28, 2020 was RMB 5,526,943 or Cdn. \$1,062 (November 30, 2019 was RMB 4,464,403 or Cdn. \$844) including a short term deposit with a financial institution with maturity of less than 1 year an amount of RMB 2,507,750 or Cdn. \$482 (November 30, 2019 – RMB 2,500,000 or Cdn. \$472). With all variables remaining constant, assuming a 1% strengthening of the Canadian dollar versus the RMB, net earnings before tax for the periods ended February 28, 2020 and March 1, 2019 would decrease by approximately \$10 and \$10, respectively. An assumed 1% weakening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on these amounts.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange forward contracts

Foreign exchange forward contracts are transacted with a financial institution to hedge part of a foreign currency denominated anticipated sale of products. The following table summarizes the Corporation's outstanding commitments to buy and sell foreign currency under foreign exchange forward contracts, all of which have a maturity date of less than thirty six months as at February 28, 2020 and November 30, 2019:

Currency sold	Currency bought	Notional value	Forward value at transaction date	Forward current value	Unrealized (loss)
February 28, 2020					
U.S. dollars	Canadian dollars	\$45,000	\$57,971	\$60,455	(\$2,484)
November 30, 2019					
U.S. dollars	Canadian dollars	\$45,000	\$57,645	\$59,772	(\$2,127)

As at February 28, 2020 and November 30, 2019, the foreign exchange forward contracts (contracts to sell foreign currency) are designated as cash flow hedges, all of which was recognized in other comprehensive (loss) income and accounts payable and accrued liabilities. This net unrealized (loss) in other comprehensive (loss) income is expected to be realized through net (loss) earnings on the interim condensed consolidated statements of earnings over the next thirty six months when the sales are recorded.

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Gold forward contracts

As at February 28, 2020, in addition to the foreign exchange forward contracts per above, the Corporation had an outstanding commitment to buy 600 ounces of gold (November 30, 2019: 600 ounces of gold) under gold forward contracts at a contract price of approximately \$2.00 (2019 - \$1.93) per ounce expiring quarterly from March 2020. These gold forward contracts qualify for hedge accounting. The table below summarizes the outstanding commitments under these gold forward contracts, all of which have a maturity date of less than one year:

Period ended	Nature of contract	Quantity	Forward value at transaction date	Forward current value	Unrealized (loss)
February 28, 2020	Gold forward contract	600 ounces	\$1,200	\$1,195	(\$5)
November 30, 2019	Gold forward contracts	600 ounces	\$1,057	\$1,027	(\$30)

As at February 28, 2020 and November 30, 2019, the gold forward contracts are designated as a cash flow hedges, all of which was recognized in other comprehensive (loss) income and accounts payable and accrued liabilities. This unrealized loss in other comprehensive (loss) income is expected to be reclassified to the interim condensed consolidated statements of (loss) earnings over the next twelve months when the cost of sales are recorded.

The terms of the foreign currency and gold forward contracts match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arises requiring recognition through earnings or loss. The amounts as at February 28, 2020 retained in other comprehensive (loss) income related to these contracts are expected to be recognized through net (loss) earnings on the interim condensed consolidated statement of (loss) earnings in fiscals 2020, 2021, 2022 and 2023.

Interest rate swaps

In December 2015, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (5.0 year U.S. \$4,000 term loan, amortized over 5 years, repayable in equal monthly principal payments of approximately U.S. \$67 plus interest at LIBOR rate plus 200 basis points) over the five year term at a fixed rate of 1.44% plus applicable margin of 200 basis points for an aggregate fixed interest rate of 3.44%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$1) (November 30, 2019 – unrealised gain of \$1) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

In July 2016, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (7.0 year U.S. \$2,600 term loan, amortized over 7 years, repayable in equal monthly principal payments of approximately U.S. \$31 plus interest at LIBOR rate plus 215 basis points) over the seven year term at a fixed rate of 1.20% plus applicable margin of 215 basis points for an aggregate fixed interest rate of 3.35%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$10) (November 30, 2019 - unrealized gain of \$10) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

