# FIRAN TECHNOLOGY GROUP CORPORATION

**Third Quarter Report**
**For the period ended**
**September 2, 2022**

**October 11, 2022**

# Management's Discussion and Analysis

**October 11, 2022**

**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 2, 2022 (third quarter of fiscal 2022 or Q3 2022) is as of October 11, 2022 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 2022, 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, 2021 (Fiscal 2021) and, accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2021 MD&A. Additional information is contained in the Corporation's filings with Canadian securities regulators, including its Annual Information Form dated February 9, 2022, found on SEDAR at www.sedar.com and on the Corporation's website at www.ftgcorp.com.

## CORE BUSINESS AND STRATEGY

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

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

FTG Circuits is a leading manufacturer of high technology/high reliability printed circuit boards within the Global marketplace. Currently, FTG Circuits has manufacturing operations in Canada (Toronto, Ontario), USA (Chatsworth, California, and Fredericksburg, Virginia), as well as a joint venture and sourcing arrangements with operating facilities in China. 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 2022

| | **Third Quarter** | | **Year-to-Date** | |
|---|---|---|---|---|
| *(in thousands of dollars except per share amounts)* | **2022** **$** | 2021 $ | **2022** **$** | 2021 $ |
| Sales | **23,095** | 19,738 | **65,874** | 59,038 |
| Gross margin | **5,708** | 3,796 | **15,574** | 12,886 |
| Net earnings attributable to equity holders of FTG | **723** | 774 | **4** | 384 |
| Weighted average number of common shares (in thousands) | **24,294** | 24,491 | **24,426** | 24,491 |
| Earnings per share: | | | | |
| Basic | **0.03** | 0.03 | **0.00** | 0.02 |
| Diluted | **0.03** | 0.03 | **0.00** | 0.02 |
| EBITDA[1] | **2,755** | 3,114 | **6,183** | 7,373 |
| Total assets | **81,186** | 79,452 | **81,186** | 79,452 |
| Net cash position[2] | **10,803** | 17,120 | **10,803** | 17,120 |
| Free cash flow[3] | **(3,955)** | 196 | **(4,825)** | 1,681 |

*[1] 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.*
*[2] Net cash is defined as cash and cash equivalents less bank debt and government loan.*
*[3] Free cash flow ("FCF") is a non-IFRS financial measure, which the Corporation defines as net cash flow from operating and investing activities excluding acquisitions, less lease liability payments.*

# Management's Discussion and Analysis

## Sales

| | Third Quarter | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Circuits | **14,577** | 13,122 | 1,455 | 11.1 | **44,270** | 38,142 | 6,128 | 16.1 |
| Aerospace | **9,637** | 7,404 | 2,233 | 30.2 | **25,416** | 23,199 | 2,217 | 9.6 |
| Inter-segment sales | **(1,119)** | (788) | (331) | 42.0 | **(3,812)** | (2,303) | (1,509) | 65.5 |
| Net sales | **23,095** | 19,738 | 3,357 | 17.0 | **65,874** | 59,038 | 6,836 | 11.6 |

Sales for Q3 2022 increased by $3.4M or 17.0% from Q3 2021 as the market conditions for aerospace and defence electronics have improved considerably since last year.

- Sales for the Circuits segment increased by $1.5M or 11.1%, with the increase in sales spread across sites in both North America and China. The increase in Inter-segment sales is primarily due to increased demand for military products with Circuits Chatsworth supplying PCBs for integration into assemblies at Aerospace Chatsworth.
- Sales for the Aerospace segment increased by $2.2M or 30.2%, with the increase in sales spread across sites in both North America and China. In particular, the Aerospace Tianjin site was able to ramp up very quickly to respond to demand from a US commercial aerospace customer. Sales of Simulator products were $0.6M in Q3 22 as compared to $0.4M in Q3 21. The supply of electronic components continues to be a constraint on making product deliveries to customers.

