



**FIRAN TECHNOLOGY GROUP  
CORPORATION**

**Third Quarter Report  
For the period ended  
September 3, 2021**

**October 12, 2021**



**October 12, 2021**

**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 September 3, 2021 (third quarter of fiscal 2021 or Q3 2021) is as of October 12, 2021 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 third quarter of fiscal 2021, 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, 2020 (Fiscal 2020) and, accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2020 MD&A. Additional information is contained in the Corporation's filings with Canadian securities regulators, including its Annual Information Form dated February 10, 2021, found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.ftgcorp.com](http://www.ftgcorp.com).

**CORE BUSINESS AND STRATEGY**

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

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

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

FTG Aerospace designs and manufactures illuminated cockpit panels, keyboards, bezels, sub-assemblies and assemblies for original equipment manufacturers ("OEMs") of avionics products as well as for airframe manufacturers. FTG Aerospace has manufacturing operations in Toronto, Ontario, Canada, Chatsworth, California, USA and Tianjin, China. 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 US aerospace and defense 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 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 THIRD QUARTER and YEAR-TO-DATE FISCAL 2021

	Third Quarter		Year-to-Date	
<i>(in thousands of dollars except per share amounts)</i>	2021	2020	2021	2020
	\$	\$	\$	\$
Sales	19,738	24,364	59,038	75,724
Gross margin	3,796	6,722	12,886	19,356
Net earnings attributable to equity holders of FTG	774	645	384	82
Number of common and preferred shares, in aggregate	24,491	24,491	24,491	24,491
Earnings per share:				
Basic	0.03	0.03	0.01	0.00
Diluted	0.03	0.03	0.01	0.00
EBITDA <sup>1</sup>	3,114	3,263	7,373	9,464
Total assets	79,966	86,848	79,966	86,848
Net cash position <sup>2</sup>	17,120	8,760	17,120	8,760
Free cash flow <sup>3</sup>	200	2,696	1,684	7,017

<sup>1</sup> Earnings before interest, tax, depreciation and amortization ("EBITDA") is a non-IFRS measure. 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.

<sup>2</sup> Net cash is defined as cash and cash equivalents less bank debt.

<sup>3</sup> Free cash flow ("FCF") is a non-IFRS financial measure, which the Corporation defines as net cash flow from operating and investing activities excluding acquisitions, less lease liability payments.

## Sales

	Third Quarter				Year-to-Date			
	2021 \$	2020 \$	Change \$	Change %	2021 \$	2020 \$	Change \$	Change %
Circuits	<b>13,103</b>	15,690	(2,587)	(16.5)	<b>38,072</b>	51,748	(13,676)	(26.4)
Aerospace	<b>6,635</b>	8,674	(2,039)	(23.5)	<b>20,966</b>	23,976	(3,010)	(12.6)
Net sales	<b>19,738</b>	24,364	(4,626)	(19.0)	<b>59,038</b>	75,724	(16,686)	(22.0)

The significant variances in the third quarter sales in 2021 as compared to 2020 were as follows:

- Shipments to the Simulator market, included within the Aerospace segment, were approximately \$0.4 million in Q3 2021 as compared to \$3.2 million in Q3 2020. This amounts to a negative variance of \$2.8M and is the result of lower current backlog for this product line. On a year-to-date basis, shipments of Simulator products have decreased by \$3.1 million in 2021 as compared to the same period in 2020.
- FTG continued to be negatively impacted by COVID-19 in Q3 2021, particularly at Circuits Toronto in terms of exposure to the Commercial Aerospace market.
- A large majority of FTG's customer contracts are denominated in US dollars and recent appreciation of the Canadian dollar relative to the US dollar had a negative impact on reported sales. The average FX rate experienced in Q3 2021 was 7% lower than in Q3 2020 and the estimated negative impact on sales is \$1.6 million. This is partially mitigated by FTG's currency hedging program, which resulted in realized gains on FX forward contracts of \$200 added to sales during Q3 2021 (2020 – realized losses of \$201 were deducted from sales).
- Increased shipments on military programs from the Aerospace Chatsworth site provided an offset to the foregoing.

On a year-to-date basis, lower revenue in 2021 is the result of COVID-19 impacts on both end-market demand from the commercial aerospace market, COVID-19 impacts on our operations, and unfavourable FX impact. The impact to FTG's operations of employee absences was diminished in Q3, however the supply of critical components in the Aerospace segment continue to be a factor.

Net sales in the Circuits segment on a year-to-date basis decreased as a result of reduced demand for commercial aerospace products, COVID-19 operational issues and the unfavourable currency impact.

The decrease in Aerospace segment net sales on a year-to-date basis is the result of order timing in the Simulator market, COVID-19 related impacts in components supply and our operations at all Aerospace sites, and the unfavourable currency impact.

The following table summarizes, for each reportable segment, the percentages of net sales to the top five customers:

	Third Quarter		Year-to-Date	
	2021 %	2020 %	2021 %	2020 %
Circuits – top 5 customers	<b>59.3</b>	63.9	<b>56.6</b>	62.4
Aerospace – top 5 customers	<b>53.2</b>	63.6	<b>54.6</b>	57.1

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

<b>Third Quarter</b>						
	<b>2021</b>		<b>2020</b>		<b>Change</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Canada	<b>1,389</b>	<b>7.0</b>	1,747	7.2	(358)	(20.5)
United States	<b>14,602</b>	<b>74.0</b>	18,165	74.6	(3,563)	(19.6)
Asia	<b>1,853</b>	<b>9.4</b>	3,744	15.4	(1,891)	(50.5)
Europe	<b>1,816</b>	<b>9.2</b>	511	2.1	1,305	255.4
Other	<b>78</b>	<b>0.4</b>	197	0.7	(119)	(60.4)
<b>Total</b>	<b>19,738</b>	<b>100.0</b>	24,364	100	(4,626)	(19.0)

  

<b>Year-to-Date</b>						
	<b>2021</b>		<b>2020</b>		<b>Change</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Canada	<b>5,695</b>	<b>9.6</b>	5,338	7.0	357	6.7
United States	<b>44,391</b>	<b>75.2</b>	57,562	76.0	(13,171)	(22.9)
Asia	<b>4,933</b>	<b>8.4</b>	9,798	12.9	(4,865)	(49.7)
Europe	<b>3,824</b>	<b>6.5</b>	2,291	3.0	1,533	66.9
Other	<b>195</b>	<b>0.3</b>	735	1.1	(540)	(73.5)
<b>Total</b>	<b>59,038</b>	<b>100.0</b>	75,724	100	(16,686)	(22.0)

FTG derives approximately 70 to 75% of its revenue from customers located in the United States, with the remaining customer base located in Canada, Europe and Asia. The relative decline of revenue derived from the United States in Q3 2021 and year-to-date 2021 as compared to the comparative periods in 2021 is the result of lower revenues with Simulator customers located in the United States.

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

	<b>Third Quarter</b>		<b>Year-to-Date</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Largest customer	<b>24.1</b>	19.7	<b>25.1</b>	23.0
Second largest customer	<b>10.4</b>	10.6	<b>9.6</b>	10.1
Third to fifth largest customers	<b>16.7</b>	25.3	<b>16.8</b>	21.4
Largest five customers	<b>51.2</b>	55.6	<b>51.5</b>	54.5

## Gross Margin

	<b>Third Quarter</b>				<b>Year-to-Date</b>			
	<b>2021</b>	<b>2020</b>	<b>Change</b>	<b>Change</b>	<b>2021</b>	<b>2020</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Gross profit	<b>3,796</b>	6,722	(2,926)	(43.5)	<b>12,886</b>	19,356	(6,470)	(33.4)
% of net sales	<b>19.2%</b>	27.6%			<b>21.8%</b>	25.6%		

The decrease in gross margin dollars and the gross margin rate for the third quarter of 2021 and on a year-to-date basis is primarily the result of reduced operating leverage on lower sales volumes. In addition, the gross margin for the Toronto sites is negatively impacted by the stronger Canadian dollar relative to the U.S. dollar, as much of the cost structure of those sites is in Canadian dollars.