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In February 2018, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (7.0 year U.S. \$1,500 term loan, amortized over 7 years, repayable in equal monthly principal payments of approximately U.S. \$18 plus interest at LIBOR rate plus 215 basis points) over the seven year term at a fixed rate of 2.81% plus applicable margin of 215 basis points for an aggregate fixed interest rate of 4.96%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$64) (November 30, 2019 - unrealized (loss) of (\$48) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

In April 2018, the Corporation entered into an interest rate swap to hedge the U.S. dollar interest payments of the term loan (7.0 year U.S. \$1,000 term loan, amortized over 7 years, repayable in equal monthly principal payments of approximately U.S. \$12 plus interest at LIBOR rate plus 215 basis points) over the seven year term at a fixed rate of 2.93% plus applicable margin of 215 basis points for an aggregate fixed interest rate of 5.08%. The interest rate swap has been designated as a cash flow hedge and the forward current value (fair value) of the interest rate swap as at February 28, 2020 had an unrealized (loss) of (\$52) (November 30, 2019 - unrealized (loss) of (\$40) which is included in other comprehensive (loss) income and accounts payable and accrued liabilities.

The table below summarizes the net unrealised gain related to interest rate swaps as at February 28, 2020 and November 30, 2019:

Period ended	Nature of contracts	Net unrealized (loss)
February 28, 2020	Interest rate swaps	(\$127)
November 30, 2019	Interest rate swaps	(\$77)

Credit risk

For the three months ended February 28, 2020, the Corporation recorded a bad debts expense of \$97 against trade receivable in selling, general and administrative expenses in the interim condensed consolidated statements of (loss) earnings. For the three months ended March 1, 2019, the Corporation recorded a bad debts expense of \$9 against trade receivable in selling, general and administrative expenses in the interim condensed consolidated statements of (loss) earnings. The Corporation considers that there has been a significant increase in credit risk when contractual payments are more than 120 days past due. The Corporation considers a receivable to be in default when contractual payments are 180 days past due. However, in certain cases, the Corporation may also consider a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Corporation.

Credit risk arises from the potential that the counterparty will fail to fulfil its obligations. The Corporation is exposed to credit risk from its customers. However, the Corporation has a significant number of customers, which minimizes concentration of credit risk, and the majority of the Corporation's customers are large, multi-national, stable organizations. The Corporation's largest and second largest customer accounted for approximately 23.1% and 11.7% of sales (2019 – 23.2% and 10.2%), respectively during the three months ended February 28, 2020. The Corporation may also have credit risk relating to cash and foreign exchange forward contracts, which it manages by dealing with its current bank, a major financial institution that the Corporation anticipates will satisfy its obligations under the contracts.

Notes to the Interim Condensed Consolidated Financial Statements
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Historically, losses under trade receivables have been insignificant. To minimize the risk of loss from trade receivables, extension of credit terms to customers requires review and approval by senior management even though the customers have generally been dealing with the Corporation for several years, and the losses have been historically minimal.

Although the Corporation's credit control processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Corporation's low credit loss experience will continue. Most sales are invoiced with payment terms in the range of 30 to 90 days in accordance with industry practice. Customers do not provide collateral in exchange for credit. The Corporation reviews its trade receivable accounts regularly and to determine whether an adjustment to the provision for expected credit loss. The expected credit loss is charged against earnings. Shortfalls in collections are applied against this provision. Estimates for expected credit loss are determined on a portfolio basis taking into account any available relevant information on the portfolio's liquidity and market factors.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage, as outlined in *Note 5.3*. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account sales, receipts, expenditures and matching the maturity profile of financial assets and liabilities. The Board of Directors review and approve the Corporation's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on mergers, acquisitions or other major investments or divestitures. The Corporation currently finances its operations through internally generated cash flows and the use of its credit facility.