A large majority of FTG's customer contracts are denominated in US dollars and recent depreciation of the Canadian dollar relative to the US dollar had a positive impact on reported sales. The average FX rate experienced in Q3 2022 was 3.6% more favourable than in Q3 2021 and the estimated positive impact on sales is $0.7 million. The impact of FTG's currency hedging program on Q3 22 sales was essentially neutral, as realized gains on FX forward contracts of $22 were added to sales (2021 – realized gains of $200 were added to sales).

On a year-to-date basis, increased revenue in 2022 is the result of increased demand from the commercial aerospace and defence markets, partially offset by a $2.1M period over period reduction in shipments to the Simulator Market, primarily realized in Q1 2022. The impact to FTG's operations of Covid-19 related employee absences was diminished in Q2 and Q3 2022, however the supply of critical components in the Aerospace segment continues to be a factor.

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

| | **Third Quarter** | | | | | |
|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | Change | |
| | **$** | **%** | $ | % | $ | % |
| Canada | **2,154** | **9.3** | 1,389 | 7.0 | 765 | 55.1 |
| United States | **17,618** | **76.3** | 14,602 | 74.0 | 3,016 | 20.7 |
| Asia | **1,849** | **8.0** | 1,853 | 9.4 | (4) | (0.2) |
| Europe | **1,201** | **5.2** | 1,816 | 9.2 | (615) | (33.9) |
| Other | **273** | **1.2** | 78 | 0.4 | 195 | 250.0 |
| Total | **23,095** | **100** | 19,738 | 100 | 3,357 | 17.0 |

| | **Year-to-Date** | | | | | |
|---|---|---|---|---|---|---|
| | **2022** | | 2021 | | Change | |
| | **$** | **%** | $ | % | $ | % |
| Canada | **6,187** | **9.4** | 5,695 | 9.6 | 492 | 8.6 |
| United States | **49,001** | **74.4** | 44,391 | 75.2 | 4,610 | 10.4 |
| Asia | **5,545** | **8.4** | 4,933 | 8.4 | 612 | 12.4 |
| Europe | **4,247** | **6.4** | 3,824 | 6.5 | 423 | 11.1 |
| Other | **894** | **1.4** | 195 | 0.3 | 699 | 358.5 |
| Total | **65,874** | **100** | 59,038 | 100 | 6,836 | 11.6 |

The $3.4 million increase in sales in Q3 2022 relative to Q3 2021 was primarily to US based customers and included Commercial Aerospace and Defence customers.

The distribution of sales by geographic region for 2022 on a year-to-date basis is similar to the prior year-to-date period.

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

| | **Third Quarter** | | **Year-to-Date** | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **%** | % | **%** | % |
| Largest customer | **26.0** | 24.1 | **26.5** | 25.1 |
| Second largest customer | **10.6** | 10.4 | **10.2** | 9.5 |
| Third to fifth largest customers | **21.8** | 15.9 | **20.5** | 16.5 |
| Largest five customers | **58.4** | 50.4 | **57.2** | 51.1 |

### Gross Margin

| | **Third Quarter** | | | | **Year-to-Date** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Gross profit | **5,708** | 3,796 | 1,912 | 50.4 | **15,574** | 12,886 | 2,688 | 20.9 |
| % of net sales | **24.7%** | 19.2% | | | **23.6%** | 21.8% | | |
| Government assistance included in gross profit | **-** | 702 | (702) | (100.0) | **314** | 2,805 | (2,491) | (88.8) |
| Gross profit excluding government assistance | **5,708** | 3,094 | 2,614 | 84.5 | **15,260** | 10,081 | 5,179 | 51.4 |
| % of net sales | **24.7%** | 15.7% | | | **23.2%** | 17.1% | | |

The increase in gross margin dollars for the third quarter of 2022 and on a year-to-date basis is primarily the result of increased operating leverage on higher sales volumes and operational improvements, offset by the decrease in government assistance. For the third quarter of 2022, gross profit excluding government assistance increased by $2,614 on incremental sales of $3,357. On a year-to-date basis, gross profit excluding government assistance increased by $5,179 on incremental sales of $6,836.