## Selling, General and Administrative Expenses

	Third Quarter				Year-to-Date			
	2021 \$	2020 \$	Change \$	Change %	2021 \$	2020 \$	Change \$	Change %
Selling, general and administrative expenses	<b>3,144</b>	2,827	317	11.2	<b>8,494</b>	10,314	(1,820)	(17.6)
% of net sales	<b>15.9%</b>	11.6%			<b>14.4%</b>	13.6%		

The increase in selling, general and administrative expenses during the third quarter of 2021 as compared to the prior year is the result of business travel beginning to normalize following vaccine rollouts, increased performance compensation costs and increased professional fees.

The decrease in selling, general and administrative expenses during the year-to-date period of 2021 is the result of lower sales and marketing costs, lower performance compensation costs and reduced employee severance costs.

## Research and Development

	Third Quarter				Year-to-Date			
	2021 \$	2020 \$	Change \$	Change %	2021 \$	2020 \$	Change \$	Change %
Research and development costs	<b>1,225</b>	1,302	(77)	(5.9)	<b>4,112</b>	3,966	146	3.7
Recovery of investment tax credits	<b>(159)</b>	(195)	36	(18.5)	<b>(465)</b>	(570)	105	(18.4)

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 third quarter of fiscal 2021, ITCs were earned from qualifying research and development expenditures.

The Corporation has, as at September 3, 2021, \$539 (November 30, 2020 – \$1,359) of investment tax credits available to be applied against future income taxes otherwise payable in Canada.

## Depreciation and Amortization

	Third Quarter				Year-to-Date			
	2021 \$	2020 \$	Change \$	Change %	2021 \$	2020 \$	Change \$	Change %
Depreciation of plant and equipment	<b>1,088</b>	1,110	(22)	(2.0)	<b>3,327</b>	3,273	54	1.6
Depreciation of right-of-use assets	<b>391</b>	403	(12)	(3.0)	<b>1,163</b>	1,214	(51)	(4.2)
Amortization/impairment of intangible assets	<b>51</b>	94	(43)	(45.7)	<b>210</b>	490	(280)	(57.1)
Amortization, other	<b>9</b>	17	(8)	(47.1)	<b>35</b>	28	7	25.0
Total	<b>1,539</b>	1,624	(85)	(5.2)	<b>4,735</b>	5,005	(270)	(5.4)

The decrease in depreciation of plant and equipment during the third quarter of fiscal 2021 is mainly due to the timing of capital expenditures being put into service. On a year-to-date basis, the decrease in depreciation cost was due to the timing of capital expenditures being put into service.

Fluctuations in depreciation of right-of-use assets are primarily due to currency translation.

The decrease in amortization of intangible assets is due to a lower level of intangible assets carried on the balance sheet in the third quarter of 2021.

## Interest Expense

	Third Quarter				Year-to-Date			
	2021	2020	Change	Change	2021	2020	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Interest expenses on bank debt, net	<b>14</b>	61	(47)	(77.0)	<b>81</b>	159	(78)	(49.1)
Accretion on lease liabilities	<b>120</b>	139	(19)	(13.7)	<b>368</b>	417	(49)	(11.8)

The decrease in interest expense in fiscal 2021 was mainly due to the decrease in bank debt as compared to last year.

Fluctuations in accretion on lease liabilities are primarily due to currency translation.

## Forgiveness of debt

In May 2020, the Corporations' US subsidiaries, FTG Circuits Inc., FTG Aerospace Inc., and FTG Circuits Fredericksburg Inc., closed on an unsecured bank debt guaranteed under the Paycheck Protection Program ("PPP") in the total amount of U.S. \$2,369 or \$3,309 ("PPP Loans") as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act of the U.S. Government. PPP Loans may be forgiven in whole or in part, to the extent permitted in accordance with the applicable provisions of the CARES Act.

In the first quarter of fiscal 2021, U.S. \$1,032 or \$1,336 of the PPP loans were fully forgiven. In the third quarter of fiscal 2021, the remaining U.S. \$1,337 or \$1,668 of the PPP loans were fully forgiven.

## Foreign Exchange

The Canadian dollar spot rate, as compared to the US dollar has (appreciated) depreciated as follows during the third quarter of 2021 and during the year-to-date period of 2021:

Third Quarter	2021				2020			
	September 3, 2021	June 4, 2021	Change		August 28, 2020	May 29, 2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
CAD/USD	<b>1.2518</b>	<b>1.2084</b>	<b>0.04</b>	<b>3.6</b>	1.3097	1.3787	(0.07)	(5.0)

  

Year-to-Date	2021				2020			
	September 3, 2021	November 30, 2020	Change		August 28, 2020	November 30, 2019	Change	
	\$	\$	\$	%	\$	\$	\$	%
CAD/USD	<b>1.2518</b>	<b>1.2965</b>	<b>(0.04)</b>	<b>(3.4)</b>	1.3097	1.3289	(0.02)	(1.4)



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

	Third Quarter			Year-to-Date		
	2021	2020	Change	2021	2020	Change
	\$	\$	\$	\$	\$	\$
Foreign exchange (gain) loss	(423)	1,011	(1,434)	739	596	143

The foreign exchange gain for the third quarter of fiscal 2021 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:

	Third Quarter		Year-to-Date	
	2021	2020	2021	2020
	\$	\$	\$	\$
Sales before adjustment for net realized gain (loss) on f/x forward contracts designed as cash flow hedges	19,538	24,565	57,956	76,756
Add (deduct): adjustment for net realized gain (loss) on hedged f/x forward contracts designed as cash flow hedges	200	(201)	1,082	(1,032)
Net sales	19,738	24,364	59,038	75,724
Costs of sales	14,540	16,203	41,898	52,080
Depreciation of plant and equipment and right-of-use assets	1,402	1,439	4,254	4,288
Total cost of sales	15,942	17,642	46,152	56,368
Gross margin	3,796	6,722	12,886	19,356
Gross margin %	19.2%	27.6%	21.8%	25.6%
Gross margin before f/x gain (loss)	3,596	6,923	11,804	20,388
Gross margin % before f/x gain (loss)	18.4%	28.2%	20.4%	26.6%

## Income Tax Expense

	Third Quarter				Year-to-Date			
	2021	2020	Change	Change	2021	2020	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Current income tax expense	670	734	(64)	(8.7)	1,685	2,429	(744)	(30.6)
Deferred income tax expense	33	39	(6)	(15.4)	94	115	(21)	(18.3)

Income tax expenses recorded during the third quarter of 2021 and during the year-to-date period of 2021 included current income tax on earnings in the Canadian entity, and certain withholding taxes.

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in. The effective tax rate on Canadian earnings for the three and nine months periods ended September 3, 2021 was 25% (2020 – 25%) which was based on projected annualized Manufacturing and Processing rates.

