FIRAN TECHNOLOGY GROUP CORPORATION

First Quarter Report
For the period ended
March 1, 2024

April 11, 2024

April 11, 2024

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 1, 2024 (first quarter of fiscal 2024 or Q1 2024) is as of April 11, 2024 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 2024, 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, 2023 (fiscal 2023) and, accordingly, the purpose of this document is to provide a first quarter update to the information contained in the fiscal 2024 MD&A. Additional information is contained in the Corporation's filings with Canadian securities regulators, including its Annual Information Form dated February 6, 2024, 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 the following locations:

- Toronto, Ontario, Canada
- Minnetonka, Minnesota, USA
- Chatsworth, California, USA
- Fredericksburg, Virginia, USA
- Haverhill, Massachusetts, USA
- Tianjin, China (Joint venture and sourcing arrangement with operating facilities)

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 the following locations:

- Toronto, Ontario, Canada
- Chatsworth, California, USA
- 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 defence market, penetrating the rapidly growing Asian aerospace market, 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 its current strategy is to increase the utilization and operational leverage of these facilities and realize 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. 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 that can drive 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 these markets 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 its facilities to realize 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 2024

	First Quarter	
(in thousands of dollars except per share amounts)	**2024**	2023
	$	$
Sales	**34,975**	24,639
Gross margin	**8,929**	9,785
Net earnings attributable to equity holders of FTG	**1,050**	4,072
Number of common and preferred shares, in aggregate	**23,874,802**	23,915,959
Earnings per share:		
Basic	**0.04**	0.17
Diluted	**0.04**	0.17
EBITDA[1]	**4,554**	6,297
Total assets	**123,035**	90,086
Net cash position[2]	**(7,239)**	20,615
Free cash flow[3]	**(3,350)**	(85)

[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 loans.*
[3] *Free cash flow ("FCF") is a non-IFRS financial measure. Please refer to the Non-IFRS Financial Measures section.*

Sales

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Circuits	**25,896**	15,612	10,284	65.9
Aerospace	**9,935**	10,005	(70)	(0.7)
Inter-segment sales	**(856)**	(978)	122	(12.5)
Net sales	**34,975**	24,639	10,336	41.9

Sales in Q1 2024 increased by approximately $10.3 million or 41.9% from Q1 2023:

- Sales for the Circuits segment increased by $10.3 million or 65.9% as compared to Q1 2023, with $9.6 million of the sales increase attributable to the newly acquired Circuits sites in Minnetonka and Haverhill, and organic growth of $0.7 million.
- Sales for the Aerospace segment were flat as compared to Q1 2023 with increased sales from the sites in Chatsworth and Tianjin offsetting the sales impact of a strike at the Toronto site and reduced Simulator product shipments. There was a six-week strike at the Aerospace Toronto facility, which negatively impacted revenue in Q1 2024 by approximately $3.0M. The hourly workers at the Aerospace Toronto site returned to work on January 23, 2024.
- The CAD / USD foreign exchange rate was consistent in Q1 2024 as compared to Q1 2023, which resulted in negligible impact on sales.

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

	First Quarter					
	2024		2023		Change	
	$	**%**	$	%	$	%
Canada	**1,512**	**4.3**	1,702	6.9	(190)	(11.2)
United States	**28,664**	**82.0**	17,856	72.5	10,808	60.5
Asia	**3,244**	**9.3**	3,113	12.6	131	4.2
Europe	**1,452**	**4.2**	1,435	5.8	17	1.2
Other Americas	**$103**	**0.2**	533	2.2	(430)	(80.7)
Total	**34,975**	**100**	24,639	100	10,336	41.9

In Q1 2024, sales in the United States were increased from Q1 2023 while sales in other Americas decreased. The $10.8 million increase in U.S. sales over the prior year quarter was driven by the two newly acquired sites, which primarily deal with U.S. based customers.

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

	First Quarter	
	2024	2023
	%	%
Largest customer	**18.4**	22.2
Second largest customer	**16.4**	11.7
Third to fifth largest customers	**31.7**	24.7
Largest five customers	**66.5**	58.6

Gross Margin

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Gross margin	**8,929**	9,785	(856)	(8.7)
% of net sales	**25.5%**	39.7%		
Government assistance included in gross profit	**-**	2,891	(2,891)	(100.0)
Gross margin excluding government assistance	**8,929**	6,894	2,035	29.5
% of net sales	**25.5%**	28.0%		

The increase in gross margin dollars excluding the effect of government assistance is primarily contributed by the acquired Circuits sites. The decrease in gross margin rate is the result of product mix, with reduced high margin Simulator product sales in Q1 2024, and lower fixed cost absorption during the strike at Aerospace Toronto.

Selling, General and Administrative Expenses

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Selling, general and administrative expenses	**4,799**	3,756	1,043	27.8
% of net sales	**13.7%**	15.2%		

The increase in selling, general and administrative expenses of $1,043 or 27.8% during the first quarter of 2024 as compared to the prior year includes $698 from the newly acquired sites.