### Selling, General and Administrative Expenses

| | Third Quarter | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Selling, general and administrative expenses | **3,253** | 3,144 | 109 | 3.5 | **9,530** | 8,494 | 1,036 | 12.2 |
| % of net sales | **14.1%** | 15.9% | | | **14.5%** | 14.4% | | |

The increase in selling, general and administrative expenses during the third quarter of 2022 as compared to the prior year is the result of increased expected credit loss provision, professional and legal expenses, and the inclusion of $85 of Canada Emergency Wage Subsidy in the third quarter of 2021.

The increase in selling, general and administrative expenses on a year-to-date basis as compared to the prior year is the result of normalized business travel following vaccine rollouts, increased expected credit loss provision and the inclusion of $334 of Canada Emergency Wage Subsidy in the same period in 2021.

### Research and Development

| | Third Quarter | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Research and development costs | **1,390** | 1,225 | 165 | 13.5 | **4,422** | 4,112 | 310 | 7.5 |
| Recovery of investment tax credits | **(142)** | (159) | 17 | (10.7) | **(498)** | (465) | (33) | 7.1 |

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 2022, ITCs were earned from qualifying research and development expenditures in Canada.

The Corporation has, as at September 2, 2022, $Nil (November 30, 2021 – $327) of investment tax credits available to be applied against future income taxes otherwise payable in Canada.

### Depreciation and Amortization

| | Third Quarter | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Depreciation of plant and equipment | **1,018** | 1,088 | (70) | (6.4) | **3,227** | 3,327 | (100) | (3.0) |
| Depreciation of right-of-use assets | **311** | 391 | (80) | (20.5) | **1,046** | 1,163 | (117) | (10.1) |
| Amortization of intangible assets | **31** | 51 | (20) | (39.2) | **92** | 210 | (118) | (56.2) |
| Amortization, other | **7** | 9 | (2) | (22.2) | **23** | 35 | (12) | (34.3) |
| Total | **1,367** | 1,539 | (172) | (11.2) | **4,388** | 4,735 | (347) | (7.3) |

The decrease in depreciation of plant and equipment during the third quarter of fiscal 2022 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.

Decreases in depreciation of right-of-use assets are primarily due to the purchase of the Aerospace Chatsworth facility which was previously leased.

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 2022.

### Interest Expense (Income)

| | Third Quarter | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Interest expenses (income) | **(10)** | 14 | (24) | (171.4) | **(13)** | 81 | (94) | (116.0) |
| Accretion on lease liabilities | **114** | 120 | (6) | (5.0) | **332** | 368 | (36) | (9.8) |

The decrease in interest expense in fiscal 2022 was mainly due to the decrease in bank debt as compared to last year.

Decreases in accretion on lease liabilities are primarily due to the purchase of the Aerospace Chatsworth facility which was previously leased.

### 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 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 month and nine months ended September 3, 2021, $1,668 (US$1,337) and $3,004 (US$2,369), respectively, of the PPP loans were forgiven. As at September 3, 2021, the PPP loan balance was 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 2022 and during the year-to-date period of 2022:

| Third Quarter | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 2, 2022** | **June 3, 2022** | **Change** | | September 3, 2021 | June 4, 2021 | Change | |
| | **$** | **$** | **$** | **%** | $ | $ | $ | % |
| CAD/USD | **1.3121** | **1.2579** | 0.05 | 4.3 | 1.2518 | 1.2084 | 0.04 | 3.6 |

| Year-to-Date | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 2, 2022** | **November 30, 2021** | **Change** | | September 3, 2021 | November 30, 2020 | Change | |
| | **$** | **$** | **$** | **%** | $ | $ | $ | % |
| CAD/USD | **1.3121** | **1.2792** | 0.03 | 2.6 | 1.2518 | 1.2965 | (0.04) | (3.4) |

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

| | **Third Quarter** | | | **Year-to-Date** | | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | **2022** | 2021 | Change |
| | **$** | $ | $ | **$** | $ | $ |
| Foreign exchange (gain) loss | **(298)** | (423) | 125 | **(9)** | 739 | (748) |