## RECONCILIATION OF NET INCOME TO EBITDA

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

	Third Quarter		Year-to-Date	
	2021	2020	2021	2020
	\$	\$	\$	\$
Net earnings (loss) to equity holders of FTG	774	645	384	82
Add back:				
Interest expense	134	200	449	576
Income tax expense	703	773	1,779	2,544
Depreciation, amortization and impairment of intangible assets	1,539	1,624	4,735	6,150
Stock based compensation	(36)	21	26	112
EBITDA	3,114	3,263	7,373	9,464
% of net sales	15.8%	13.4%	12.5%	12.5%

## OVERVIEW OF HISTORICAL QUARTERLY RESULTS

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

	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21
Circuit Segment Sales	\$18,634	\$16,457	\$19,599	\$15,690	\$14,078	\$11,985	\$12,984	\$13,103
Aerospace Segment Sales	8,441	8,081	7,223	8,674	12,633	6,985	7,346	6,634
Total Net Sales	27,075	24,538	26,822	24,364	26,711	18,970	20,330	19,738
Earnings (Loss) before income taxes	1,112	(2,160)	3,300	1,388	2,118	60	578	1,451
Net Earnings (Loss) Attributable to Equity holders of FTG	575	(2,597)	2,034	645	1,308	(400)	10	774
Earnings (Loss) per share: Basic	\$0.03	(\$0.11)	\$0.08	\$0.03	\$0.06	(\$0.02)	\$0.00	\$0.03
Earnings (Loss) per share: Diluted	\$0.03	(\$0.11)	\$0.08	\$0.03	\$0.06	(\$0.02)	\$0.00	\$0.03
Quarterly average CDN\$ U.S.\$ exchange rates	\$1.3223	\$1.3169	\$1.3996	\$1.3449	\$1.3176	\$1.2740	\$1.2390	\$1.2465

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

	September 3, 2021 \$	November 30, 2020 \$
Total liquidity (cash, accounts receivable, contract assets and inventory)	51,487	56,116
Unused credit facilities <sup>1</sup>	22,540	22,500
Working capital	40,493	39,406

<sup>1</sup> U.S. \$18.0 million (2020 – U.S. \$17.4 million)

	Q3 2021 \$	Q4 2020 \$
Accounts receivables days outstanding	64	62
Inventory turns	3.4	3.8
Accounts payable days outstanding	74	74

All of the Corporation's credit facilities with its primary lender are secured by a first charge on all of the Corporation's assets. During the third quarter of 2021, the Corporation reached an agreement with its primary lender to extend the Corporation's credit facilities to July 2026.

The Corporation was in compliance with all of its financial loan covenants as at September 3, 2021.

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 September 3, 2021.

	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	More than 5 years \$	Amount \$
Bank debt <sup>1</sup> (committed facility)	938	955	604	-	2,497
Bank debt interest payments	88	49	21	-	158
Accounts payable and accrued liabilities, and provisions	12,286	-	-	-	12,286
Contract liabilities	409	-	-	-	409
Lease liabilities (undiscounted contractual cash flows)	1,679	1,402	3,921	7,235	14,237
Income tax payable	830	-	-	-	830
Operating leases	175	80	58	-	313
	16,405	2,486	4,604	7,235	30,730

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 September 3, 2021. The table below summarizes the unrealized gains (losses) included in the fair values:

	September 3, 2021 \$	November 30, 2020 \$
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	2,912	1,680
Gold forward contracts	(21)	19
Interest rate swaps	(78)	(130)
Net unrealized gains (losses) of derivative instruments	2,813	1,569
Tax effect	(703)	(392)
Included in accumulated other comprehensive income (loss)	2,110	1,177

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 September 3, 2021 and November 30, 2020. The table below summarizes the Corporation's interest rate swaps:

Date	Corresponding Loan description	Loan interest rate	Interest rate swap	Unrealized loss	
				September 3, 2021	November 30, 2020
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%	(\$11)	(\$21)
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%	(\$37)	(\$60)
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%	(\$30)	(\$49)
				(\$78)	(\$130)

## CAPITAL EXPENDITURES (PLANT AND EQUIPMENT)

	Third Quarter		Year-to-Date	
	2021 \$	2020 \$	2021 \$	2020 \$
Net capital expenditure	956	236	1,951	2,721

Net capital expenditures for the third quarter of fiscal 2021 and the year-to-date 2021 period included new equipment investments and upgrades of existing equipment and facilities. New equipment investments were focused at our Circuits Chatsworth operation, where we are bringing certain manufacturing and test processes in-house, to improve productivity and offer a broader selection of products to our customers.

## CASH FLOW

	Third Quarter				Year-to-Date			
	2021 \$	2020 \$	Change \$	Change %	2021 \$	2020 \$	Change \$	Change %
Operating activities	<b>1,655</b>	3,369	(1,714)	(51)	<b>5,020</b>	11,038	(6,018)	(55)
Investing activities	<b>(1,012)</b>	(225)	(787)	350	<b>(1,993)</b>	(2,661)	668	(25)
Financing activities	<b>(670)</b>	(962)	292	(30)	<b>(2,028)</b>	(23)	(2,005)	8,717
Free cash flow	<b>200</b>	2,696	(2,496)	(93)	<b>1,684</b>	7,017	(5,333)	(76)

Cash flow from operations in the third quarter of 2021 decreased from third quarter 2020, despite similar levels of recorded net earnings, as Q3 2021 included a positive non-cash earnings adjustment of \$1.7M related to the PPP loans forgiven, partially offset by changes in non-cash working capital.

On a year-to-date basis, the primary variances in cash flow from operating activities include a non-cash positive earnings adjustments of \$3.0M related to PPP Loans forgiven. In the prior year period, cash flow from operating activities included a non-cash negative earning adjustments of \$1.1M related to impairment of intangible assets.

Investing activities in the third quarter of fiscal 2021 primarily included \$956 of cash used for capital expenditures (Q3 2020 – \$236). Investing activities on a year-to-date basis in fiscal 2021 primarily included \$1,951 for capital expenditures (2020 year-to-date – \$2,721).

Cash used by financing activities in the third quarter of fiscal 2021 included \$227 towards repayments of bank debt (Q3 2020 – \$514) and \$443 towards lease liability payments (Q3 2020 – \$448). Cash used for repayments of bank debt in Q3 2021 is less than in Q3 2020 as one of the term loans was repaid in full in 2020.

Cash used by financing activities on a year-to-date basis in 2021 included \$685 towards repayments of bank debt (2020 year-to-date – \$1,552) and \$1,343 towards lease liability payments (2020 year-to-date – \$1,360). In addition, 2020 year-to-date included cash proceeds of \$3.3 million from the PPP Loans.

Free cash flow in the third quarter of 2021 has an unfavourable variance of approximately \$2.5 million as compared Q3 2020. Contributors to the variance include lower cash flow from operations and increased levels of investment in capital equipment.

Free cash flow on a year-to-date basis in 2021 has an unfavourable variance of approximately \$6.4 million as compared to 2020. Contributors to the variance include lower cash flow from operations, partially mitigated by less cash used for capital equipment.

## RELATED PARTY TRANSACTIONS

There were no related party transactions on a year-to-date basis in fiscal 2021 and 2020.

## 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 September 3, 2021 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 September 3, 2021 were 24,491,201 (24,491,201 as at November 30, 2020).

During the third quarter of 2021, the Corporation granted nil performance share units (“PSU’s”) (2020 – nil). On a year-to-date basis, the Corporation granted 98,000 performance share units (“PSU’s”) (2020 – 100,000). 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 September 3, 2021, nil (2020 – nil) of the 182,333 outstanding PSU’s (2020 – 108,750) had vested.

## **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 10, 2021 which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

In March 2020, the World Health Organization characterized the novel coronavirus (“COVID-19”) as a global pandemic and extraordinary actions have been taken by international, federal, state and provincial governmental authorities to contain and combat the spread of COVID-19 in regions throughout the world. The COVID-19 outbreak and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, consumers, economies, and financial markets globally, leading to an economic downturn and increased market volatility. The extent of the impact of COVID-19 on the Corporation’s operational and financial performance will depend on certain developments, including the duration of the outbreak, impact on the Corporation’s customers and its sales cycles, impact on critical suppliers, and impact on the Corporation’s employees.