Selling, general and administrative expenses in the first quarter of 2023 was also reduced by $549 from the ERC funds received in the U.S., which is not in the first quarter of 2024.

Research and Development

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Research and development costs	**1,363**	1,332	31	2.3
Recovery of investment tax credits	**(166)**	(150)	(16)	10.7

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 2024, ITCs were earned from qualifying research and development expenditures.

Depreciation and Amortization

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Depreciation of plant and equipment	**1,302**	1,020	282	27.6
Depreciation of right-of-use assets	**719**	325	394	121.2
Amortization of intangible assets	**58**	33	25	75.8
Amortization, other	**(39)**	(15)	(24)	160.0
Total	**2,040**	1,363	677	49.7

The increase in depreciation of plant and equipment is mainly due to the impact of acquired businesses, which incurred $193 of depreciation of plant and equipment during the first quarter of fiscal 2024.

The increase in depreciation of right-of-use assets is mainly due to the impact of acquired businesses, which incurred $330 of depreciation of right-of-use assets during the first quarter of fiscal 2024.

The increase in amortization of intangible assets is due to intangible assets from the acquired businesses.

Variances in other amortization during the first quarter of 2024 are mainly due to the amortization of deferred government grants.

Interest and Accretion Expense

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Interest (income) expenses, net	**87**	(153)	240	N/A
Accretion on lease liabilities	**362**	121	241	199.2
Notional interest expense on government loans	**78**	24	54	225.0

The increase in interest expense on bank debt is the result of financing costs of the acquisitions. Prior to acquiring the Circuits businesses in Minnetonka and Haverhill, the Corporation was earning interest on its net cash balance.

Increases in accretion on lease liabilities are primarily incurred by the acquired businesses.

Foreign Exchange

The Canadian dollar spot rate, as compared to the U.S. dollar has (appreciated) depreciated as follows during the first quarter of 2024 as compared to the first quarter of 2023:

First Quarter	**2024**				2023			
	March 1, 2024	**November 30, 2023**	**Change**		March 3, 2023	November 30, 2022	Change	
	$	**$**	**$**	**%**	$	$	$	%
CAD/USD	**1.3564**	**1.3582**	**(0.00)**	**(0.1)**	1.3610	1.3508	0.01	0.8

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

	First Quarter		
	2024	2023	Change
	$	$	$
Foreign exchange (gain) loss	**229**	(246)	475

The foreign exchange loss for the first quarter of fiscal 2024 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 U.S. 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	
	2024	2023
	$	$
Sales before adjustment for net realized gain (loss) on f/x forward contracts designed as cash flow hedges	**35,509**	24,795
Add (deduct): adjustment for net realized gain (loss) on hedged f/x forward contracts designed as cash flow hedges	**(534)**	(156)
Net sales	**34,975**	24,639

Cost of sales	**24,084**	13,576
Depreciation of plant and equipment and right-of-use assets	**1,962**	1,278
Total cost of sales	**26,046**	14,854
Gross margin	**8,929**	9,785
Gross margin %	**25.5%**	39.7%
Gross margin before f/x gain (loss)	**9,463**	9,941
Gross margin % before f/x gain (loss)	**26.6%**	40.1%

Income Tax Expense

	First Quarter			
	2024 **$**	2023 $	Change $	Change %
Current income tax expense	**656**	733	(77)	(10.5)
Deferred income tax expense	**33**	30	3	10.0

Income tax expenses recorded during the first quarter of 2024 included current income tax on earnings in the Canadian and Chinese entities, and certain withholding taxes.

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions in which the Corporation operates. The Corporation's consolidated effective tax rate differs from the statutory rates mainly as a result of tax benefits not recognized.

RECONCILIATION OF NET INCOME TO EBITDA

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

		First Quarter
	2024 **$**	2023 $
Net earnings to equity holders of FTG	**1,050**	4,072
Add back:		
Interest and accretion expense (income)	**527**	(8)
Income tax expense	**689**	763
Depreciation and amortization	**2,040**	1,363
Stock based compensation	**248**	107
EBITDA	**4,554**	6,297
% of net sales	**13.0%**	25.6%

OVERVIEW OF HISTORICAL QUARTERLY RESULTS

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

	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	**Q1-24**
Circuit segment sales	$15,499	$14,577	$15,578	$15,612	$21,200	$27,230	$27,812	**$25,896**
Aerospace segment sales	8,030	9,637	9,141	10,005	13,766	10,014	12,813	**9,935**
Inter-segment sales	(1,211)	(1,119)	(969)	(978)	(1,007)	(633)	(634)	**(856)**
Total net sales	22,318	23,095	23,750	24,639	33,959	36,611	39,991	**34,975**
Earnings before income taxes	531	1,250	960	4,864	3,438	2,338	3,410	**1,812**
Net earnings attributable to equity holders of FTG	14	723	694	4,072	2,403	1,320	3,826	**1,050**
Earnings per share:								
Basic	$0.00	$0.03	$0.03	$0.17	$0.10	$0.06	$0.16	**$0.04**
Diluted	$0.00	$0.03	$0.03	$0.17	$0.10	$0.05	$0.16	**$0.04**
Quarterly average CDN$ US$ exchange rates	$1.2709	$1.2907	$1.3494	$1.3493	$1.3562	$1.3333	$1.3656	**$1.3453**

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 1, 2024 $	November 30, 2023 $
Total liquidity (cash, accounts receivable, contract assets and inventory)	**67,790**	72,156
Unused credit facilities[1]	**22,972**	22,591
Working capital	**41,421**	41,051

[1] U.S. $16.9 million (2023 – U.S. $16.6 million)

	Q1 2024 $	Q4 2023 $
Accounts receivables days outstanding	**61**	64
Inventory days outstanding	**132**	113
Accounts payable days outstanding	**80**	78

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 1, 2024.