The foreign exchange gain for the third quarter of fiscal 2022 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** | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$** | $ | **$** | $ |
| Sales before adjustment for net realized gain (loss) on f/x forward contracts designed as cash flow hedges | **23,083** | 19,538 | **65,453** | 57,956 |
| Add (deduct): adjustment for net realized gain (loss) on hedged f/x forward contracts designed as cash flow hedges | **12** | 200 | **421** | 1,082 |
| Net sales | **23,095** | 19,738 | **65,874** | 59,038 |
| Costs of sales | **16,126** | 14,540 | **46,230** | 41,898 |
| Depreciation of plant and equipment and right-of-use assets | **1,261** | 1,402 | **4,070** | 4,254 |
| Total cost of sales | **17,387** | 15,942 | **50,300** | 46,152 |
| Gross margin | **5,708** | 3,796 | **15,574** | 12,886 |
| Gross margin % | **24.7%** | 19.2% | **23.6%** | 21.8% |
| Gross margin before f/x gain (loss) | **5,696** | 3,596 | **15,153** | 11,804 |
| Gross margin % before f/x gain (loss) | **24.7%** | 18.4% | **23.2%** | 20.4% |

### Income Tax Expense

| | Third Quarter | | | | Year-to-Date | | | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | Change | **2022** | 2021 | Change | Change |
| | **$** | $ | $ | % | **$** | $ | $ | % |
| Current income tax expense | **480** | 670 | (190) | (28.4) | **1,238** | 1,685 | (447) | (26.5) |
| Deferred income tax expense | **29** | 33 | (4) | (12.1) | **101** | 94 | 7 | 7.4 |

Income tax expenses recorded during the third quarter of 2022 and during the year-to-date period of 2022 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 Corporation's consolidated effective tax rate differs from the statutory rates mainly as a result of tax benefits not recognized.

### RECONCILIATION OF NET INCOME TO EBITDA

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

| | Third Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$** | $ | **$** | $ |
| Net earnings to equity holders of FTG | **723** | 774 | **4** | 384 |
| Add back: | | | | |
| Interest and accretion expense | **104** | 134 | **319** | 449 |
| Income tax expense | **509** | 703 | **1,339** | 1,779 |
| Depreciation and amortization | **1,367** | 1,539 | **4,388** | 4,735 |
| Stock based compensation | **52** | (36) | **133** | 26 |
| EBITDA | **2,755** | 3,114 | **6,183** | 7,373 |
| % of net sales | **11.9%** | 15.8% | **9.4%** | 12.5% |

The Corporation recorded no government assistance during the third quarter of 2022 as compared to $2,455 in the prior year. Excluding government assistance, EBITDA from the Corporation's operation was $2,755 in the third quarter of 2022 as compared to $659 in the prior year. On a year-to-date basis, EBITDA in 2022 included $314 of government assistance as compared to $6,143 in the prior year. Excluding government assistance, EBITDA from the Corporation's operation was $5,869 during the year-to-date period of 2022 as compared to $1,230 in the prior year.

## OVERVIEW OF HISTORICAL QUARTERLY RESULTS

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

| | Q4-20 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | **Q3-22** |
|---|---|---|---|---|---|---|---|---|
| Circuit Segment Sales | $14,765 | $12,030 | $12,989 | $13,122 | $14,323 | $14,194 | $15,499 | **$14,577** |
| Aerospace Segment Sales | 13,021 | 8,020 | 7,776 | 7,404 | 7,007 | 7,750 | 8,030 | **9,637** |
| Inter-Segment Sales | (1,075) | (1,080) | (435) | (788) | (1,002) | (1,483) | (1,211) | **(1,119)** |
| Total Net Sales | 26,711 | 18,970 | 20,330 | 19,738 | 20,328 | 20,461 | 22,318 | **23,095** |
| Earnings (Loss) before income taxes | 2,118 | 60 | 578 | 1,451 | 489 | (399) | 531 | **1,250** |
| Net Earnings (Loss) Attributable to Equity holders of FTG | 1,308 | (400) | 10 | 774 | (128) | (733) | 14 | **723** |
| Earnings (Loss) per share: Basic[1] | $0.06 | ($0.02) | $0.00 | $0.03 | $0.00 | ($0.03) | $0.00 | **$0.03** |
| Diluted | $0.06 | ($0.02) | $0.00 | $0.03 | $0.00 | ($0.03) | $0.00 | **$0.03** |
| Quarterly average CDN$ US$ exchange rates | $1.3176 | $1.2740 | $1.2390 | $1.2465 | $1.2561 | $1.2709 | $1.2709 | **$1.2907** |