The economic downturn and uncertainty caused by the COVID-19 outbreak and measures undertaken to contain its spread continue to negatively affect all of the Corporation’s operations to some extent and, in particular, has caused volatility in demand for the Corporation’s products and services targeted to the commercial aerospace market. The Corporation continues to evaluate the current and potential impact of the COVID-19 outbreak on its business, results of operations and interim condensed consolidated financial statements.

## **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](http://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

The world economy and the outlook for the commercial Aerospace industry is recovering from the COVID-19 pandemic as vaccinations ramp up globally and case counts decline. Looking forward, widespread vaccines should continue to reduce the number of cases of COVID-19 and reduce restrictions on air travel. Offsetting this could be the spread of new variants of the virus that are more easily transmissible that might or might not be controlled by existing vaccines.

On a global scale, the airline industry was dramatically weakened in 2020 with huge drops in passenger travel. Both the demand for and the capacity to finance new aircraft in the short term is reduced.

Specifically at FTG, the COVID-19 pandemic had caused production disruptions at all sites at various points in time. We have had some plants shut down for periods of time due to government restrictions, we have had restricted operations, we have had suppliers with restricted operations and we have had a number of employees absent due to testing positive for the virus or having close contact with others that tested positive. We have made efforts within all our facilities to protect our employees through physical distancing, wearing masks, enhanced cleaning and other actions to minimize their exposure to the virus.

In commercial Air Transport, the pandemic hurt demand. Airbus had reduced production by 30-40% in 2020. They are now forecasting production increases in late 2021 but not back to pre-pandemic levels. Boeing has also been hurt by the pandemic but also by their challenges with the B737 aircraft. Although the B737 is now approved for flight in the US, Canada and Europe, there are over 400 aircraft already built that need to be delivered before significant production will resume. Meaningful production of B737 aircraft will begin in 2022. 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.

The business jet market also saw reduced demand due to the pandemic. Business jet activity has recovered rapidly and is now near pre-pandemic levels. In Canada, Bombardier has divested programs until it is now a business jet manufacturer only. 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 such resource extraction and public safety that are heavy users of helicopters.

The defense market was not impacted by the COVID-19 pandemic.

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

In June 2021, the US 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.

Subsequent to September 3, 2021, the Circuits Chatsworth operation was approved for AMJP funding to a maximum of \$506 (US \$404). The actual amount received will be accounted for as a government grant over a 6 month period ending in March, 2022.

## **CONTROLS AND PROCEDURES**

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

### **Internal control over financial reporting**

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

During the three months ended September 3, 2021, there have been no changes in the Corporation’s internal controls over financial reporting, other than the limitation of scope of design as noted above, that may have materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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



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

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

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

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to gross margin which represents net sales less cost of sales and expenses. Not included in the calculation of gross margin are selling, administrative and general expenses, research and development costs and recoveries, foreign exchange, gains or losses on the sale of assets, interest and income taxes. Gross margin is not generally accepted earnings measures and should not be considered as an alternative to net earnings or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's gross margin may not be directly comparable with similarly titled measures used by other companies. Management believes the gross margin measure is important to many of the Corporation's shareholders, creditors and other stakeholders. The risks, uncertainties and other factors that could influence actual results are described in this MD&A based on information available as of October 12, 2021 and the Corporation's Annual Information Form (including documents incorporated by reference) dated February 10, 2021 which is available on SEDAR at [www.sedar.com](http://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)	September 3, 2021	November 30, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 19,547	\$ 19,032
Accounts receivable	13,809	16,795
Contract assets	533	985
Inventories	17,598	19,304
Prepaid expenses and other	5,168	3,363
	<b>56,655</b>	<b>59,479</b>
<b>Non-current assets</b>		
Plant and equipment, net	11,142	12,640
Right-of-use assets	10,806	12,130
Investment tax credits recoverable	539	1,359
Intangible and other assets, net	824	1,068
<b>Total assets</b>	<b>\$ 79,966</b>	<b>\$ 86,676</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 11,715	\$ 13,904
Provisions	571	885
Contract liabilities	409	388
Current portion of bank debt	884	2,931
Current portion of lease liabilities	1,753	1,810
Income tax payable	830	155
	<b>16,162</b>	<b>20,073</b>
<b>Non-current liabilities</b>		
Bank debt	1,543	3,464
Lease liabilities	9,588	10,659
Deferred tax payable	760	1,192
<b>Total liabilities</b>	<b>28,053</b>	<b>35,388</b>
<b>Equity</b>		
Retained earnings	\$ 19,519	\$ 19,135
Accumulated other comprehensive income	1,291	958
	<b>20,810</b>	<b>20,093</b>
Share capital		
Common Shares (Note 3.1)	21,881	21,881
Contributed surplus	8,329	8,303
<b>Total equity attributable to FTG's shareholders</b>	<b>51,020</b>	<b>50,277</b>
Non-controlling interest	893	1,011
<b>Total equity</b>	<b>51,913</b>	<b>51,288</b>
<b>Total liabilities and equity</b>	<b>\$ 79,966</b>	<b>\$ 86,676</b>
See accompanying notes.		

## Interim Condensed Consolidated Statements of Earnings (Loss)

(Unaudited) (in thousands of Canadian dollars, except per share amounts)	Three months ended		Nine months ended	
	September 3, 2021	August 28, 2020	September 3, 2021	August 28, 2020
Sales	\$ 19,738	\$ 24,364	\$ 59,038	\$ 75,724
Cost of sales				
Cost of sales	14,540	16,203	41,898	52,080
Depreciation of plant and equipment	1,028	1,048	3,142	3,111
Depreciation of right-of-use assets	374	391	1,112	1,177
Total cost of sales	15,942	17,642	46,152	56,368
Gross margin	3,796	6,722	12,886	19,356
Expenses				
Selling, general and administrative	3,144	2,827	8,494	10,314
Research and development costs	1,225	1,302	4,112	3,966
Recovery of investment tax credits	(159)	(195)	(465)	(570)
Depreciation of plant and equipment	60	62	185	162
Depreciation of right-of-use assets	17	12	51	37
Amortization of intangible assets	51	94	210	490
Interest expense on bank debt, net	14	61	81	159
Accretion on lease liabilities	120	139	368	417
Stock based compensation	(36)	21	26	112
Foreign exchange (gain) loss (Note 6.2)	(423)	1,011	739	596
Forgiveness of debt (Note 6.2)	(1,668)	-	(3,004)	-
Impairment of intangible assets	-	-	-	1,145
Total expenses	2,345	5,334	10,797	16,828
Earnings before income taxes	1,451	1,388	2,089	2,528
Current income tax expense	670	734	1,685	2,429
Deferred income tax expense	33	39	94	115
Total income tax expense	703	773	1,779	2,544
<b>Net earnings (loss)</b>	<b>\$ 748</b>	<b>\$ 615</b>	<b>\$ 310</b>	<b>\$ (16)</b>
<b>Attributable to:</b>				
Non-controlling interest	\$ (26)	\$ (30)	\$ (74)	\$ (98)
Equity holders of FTG	\$ 774	\$ 645	\$ 384	\$ 82
<b>Earnings per share, attributable to the equity holders of FTG</b>				
Basic (Note 3.2)	\$ 0.03	\$ 0.03	\$ 0.01	\$ 0.00
Diluted (Note 3.2)	\$ 0.03	\$ 0.03	\$ 0.01	\$ 0.00

See accompanying notes.

## Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited) (in thousands of Canadian dollars)	Three months ended		Nine months ended	
	September 3, 2021	August 28, 2020	September 3, 2021	August 28, 2020
Net earnings (loss)	\$ 748	\$ 615	\$ 310	\$ (16)
Other comprehensive earnings (loss) to be reclassified to net earnings (loss) in subsequent periods:				
Change in foreign currency translation adjustments	862	(1,071)	(645)	(305)
Net gain (loss) on valuation of derivative financial instruments designated as cash flow hedges ( <i>Note 6.1, Note 6.2</i> )	(2,511)	4,117	1,246	3,257
Deferred income taxes on net gain (loss) on valuation of derivative financial instruments designated as cash flow hedges	628	(1,030)	(312)	(814)
	(1,021)	2,016	289	2,138
<b>Total comprehensive income (loss)</b>	<b>\$ (273)</b>	<b>\$ 2,631</b>	<b>\$ 599</b>	<b>\$ 2,122</b>
<b>Attributable to:</b>				
Equity holders of FTG	\$ (246)	\$ 2,685	\$ 756	\$ 2,219
Non-controlling interest	\$ (26)	\$ (54)	\$ (157)	\$ (97)

## Interim Condensed Consolidated Statements of Changes in Equity

Nine months ended September 3, 2021		Attributed to the equity holders of FTG						
		Accumulated other comprehensive income					Non- controlling interest	Total equity
(Unaudited) (in thousands of Canadian dollars)	Common shares	Preferred shares	Retained earnings	Contributed surplus	Total			
Balance, November 30, 2020	\$ 21,881	\$ -	\$ 19,135	\$ 8,303	\$ 958	\$ 50,277	\$ 1,011	\$ 51,288
Net income (loss)	-	-	384	-	-	384	(74)	310
Stock-based compensation	-	-	-	26	-	26	-	26
Other comprehensive income (loss)	-	-	-	-	333	333	(44)	289
Balance, September 3, 2021	\$ 21,881	\$ -	\$ 19,519	\$ 8,329	\$ 1,291	\$ 51,020	\$ 893	\$ 51,913

Nine months ended August 28, 2020	Attributed to the equity holders of FTG							
	Accumulated other comprehensive income (loss)						Non- controlling interest	Total equity
(Unaudited) (in thousands of Canadian dollars)	Common shares	Preferred shares	Retained earnings	Contributed surplus		Total		
Balance, November 30, 2019	\$ 19,323	\$ 2,218	\$ 17,745	\$ 8,933	\$ (1,554)	\$ 46,665	\$ 1,094	\$ 47,759
Net income (loss)	-	-	82	-	-	82	(98)	(16)
Stock-based compensation	-	-	-	112	-	112	-	112
Transfer from contributed surplus to share capital for PSU's exercised	760			(760)	-	-	-	-
Common shares repurchase and issue on exercise of PSU's	(420)	-	-	-	-	(420)	-	(420)
Other comprehensive income (loss)	-	-	-	-	2,137	2,137	1	2,138
Balance, August 28, 2020	\$ 19,663	\$ 2,218	\$ 17,827	\$ 8,285	\$ 583	\$ 48,576	\$ 997	\$ 49,573

See accompanying notes.

## Interim Condensed Consolidated Statements of Cash Flows

	Three months ended		Nine months ended	
(Unaudited) (in thousands of Canadian dollars)	September 3, 2021	August 28, 2020	September 3, 2021	August 28, 2020
Net inflow (outflow) of cash related to the following:				
<b>Operating activities</b>				
Net earnings (loss)	\$ 748	\$ 615	\$ 310	\$ (16)
Items not affecting cash and cash equivalents:				
Stock-based compensation	(36)	21	26	112
Loss on disposal of plant and equipment	-	-	1	6
Effect of exchange rates on U.S. dollar bank debt	90	(415)	(194)	(217)
Depreciation of plant and equipment	1,088	1,111	3,327	3,274
Depreciation of right-of-use assets	390	403	1,162	1,214
Amortization of intangible assets	51	94	210	490
Amortization, other	9	17	35	28
Impairment of intangible assets	-	-	-	1,145
Investment tax credits/deferred income taxes	155	950	201	1,555
Accretion on lease liabilities	120	139	368	417
Forgiveness of debt (Note 6.2)	(1,668)	-	(3,004)	-
Net change in non-cash operating working capital (Note 5)	708	434	2,578	3,030
	1,655	3,369	5,020	11,038
<b>Investing activities</b>				
Additions to plant and equipment	(956)	(236)	(1,951)	(2,721)
Recovery of contract and other costs	(2)	11	20	60
Additions to deferred financing costs	(54)	-	(62)	-
	(1,012)	(225)	(1,993)	(2,661)
<b>Net cash flow from operating and investing activities</b>	643	3,144	3,027	8,377
<b>Financing activities</b>				
Proceeds from bank debt (Note 11.2)	-	-	-	3,309
Repayments of bank debt	(227)	(514)	(685)	(1,552)
Lease liability payments	(443)	(448)	(1,343)	(1,360)
Repurchase of common shares on exercise of PSU's (Note 13.1)	-	-	-	(420)
	(670)	(962)	(2,028)	(23)
<b>Effects of foreign exchange rate changes on cash flow</b>	515	(730)	(484)	(291)
<b>Net increase in cash flow</b>	488	1,452	515	8,063
Cash and cash equivalents, beginning of the period	19,059	14,258	19,032	7,647
<b>Cash and cash equivalents, end of period</b>	\$ 19,547	\$ 15,710	\$ 19,547	\$ 15,710
<b>Disclosure of cash payments</b>				
Payment for interest	\$ 31	\$ 46	\$ 102	\$ 155
Payments for income taxes	\$ 112	\$ 18	\$ 706	\$ 1,136

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 and nine months ended September 3, 2021 comprise FTG, its subsidiaries and its joint venture.

These interim condensed consolidated financial statements were approved for issuance by the Board of Directors on October 12, 2021.

## **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, 2020, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation’s website at [www.ftgcorp.com](http://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, 2020.

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.



## **2.2 COVID-19**

In March 2020, the World Health Organization characterized the novel coronavirus (“COVID-19”) as a global pandemic and extraordinary actions have been taken by international, federal, state and provincial governmental authorities to contain and combat the spread of COVID-19 in regions throughout the world. The COVID-19 outbreak and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, consumers, economies, and financial markets globally, leading to an economic downturn and increased market volatility. The extent of the impact of COVID-19 on the Corporation’s operational and financial performance will depend on certain developments, including the duration of the outbreak, impact on the Corporation’s customers and its sales cycles, and impact on the Corporation’s employees.

The economic downturn and uncertainty caused by the COVID-19 outbreak and measures undertaken to contain its spread continue to negatively affect all of the Corporation’s operations to some extent and, in particular, has caused volatility in demand for the Corporation’s products and services targeted to the commercial aerospace market. The Corporation continues to evaluate the current and potential impact of the COVID-19 outbreak on its business, results of operations and consolidated financial statements.

## **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 September 3, 2021 were 24,491,201 (November 30, 2020 – 24,491,201).

During the three months ended September 3, 2021, the Corporation granted nil performance share units (“PSU’s”) (2020 – nil). During the nine months ended September 3, 2021, the Corporation granted 98,000 performance share units (“PSU’s”) (2020 – 100,000), of which 100% vest based on the achievement of a non-market performance condition. 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 September 3, 2021, nil of the 182,333 (November 30, 2020 – nil of the 108,750) outstanding PSU’s had vested or were exercisable.