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 1, 2024.

	Less than 1 year $	1 to 2 years $	2 to 5 years $	More than 5 years $	Amount $
Bank debt principal repayments	1,038	642	2,608	-	**4,288**
Bank debt interest payments	272	216	76	-	**564**
Accounts payable and accrued liabilities, and provisions	22,494	-	-	-	**22,494**
Contract liabilities	1,506	-	-	-	**1,506**
Income tax payable	-	-	-	-	**-**
Lease liabilities (undiscounted contractual cash flows)	3,525	3,190	6,642	428	**13,785**
Operating leases	25	-	-	-	**25**
Government loans	-	1,396	4,187	1,265	**6,848**
Government loans interest payments	-	39	53	-	**92**
Contingent consideration	2,229	-	-	-	**2,229**
	31,089	**5,483**	**13,566**	**1,693**	**51,831**

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 1, 2024. The table below summarizes the unrealized gains (losses) included in the fair values:

	March 1, 2024 $	November 30, 2023 $
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	**(2,280)**	(2,572)
Gold forward contracts	**215**	229
Interest rate swaps	**5**	8
Net unrealized gains of derivative instruments	**(2,060)**	(2,335)
Tax effect	**515**	584
Included in accumulated other comprehensive income	**(1,545)**	(1,751)

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 1, 2024 and November 30, 2023. The table below summarizes the Corporation’s interest rate swaps:

				Unrealized gain	
Date	**Corresponding Loan description**	**Loan interest rate**	**Interest rate swap**	**March 1, 2024**	November 30, 2023
February 2018	7-year US$1,500 term loan, repayable in monthly principal payments of approximately US$18 plus interest	SOFR rate plus 215 basis points	4.96%	**$2**	$4
April 2018	7-year US$1,000 term loan, repayable in monthly principal payments of approximately US$12 plus interest	SOFR rate plus 215 basis points	5.08%	**$3**	$4
				$5	$8

CAPITAL EXPENDITURES (PLANT AND EQUIPMENT)

	First Quarter	
	2024 $	2023 $
Net capital expenditure	**3,437**	633

Net capital expenditures for the first quarter of fiscal 2024 included new equipment investments primarily for the Circuits sites in Toronto, Fredericksburg and Chatsworth. Equipment investments are driven by in-sourcing of certain manufacturing and test processes, productivity improvements and replacement of aged equipment.

CASH FLOW

	First Quarter			
	2024	2023	Change	Change
	$	$	$	%
Operating activities	**1,079**	1,407	(328)	(23.3)
Investing activities	**(3,123)**	7,373	(10,496)	(142.4)
Financing activities	**(301)**	(40)	(261)	652.5
Free cash flow	**(3,350)**	(85)	(3,265)	N/A

Cash flow from operations in the first quarter of 2024 changed from the same period last year due to lower net earnings partially offset by change in non-cash operating working capital and higher depreciation and amortization expenses included in net earnings. Included in Q1 2023 net earnings was $3,441 of ERC funds received during the quarter. The increase in non-cash working capital during Q1 2024 is primarily the result of decrease in accounts payable and accrued liabilities, income tax payable, partially offset by a decrease in accounts receivable.

Investing activities in the first quarter of fiscal 2023 included $8,382 of proceeds from the sale and leaseback of the Aerospace Chatsworth facility which is not in first quarter of 2024. In Q1 2024, investing activities included $3,437 for capital expenditures (Q1 2023 – $633). Certain investments made by the Corporation are eligible for favourable-term financing pursuant to the ARRI and AMIC programs. The ARRI program expires on March 31, 2024 and the AMIC program expires on November 30, 2024.

Cash used in financing activities in the first quarter of fiscal 2024 increased from the same period last year due to increase in lease liabilities payments by the acquired businesses, partially offset by an increase of proceeds from government debt.

Free cash flow in the first quarter of 2024 is approximately $3.3 million lower than Q1 2023 mainly due to the $3.4 million of ERC funds received in Q1 2023.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the first quarter of fiscal 2024 and 2023.

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 1, 2024 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 1, 2024 were 23,874,802 (November 30, 2023 – 23,874,802).

During the first quarter of 2024, 52,545 PSUs vested and 32,455 PSUs were cancelled based on achievement of performance conditions measured over the three-year period ended November 30, 2023.