The following is the summary of contractual maturities of financial liabilities and obligations, excluding future interest payments but including interest, accrued to February 28, 2020 and November 30, 2019:

	February 28, 2020				November 30, 2019	
	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	More than 5 years \$	Amount \$	Amount \$
Bank debt ¹	4,975	-	-	-	4,975	5,428
Accounts payable and accrued liabilities, and provisions	15,486	-	-	-	15,486	18,050
Contract liabilities	4,154	-	-	-	4,154	216
Operating leases	406	285	223	-	914	9,645
	25,021	285	223	-	25,529	33,339

1. Bank debt includes a \$9 offset for deferred financing charge as at February 28, 2020 (\$12 as at November 30, 2019).

Financial liabilities and obligations for future interest payments relating to bank debt are \$166 for within 1 year, \$115 for the 2nd year, \$117 in aggregate for years 3, 4 and 5 and \$nil after the 5th year.

In November, 2015, the Corporation had entered into a five year committed credit facility with a major financial institution, which expires in November, 2020. Consequently, all outstanding bank debt has been classified on the balance sheet as current as of February 28, 2020 and all principal payments are reflected as less than 1 year. The Corporation expects to replace its existing credit facility on terms which are comparable to the existing one, in 2020.

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9. SEGMENTED INFORMATION

Management has determined that the operating segments are based on the information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Corporation's chief operating decision maker. The chief operating decision maker of the Corporation is the President and Chief Executive Officer. The Corporation evaluates the financial performance of its operating segments primarily based on earnings before interest and income taxes.

The Corporation consists of two operating segments which operate within the Global marketplace, FTG Circuits ("Circuits") and FTG Aerospace ("Aerospace"). Circuits is a leading manufacturer of high technology/high reliability printed circuit boards. Aerospace is a manufacturer of illuminated cockpit panels, keyboard, bezels and sub-assemblies for original equipment manufacturers of avionic products and airframe manufacturers. Circuits and Aerospace financial information is shown below:

	Three months ended February 28, 2020			
	Circuits	Aerospace	Corporate Office	Total
	\$	\$	\$	\$
Sales	16,767	9,797	-	26,564
Inter-company sales	(310)	(1,716)	-	(2,026)
Net sales	16,457	8,081	-	24,538
Cost of sales and selling, general and administrative expenses	13,732	8,160	738	22,630
Research and development costs	901	180	-	1,081
Recovery of investment tax credits	(122)	(50)	-	(172)
Depreciation of plant and equipment	809	200	31	1,040
Depreciation of right-of-use assets	197	191	9	397
Amortization of intangible assets	35	264	-	299
Impairment of intangible assets	-	1,145	-	1,145
Stock based compensation	-	-	51	51
Foreign exchange loss (gain) on conversion of balance sheet assets and liabilities	121	(63)	(9)	49
Earnings (loss) before interest and income taxes	784	(1,946)	(820)	(1,982)
Interest expense on bank debt, net	-	-	41	41
Accretion on lease liabilities	-	-	137	137
Income tax expense	-	-	469	469
Net earnings (loss)	784	(1,946)	(1,467)	(2,629)

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	Three months ended March 1, 2019			
	Corporate			Total
	Circuits	Aerospace	Office	
	\$	\$	\$	\$
Sales	15,507	12,767	-	28,274
Inter-company sales	(300)	(2,584)	-	(2,884)
Net sales	15,207	10,183	-	25,390
Cost of sales and selling, general and administrative expenses	11,357	8,917	776	21,050
Research and development costs	896	220	-	1,116
Recovery of investment tax credits	(125)	(80)	-	(205)
Depreciation of plant and equipment	647	198	26	871
Amortization of intangible assets	37	234	-	271
Stock based compensation	-	-	74	74
Foreign exchange loss (gain) on conversion of balance sheet assets and liabilities	71	138	(53)	156
Earnings (loss) before interest and income taxes	2,324	556	(823)	2,057
Interest expense on bank debt	-	-	77	77
Income tax expense	-	-	807	807
Net earnings (loss)	2,324	556	(1,707)	1,173

The following table details the total assets, intangible assets, additions to plant and equipment and total liabilities of the Corporation by operating segments:

	As at February 28, 2020			As at November 30, 2019		
	Circuits	Aerospace	Total	Circuits	Aerospace	Total
	\$	\$	\$	\$	\$	\$
Total segment assets	53,866	30,736	84,602	48,370	25,007	73,377
Intangible assets and other assets	870	282	1,152	1,098	1,487	2,585
Additions to plant and equipment	933	113	1,046	4,973	539	5,512
Total segment liabilities	31,960	7,499	39,459	20,996	4,652	25,618

The following tables detail the financial information of the Corporation by geographic location:

	United					Total
	Canada	States	Asia	Europe	Other	
	\$	\$	\$	\$	\$	\$
Three months ended February 28, 2020:						
Net sales (by location of customer)	1,739	18,332	3,257	908	302	24,538
Three months ended March 1, 2019:						
Net sales (by location of customer)	2,657	17,729	3,741	960	303	25,390

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	As at February 28, 2020					
	United					Total
	Canada	States	Asia	Europe	Other	
	\$	\$	\$	\$	\$	\$
Intangible assets and other assets (by location of division)	-	876	276	-	-	1,152
Plant and equipment (by location of division)	6,370	5,655	1,898	-	-	13,923
Right-of-use assets (by location of division)	7,026	5,984	424	-	-	13,434

	As at November 30, 2019					
	United					Total
	Canada	States	Asia	Europe	Other	
	\$	\$	\$	\$	\$	\$
Intangible assets and other assets (by location of division)	-	2,314	271	-	-	2,585
Plant and equipment (by location of division)	6,211	5,665	1,954	-	-	13,830

The Corporation's primary sources of revenue are as follows:	Three months ended	
	February 28, 2020	March 1, 2019
	\$	\$
Sale of goods	24,290	25,054
Services	248	336
	24,538	25,390

Timing of revenue recognition based on transfer of control is as follows:	Three months ended	
	February 28, 2020	March 1, 2019
	\$	\$
At a point of time	24,290	25,054
Over time	248	336
	24,538	25,390

During the three months ended February 28, 2020, there were two customers in the United States that accounted for 23.1% and 11.7% of the total net sales, respectively - the largest customer accounted for approximately \$5,650 of net sales (of which 81.6% was in Circuits segment and the remaining 18.4% in the Aerospace segment) and the second largest customer accounted for approximately \$2,900 of net sales (of which 42.7% was in Circuits segment and the remaining 57.3% in the Aerospace segment).

During the three months ended March 1, 2019, there were two customers in the United States that accounted for 23.2% and 10.2% of the total net sales, respectively - the largest customer accounted for approximately \$5,900 of net sales (of which 84.9% was in Circuits segment and the remaining 15.1% in the Aerospace segment) and the second largest customer accounted for approximately \$2,600 of net sales (of which 42.2% was in Circuits segment and the remaining 57.8% in the Aerospace segment).

10. IMPAIRMENT OF INTANGIBLES

The Corporation determined that the carrying value of intangible assets recognized following the acquisition of the Teledyne PCT business in July, 2016, exceeded its recoverable amount as of February 28, 2020 by an amount of \$1,145, which was charged as impairment of intangible assets in the interim condensed consolidated statement of (loss) earnings during the three months ended February 20, 2020. The recoverable amount was determined through a value in use analysis of the present value of the future cash flows to be derived from the relevant cash-generating unit.

11. SUBSEQUENT EVENT

Management has evaluated the impact of all subsequent events through April 7, 2020, which is the date that these interim condensed consolidated financial statements were approved to be issued. Management has determined that there were no subsequent events requiring adjustment in the interim condensed consolidated financial statements. Management has identified a potential risk relating to the recent outbreak of COVID-19 in many countries around the world including Canada, U.S. and in Asia, which continues to adversely impact the global economy. The global impact of the outbreak has been rapidly evolving and the disruption from this outbreak is adversely impacting many industries. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19 on the aerospace industry. Nevertheless, COVID-19 presents uncertainty and risk with respect to the Corporation's future performance and future financial results.



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