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**3.2 Earnings per share**

	Three months ended		Nine months ended	
	September 3, 2021	August 28, 2020	September 3, 2021	August 28, 2020
<i>Numerator</i>				
Net earnings (loss)	\$ 748	\$ 615	\$ 310	\$ (16)
Net loss attributable to non-controlling interests	(26)	(30)	(74)	(98)
Net earnings attributable to equity holders of FTG	\$ 774	\$ 645	\$ 384	\$ 82
Numerator for basic earnings per share - net earnings applicable to Common Shares	\$ 774	\$ 645	\$ 384	\$ 82
Numerator for diluted earnings per share - net earnings applicable to Common Shares	\$ 774	\$ 645	\$ 384	\$ 82
<i>Denominator</i>				
Denominator for basic earnings per share - weighted average number of Common Shares outstanding	24,491,201	22,716,201	24,491,201	22,716,201
Effect of dilutive securities				
Weighted average number of Preferred Shares	-	1,775,000	-	1,775,000
Weighted average number of PSU's	186,157	117,404	160,729	162,651
Denominator for diluted earnings per share - weighted average number of Common Shares outstanding and assumed conversions	24,677,358	24,608,605	24,651,930	24,653,852
Earnings per share data attributable to the equity holders of FTG				
Basic earnings per share	\$ 0.03	\$ 0.03	\$ 0.01	\$ 0.00
Diluted earnings per share	\$ 0.03	\$ 0.03	\$ 0.01	\$ 0.00

The Corporation has nil voting convertible Series 1 Preferred Shares outstanding as at September 3, 2021 (August 28, 2020 – 1,775,000). The Corporation has 182,333 PSU's outstanding as at September 3, 2021 (August 28, 2020 – 108,750). The convertible Series 1 Preferred Shares and PSU's were included, as dilutive securities, in calculating diluted earnings per share for the three and nine months ended September 3, 2021 and August 28, 2020 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 bank debt and total equity attributable to FTG's shareholders. The Corporation's primary uses of capital are to finance increases in non-cash working capital, capital expenditures and acquisitions. The Corporation currently funds these requirements from internally generated cash flows, cash, and bank debt.

The managed capital as at September 3, 2021 of \$53,447 (November 30, 2020 – \$56,672) is comprised of total equity attributable to FTG's shareholders of \$51,020 (November 30, 2020 – \$50,277) and bank debt of \$2,427 (November 30, 2020 – \$6,395).

**Notes to the Interim Condensed Consolidated Financial Statements**  
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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.

#### **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:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 3, 2021</b>	<b>August 28, 2020</b>	<b>September 3, 2021</b>	<b>August 28, 2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts receivable, contract assets	<b>(933)</b>	3,615	<b>3,439</b>	5,470
Inventories	<b>578</b>	(190)	<b>1,706</b>	(1,482)
Prepaid expenses	<b>(181)</b>	2,275	<b>(561)</b>	1,883
Contract liabilities	<b>70</b>	(698)	<b>22</b>	2,381
Accounts payable and accrued liabilities, and provisions	<b>823</b>	(5,185)	<b>(2,579)</b>	(5,315)
Income tax payable	<b>351</b>	617	<b>551</b>	93
	<b>708</b>	434	<b>2,578</b>	3,030

#### **6. FINANCIAL INSTRUMENTS**

##### **6.1 Fair value**

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

Level 1: Quoted (Unadjusted) Prices in Active Markets for Identical Assets or Liabilities: This level includes equity securities traded on an active market and quoted corporate and government-backed debt instruments. The Corporation did not have any Level 1 financial instruments carried at fair value as at September 3, 2021 and November 30, 2020.

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

**Notes to the Interim Condensed Consolidated Financial Statements**  
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accrued liabilities and provisions, contract liabilities, bank debt, foreign exchange forward contracts, gold forward contracts and interest rate swaps as at September 3, 2021 and November 30, 2020.

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 September 3, 2021 and November 30, 2020.

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

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

*Cash, accounts receivable, contract assets, accounts payable 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.

*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.

*Derivative instruments:*

The fair value of the Corporation's foreign exchange forward contracts, gold forward contracts and interest rate swap (per details in *Note 6.2*) is based on the current market values of similar contracts with similar remaining durations as if the contract had been entered into on September 3, 2021. The table below summarizes the unrealized gains (losses) included in the fair values:

	September 3, 2021 \$	November 30, 2020 \$
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	2,912	1,680
Gold forward contracts	(21)	19
Interest rate swaps	(78)	(130)
Net unrealized gains (losses) of derivative instruments	2,813	1,569
Tax effect	(703)	(392)
Included in accumulated other comprehensive income (loss)	2,110	1,177

## **6.2 Financial risks**

### ***Interest rate risk***

Interest rate risk arises because of the fluctuation in interest rates. The Corporation's interest rate and cash flow risks are primarily related to the Corporation's revolving credit facilities, for which amounts drawn are subject to varying rates at the time of borrowing. The interest rates on amounts currently drawn on the revolving facility and on any future borrowings will vary and are unpredictable. The Corporation monitors its exposure to interest rates and has entered into derivative contracts to mitigate this risk which include three (November 30, 2020 – three) interest rate swaps as at September 3, 2021.

### ***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 and nine months ended September 3, 2021, net realized gain of \$200 and \$1,082, respectively (2020 – loss of \$201 and \$1,032, respectively), from settlements of foreign exchange forward contracts designated as cash flow hedges was included in sales in the interim condensed consolidated statements of earnings (loss).

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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:

			September 3, 2021	November 30, 2020
	Canadian and other operations	U.S. operations	Consolidated financial statements	Consolidated financial statements
<i>(In thousands of U.S. dollars)</i>	\$	\$	\$	\$
Cash	5,127	351	5,478	11,554
Accounts receivable, contract assets	6,419	3,384	9,803	12,805
Accounts payable and accrued liabilities, contract liabilities and current portion of lease liabilities	(2,331)	(3,903)	(6,234)	(6,946)
Total bank borrowings	(1,994)	-	(1,994)	(4,954)
Balance sheet exposure, excluding financial derivatives	7,221	(168)	7,053	12,459
Reporting date CAD:USD exchange rate			1.2518	1.2965
Three months ended				
			September 3, 2021	August 28, 2020
	Canadian and other operations	U.S. operations	Total	Total
<i>(In thousands of U.S. dollars)</i>	\$	\$	\$	\$
Net sales	8,854	5,825	14,679	17,551
Operating expenses	(3,863)	(7,355)	(11,218)	(11,159)
Net exposure	4,991	(1,530)	3,461	6,392
Nine months ended				
			September 3, 2021	August 28, 2020
	Canadian and other operations	U.S. operations	Total	Total
<i>(In thousands of U.S. dollars)</i>	\$	\$	\$	\$
Net sales	26,098	17,580	43,678	54,949
Operating expenses	(9,971)	(21,752)	(31,723)	(35,004)
Net exposure	16,127	(4,172)	11,955	19,945

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 and nine months ended September 3, 2021 and August 28, 2020 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.

**Notes to the Interim Condensed Consolidated Financial Statements**  
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	Three months ended			
	September 3, 2021			August 28, 2020
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	(72)	2	(70)	(91)
Net sales and operating expenses (net exposure)	(50)	15	(35)	(65)
Net exposure	(122)	17	(105)	(156)
	Nine months ended			
	September 3, 2021			August 28, 2020
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	(72)	2	(70)	(91)
Net sales and operating expenses (net exposure)	(161)	42	(119)	(200)
Net exposure	(233)	44	(189)	(291)

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

	September 3, 2021		November 30, 2020	
	RMB	\$	RMB	\$
Cash	732	142	1,070	211
Short-term deposit with a financial institution with maturity of less than 1 year	4,067	790	2,539	500
Balance sheet exposure	4,799	932	3,609	711

With all variables remaining constant, assuming a 1% strengthening of the Canadian dollar versus the RMB, net earnings before tax for the three and nine months ended September 3, 2021 would decrease by approximately \$9 and \$9, respectively (2020 – \$7 and \$7, respectively). An assumed 1% weakening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on these amounts.