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 2, 2022 $** | November 30, 2021 $ |
|---|---|---|
| Total liquidity (cash, accounts receivable, contract assets and inventory) | **50,033** | 53,981 |
| Unused credit facilities[1] | **23,592** | 22,540 |
| Working capital | **30,827** | 39,973 |

*[1] U.S. $18.8 million (2021 – U.S. $18.2 million)*

| | **Q3 2022 $** | Q4 2021 $ |
|---|---|---|
| Accounts receivables days outstanding | **67** | 72 |
| Inventory turns | **3.7** | 3.4 |
| Accounts payable days outstanding | **68** | 86 |

All of the Corporation's credit facilities with its primary lender are secured by a first charge on all of the Corporation's assets.

The Corporation was in compliance with all of its financial loan covenants as at September 2, 2022.

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 2, 2022.

| | Less than 1 year $ | 1 to 2 years $ | 2 to 5 years $ | More than 5 years $ | Amount $ |
|---|---|---|---|---|---|
| Bank debt (committed facility) | 1,001 | 469 | 164 | - | **1,634** |
| Bank debt interest payments | 51 | 20 | 2 | - | **73** |
| Accounts payable and accrued liabilities, and provisions | 14,099 | - | - | - | **14,099** |
| Contract liabilities | 4,292 | - | - | - | **4,292** |
| Lease liabilities (undiscounted contractual cash flows) | 1,338 | 1,181 | 1,989 | 120 | **4,628** |
| Operating leases | 83 | 61 | - | - | **144** |
| Government loan | - | - | 662 | 663 | **1,325** |
| | **20,864** | **1,731** | **2,817** | **783** | **26,195** |

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

The Corporation was awarded up to $7,027 of funding from FedDev Ontario, an agency of the Government of Canada, pursuant to the Aerospace Regional Recovery Initiative (ARRI) program. This funding is in the format of a repayable contribution against qualifying investments made by FTG during a three-year period ending March 31, 2024. The funding is repayable, without interest, commencing in 2025. During the three month and nine months ended September 2, 2022, the Corporation received $1,325 of ARRI funding.

**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 2, 2022. The table below summarizes the unrealized gains (losses) included in the fair values:

| | **September 2, 2022 $** | November 30, 2021 $ |
|---|---|---|
| Unrealized gains (losses) of derivative instruments | | |
| Foreign exchange forward contracts | **(728)** | 1,131 |
| Gold forward contracts | **(128)** | (14) |
| Interest rate swaps | **5** | (58) |
| Net unrealized gains (losses) of derivative instruments | **(840)** | 1,059 |
| Tax effect | **210** | (265) |
| Included in accumulated other comprehensive income (loss) | **(630)** | 794 |

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 2, 2022 and November 30, 2021. The table below summarizes the Corporation's interest rate swaps:

| Date | Corresponding Loan description | Loan interest rate | Interest rate swap | Unrealized gains (loss) September 2, 2022 | Unrealized gains (loss) November 30, 2021 |
|---|---|---|---|---|---|
| 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% | **$6** | ($7) |
| 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% | **$5** | ($27) |
| 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% | **$4** | ($24) |
| | | | | **$15** | ($58) |

### CAPITAL EXPENDITURES (PLANT AND EQUIPMENT)

| | Third Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **$** | $ | **$** | $ |
| Additions to plant and equipment | **683** | 956 | **3,241** | 1,951 |
| Purchase of Aerospace Chatsworth facility | **8,518** | - | 8,518 | - |

Plant and equipment investments are primarily for the Circuits Segment. Equipment investments are driven by in-sourcing of certain manufacturing and test processes, productivity improvements and replacement of aged equipment.