The Corporation acquired FTG shares in the open market for cash consideration of $258, which were delivered to PSU participants to satisfy the obligation.

During the first quarter of 2024, the Corporation granted 90,000 performance share units ("PSUs") (2023 – 82,500). PSUs vest based on the achievement of non-market performance conditions. 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 1, 2024, nil of the 263,750 (November 30, 2023 – nil of the 258,750) outstanding PSUs had vested or were exercisable.

During the first quarter of 2024, the Corporation granted 100,000 restricted share units ("RSU's") (2023 – nil). RSUs vest based on the achievement of a non-market performance condition. RSUs 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 1, 2024, nil of the 100,000 (November 30, 2023 – nil of nil) outstanding RSU'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 6, 2024 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

All sectors of the Aerospace and Defence market are seeing strong demand and growth. In the commercial aerospace market this is driven by increasing in air travel, and a drive for more energy efficient aircraft, while in the defence market it is the result of increasing geopolitical tensions and conflicts.

Air transport deliveries were over 1,100 aircraft in 2023, with Airbus having a 55-60% market share. Both Boeing and Airbus are planning continued production increases over the next few years, of up to 50%. Airbus has over 8,000 orders in backlog and Boeing has over 5,000. The bulk of the orders at both companies is for single aisle aircraft. The Federal Aviation Administration ("FAA") has placed conditions on increases to Boeing's commercial aircraft production rates above certain thresholds, pending resolution of certain quality control concerns at Boeing. The Corporation does not expect that the events at Boeing will materially impact FTG's order backlog or growth prospects.

Also in 2023, the C919 aircraft entered service in China, representing a new entry into the single aisle aircraft market. As international air travel rebounds, the production rates on twin aisle aircraft are also expected to grow in the coming years.

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 conflict in Ukraine is causing many NATO member states to relook at their defence spending with expectations that spending will increase in the coming years. Similarly, the conflict in the Middle East is causing increased defence spending.

FTG's backlog, resulting from increased customer demand, new program wins and acquisitions, has grown to $99.3 million at the end of Q1 2024 from $74.2 million at the end of Q4 2023. FTG has added staff and equipment to increase production across the Corporation.

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 first quarter of 2024, 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 and divestitures of businesses and real estate, 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, 2024 and the Corporation's Annual Information Form (including documents incorporated by reference) dated February 6, 2024 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

	As at	
(Unaudited) (in thousands of Canadian dollars)	**March 1, 2024**	November 30, 2023
ASSETS		
Current assets		
Cash and cash equivalents	**$ 3,886**	$ 6,616
Accounts receivable	**25,983**	28,679
Contract assets	**92**	300
Inventories	**37,829**	36,561
Income tax recoverable	**753**	-
Prepaid expenses and other	**1,917**	1,894
	70,460	74,050
Non-current assets		
Property, Plant and equipment, net	**18,112**	15,982
Non-current deposits	**181**	505
Right-of-use assets	**22,908**	23,628
Intangible assets	**1,656**	1,716
Deferred tax assets	**582**	674
Deferred development costs	**158**	162
Goodwill	**8,978**	8,990
Total assets	**$ 123,035**	$ 125,707
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 21,846**	$ 24,377
Provision for product warranties	**648**	653
Contract liabilities	**1,506**	1,841
Current portion of bank debt, net of deferred financing costs	**994**	1,020
Current portion of government loans	**219**	175
Current portion of lease liabilities	**3,826**	3,830
Income tax payable	**-**	1,103
Current portion of contingent consideration	**2,229**	-
	31,268	32,999
Non-current liabilities		
Bank debt, net of deferred financing costs	**3,192**	3,448
Government loans	**6,720**	5,585
Lease liabilities	**20,552**	21,120
Contingent consideration	**-**	2,232
Total liabilities	**61,732**	65,384
Equity		
Retained earnings	**$ 32,085**	$ 31,035
Accumulated other comprehensive income	**(1,333)**	(1,349)
	30,752	29,686
Share capital		
Common Shares *(Note 3.1)*	**21,150**	21,310
Contributed surplus	**8,548**	8,539
Total equity attributable to FTG's shareholders	**60,450**	59,535
Non-controlling interest	**853**	788
Total equity	**61,303**	60,323
Total liabilities and equity	**$ 123,035**	$ 125,707

See accompanying notes.

Interim Condensed Consolidated Statements of Earnings

		Three months ended		
(Unaudited)		**March 1,**		March 3,
(in thousands of Canadian dollars, except per share amounts)		**2024**		2023
Sales	**$**	**34,975**	$	24,639
Cost of sales				
Cost of sales		**24,084**		13,576
Depreciation of plant and equipment		**1,260**		969
Depreciation of right-of-use assets		**702**		309
Total cost of sales		**26,046**		14,854
Gross margin		**8,929**		9,785
Expenses				
Selling, general and administrative		**4,799**		3,756
Research and development costs		**1,363**		1,332
Recovery of investment tax credits		**(166)**		(150)
Depreciation of property, plant and equipment		**42**		51
Depreciation of right-of-use assets		**17**		16
Amortization of intangible assets		**58**		33
Interest expense (income) on bank debt, net		**87**		(153)
Notional interest expense on government loan		**78**		24
Accretion on lease liabilities		**362**		121
Stock based compensation		**248**		107
Foreign exchange (gain) loss *(Note 6.2)*		**229**		(246)
Loss provision on sale-leaseback of building		**-**		30
Total expenses		**7,117**		4,921
Earnings before income taxes		**1,812**		4,864
Current income tax expense		**656**		733
Deferred income tax expense		**33**		30
Total income tax expense		**689**		763
Net earnings	**$**	**1,123**	$	4,101
Attributable to:				
Non-controlling interest	**$**	**73**	$	29
Equity holders of FTG	**$**	**1,050**	$	4,072
Earnings per share, attributable to the equity holders of FTG				
Basic *(Note 3.2)*	**$**	**0.04**	$	0.17
Diluted *(Note 3.2)*	**$**	**0.04**	$	0.17

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited) (in thousands of Canadian dollars)	Three months ended **March 1, 2024**	 March 3, 2023
Net earnings	**$ 1,123**	$ 4,101
Other comprehensive earnings (loss) to be reclassified to net earnings (loss) in subsequent periods:		
Change in foreign currency translation adjustments	**(198)**	(60)
Net gain on valuation of derivative financial instruments designated as cash flow hedges *(Note 6.3)*	**274**	637
Deferred income taxes on change in valuation of derivative financial instruments designated as cash flow	**(68)**	(160)
	8	417
Total comprehensive income	**$ 1,131**	$ 4,518
Attributable to:		
Equity holders of FTG	**$ 853**	$ 4,512
Non-controlling interest	**$ 278**	$ 6

See accompanying notes.

Interim Condensed Consolidated Statements of Changes in Equity

Three months ended March 1, 2024	**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, 2023	**$ 21,310**	**$ 31,035**	**$ 8,539**	**$ (1,349)**	**$ 59,535**	**$ 788**	**$ 60,323**
Net income	**-**	**1,050**	**-**	**-**	**1,050**	**73**	**1,123**
Stock-based compensation	**-**	**-**	**107**	**-**	**107**	**-**	**107**
Transfer from contributed surplus to share capital for PSUs excercised	**98**	**-**	**(98)**	**-**	**-**	**-**	**-**
Repurchase of common shares on exercise of PSUs	**(258)**	**-**		**-**	**(258)**	**-**	**(258)**
Repurchase and cancellation of shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income (loss)	**-**	**-**	**-**	**16**	**16**	**(8)**	**8**
Balance, March 1, 2024	**$ 21,150**	**$ 32,085**	**$ 8,548**	**$ (1,333)**	**$ 60,450**	**$ 853**	**$ 61,303**

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	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 income (loss)	-	-	-	(315)	(315)	39	(276)
Balance, March 3, 2023	$ 21,343	$ 23,579	$ 8,363	$ (1,182)	$ 52,103	$ 1,033	$ 53,136

See accompanying notes.

Interim Condensed Consolidated Statements of Cash Flows

	Three months ended	
(Unaudited) (in thousands of Canadian dollars)	**March 1, 2024**	March 3, 2023
Net inflow (outflow) of cash related to the following:		
Operating activities		
Net earnings	**$ 1,123**	$ 4,101
Items not affecting cash and cash equivalents:		
Equity-settled stock-based compensation	**107**	44
Loss provision on sale-leaseback of building	**-**	30
Effect of exchange rates on U.S. dollar bank debt	**(8)**	(18)
Depreciation of property, plant and equipment	**1,302**	1,020
Depreciation of right-of-use assets	**719**	325
Amortization of intangible assets	**58**	33
Amortization, other	**(39)**	(15)
Notional interest expense on government loan	**78**	24
Deferred income taxes	**33**	30
Accretion on lease liabilities	**362**	121
Net change in non-cash operating working capital *(Note 5)*	**(2,656)**	(4,288)
	1,079	1,407
Investing activities		
Proceeds from sale-leaseback of Aerospace Chatsworth facility	**-**	8,382
Additions to property, plant and equipment	**(3,437)**	(633)
Decrease (increase) in non-current deposits	**321**	(384)
Recovery of contract and other costs	**5**	8
Additions to deferred financing costs	**(12)**	-
	(3,123)	7,373
Net cash flow from operating and investing activities	**(2,044)**	8,780
Financing activities		
Proceeds from government loan	**1,153**	603
Repayments of bank debt	**(275)**	(246)
Lease liability payments	**(921)**	(367)
Repurchase of common shares on exercise of PSU's	**(258)**	-
Repurchase and cancellation of shares	**-**	(30)
	(301)	(40)
Effects of foreign exchange rate changes on cash flow	**(385)**	(116)
Net increase (decrease) in cash flow	**(2,730)**	8,624
Cash and cash equivalents, beginning of the period	**6,616**	15,666
Cash and cash equivalents, end of period	**$ 3,886**	$ 24,290
Disclosure of cash payments		
Payment for interest	**$ 87**	$ 15
Payments for income taxes	**$ 2,257**	$ 1,152

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 1, 2024 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, 2024.

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, 2023, 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, 2023.

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.

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 1, 2024 were 23,874,802 (November 30, 2023 – 23,874,802).

During the three months ended March 1, 2024, the Corporation granted 90,000 performance share units ("PSUs") (2023 – 82,500). PSUs 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 PSUs 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 1, 2024, nil of the 263,750 (November 30, 2023 – nil of the 258,750) outstanding PSUs had vested or were exercisable.

During the three months ended March 1, 2024, the Corporation granted 100,000 restricted share units ("RSUs") (2023 – nil). RSUs 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 RSUs 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 1, 2024, nil of the 100,000 (November 30, 2023 – nil of nil) outstanding RSUs had vested or were exercisable.

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

3.2 Earnings per share

	Three months ended	
	March 1, 2024	March 3, 2023
Numerator		
Net earnings attributable to non-controlling interests	**$ 1,123**	$ 4,101
Net earnings attributable to non-controlling interests	**73**	29
Net earnings attributable to equity holders of FTG	**$ 1,050**	$ 4,072
Numerator for basic earnings per share - net earnings applicable to Common Shares	**$ 1,050**	$ 4,072
Numerator for diluted earnings per share - net earnings applicable to Common Shares	**$ 1,050**	$ 4,072
Denominator		
Denominator for basic earnings per share - weighted average number of Common Shares outstanding	**23,874,802**	23,915,959
Effect of dilutive securities		
Weighted average number of PSU's	**238,587**	235,920
Weighted average number of RSU's	**10,870**	-
Denominator for diluted earnings per share - weighted average number of Common Shares outstanding and assumed conversions	**24,124,259**	24,151,879
Earnings per share data attributable to the equity holders of FTG		
Basic earnings per share	**$ 0.04**	$ 0.17
Diluted earnings per share	**$ 0.04**	$ 0.17

The Corporation has 263,750 PSUs and 100,000 RSUs outstanding as at March 1, 2024 (March 3, 2023 – 256,250 and nil). The weighted average numbers of PSUs and RSUs were included in the calculation of diluted earnings per share for the three months ended March 1, 2024 and March 3, 2023 as the Corporation had net earnings.

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.

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

The Corporation's managed capital is as follows:

	March 1, 2024	November 30, 2023
	$	$
Total equity attributable to FTG's shareholders	**60,450**	59,535
Bank debt	**4,186**	4,468
Government loans	**6,939**	5,760
Managed capital	**71,575**	69,763

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 commenced on April 22, 2022 and concluded on April 21, 2023. Following the completion of the NCIB, in June 2023, the Toronto Stock Exchange (the "TSX") accepted the Corporation's notice of intention to establish a normal course issuer bid program (the "NCIB-2"). The NCIB-2 commenced on June 5, 2023 and will conclude on the earlier of the date on which purchases under the bid have been completed and June 4, 2024.

The NCIB and NCIB-2 permitted the purchase of up to 1,224,560 and 1,195,550 of the Corporation's 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.

Purchases were made by the Corporation in accordance with the requirements of the TSX and the price paid for any repurchased Common Shares was the market price of such Common Shares at the time of acquisition. For purposes of the TSX rules, a maximum of 6,546 and 5,736 Common Shares could be purchased by the Corporation on any one day under the NCIB and NCIB-2, except where purchases were made in accordance with the "block purchase exception" of the TSX rules.

During the three months ended March 1, 2024, the Corporation did not purchase Common Shares. 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 1, 2024, the Corporation has purchased and cancelled 616,400 shares cumulatively during the NCIB and NCIB-2.

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

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 in which the Corporation operates.

5. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

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

	Three months ended	
	March 1, 2024	March 3, 2023
	$	$
Accounts receivable, contract assets	**3,173**	56
Inventories	**(1,139)**	(3,366)
Prepaid expenses	**256**	(630)
Contract liabilities	**(329)**	(1,495)
Accounts payable and accrued liabilities, and provisions	**(2,569)**	1,685
Income tax payable	**(2,048)**	(538)
	(2,656)	(4,288)

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 1, 2024 and November 30, 2023.

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 1, 2024 and November 30, 2023.

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 1, 2024 and November 30, 2023.

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:

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

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 1, 2024. The table below summarizes the unrealized gains (losses) included in the fair values:

	March 1, 2024 $	November 30, 2023 $
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	**(2,280)**	(2,572)
Gold forward contracts	**215**	229
Interest rate swaps	**5**	8
Net unrealized gains (losses) of derivative instruments	**(2,060)**	(2,335)
Tax effect	**515**	584
Included in accumulated other comprehensive income	**(1,545)**	(1,751)

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 1, 2024 and November 30, 2023:

As at	**Currency sold**	**Currency bought**	**Notional value**	**Forward value at transaction date**	**Forward current value**	**Unrealized loss**
March 1, 2024	**USD**	**CAD**	**US$51,900**	**$67,536**	**$69,816**	**($2,280)**
November 30, 2023	USD	CAD	US$54,150	$70,277	$72,849	($2,572)

As at March 1, 2024 and November 30, 2023, 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.

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

b) Gold forward contracts

As at March 1, 2024, in addition to the foreign exchange forward contracts per above, the Corporation had an outstanding commitment to buy 900 ounces of gold (November 30, 2023 – 1,050 ounces of gold) under gold forward contracts at a contract price of approximately $2.57 per ounce (November 30, 2023 – $2.52) expiring quarterly from March 2024. 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
March 1, 2024	**Gold forward contract**	**900 ounces**	**$2,413**	**$2,628**	**$215**
November 30, 2023	Gold forward contract	1,050 ounces	$2,790	$3,019	$299

As at March 1, 2024 and November 30, 2023, 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 earnings 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 1, 2024 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 1, 2024 and November 30, 2023. The table below summarizes the Corporation's interest rate swaps:

				Unrealized gain	
Date	**Corresponding Loan description**	**Loan interest rate**	**Interest rate swap**	**March 1, 2024**	November 30, 2023
February 2018	7-year US$1,500 term loan, repayable in monthly principal payments of approximately US$18 plus interest	SOFR rate plus 215 basis points	4.96%	**$2**	$4
April 2018	7-year US$1,000 term loan, repayable in monthly principal payments of approximately US$12 plus interest	SOFR rate plus 215 basis points	5.08%	**$3**	$4
				$5	$8

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 1, 2024, net realized loss of $354 (2023 – loss of $156), 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 1, 2024	November 30, 2023
(In thousands of U.S. dollars)	**Canadian and other operations $**	**U.S. operations $**	**Consolidated financial statements $**	Consolidated financial statements $
Cash	**513**	**808**	**1,321**	3,368
Accounts receivable, contract assets	**8,561**	**9,091**	**17,652**	20,206
Accounts payable and accrued liabilities, contract liabilities and current portion of lease liabilities	**(2,539)**	**(8,002)**	**(10,541)**	(11,960)
Total bank borrowings	**(3,161)**	**-**	**(3,161)**	(3,494)
Balance sheet exposure, excluding financial derivatives	**3,374**	**1,897**	**5,271**	8,120
Reporting date CAD:USD exchange rate			**1.3564**	1.3582

	Three months ended			
			March 1, 2024	March 3, 2023
(In thousands of U.S. dollars)	**Canadian and other operations $**	**U.S. operations $**	**Total $**	Total $
Net sales	**11,513**	**13,544**	**25,057**	17,218
Operating expenses	**(2,960)**	**(14,505)**	**(17,465)**	(8,413)
Net exposure	**8,553**	**(961)**	**7,592**	8,805

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 1, 2024 and March 3, 2023 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, 2024	March 3, 2023
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	**(34)**	**(19)**	**(53)**	(203)
Net sales and operating expenses (net exposure)	**(86)**	**10**	**(76)**	(88)
Net exposure	**(120)**	**(9)**	**(129)**	(291)

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

	March 1, 2024		November 30, 2023	
	RMB	**$**	RMB	$
Cash	**4,186**	**790**	3,470	660
Short-term deposit with a financial institution with maturity of less than 1 year	**4,572**	**863**	4,546	865
Balance sheet exposure	**8,758**	**1,653**	8,016	1,525

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 1, 2024 and March 3, 2023 would decrease by approximately $17 and $26. 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 1, 2024, the Corporation's largest and second largest customer accounted for approximately 18.4% and 16.4% of sales (2023 – 22.2% and 11.7%), 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.

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

The following is the summary of contractual maturities of financial liabilities and obligations, excluding notional interest expense on government loans, accrued to March 1, 2024 and November 30, 2023:

	March 1, 2024					November 30, 2023
	Less than 1 year $	**1 to 2 years $**	**2 to 5 years $**	**More than 5 years $**	**Amount $**	Amount $
Bank debt[1] principal repayments	1,038	642	2,608	-	**4,288**	4,556
Bank debt interest payments	272	216	76	-	**564**	644
Accounts payable and accrued liabilities, and provisions	22,494	-	-	-	**22,494**	25,037
Contract liabilities	1,506	-	-	-	**1,506**	1,841
Income tax payable	-	-	-	-	**0**	1,103
Lease liabilities (undiscounted contractual cash flows)	3,525	3,190	6,642	428	**13,785**	14,714
Operating leases	25	-	-	-	**25**	44
Government loans	-	1,396	4,187	1,265	**6,848**	5,695
Government loans interest payments	-	39	53	-	**92**	92
Contingent consideration	2,229	-	-	-	**2,229**	2,232
	31,089	**5,483**	**13,566**	**1,693**	**51,831**	55,958

1. Bank debt as at March 1, 2024 is offset by $102 of deferred financing charge ($104 as at November 30, 2023).

a) Government loans

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.

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 at March 1, 2024, the Corporation has received $6,324 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 1, 2024, the Corporation has received $523 of AMIC funding.

As at March 1, 2024, the carrying value of the loans and the deferred government grant are $5,426 and $1,513, respectively (November 30, 2023 – $4,462 and $1,298, respectively).

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

b) 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.

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:

	Three months ended March 1, 2024			
	Circuits	**Aerospace**	**Corporate Office**	**Total**
	$	**$**	**$**	**$**
Gross segment sales	**25,896**	**9,935**	**-**	**35,831**
Inter-segment sales	**-**	**-**	**(856)**	**(856)**
Net sales	**25,896**	**9,935**	**(856)**	**34,975**
Cost of sales and selling, general and administrative expenses	**20,965**	**7,914**	**252**	**29,131**
Research and development costs	**1,155**	**208**	**-**	**1,363**
Recovery of investment tax credits	**(126)**	**(40)**	**-**	**(166)**
Depreciation of plant and equipment	**1,145**	**130**	**27**	**1,302**
Depreciation of right-of-use assets	**531**	**177**	**11**	**719**
Amortization of intangible assets	**58**	**-**	**-**	**58**
Foreign exchange (gain) loss	**182**	**150**	**(103)**	**229**
Earnings (loss) before interest and income taxes	**1,986**	**1,396**	**(1,043)**	**2,339**
Interest expense, net	**67**	**8**	**90**	**165**
Accretion on lease liabilities	**285**	**76**	**1**	**362**
Income tax expense	**-**	**-**	**689**	**689**
Net earnings (loss)	**1,634**	**1,312**	**(1,823)**	**1,123**
Other operating segments disclosures:				
Additions to plant and equipment	**3,041**	**307**	**89**	**3,437**

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

	Three months ended March 3, 2023			
	Circuits	Aerospace	Corporate Office	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 of plant and equipment	826	152	42	1,020
Depreciation of right-of-use assets	200	114	11	325
Amortization of intangible assets	33	-	-	33
Foreign exchange (gain) loss	68	(1)	(313)	(246)
Earnings (loss) before interest and income taxes	3,481	2,250	(875)	4,856
Interest expense, net	(33)	(19)	(77)	(129)
Accretion on lease liabilities	71	49	1	121
Income tax expense	-	-	763	763
Net earnings (loss)	3,443	2,220	(1,562)	4,101
Other operating segments disclosures:				
Sale-leaseback of Aerospace Chatsworth facility	-	(8,382)	-	(8,382)
Additions to plant and equipment	353	280	-	633

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

	As at March 1, 2024			
	Circuits	**Aerospace**	**Corporate office**	**Total**
	$	**$**	**$**	**$**
Total segment assets	**90,973**	**29,226**	**2,836**	**123,035**
Intangible and other assets	**10,631**	**161**	**-**	**10,792**
Total segment liabilities	**39,152**	**12,357**	**10,223**	**61,732**

	As at November 30, 2023			
	Circuits	Aerospace	Corporate office	Total
	$	$	$	$
Total segment assets	92,287	31,218	2,202	125,707
Intangible and other assets	10,703	165	-	10,868
Total segment liabilities	40,245	13,212	11,927	65,384

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

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

	Three months ended			
	March 1, 2024		March 3, 2023	
	$	**%**	$	%
Canada	**1,512**	**4.3**	1,702	6.9
United States	**28,664**	**82.0**	17,856	72.5
Asia	**3,244**	**9.3**	3,113	12.6
Europe	**1,452**	**4.2**	1,435	5.8
Other Americas	**103**	**0.2**	533	2.2
Total	**34,975**	**100.0**	24,639	100.0

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

	As at March 1, 2024			
	Canada	**United States**	**Asia**	**Total**
	$	**$**	**$**	**$**
Intangible assets, goodwill and other assets (by location)	**158**	**10,630**	**3**	**10,791**
Plant and equipment (by location)	**7,482**	**9,665**	**965**	**18,112**
Right-of-use assets (by location)	**5,152**	**17,335**	**421**	**22,908**

	As at November 30, 2023			
	Canada	United States	Asia	Total
	$	$	$	$
Intangible and other assets (by location)	162	10,703	3	10,868
Plant and equipment (by location)	6,148	8,847	987	15,982
Right-of-use assets (by location)	5,260	17,909	459	23,628

The Corporation's primary sources of revenue are as follows:	**Three months ended**	
	March 1, 2024	March 3, 2023
	$	$
Sale of goods	**34,857**	24,414
Services	**118**	225
	34,975	24,639

Timing of revenue recognition based on transfer of control is as follows:	Three months ended	
	March 1, 2024	March 3, 2023
	$	$
At a point of time	**34,857**	24,414
Over time	**118**	225
	34,975	24,639

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

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

For the three months ended March 1, 2024	**Location**	**Circuits Segment**	**Aerospace Segment**	**Total**	**% of FTG total net sales**
		$	**$**	**$**	
Customer A	**United States, Canada and Asia**	**1,569**	**4,869**	**6,438**	**18.4**
Customer B	**United States, Europe and Canada**	**4,769**	**952**	**5,721**	**16.4**

For the three months ended March 3, 2023	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		$	$	$	
Customer B	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

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