Derivative Financial Instruments and Hedge Accounting

**Foreign exchange forward contracts**

Foreign exchange forward contracts are transacted with a financial institution to hedge part of a foreign currency denominated anticipated sale of products. The following table summarizes the Corporation's outstanding commitments to buy and sell foreign currency under foreign exchange forward contracts, all of which have a maturity date of no more than thirty six months as at September 3, 2021 and November 30, 2020:

**Notes to the Interim Condensed Consolidated Financial Statements**  
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<b>As at</b>	<b>Currency sold</b>	<b>Currency bought</b>	<b>Notional value</b>	<b>Forward value at transaction date</b>	<b>Forward current value</b>	<b>Unrealized gain</b>
<b>September 3, 2021</b>	<b>USD</b>	<b>CAD</b>	<b>US\$53,700</b>	<b>\$70,336</b>	<b>\$67,424</b>	<b>\$2,912</b>
November 30, 2020	USD	CAD	US\$54,000	\$71,730	\$70,050	\$1,680

As at September 3, 2021 and November 30, 2020, 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 gain 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.

**Gold forward contracts**

As at September 3, 2021, in addition to the foreign exchange forward contracts per above, the Corporation had an outstanding commitment to buy 450 ounces of gold (November 30, 2020 – 600 ounces of gold) under gold forward contracts at a contract price of approximately \$2.34 per ounce (November 30, 2020 – \$2.28) expiring quarterly from September 2021. 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:

<b>As at</b>	<b>Nature of contract</b>	<b>Quantity</b>	<b>Forward value at transaction date</b>	<b>Forward current value</b>	<b>Unrealized gain (loss)</b>
<b>September 3, 2021</b>	<b>Gold forward contract</b>	<b>450 ounces</b>	<b>\$1,053</b>	<b>\$1,032</b>	<b>(\$21)</b>
November 30, 2020	Gold forward contracts	600 ounces	\$1,366	\$1,385	\$19

As at September 3, 2021 and November 30, 2020, the gold forward contracts are designated as cash flow hedges, all of which was recognized in other comprehensive income (loss) and prepaid expenses and other, accounts payable and accrued liabilities. This unrealized 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 September 3, 2021 retained in other comprehensive loss related to these contracts are expected to be recognized through net earnings on the interim condensed consolidated statement of earnings (loss) in fiscals 2021, 2022, 2023 and 2024.



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**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 gain (loss) are included in other comprehensive income (loss) and accounts payable and accrued liabilities as at September 3, 2021 and November 30, 2020. The table below summarizes the Corporation's interest rate swaps:

Date	Corresponding Loan description	Loan interest rate	Interest rate swap	Unrealized loss	
				September 3, 2021	November 30, 2020
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%	(\$11)	(\$21)
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%	(\$37)	(\$60)
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%	(\$30)	(\$49)
				<b>(\$78)</b>	<b>(\$130)</b>

**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 September 3, 2021, the Corporation's largest and second largest customer accounted for approximately 24.1% and 10.4% of sales (2020 – 19.7% and 10.6%), respectively. During the nine months ended September 3, 2021, the Corporation's largest and second largest customer accounted for approximately 25.1% and 9.6% of sales (2020 – 23.0% and 10.1%), 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

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payment terms in the range of 30 to 90 days in accordance with industry practice. Customers do not provide collateral in exchange for credit. The Corporation reviews its trade receivable accounts regularly and to determine whether an adjustment to the provision for expected credit loss. The expected credit loss is charged against earnings. Shortfalls in collections are applied against this provision. Estimates for expected credit loss are determined on a portfolio basis taking into account any available relevant information on the portfolio's liquidity and market factors.

***Liquidity risk***

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage, as outlined in *Note 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 September 3, 2021 and November 30, 2020:

	September 3, 2021				November 30, 2020	
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Amount	Amount
	\$	\$	\$	\$	\$	\$
Bank debt <sup>1</sup> (committed facility)	938	955	604	-	2,497	3,318
Bank debt PPP Loans	-	-	-	-	-	3,072
Bank debt interest payments	88	49	21	-	158	280
Accounts payable and accrued liabilities, and provisions	12,286	-	-	-	12,286	14,789
Contract liabilities	409	-	-	-	409	388
Lease liabilities (undiscounted contractual cash flows)	1,679	1,402	3,921	7,235	14,237	15,769
Income tax payable	830	-	-	-	830	-
Operating leases	175	80	58	-	313	605
	16,405	2,486	4,603	7,235	30,730	38,221

1. Bank debt as at September 3, 2021 is offset by \$70 of deferred financing charge (\$28 as at November 30, 2020).

**Paycheck Protection Program Loans**

In May 2020, the Corporations' US subsidiaries, FTG Circuits Inc., FTG Aerospace Inc., and FTG Circuits Fredericksburg Inc., closed on an unsecured bank debt guaranteed under the Paycheck Protection Program ("PPP") in the total amount of US\$2,369 or \$3,309 ("PPP Loans") as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act of the U.S. Government.

During the three and nine months ended September 3, 2021, \$1,668 (US\$1,337) and \$3,004 (US\$2,369) of the PPP loans were fully forgiven, respectively (2020 – \$nil and \$nil, respectively). As at September 3, 2021, the remaining PPP loan balance is nil (November 30, 2020 – \$3,105 or US\$2,369).

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In addition to the PPP loans, the corporation had bank debt of \$2,497 as at September 3, 2021 (November 30, 2020 – \$3,290).

Canada Emergency Wage Subsidy

During the second quarter of fiscal 2020, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy of up to 75% of eligible employees’ employment insurable remuneration, subject to certain criteria.

Accordingly, the Corporation applied for the CEWS to the extent it met the requirements to receive the subsidy. During the three and nine months ended September 3, 2021, the Corporation recorded \$737 and \$2,925, respectively (2020 – \$806 and \$1,629, respectively), in government subsidies as a reduction to operating expenses in the interim condensed consolidated statement of loss.

**7. 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:

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	Three months ended September 3, 2021			
	Circuits	Aerospace	Corporate Office	Total
	\$	\$	\$	\$
Sales	13,795	7,704	-	21,499
Inter-company sales	(692)	(1,069)	-	(1,761)
Net sales	13,103	6,635	-	19,738
Cost of sales and selling, general and administrative expenses	10,976	6,135	538	17,649
Research and development costs	1,327	(102)	-	1,225
Recovery of investment tax credits	(100)	(59)	-	(159)
Depreciation of plant and equipment	857	182	49	1,088
Depreciation of right-of-use assets	191	187	12	390
Amortization of intangible assets	32	19	-	51
Forgiveness of debt	(1,668)	-	-	(1,668)
Foreign exchange loss (gain) on conversion of assets and liabilities	(204)	(81)	(138)	(423)
Earnings (loss) before interest and income taxes	1,692	354	(461)	1,585
Interest expense on bank debt, net	-	-	14	14
Accretion on lease liabilities	78	41	1	120
Income tax expense	-	-	703	703
Net earnings (loss)	1,614	313	(1,179)	748
Other operating segments disclosures:				
Additions to plant and equipment	909	47	-	956
Three months ended August 28, 2020				
	Circuits	Aerospace	Corporate Office	Total
	\$	\$	\$	\$
Sales	16,190	10,070	-	26,260
Inter-company sales	(500)	(1,396)	-	(1,896)
Net sales	15,690	8,674	-	24,364
Cost of sales and selling, general and administrative expenses	11,696	6,799	534	19,029
Research and development costs	1,150	152	-	1,302
Recovery of investment tax credits	(145)	(50)	-	(195)
Depreciation of plant and equipment	865	196	50	1,111
Depreciation of right-of-use assets	199	194	10	403
Amortization of intangible assets	33	61	-	94
Stock based compensation	-	-	21	21
Foreign exchange loss (gain) on conversion of assets and liabilities	698	160	153	1,011
Earnings (loss) before interest and income taxes	1,194	1,162	(768)	1,588
Interest expense on bank debt, net	-	-	61	61
Accretion on lease liabilities	87	51	1	139
Income tax expense	-	-	773	773
Net earnings (loss)	1,107	1,111	(1,603)	615
Other operating segments disclosures:				
Additions to plant and equipment	212	24	-	236