In July 2022, the Corporation acquired the facility occupied by the Aerospace Chatsworth operation for cash consideration of $8,518 (US$6,582). This facility was previously leased.

### CASH FLOW

| | Third Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | Change | **2022** | 2021 | Change |
| | **$** | $ | $ | **$** | $ | $ |
| Operating activities | **5,625** | 1,652 | 3,973 | **7,863** | 5,017 | 2,846 |
| Investing activities | **(9,198)** | (1,012) | (8,186) | **(11,483)** | (1,993) | (9,565) |
| Financing activities | **(109)** | (671) | 562 | **(1,511)** | (2,028) | 517 |
| Free cash flow | **(3,955)** | 196 | (4,151) | **(4,825)** | 1,681 | (6,506) |

Cash flow from operations in the third quarter of 2022 increased from third quarter 2021, despite similar levels of recorded net earnings, primarily due to favourable changes in non-cash operating working capital and the inclusion of a positive non-cash earning adjustment in the prior year period of $1.7M related to the PPP loans forgiven. In particular, the increase in Contract Liabilities on the balance sheet is the result of advance payments from certain customers to fund long-lead materials.

On a year-to-date basis, the primary variances in cash flow from operating activities is due to the inclusion of a positive non-cash earning adjustment in the prior year period of $3.0M related to the PPP loans forgiven.

Investing activities in the third quarter of fiscal 2022 primarily included $9,266 of cash used for capital expenditures (Q2 2021 – $956). Investing activities on a year-to-date basis in fiscal 2022 primarily included $11,824 for capital expenditures (2021 year-to-date – $1,951).

Cash used by financing activities in the third quarter of fiscal 2022 included $817 towards the normal course issuer bid program (2021 – $nil), offset by the receipt of $1,325 of funding under the ARRI program (2021 – $nil). On a year-to-date basis, cash used by financing activities in 2022 included $934 towards the normal course issuer bid programs (2021 – $nil), offset by the receipt of $1,325 of funding under the ARRI program (2021 – $nil). Other financing activities in the third quarter of fiscal 2022 and on a year-to-date basis were similar in nature and magnitude compared to the same period in 2021.

Excluding the acquisition of the Aerospace Chatsworth facility, free cash flow in Q3 2022 was $4.6 million as compared to $0.2 million in Q3 2021, for an increase of $4.2 million. The increase in free cash flow is due to increased cash earnings after factoring in the non-cash gain of $1.7M recorded in the prior year period on the forgiveness of the PPP loan, and a $2.7 million favourable change in non-cash working capital.

Excluding the acquisition of the Aerospace Chatsworth facility, free cash flow on a year-to-date basis was $3.7 million as compared to $1.7 million in Q3 2021, for an increase of $2.0 million. The increase in free cash flow is due to increased cash earnings after factoring in the non-cash gain of $3.0M recorded in the prior year period on the forgiveness of the PPP loans, partially offset by increased investment in capital expenditures of $1.3 million.

## RELATED PARTY TRANSACTIONS

There were no related party transactions on a year-to-date basis in fiscal 2022 and 2021.

## 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 2, 2022 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. The outstanding common shares at the year ended September 2, 2022 were 24,033,501 (24,491,201 as at November 30, 2021).

During the third quarter of 2022, the Corporation granted nil performance share units ("PSU's") (2021 – nil). On a year-to-date basis, the Corporation granted 90,000 performance share units ("PSU's") (2021 – 98,000). 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 2, 2022, nil of the 257,958 (November 30, 2021 – nil of the 182,233) outstanding PSU's had vested or were exercisable.

### Normal course issuer bid program

In April 2022, the Toronto Stock Exchange (the "TSX") accepted the Corporation's notice of intention to establish a normal course issuer bid program (the "NCIB"). The NCIB permits the purchase of up to 1,224,560 of the Corporation's Common Shares representing approximately 5% of its outstanding Common

Shares, pursuant to TSX rules, by way of normal course purchases effected through the facilities of the TSX and/or alternative Canadian trading systems permitted by TSX.

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

During the three months ended September 2, 2022, the Corporation purchased and cancelled 412,700 Common Shares at a weighted average price of $1.96 per share, including commission and other transaction costs, for a total amount of $817. During the nine months ended September 2, 2022, the Corporation purchased and cancelled 457,700 Common Shares at a weighted average price of $2.01 per share, including commission and other transaction costs, for a total amount of $934.

## 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 19, 2022 which is available on SEDAR at www.sedar.com.

The contract with the unionized production employees at the Circuits Toronto site expired in Q3 2022. Negotiations between the Corporation and the union regarding wages and benefits are on-going. If a labour disruption were to occur, this would have a negative impact on product deliveries to customers and on sales and profitability of the Corporation.

## ETHICAL BUSINESS CONDUCT

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

## OUTLOOK

The world economy and the outlook for the commercial Aerospace industry is recovering from the COVID-19 pandemic as the world learns to coexist with the COVID-19 virus, including its variants. Looking forward, widespread vaccines are expected to continue to reduce the number of severe cases of COVID-19 and governments will continue to drop restrictions on air travel.

On a global scale, the airline industry was dramatically weakened in 2020 with significant drops in passenger travel. Demand has returned and the challenge for the Aerospace industry has quickly changed to how to ramp production to meet the demand. Labor and material challenges abound in this industry, like many others.

Specifically at FTG, the COVID-19 pandemic had caused production disruptions at all sites at various points in time. While COVID-19 will be with us for the foreseeable future, the impact on FTG's operations in 2022 has diminished with each quarter. FTG's backlog, resulting from increased customer demand, has grown faster than we can ramp production in 2022.

In commercial Air Transport, the pandemic hurt demand. Airbus reduced shipments by 35% in 2020 compared to 2019. In 2021, Airbus shipments rose 8% compared to 2020 but remained 29% below 2019 levels. Airbus' order backlog remains high at over 7,000 aircraft and projections are for a 15% increase in 2022. Boeing has also been hurt by the pandemic but also by their challenges with the B737 aircraft. The B737 is now flying again in the U.S., Canada and Europe and production of the aircraft has resumed in 2022. Projections are for a 30% increase in production at Boeing 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. Backlog at Airbus is over 90% single aisle aircraft and over 80% at Boeing.

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

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

The defense market has not been significantly impacted by the COVID-19 pandemic since 2019. The war in Ukraine is causing many NATO member states to relook at their defence spending with expectations that these spendings will increase in the coming years.

## CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation. 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 2, 2022, there have been no changes in the Corporation's internal controls over financial reporting that may have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond FTG's control, affect the operations, performance and results of FTG and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: impact or unanticipated impact of general economic, political and market factors in North America and internationally; intense business competition and uncertain demand for products; technological change; customer concentration; foreign currency exchange rates; dependence on key personnel; ability to retain and develop sufficient labour and management resources; ability to complete strategic transactions, integrate acquisitions and implement other growth strategies; litigation and product liability proceedings; increased demand from competitors with lower production costs; reliance on suppliers; credit risk of customers; compliance with environmental laws; possibility of damage to manufacturing facilities as a result of unforeseeable events, such as natural disasters or fires; fluctuations in operating results; possibility of intellectual property infringement claims; demand for the products of FTG's customers; ability to obtain continued debt and equity financing on acceptable terms; ability of a significant shareholder to influence matters requiring shareholder approval; historic volatility in the market price of the Corporation's common shares and risk of price decreases; production warranty and casualty claim losses; conducting business in foreign jurisdictions; income and other taxes; and government regulation and legislation and FTG's ability to successfully anticipate and manage the foregoing risks.

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

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

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 11, 2022 and the Corporation's Annual Information Form (including documents incorporated by reference) dated February 9, 2022 which is available on SEDAR at www.sedar.com.

# FIRAN TECHNOLOGY GROUP CORPORATION

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

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

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

## Interim Condensed Consolidated Statements of Financial Position

| (Unaudited)<br>(in thousands of Canadian dollars) | | **September 2, 2022** | | November 30, 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | **$** | **13,715** | $ | 20,196 |
| Accounts receivable | | **17,079** | | 16,014 |
| Contract assets | | **497** | | 818 |
| Inventories | | **18,742** | | 16,953 |
| Income tax recoverable | | **501** | | 1 |
| Prepaid expenses and other | | **1,031** | | 3,162 |
| | | **51,565** | | 57,144 |
| **Non-current assets** | | | | |
| Plant and equipment, net | | **19,644** | | 11,078 |
| Right-of-use assets | | **9,540** | | 10,098 |
| Investment tax credits recoverable | | **-** | | 327 |
| Intangible and other assets, net | | **437** | | 805 |
| **Total assets** | **$** | **81,186** | $ | 79,452 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | **$** | **13,022** | $ | 13,803 |
| Provisions | | **1,077** | | 545 |
| Contract liabilities | | **4,292** | | 335 |
| Current portion of bank debt | | **982** | | 935 |
| Current portion of government loan *(Note 7.4)* | | **47** | | - |
| Current portion of lease liabilities | | **1,318** | | 1,553 |
| | | **20,738** | | 17,171 |
| **Non-current liabilities** | | | | |
| Bank debt *(Note 7.4)* | | **605** | | 1,327 |
| Government loan *(Note 7.4)* | | **1,278** | | - |
| Lease liabilities | | **8,941** | | 9,123 |
| Deferred tax payable | | **679** | | 789 |
| **Total liabilities** | | **32,241** | | 28,410 |
| **Equity** | | | | |
| Retained earnings | **$** | **18,886** | $ | 19,391 |
| Accumulated other comprehensive income (loss) | | **(698)** | | 478 |
| | | **18,188** | | 19,869 |
| Share capital | | | | |
| Common Shares *(Note 3.1)* | | **21,456** | | 21,881 |
| Contributed surplus | | **8,373** | | 8,352 |
| **Total equity attributable to FTG's shareholders** | | **48,017** | | 50,102 |
| Non-controlling interest | | **928** | | 940 |
| **Total equity** | | **48,945** | | 51,042 |
| **Total liabilities and equity** | **$** | **81,186** | $ | 79,452 |

# Interim Condensed Consolidated Statements of Earnings

| (Unaudited)<br>(in thousands of Canadian dollars, except per share amounts) | Three months ended<br>**September 2, 2022** | Three months ended<br>September 3, 2021 | Nine months ended<br>**September 2, 2022** | Nine months ended<br>September 3, 2021 |
|---|---|---|---|---|
| Sales | **$ 23,095** | $ 19,738 | **$ 65,874** | $ 59,038 |
| Cost of sales | | | | |
| Cost of sales | **16,126** | 14,540 | **46,230** | 41,898 |
| Depreciation of plant and equipment | **962** | 1,028 | **3,058** | 3,142 |
| Depreciation of right-of-use assets | **299** | 374 | **1,012** | 1,112 |
| Total cost of sales | **17,387** | 15,942 | **50,300** | 46,152 |
| Gross margin | **5,708** | 3,796 | **15,574** | 12,886 |
| Expenses | | | | |
| Selling, general and administrative | **3,253** | 3,144 | **9,530** | 8,494 |
| Research and development costs | **1,390** | 1,225 | **4,422** | 4,112 |
| Recovery of investment tax credits | **(142)** | (159) | **(498)** | (465) |
| Depreciation of plant and equipment | **56** | 60 | **169** | 185 |
| Depreciation of right-of-use assets | **12** | 17 | **34** | 51 |
| Amortization of intangible assets | **31** | 51 | **92** | 210 |
| Interest expense (income) | **(10)** | 14 | **(13)** | 81 |
| Accretion on lease liabilities | **114** | 120 | **332** | 368 |
| Stock based compensation | **52** | (36) | **133** | 26 |
| Foreign exchange (gain) loss *(Note 7.2)* | **(298)** | (423) | **(9)** | 739 |
| Forgiveness of debt *(Note 7.4)* | **-** | (1,668) | **-** | (3,004) |
| Total expenses | **4,458** | 2,345 | **14,192** | 10,797 |
| