FIRAN TECHNOLOGY GROUP CORPORATION

First Quarter Report
For the period ended
March 3, 2023

April 11, 2023

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 March 3, 2023 (first quarter of fiscal 2023 or Q1 2023) is as of April 11, 2023 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 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The 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, 2022 (Fiscal 2022) and, accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2022 MD&A. Additional information is contained in the Corporation's filings with Canadian securities regulators, including its Annual Information Form dated February 8, 2023, 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 Toronto, Ontario, Canada, Chatsworth, California, U.S.A. and Fredericksburg, Virginia, U.S.A., as well as a joint venture and sourcing arrangements with operating facilities in China. 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, U.S.A. and Tianjin, China. 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. With these facilities in place in North America and China, FTG has completed some key strategic goals including expanding its presence in the large U.S. aerospace and defense market, penetrating the rapidly growing Asian aerospace market, and becoming a more strategic supplier to many of its customers.

FTG is a 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 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 FISCAL 2023

	First Quarter	
(in thousands of dollars except per share amounts)	**2023**	2022
	$	$
Sales	**24,639**	20,461
Gross margin	**9,785**	4,242
Net earnings (loss) attributable to equity holders of FTG	**4,072**	(733)
Number of common and preferred shares, in aggregate	**23,916**	24,491
Earnings (loss) per share:		
Basic	**0.17**	(0.03)
Diluted	**0.17**	(0.03)
EBITDA[1]	**6,297**	1,329
Total assets	**90,086**	83,746
Net cash position[2]	**20,615**	12,338
Free cash flow[3]	**8,297**	(1,755)

[1] *Earnings before interest, tax, depreciation and amortization ("EBITDA") is a non-IFRS measure. Please refer to the Non-IFRS Financial Measures section.*
[2] *Net cash is defined as cash and cash equivalents less bank debt and government loan.*
[3] *Free cash flow ("FCF") is a non-IFRS financial measure. Please refer to the Non-IFRS Financial Measures section.*

Sales

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Circuits	**15,612**	14,193	1,419	10.0
Aerospace	**10,005**	7,750	2,255	29.1
Inter-segment sales	**(978)**	(1,482)	504	(34.0)
Net sales	**24,639**	20,461	4,178	20.4

Sales in Q1 2023 increased by approximately $4.2 million or 20.4% from Q1 2022 as FTG continued to ramp up deliveries in response to strong market demand across our market segments. Further variance discussion follows:

- Within the Circuits segment, sales in Q1 2023 increased by $1.4 million or 10.0% relative to Q1 2022 as a result of increased shipments from our Circuits Toronto site and our Circuits JV in China, which both have a high concentration of commercial aerospace customers. Sales from the Circuits Chatsworth site were lower in Q1 2023 than Q1 2022 as a result of continuing production challenges.
- Sales in the Aerospace segment were up $2.3 million or 29.1% from Q1 2022, as a result of increased Simulator product line sales of $3.0M, which are manufactured in our Aerospace sites in Toronto and Chatsworth. The increased Simulator sales were partially offset by lower shipments of other product types at Aerospace Chatsworth site due to shortage of certain components.
- The CAD / USD foreign exchange rate was $0.08 or 6% more favourable during Q1 2023 as compared to Q1 2022, which resulted in a sales increase of approximately $1.0M, after adjusting for an unfavourable variance of approximately $0.4M flowing from the mark to market adjustment on our foreign currency forward contracts.

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

						First Quarter
	2023		2022		Change	
	$	**%**	$	%	$	%
Canada	**1,702**	**6.9**	1,813	8.9	(111)	(6.1)
United States	**17,856**	**72.5**	15,554	76.0	2,302	14.8
Asia	**3,113**	**12.6**	1,593	7.8	1,520	95.4
Europe	**1,435**	**5.8**	1,200	5.9	235	19.6
Other Americas	**533**	**2.2**	301	1.4	232	77.1
Total	**24,639**	**100**	20,461	100	4,178	20.4

The increase in sales in Q1 2023 relative to Q1 2022 was spread across all geographic locations, with the exception of Canada. Sales to customers in Asia, Europe and Other Americas increased by 95%, 20% and 77%, respectively, which is attributable to the strong growth in the commercial aerospace market.

The following table summarizes the percentages of net sales of the Corporation's largest customers:

	First Quarter	
	2023	2022
	%	%
Largest customer	**22.2**	26.1
Second largest customer	**11.7**	10.8
Third to fifth largest customers	**24.7**	21.4
Largest five customers	**58.6**	58.3

Gross Margin

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Gross margin	**9,785**	4,242	5,543	130.7
% of net sales	**39.7%**	20.7%		
Government assistance included in gross profit	**2,891**	256	2,635	1,029.3
Gross profit excluding government assistance	**6,894**	3,986	2,908	73.0
% of net sales	**28.0%**	19.5%		

The increase in gross margin dollars and the gross margin rate for the first quarter of 2023 is primarily the result of increased operating leverage on higher sales volumes and operational improvements. Government assistance in Q1 2023 included $2,891 from the Employee Retention Credit (ERC) program in the U.S., whereas Q1 2022 included $256 from the Aviation Manufacturing Jobs Protection (AMJP) program in the U.S. Excluding the impact of government assistance, gross profit increased by $2,908 on incremental sales of $4,178.

Selling, General and Administrative Expenses

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Selling, general and administrative expenses	**3,786**	3,018	768	25.4
% of net sales	**15.4%**	14.8%		

The increase in selling, general and administrative expenses during the first quarter of 2023 as compared to the prior year is the result of increased professional fees and expenses related to acquisitions of $358, salary increases, and increased performance compensation expense, which was partially offset by the inclusion of $549 of ERC funds in Q1 2023.

Research and Development

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Research and development costs	**1,332**	1,392	(60)	(4.3)
Recovery of investment tax credits	**(150)**	(177)	27	(15.3)

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 were focused on new product development and process and product improvements.

The Corporation records the tax benefit of investment tax credits ("ITCs") when there is reasonable assurance that such credits will be realized. During the first quarter of fiscal 2023, ITCs were earned from qualifying research and development expenditures.

Depreciation and Amortization

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Depreciation of plant and equipment	**1,020**	1,185	(165)	(13.9)
Depreciation of right-of-use assets	**325**	367	(42)	(11.4)
Amortization of intangible assets	**33**	31	2	6.5
Amortization, other	**(15)**	6	(21)	(350.0)
Total	**1,363**	1,589	(226)	(14.2)

The decrease in depreciation of plant and equipment during the first quarter of fiscal 2023 is mainly due to the timing of capital expenditures being put into service.

Depreciation of right-of-use assets is lower in Q1 2023 as compared to Q1 2022, as the Aerospace Chatsworth facility was owned for the first two months of the quarter, prior to the sale-leaseback transaction completed on January 31, 2023.

The increase in amortization of intangible assets is due to changes in foreign currency translation rates.

Interest Expense

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Interest (income) expenses, net	**(153)**	9	(162)	(1,800.0)
Accretion on lease liabilities	**121**	108	13	12.0
Notional interest expense on government loan	**24**	-	24	100.0

The increase in interest income in Q1 2023 is due to the increase in interest rates on bank deposits and increased net cash balances.

Fluctuations in accretion on lease liabilities are primarily due to currency translation as well as termination of certain leases.

Foreign Exchange

The Canadian dollar spot rate, as compared to the US dollar has (appreciated) depreciated as follows during the first quarter of 2023 as compared to the first quarter of 2022:

First Quarter	**2023**				2022			
	March 3, 2022	**November 30, 2022**	**Change**		March 4, 2022	November 30, 2021	Change	
	$	**$**	**$**	**%**	$	$	$	%
CAD/USD	**1.3610**	**1.3508**	**0.01**	**0.8**	1.2750	1.2792	(0.00)	(0.3)

The Canadian dollar average rate, as compared to the US dollar has (appreciated) depreciated as follows during the first quarter of 2023 as compared to the first quarter of 2022:

	First Quarter		
	2023	2022	Change
	$	$	$
CAD/USD	**1.3493**	1.2709	0.0784

The Corporation has recorded foreign exchange (gain) loss as follows:

	First Quarter		
	2023	2022	Change
	$	$	$
Foreign exchange (gain) loss	**(246)**	169	(415)

The foreign exchange gain for the first quarter of fiscal 2023 was mainly 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 table below shows the effect of the net realized gain (loss) on foreign exchange forward contracts on net sales:

	First Quarter	
	2023	2022
	$	$
Sales before adjustment for net realized gain (loss) on f/x forward contracts designed as cash flow hedges	**24,795**	20,228
Add (deduct): adjustment for net realized gain (loss) on hedged f/x forward contracts designed as cash flow hedges	**(156)**	233
Net sales	**24,639**	20,461
Cost of sales	**13,576**	14,734
Depreciation of plant and equipment and right-of-use assets	**1,278**	1,485
Total cost of sales	**14,854**	16,219
Gross margin	**9,785**	4,242
Gross margin %	**39.7%**	20.7%
Gross margin before f/x gain (loss)	**9,941**	4,009
Gross margin % before f/x gain (loss)	**40.1%**	19.8%

Income Tax Expense

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Current income tax expense	**733**	296	437	147.6
Deferred income tax expense	**30**	36	(6)	(16.7)

Income tax expenses recorded during the first quarter of 2023 included current income tax expense of $746 (2022 – $274) in Canada, $4 (2022 – $6) related to taxes for the U.S. subsidiaries, and tax recovery of $17 (2022 – tax expense of $16) related to withholding tax on remittances from the Chinese subsidiaries to the Corporation and income taxes for the Chinese subsidiaries.

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in. The Corporation's consolidated effective tax rate for the first quarter of 2023 was 15.7% (2022 – not applicable as Q1 2022 had operating loss). The Corporation's effective tax rate differs from the statutory rates mainly as a result of realization of foreign tax losses in Q1 2023, the benefit of which had not been previously recognized on the balance sheet.

RECONCILIATION OF NET INCOME TO EBITDA

The following table reconciles EBITDA to net earnings in accordance with IFRS:

	First Quarter	
	2023	2022
	$	$
Net earnings (loss) to equity holders of FTG	**4,072**	(733)
Add back:		
Interest expense	**(8)**	117
Income tax expense	**763**	332
Depreciation and amortization	**1,363**	1,589
Stock based compensation	**107**	24
EBITDA	**6,297**	1,329
% of net sales	**25.6%**	6.5%

OVERVIEW OF HISTORICAL QUARTERLY RESULTS

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

	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	**Q1-23**
Circuit Segment Sales	$12,989	$13,122	$14,324	$14,194	$15,499	$14,577	$15,578	**$15,612**
Aerospace Segment Sales	7,776	7,404	7,007	7,750	8,030	9,637	9,141	**10,005**
Inter-Segment Sales	(435)	(788)	(1,004)	(1,483)	(1,211)	(1,119)	(969)	**(978)**
Total Net Sales	20,330	19,738	20,327	20,461	22,318	23,095	23,750	**24,639**
Earnings (Loss) before income taxes	578	1,451	489	(399)	531	1,250	960	**4,864**
Net Earnings (Loss) Attributable to Equity holders of FTG	10	774	(128)	(733)	14	723	694	**4,072**
Earnings (Loss) per share: Basic[1]	$0.00	$0.03	$0.00	($0.03)	$0.00	$0.03	$0.03	**$0.17**
Diluted	$0.00	$0.03	$0.00	($0.03)	$0.00	$0.03	$0.03	**$0.17**
Quarterly average CDN$ US$ exchange rates	$1.2390	$1.2465	$1.2561	$1.2709	$1.2709	$1.2907	$1.3494	**$1.3493**

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

	March 3, 2023 $	November 30, 2022 $
Total liquidity (cash, accounts receivable, contract assets and inventory)	**64,402**	52,449
Unused credit facilities[1]	**26,043**	24,841
Working capital	**42,568**	30,513

[1] U.S. $19.1 million (2022 – U.S. $18.9 million)

	Q1 2023 $	Q4 2022 $
Accounts receivables days outstanding	**63**	64
Inventory turns	**2.6**	3.7
Accounts payable days outstanding	**102**	73

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 March 3, 2023.

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 March 3, 2023.

	Less than 1 year $	**1 to 2 years** $	**2 to 5 years** $	**More than 5 years** $	**Amount** $
Bank debt (committed facility)	764	416	-	-	**1,180**
Bank debt interest payments	35	9	-	-	**44**
Accounts payable and accrued liabilities, and provisions	16,257	-	-	-	**16,257**
Contract liabilities	2,924	-	-	-	**2,924**
Income tax payable	174	-	-	-	**174**
Lease liabilities (undiscounted contractual cash flows)	1,674	1,521	3,224	1,142	**7,561**
Operating leases	76	25	-	-	**101**
Government loan	-	-	764	416	**1,180**
	21,904	**1,971**	**3,988**	**1,558**	**29,421**

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 and 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 March 3, 2023. The table below summarizes the unrealized gains (losses) included in the fair values:

	March 3, 2023 $	November 30, 2022 $
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	**(2,301)**	(1,720)
Gold forward contracts	**50**	(70)
Interest rate swaps	**22**	25
Net unrealized gains of derivative instruments	**(2,229)**	(1,765)
Tax effect	**557**	441
Included in accumulated other comprehensive income	**(1,672)**	(1,324)

The Corporation entered into interest rate swaps to hedge its term loans. The interest rate swaps have been designated as cash flow hedges and measured at fair value. The unrealized gain (loss) are included in other comprehensive loss and accounts payable and accrued liabilities as at March 3, 2023 and November 30, 2022. The table below summarizes the Corporation's interest rate swaps:

				Unrealized loss	
Date	**Corresponding Loan description**	**Loan interest rate**	**Interest rate swap**	**March 3, 2023**	November 30, 2022
July 2016	7-year US$2,600 term loan, repayable in monthly principal payments of approximately US$31 plus interest	LIBOR rate plus 215 basis points	3.35%	**$3**	$6
February 2018	7-year US$1,500 term loan, repayable in monthly principal payments of approximately US$18 plus interest	LIBOR rate plus 215 basis points	4.96%	**$10**	$11
April 2018	7-year US$1,000 term loan, repayable in monthly principal payments of approximately US$12 plus interest	LIBOR rate plus 215 basis points	5.08%	**$9**	$8
				$22	$25

CAPITAL EXPENDITURES (PLANT AND EQUIPMENT)

	First Quarter	
	2023 $	2022 $
Net capital expenditure	**1,119**	1,369

Net capital expenditures for the first quarter of fiscal 2023 included new equipment investments primarily for the Circuits Toronto, Circuits Chatsworth and Aerospace Tianjin facilities. Equipment investments are driven by in-sourcing of certain manufacturing and test processes, productivity improvements and replacement of aged equipment.

CASH FLOW

	First Quarter			
	2023	2022	Change	Change
	$	$	$	%
Operating activities	**1,470**	173	1,297	749.7
Investing activities	**7,271**	(1,366)	8,637	(632.3)
Financing activities	**(40)**	(658)	618	(93.9)
Free cash flow	**8,297**	(1,755)	10,052	(572.8)

Cash flow from operations in the first quarter of 2023 changed from the same period last year due to higher net earnings partially offset by increased non-cash operating working capital. Included in Q1 2023 net earnings was $2,891 of ERC funds received during the quarter. The increase in non-cash working capital during Q1 2023 is primarily the result of increased raw material and work-in-process inventories in support of near-term customer deliveries.

Investing activities in the first quarter of fiscal 2023 included $8,382 of proceeds from the sale and leaseback of the Aerospace Chatsworth facility. Excluding the sale-leaseback proceeds, Q1 2023 primarily included $1,119 of cash used for capital expenditures (Q1 2022 – $1,369).

Cash used in financing activities in the first quarter of fiscal 2023 decreased from the same period last year due to $603 of proceeds from the ARRI government loan received in Q1 2023.

Free cash flow in the first quarter of 2023 is approximately $10.1 million higher than Q1 2022, mainly due to the sale and leaseback of Aerospace Chatsworth facility and decreased capital expenditures.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the first quarter of fiscal 2023 and 2022.

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 6* of the consolidated financial statements as at March 3, 2023 and are designed to meet the requirements set out by the International Accounting Standards Board (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 authorized is a series of convertible preference shares, Series 1 (the "Preferred Shares"). The outstanding common shares at the year ended March 3, 2023 were 23,911,002 (November 30, 2022 – 23,926,901).

During the first quarter of 2023, the Corporation granted 82,500 performance share units ("PSU's") (2022 – nil). 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 March 3, 2023, nil of the 256,250 (November 30, 2022 – nil of the 253,958) outstanding PSU's had vested or were 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 8, 2023 which is available on SEDAR at www.sedar.com.

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.

OUTLOOK

On a global scale, the airline industry was dramatically weakened in 2020 and 2021 with significant drops in passenger travel due to the COVID-19 pandemic. This negatively impacted the commercial aerospace industry. Travel has recovered and demand in the aerospace industry has returned. The challenge for the Aerospace industry has quickly changed to how to ramp production to meet the demand. Labor and material challenges abound in this industry, like many others.

FTG's backlog, resulting from increased customer demand, has grown faster than we could ramp production in 2022 and this has continued in the first quarter of 2023. We are adding staff and working with suppliers to increase production across the company.

In commercial Air Transport, the pandemic hurt demand. Airbus reduced shipments by 35% in 2020 compared to 2019. In 2022, Airbus deliveries rose approximately 11% compared to 2021. Airbus' order backlog remains high at over 7,000 aircraft and projections are for more than 20% delivery increase in 2023. Boeing has also been hurt by the pandemic and their challenges with the B737 aircraft. The B737 is now flying again in the U.S., Canada and Europe and production of the aircraft has resumed in 2022. Projections are for more than a 30% increase in production at Boeing in 2023. At the airline level, domestic travel is recovering faster than international travel and this is driving an expected ramp up of single aisle aircraft demand ahead of long-haul, twin aisle aircraft. Backlog at Airbus is over 90% single aisle aircraft and over 80% at Boeing.

The business jet market also saw reduced demand during to the pandemic. Business jet activity has recovered rapidly and is now near pre-pandemic levels. In Canada, Bombardier has divested programs and repositioned itself as a pure-play business jet manufacturer. FTG continues to maintain a solid relationship with Bombardier.

The helicopter market was less impacted by the pandemic. Production rates are being impacted by the overall economic conditions and key industries that are heavy users of helicopters, such as resource extraction and public safety.

The defense market was not significantly impacted by the COVID-19 pandemic. The conflict in Ukraine is causing many NATO member states to relook at their defence spending with expectations that these spendings will increase in the coming years.

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.

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 three months ended March 3, 2023, there have been no changes in the Corporation's internal controls over financial reporting, 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.

NON-IFRS FINANCIAL MEASURES

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").

The Corporation calculates EBITDA as net earnings attributable to equity holders of FTG before interest expenses (net), income tax expenses, depreciation, amortization and stock based compensation.

The Corporation calculates FCF as net cash flow from operating, investing activities and effects of foreign exchange, excluding acquisitions, less lease liability payments.

The Corporation calculates gross margin as 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.

These non-IFRS financial measures are not generally accepted measures and should not be considered as alternatives to IFRS measures. As there is no standardized method of calculating these measures, these non-IFRS financial measures may not be directly comparable with similarly titled measures used by other companies. Management believes these non-IFRS financial measures are 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 11, 2023 and the Corporation's Annual Information Form (including documents incorporated by reference) dated February 9, 2023 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)	**March 3, 2023**	November 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 24,290**	$ 15,666
Accounts receivable	**16,586**	16,615
Contract assets	**486**	504
Inventories	**23,040**	19,664
Prepaid expenses and other	**1,361**	1,201
	65,763	53,650
Non-current assets		
Non-current assets held for sale	**-**	8,471
Property, Plant and equipment, net	**11,212**	11,015
Right-of-use assets	**11,916**	9,463
Intangible and other assets, net	**360**	399
Deferred tax assets	**835**	748
Total assets	**$ 90,086**	$ 83,746
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 16,257**	$ 14,906
Provisions	**1,157**	823
Contract liabilities	**2,924**	4,423
Current portion of bank debt	**736**	866
Current portion of government loan	**72**	47
Current portion of lease liabilities	**1,875**	1,360
Income tax payable	**174**	712
	23,195	23,137
Non-current liabilities		
Bank debt	**401**	532
Government loan	**2,466**	1,883
Lease liabilities	**10,888**	8,899
Total liabilities	**36,950**	34,451
Equity		
Retained earnings	**$ 23,579**	$ 19,521
Accumulated other comprehensive income	**(1,182)**	(867)
	22,397	18,654
Share capital		
Common Shares *(Note 3.1)*	**21,343**	21,357
Contributed surplus	**8,363**	8,319
Total equity attributable to FTG's shareholders	**52,103**	48,330
Non-controlling interest	**1,033**	965
Total equity	**53,136**	49,295
Total liabilities and equity	**$ 90,086**	$ 83,746

See accompanying notes.

Interim Condensed Consolidated Statements of Earnings (Loss)

	Three months ended	
(Unaudited) (in thousands of Canadian dollars, except per share amounts)	**March 3, 2023**	March 4, 2022
Sales	**$ 24,639**	$ 20,461
Cost of sales		
Cost of sales	**13,576**	14,734
Depreciation of plant and equipment	**969**	1,128
Depreciation of right-of-use assets	**309**	357
Total cost of sales	**14,854**	16,219
Gross margin	**9,785**	4,242
Expenses		
Selling, general and administrative	**3,786**	3,018
Research and development costs	**1,332**	1,392
Recovery of investment tax credits	**(150)**	(177)
Depreciation of property, plant and equipment	**51**	57
Depreciation of right-of-use assets	**16**	10
Amortization of intangible assets	**33**	31
Interest (income) expense, net	**(153)**	9
Notional interest expense on government loan	**24**	-
Accretion on lease liabilities	**121**	108
Stock based compensation	**107**	24
Foreign exchange (gain) loss *(Note 6.2)*	**(246)**	169
Total expenses	**4,921**	4,641
Earnings (loss) before income taxes	**4,864**	(399)
Current income tax expense	**733**	296
Deferred income tax expense	**30**	36
Total income tax expense	**763**	332
Net earnings (loss)	**$ 4,101**	$ (731)
Attributable to:		
Non-controlling interest	**$ 29**	$ 2
Equity holders of FTG	**$ 4,072**	$ (733)
Earnings (loss) per share, attributable to the equity holders of		
Basic *(Note 3.2)*	**$ 0.17**	$ (0.03)
Diluted *(Note 3.2)*	**$ 0.17**	$ (0.03)

See accompanying notes.

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three months ended	
(Unaudited) (in thousands of Canadian dollars)	**March 3, 2023**	March 4, 2022
Net earnings (loss)	**$ 4,101**	$ (731)
Other comprehensive earnings (loss) to be reclassified to net earnings (loss) in subsequent periods:		
Change in foreign currency translation adjustments	**71**	(60)
Net gain (loss) on valuation of derivative financial instruments designated as cash flow hedges *(Note 6.3)*	**(463)**	637
Deferred income taxes on change in valuation of derivative financial instruments designated as cash flow	**116**	(160)
	(276)	417
Total comprehensive income (loss)	**$ 3,825**	$ (314)
Attributable to:		
Equity holders of FTG	**$ 3,727**	$ (320)
Non-controlling interest	**$ 98**	$ 6

See accompanying notes.

Interim Condensed Consolidated Statements of Changes in Equity

Three months ended March 3, 2023	**Attributed to the equity holders of FTG**						
(Unaudited) (in thousands of Canadian dollars)	**Common shares**	**Retained earnings**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Total**	**Non-controlling interest**	**Total equity**
Balance, November 30, 2022	**$ 21,357**	**$ 19,521**	**$ 8,319**	**$ (867)**	**$ 48,330**	**$ 965**	**$ 49,295**
Net income	**-**	**4,072**	**-**	**-**	**4,072**	**29**	**4,101**
Stock-based compensation	**-**	**-**	**44**	**-**	**44**	**-**	**44**
Repurchase and cancellation of shares	**(14)**	**(14)**	**-**	**-**	**(28)**	**-**	**(28)**
Other comprehensive loss	**-**	**-**	**-**	**(315)**	**(315)**	**39**	**(276)**
Balance, March 3, 2023	**$ 21,343**	**$ 23,579**	**$ 8,363**	**$ (1,182)**	**$ 52,103**	**$ 1,033**	**$ 53,136**

Three months ended March 4, 2022	Attributed to the equity holders of FTG						
(Unaudited) (in thousands of Canadian dollars)	Common shares	Retained earnings	Contributed surplus	Accumulated other comprehensive income	Total	Non-controlling interest	Total equity
Balance, November 30, 2021	$ 21,881	$ 19,391	$ 8,352	$ 478	$ 50,102	$ 940	$ 51,042
Net income (loss)	-	(733)	-	-	(733)	2	(731)
Stock-based compensation	-	-	(7)	-	(7)	-	(7)
Other comprehensive income	-	-	-	413	413	4	417
Balance, March 4, 2022	$ 21,881	$ 18,658	$ 8,345	$ 891	$ 49,775	$ 946	$ 50,721

See accompanying notes.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited) (in thousands of Canadian dollars)	Three months ended **March 3, 2023**	March 4, 2022
Net inflow (outflow) of cash related to the following:		
Operating activities		
Net earnings (loss)	**$ 4,101**	$ (731)
Items not affecting cash and cash equivalents:		
Stock-based compensation	**107**	24
Loss on disposal of plant and equipment	**30**	-
Effect of exchange rates on U.S. dollar bank debt	**(18)**	(30)
Depreciation of plant and equipment	**1,020**	1,185
Depreciation of right-of-use assets	**325**	367
Amortization of intangible assets	**33**	31
Amortization, other	**(15)**	6
Notional interest expense on government loan	**24**	-
Deferred tax expenses	**30**	236
Accretion on lease liabilities	**121**	108
Net change in non-cash operating working capital *(Note 5)*	**(4,288)**	(1,023)
	1,470	173
Investing activities		
Additions to plant and equipment	**(1,119)**	(1,369)
Proceeds from sales of property, plant and equipment	**8,382**	-
Recovery of contract and other costs	**8**	3
	7,271	(1,366)
Net cash flow from operating and investing activities	**8,741**	(1,193)
Financing activities		
Proceeds from government loan	**603**	-
Repayments of bank debt	**(246)**	(231)
Lease liability payments	**(367)**	(427)
Repurchase and cancellation of shares	**(30)**	-
	(40)	(658)
Effects of foreign exchange rate changes on cash flow	**(77)**	(135)
Net increase (decrease) in cash flow	**8,624**	(1,986)
Cash and cash equivalents, beginning of the period	**15,666**	20,196
Cash and cash equivalents, end of period	**$ 24,290**	$ 18,210
Disclosure of cash payments		
Payment for interest	**$ 15**	$ 25
Payments for income taxes	**$ 1,152**	$ 248

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 March 3, 2023 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 11, 2023.

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, 2022, 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, 2022.

Certain comparative figures have been reclassified to conform to the current period's presentation.

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.

(in thousands of Canadian dollars, except where noted and per share amounts)

3. SHARE CAPITAL

3.1 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 as at March 3, 2023 were 23,911,002 (November 30, 2022 – 23,926,901).

During the three months ended March 3, 2023, the Corporation granted 82,500 performance share units ("PSU's") (2022 – nil). PSU's vest at the end of their respective terms, generally three years, to the extent that the applicable performance conditions have been met. The fair value of the non-market performance based PSU's is determined by the market value of the Corporation's Common Shares at the time of grant and may be adjusted in subsequent years to reflect the estimated level of achievement related to the applicable performance condition. The Corporation expects to settle these awards with Common Shares issued from the treasury or by purchasing from the open market.

As at March 3, 2023, nil of the 256,250 (November 30, 2022 – nil of the 253,958) outstanding PSU's had vested or were exercisable.

3.2 Earnings per share

	Three months ended	
	March 3, 2023	March 4, 2022
Numerator		
Net earnings (loss) attributable to non-controlling interests	**$ 4,101**	$ (731)
Net earnings (loss) attributable to non-controlling interests	**29**	2
Net earnings (loss) attributable to equity holders of FTG	**$ 4,072**	$ (733)
Numerator for basic earnings per share - net earnings (loss) applicable to Common Shares	**$ 4,072**	$ (733)
Numerator for diluted earnings per share - net earnings (loss) applicable to Common Shares	**$ 4,072**	$ (733)
Denominator		
Denominator for basic earnings per share - weighted average number of Common Shares outstanding	**23,915,959**	24,491,201
Effect of dilutive securities		
Weighted average number of PSU's	**235,920**	-
Denominator for diluted earnings per share - weighted average number of Common Shares outstanding and assumed conversions	**24,151,880**	24,491,201
Earnings (loss) per share data attributable to the equity holders of FTG		
Basic earnings (loss) per share	**$ 0.17**	$ (0.03)
Diluted earnings (loss) per share	**$ 0.17**	$ (0.03)

(in thousands of Canadian dollars, except where noted and per share amounts)

The Corporation has 256,250 PSU's outstanding as at March 3, 2023 (March 4, 2022 – 167,958). The PSU's were included in the calculation of diluted earnings per share for the three ended March 3, 2023 as the Corporation had net earnings. The PSU's were not included in the calculation of diluted earnings per share for the three ended March 4, 2022 as the Corporation had a net loss.

3.3 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 government financing, 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, bank debt and government financing.

The Corporation's managed capital is as follows:

	March 3, 2023 **$**	November 30, 2022 $
Total equity attributable to FTG's shareholders	**52,103**	48,330
Bank debt	**1,137**	1,398
Government loan	**2,538**	1,930
Managed capital	**55,778**	51,658

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 long-term 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.

3.4 Normal course issuer bid program

In April 2022, the Toronto Stock Exchange (the "TSX") accepted the Corporation's notice of intention to establish a normal course issuer bid program (the "NCIB"). The NCIB permits the purchase of up to 1,224,560 of the Corporation's Common Shares representing approximately 5% of its outstanding Common Shares, pursuant to TSX rules, by way of normal course purchases effected through the facilities of the TSX and/or alternative Canadian trading systems permitted by TSX.

The NCIB commenced on April 22, 2022 and will conclude on the earlier of the date on which purchases under the bid have been completed and April 21, 2023. Purchases are made by the Corporation in accordance with the requirements of the TSX and the price paid for any repurchased Common Shares will be the market price of such Common Shares at the time of acquisition. For purposes of the TSX rules, a maximum of 6,546 Common Shares may be purchased by the Corporation on any one day under the bid, except where purchases are made in accordance with the "block purchase exception" of the TSX rules.

(in thousands of Canadian dollars, except where noted and per share amounts)

During the three months ended March 3, 2023, the Corporation purchased and cancelled 15,899 Common Shares at a weighted average price of $1.85 per share for a total amount of $30 including commission and other transaction costs. As at March 3, 2023, the Corporation has purchased and cancelled 580,199 shares cumulatively during the NCIB.

4. INCOME TAX EXPENSE

The Corporation's tax expense is calculated based on the best estimate of the weighted average annual income tax rate expected for the full financial year by using the rates applicable in each of the tax jurisdictions that the Corporation operates in.

5. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

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

	Three months ended	
	March 3, 2023	March 4, 2022
	$	$
Accounts receivable, contract assets	**56**	1,632
Inventories	**(3,366)**	(363)
Prepaid expenses	**(630)**	(258)
Contract liabilities	**(1,495)**	(179)
Accounts payable and accrued liabilities, and provisions	**1,685**	(1,760)
Income tax payable	**(538)**	(95)
	(4,288)	(1,023)

6. FINANCIAL INSTRUMENTS

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 March 3, 2023 and November 30, 2022.

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 March 3, 2023 and November 30, 2022.

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 March 3, 2023 and November 30, 2022.

(in thousands of Canadian dollars, except where noted and per share amounts)

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:

6.1 Cash, accounts receivable, contract assets, accounts payable and accrued liabilities, and contract liabilities

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.

6.2 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.

6.3 Derivative instruments

The fair value of the Corporation’s foreign exchange forward contracts, gold forward contracts and 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 March 3, 2023. The table below summarizes the unrealized gains (losses) included in the fair values:

	March 3, 2023 $	November 30, 2022 $
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	**(2,301)**	(1,720)
Gold forward contracts	**50**	(70)
Interest rate swaps	**22**	25
Net unrealized gains of derivative instruments	**(2,229)**	(1,765)
Tax effect	**557**	441
Included in accumulated other comprehensive income	**(1,672)**	(1,324)

a) 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 no more than thirty six months as at March 3, 2023 and November 30, 2022:

As at	**Currency sold**	**Currency bought**	**Notional value**	**Forward value at transaction date**	**Forward current value**	**Unrealized loss**

March 3, 2023	**USD**	**CAD**	**US$56,150**	**$73,134**	**$75,434**	**($2,301)**
November 30, 2022	USD	CAD	US$56,150	$73,053	$74,773	($1,720)

As at March 3, 2023 and November 30, 2022, the foreign exchange forward contracts (contracts to sell foreign currency) are designated as cash flow hedges, all of which was recognized in other comprehensive income (loss) and prepaid expenses and other. This net unrealized loss in other comprehensive income (loss) is expected to be realized through net earnings (loss) on the interim condensed consolidated statements of earnings (loss) over the next thirty six months when the sales are recorded.

b) Gold forward contracts

As at March 3, 2023, in addition to the foreign exchange forward contracts per above, the Corporation had an outstanding commitment to buy 1,050 ounces of gold (November 30, 2022 – 1,050 ounces of gold) under gold forward contracts at a contract price of approximately $2.57 per ounce (November 30, 2022 – $2.52) expiring quarterly from March 2023. 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:

As at	**Nature of contract**	**Quantity**	**Forward value at transaction date**	**Forward current value**	**Unrealized gain (loss)**
March 3, 2023	**Gold forward contract**	**1,050 ounces**	**$2,699**	**$2,749**	**$50**
November 30, 2022	Gold forward contract	1,050 ounces	$2,645	$2,575	($70)

As at March 3, 2023 and November 30, 2022, the gold forward contracts are designated as cash flow hedges, all of which was recognized in other comprehensive income (loss), prepaid expenses and other and accounts payable and accrued liabilities. This unrealized gain (loss) in other comprehensive loss is expected to be reclassified to the interim condensed consolidated statements of loss over the next six 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 March 3, 2023 retained in other comprehensive income related to these contracts are expected to be recognized through net earnings on the interim condensed consolidated statement of loss in fiscals 2023, 2024, 2025 and 2026.

c) Interest rate swaps

The Corporation entered into interest rate swaps to hedge its term loans. The interest rate swaps have been designated as cash flow hedges and measured at fair value. The unrealized loss are included in other comprehensive income (loss) and accounts payable and accrued liabilities as at March 3, 2023 and November 30, 2022. The table below summarizes the Corporation's interest rate swaps:

				Unrealized loss	
Date	**Corresponding Loan description**	**Loan interest rate**	**Interest rate swap**	**March 3, 2023**	November 30, 2022

July 2016	7-year US$2,600 term loan, repayable in monthly principal payments of approximately US$31 plus interest	LIBOR rate plus 215 basis points	3.35%	**$3**	$6
February 2018	7-year US$1,500 term loan, repayable in monthly principal payments of approximately US$18 plus interest	LIBOR rate plus 215 basis points	4.96%	**$10**	$11
April 2018	7-year US$1,000 term loan, repayable in monthly principal payments of approximately US$12 plus interest	LIBOR rate plus 215 basis points	5.08%	**$9**	$8
				$22	$25

7. FINANCIAL RISKS

7.1 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 (see *Note 6.3*).

7.2 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 located in the United States, providing a natural economic hedge for a portion of the Corporation's currency exposure.

During the three months ended March 3, 2023, net realized loss of $156 (2022 – gain of $233), from settlements of foreign exchange forward contracts designated as cash flow hedges was included in sales in the interim condensed consolidated statements of loss.

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:

			March 3, 2023	November 30, 2022
(In thousands of U.S. dollars)	**Canadian and other operations $**	**U.S. operations $**	**Consolidated financial statements $**	Consolidated financial statements $
Cash	**14,448**	**594**	**15,042**	8,597
Accounts receivable, contract assets	**7,981**	**3,243**	**11,224**	11,229

Accounts payable and accrued liabilities, contract liabilities and current portion of lease liabilities	**(2,434)**	**(4,599)**	**(7,033)**	(6,637)
Total bank borrowings	**1,137**	**-**	**1,137**	(1,398)
Balance sheet exposure, excluding financial derivatives	**21,132**	**(762)**	**20,370**	11,791
Reporting date CAD:USD exchange rate			**1.3610**	1.3508

	Three months ended			
			March 3, 2023	March 4, 2022
(In thousands of U.S. dollars)	**Canadian and other operations $**	**U.S. operations $**	**Total $**	Total $
Net sales	**11,823**	**5,395**	**17,218**	16,246
Operating expenses	**(4,052)**	**(4,361)**	**(8,413)**	(10,891)
Net exposure	**7,771**	**1,034**	**8,805**	5,355

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 March 3, 2023 and March 4, 2022 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 3, 2023	March 4, 2022
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	**(211)**	**8**	**(203)**	(54)
Net sales and operating expenses (net exposure)	**(78)**	**(10)**	**(88)**	(53)
Net exposure	**(289)**	**(2)**	**(291)**	(107)

The Corporation also holds RMB arising from its Circuits and Aerospace facilities in the People's Republic of China.

	March 3, 2023		November 30, 2022	
	RMB	**$**	RMB	$
Cash	**11,804**	**2,317**	7,431	1,416
Short-term deposit with a financial institution with maturity of less than 1 year	**1,535**	**301**	2,571	490
Balance sheet exposure	**13,339**	**2,618**	10,002	1,906

With all variables remaining constant, assuming a 1% strengthening of the Canadian dollar versus the RMB, net earnings before tax the three months ended March 3, 2023 and March 4, 2022 would decrease by approximately $26 and $20. An assumed 1% weakening of the Canadian dollar versus the RMB would have had an equal but opposite effect on these amounts.

7.3 Credit risk

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. During the three months ended March 3, 2023, the Corporation's largest and second largest customer accounted for approximately 22.2% and 11.7% of sales (2022 – 26.1% and 10.8%), respectively. 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.

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.

7.4 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 3.3*. 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 March 3, 2023 and November 30, 2022:

(in thousands of Canadian dollars, except where noted and per share amounts)

					March 3, 2023	November 30, 2022
	Less than 1 year $	**1 to 2 years $**	**2 to 5 years $**	**More than 5 years $**	**Amount $**	Amount $
Bank debt[1] (committed facility)	764	416	-	-	**1,180**	1,445
Bank debt interest payments	35	9	-	-	**44**	57
Accounts payable and accrued liabilities, and provisions	16,257	-	-	-	**16,257**	15,729
Contract liabilities	2,924	-	-	-	**2,924**	4,423
Income tax payable	174	-	-	-	**174**	712
Lease liabilities (undiscounted contractual cash flows)	1,674	1,521	3,224	1,142	**7,561**	5,618
Operating leases	76	25	-	-	**101**	121
Government loan	-	-	764	416	**1,180**	1,926
	21,904	**1,971**	**3,988**	**1,558**	**29,421**	30,031

1. Bank debt as at March 3, 2023 is offset by $43 of deferred financing charge ($47 as at November 30, 2022).

a) Aviation Manufacturing Jobs Protection Program

During the third quarter of fiscal 2021, the U.S. Department of Transportation announced the Aviation Manufacturing Jobs Protection (AMJP) program under the American Rescue plan that can provide funding to eligible businesses, to pay up to half of their compensation costs for certain categories of employees, for up to six months. In return, the business is required to make several commitments, including a commitment that the company will not involuntarily furlough or lay off employees within that group during the same six-month period.

During the three months ended March 3, 2023, the Corporation recorded $Nil of AMJP funding as a reduction to cost of sales in the consolidated statement of earnings (2022 – $256).

b) Aerospace Regional Recovery Initiative Program

The Corporation was awarded up to $7,027 of funding from FedDev Ontario, an agency of the Government of Canada, pursuant to the Aerospace Regional Recovery Initiative (ARRI) program in Canada. This funding will be in the format of a repayable contribution against qualifying investments made by FTG during a three-year period ending March 31, 2024. The funding will be repayable, without interest, commencing in 2025 over a period of 5 years.

As at March 3, 2023, the Corporation has received $1,926 of ARRI funding. In accordance with IFRS, the benefit of the interest-free loan has been recognized as deferred government grant in the interim condensed consolidated statements of financial position. As at March 3, 2023, the carrying value of the ARRI loan and the deferred government grant are $1,867 and $672, respectively (November 30, 2022 – $1,419 and $511, respectively).

c) Employee Retention Credit

The Employee Retention Credit (ERC) is a refundable tax credit in the U.S. within the CARES Act for businesses that continued to pay employees while shut down due to the COVID-19 pandemic or had significant declines in gross receipts from March 13, 2020 to December 31, 2021.

During the three months ended March 3, 2023, the Corporation's U.S. operations were approved for and received $3,441 (US$2,531) in funds pursuant to the ERC program. The funds received were recorded as reductions to cost of sales and selling, general and administrative expenses.

d) Advanced Manufacturing and Innovation Competitiveness Program

Effective February 24, 2023, the Corporation was awarded up to $2,615 of funding from the Ontario Ministry of Economic Development, Job Creation and Trade pursuant to the Advanced Manufacturing and Innovation Competitiveness (AMIC) program in Ontario, Canada. This funding will be in the format of a conditional loan against qualifying investments made by FTG during a 33-month period ending November 30, 2024. The conditional loan will be non-interest bearing through November 30, 2024, with up to $500 forgivable upon achievement of specified objectives. The residual loan amount and interest accruing from December 1, 2024 at a rate of 6.81% per annum are repayable in quarterly instalments commencing February 28, 2025 and ending November 30, 2028. As of March 3, 2023, no amount has been received or recorded in the financial statements.

8. 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:

(in thousands of Canadian dollars, except where noted and per share amounts)

	Three months ended March 3, 2023			
	Circuits	**Aerospace**	**Corporate and inter-segment**	**Total**
	$	**$**	**$**	**$**
Gross segment sales	**15,612**	**10,005**	**-**	**25,617**
Inter-segment sales	**-**	**-**	**(978)**	**(978)**
Net sales	**15,612**	**10,005**	**(978)**	**24,639**
Cost of sales and selling, general and administrative expenses	**10,022**	**7,290**	**157**	**17,469**
Research and development costs	**1,082**	**250**	**-**	**1,332**
Recovery of investment tax credits	**(100)**	**(50)**	**-**	**(150)**
Depreciation and amortization	**1,059**	**266**	**53**	**1,378**
Interest and accretion (income) expense, net	**38**	**30**	**(76)**	**(8)**
Foreign exchange (gain) loss	**68**	**(1)**	**(313)**	**(246)**
Earnings (loss) before income taxes	**3,443**	**2,220**	**(799)**	**4,864**
Other operating segments disclosures:				
Additions to plant and equipment	**839**	**280**	**-**	**1,119**

	Three months ended March 4, 2022			
	Circuits	Aerospace	Corporate and inter-segment	Total
	$	$	$	$
Gross segment sales	14,193	7,750	-	21,943
Inter-segment sales	-	-	(1,482)	(1,482)
Net sales	14,193	7,750	(1,482)	20,461
Cost of sales and selling, general and administrative expenses	11,461	7,147	(832)	17,776
Research and development costs	1,239	153	-	1,392
Recovery of investment tax credits	(133)	(44)	-	(177)
Depreciation and amortization	1,186	347	50	1,583
Interest and accretion (income) expense, net	73	34	10	117
Foreign exchange (gain) loss	145	61	(37)	169
Earnings (loss) before income taxes	222	52	(673)	(399)
Other operating segments disclosures:				
Additions to plant and equipment	1,273	96	-	1,369

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

	As at March 3, 2023			As at November 30, 2022		
	Circuits	**Aerospace**	**Total**	Circuits	Aerospace	Total
	$	**$**	**$**	$	$	$
Total segment assets	**63,439**	**26,647**	**90,086**	52,999	30,747	83,746
Intangible and other assets	**180**	**180**	**360**	211	188	399

(in thousands of Canadian dollars, except where noted and per share amounts)

Total segment liabilities	**23,770**	**11,510**	**35,280**	22,480	11,971	34,451

The following tables detail net sales by the locations of customers:

	Three months ended			
	March 3, 2023		March 4, 2022	
	$	**%**	$	%
Canada	**1,702**	**6.9**	1,813	8.9
United States	**17,856**	**72.5**	15,554	76.0
Asia	**3,113**	**12.6**	1,593	7.8
Europe	**1,435**	**5.8**	1,200	5.9
Other Americas	**533**	**2.2**	301	1.4
Total	**24,639**	**100.0**	20,461	100.0

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

	As at March 3, 2023			
	Canada	**United States**	**Asia**	**Total**
	$	**$**	**$**	**$**
Intangible and other assets (by location)	**177**	**179**	**4**	**360**
Plant and equipment (by location)	**5,084**	**4,933**	**1,195**	**11,212**
Right-of-use assets (by location)	**5,645**	**5,850**	**421**	**11,916**

	As at November 30, 2022			
	Canada	United States	Asia	Total
	$	$	$	$
Intangible and other assets (by location)	184	211	4	399
Plant and equipment (by location)	5,012	5,000	1,003	11,015
Right-of-use assets (by location)	5,783	3,235	445	9,463

The Corporation's primary sources of revenue are as follows:		**Three months ended**
	March 3, 2023	March 4, 2022
	$	$
Sale of goods	**24,414**	20,225
Services	**225**	236
	24,639	20,461

Timing of revenue recognition based on transfer of control is as follows:		Three months ended
	March 3, 2023	March 4, 2022
	$	$
At a point of time	**24,414**	20,225
Over time	**225**	236
	24,639	20,461

The following tables detail net sales of the Corporation's two largest customers during each period:

(in thousands of Canadian dollars, except where noted and per share amounts)

For the three months ended March 3, 2023	**Location**	**Circuits Segment**	**Aerospace Segment**	**Total**	**% of FTG total net sales**
		$	**$**	**$**	
Customer A	**United States and Europe**	**4,683**	**793**	**5,476**	**22.2**
Customer C	**Asia, Canada and United States**	**2,667**	**211**	**2,878**	**11.7**

For the three months ended March 4, 2022	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		$	$	$	
Customer A	United States and Europe	3,392	1,940	5,332	26.1
Customer B	United States and Asia	1,445	769	2,214	10.8