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	Nine months ended September 4, 2021			
	Circuits	Aerospace	Corporate Office	Total
	\$	\$	\$	\$
Sales	39,985	24,118	-	64,103
Inter-company sales	(1,913)	(3,152)	-	(5,065)
Net sales	38,072	20,966	-	59,038
Cost of sales and selling, general and administrative expenses	29,909	18,846	1,664	50,419
Research and development costs	3,581	531	-	4,112
Recovery of investment tax credits	(288)	(177)	-	(465)
Depreciation of plant and equipment	2,613	566	148	3,327
Depreciation of right-of-use assets	575	551	36	1,162
Amortization of intangible assets	99	111	-	210
Forgiveness of debt	(2,313)	(691)	-	(3,004)
Foreign exchange loss on conversion of assets and liabilities	343	146	250	739
Earnings (loss) before interest and income taxes	3,553	1,083	(2,098)	2,538
Interest expense on bank debt, net	-	-	81	81
Accretion on lease liabilities	234	132	2	368
Income tax expense	-	-	1,779	1,779
Net earnings (loss)	3,319	951	(3,960)	310
Other operating segments disclosures:				
Additions to plant and equipment	1,826	125	-	1,951
Nine months ended August 28, 2020				
	Circuits	Aerospace	Corporate Office	Total
	\$	\$	\$	\$
Sales	52,851	29,223	-	82,074
Inter-company sales	(1,103)	(5,247)	-	(6,350)
Net sales	51,748	23,976	-	75,724
Cost of sales and selling, general and administrative expenses	38,854	21,547	1,992	62,393
Research and development costs	3,528	438	-	3,966
Recovery of investment tax credits	(420)	(150)	-	(570)
Depreciation of plant and equipment	2,545	608	121	3,274
Depreciation of right-of-use assets	601	584	29	1,214
Amortization of intangible assets	102	388	-	490
Stock based compensation	-	-	112	112
Impairment of intangible assets	-	1,145	-	1,145
Foreign exchange loss (gain) on conversion of assets and liabilities	803	(361)	154	596
Earnings (loss) before interest and income taxes	5,735	(223)	(2,408)	3,104
Interest expense on bank debt, net	-	-	159	159
Accretion on lease liabilities	261	153	3	417
Income tax expense	-	-	2,544	2,544
Net earnings (loss)	5,474	(376)	(5,114)	(16)
Other operating segments disclosures:				
Additions to plant and equipment	2,535	186	-	2,721

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

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

	As at September 3, 2021			As at November 30, 2020		
	Circuits	Aerospace	Total	Circuits	Aerospace	Total
	\$	\$	\$	\$	\$	\$
Total segment assets	59,995	19,971	79,966	59,577	27,099	86,676
Intangible and other assets	612	212	824	746	322	1,068
Total segment liabilities	20,802	7,251	28,053	30,403	4,985	35,388

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

	Three months ended				Nine months ended			
	September 3, 2021	%	August 28, 2020	%	September 3, 2021	%	August 28, 2020	%
Canada	\$ 1,389	7.0	\$ 1,747	7.2	\$ 5,695	9.6	\$ 5,338	7.0
United States	14,602	74.0	18,165	74.5	44,391	75.2	57,562	76.1
Asia	1,853	9.4	3,744	15.4	4,933	8.4	9,798	12.9
Europe	1,816	9.2	511	2.1	3,824	6.5	2,291	3.0
Other	78	0.4	197	0.8	195	0.3	735	1.0
Total	\$ 19,738	100.0	\$ 24,364	100.0	\$ 59,038	100.0	\$ 75,724	100.0

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

	As at September 3, 2021			
	Canada	United States	Asia	Total
	\$	\$	\$	\$
Intangible and other assets (by location of division)	208	345	271	824
Plant and equipment (by location of division)	5,046	4,687	1,409	11,142
Right-of-use assets (by location of division)	6,315	4,283	208	10,806

	As at November 30, 2020			
	Canada	United States	Asia	Total
	\$	\$	\$	\$
Intangible and other assets (by location of division)	212	575	281	1,068
Plant and equipment (by location of division)	6,335	4,621	1,684	12,640
Right-of-use assets (by location of division)	6,700	5,107	323	12,130

The Corporation's primary sources of revenue are as follows:

	Three months ended		Nine months ended	
	September 3, 2021	August 28, 2020	September 3, 2021	August 28, 2020
	\$	\$	\$	\$
Sale of goods	19,384	23,963	57,841	74,852
Services	354	401	1,197	872
	19,738	24,364	59,038	75,724

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

Timing of revenue recognition based on transfer of control is as follows:	Three months ended		Nine months ended	
	<b>September 3, 2021</b>	August 28, 2020	<b>September 3, 2021</b>	August 28, 2020
	\$	\$	\$	\$
At a point of time	<b>19,384</b>	23,963	<b>57,841</b>	74,852
Over time	<b>354</b>	401	<b>1,197</b>	872
	<b>19,738</b>	24,364	<b>59,038</b>	75,724

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

For the three months ended September 3, 2021	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		\$	\$	\$	
Customer A	United States	<b>3,553</b>	<b>1,207</b>	<b>4,760</b>	<b>24.1</b>
Customer B	United States	<b>742</b>	<b>1,308</b>	<b>2,050</b>	<b>10.4</b>

For the three months ended August 28, 2020	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		\$	\$	\$	
Customer A	United States	3,808	1,003	4,811	19.7
Customer B	United States	1,404	1,186	2,590	10.6

For the nine months ended September 3, 2021	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		\$	\$	\$	
Customer A	United States	<b>9,843</b>	<b>4,984</b>	<b>14,827</b>	<b>25.1</b>
Customer B	United States	<b>2,461</b>	<b>3,199</b>	<b>5,660</b>	<b>9.6</b>

For the nine months ended August 28, 2020	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		\$	\$	\$	
Customer A	United States	14,060	3,327	17,387	23.0
Customer B	United States	3,837	3,812	7,649	10.1

**HEAD OFFICE:**

Firan Technology Group Corporation  
250 Finchdene Square  
Toronto, Ontario M1X 1A5  
Canada  
Tel: 416-299-4000  
Fax: 416-299-1140  
Toll free: 1-800-258-5396  
Website: [www.ftgcorp.com](http://www.ftgcorp.com)

**Circuits Facilities:**

FTG Circuits – Toronto  
250 Finchdene Square  
Toronto, Ontario M1X 1A5  
Canada  
Tel: 416-299-4000  
Fax: 416-299-1140  
Toll free: 1-800-258-5396

FTG Circuits – Chatsworth  
20750 Marilla St.  
Chatsworth, California  
U.S.A. 91311  
Tel: 818-407-4024  
Fax: 818-407-4034

FTG Printronics Circuits Ltd.  
Suite 209-210, Area A-1  
No 53 Hanghai Rd.  
Airport Industrial Park  
Tianjin, P.R. China, 300308  
Tel: 86-(0) 22-84918133

FTG Circuits – Fredericksburg  
1026 Warrenton Road,  
Fredericksburg, Virginia  
U.S.A. 22406  
Tel: 540-752-5511  
Fax: 540-752-2109

**Aerospace Facilities:**

FTG Aerospace – Toronto  
10 Commander Blvd.  
Toronto, Ontario M1S 3T2  
Canada  
Tel: 416-438-6076  
Fax: 416-438-8065

FTG Aerospace – Chatsworth  
20736 & 20740 Marilla St.  
Chatsworth, California  
U.S.A. 91311  
Tel: 818-407-4024  
Fax: 818-407-4034

FTG Aerospace – Tianjin  
225 Jinger Road  
Aviation Industry Zone  
Building 2 Block 1-B  
Tianjin Airport Economic Area  
Tianjin, P.R. China, 300308  
Tel: 86-(0) 22-84476268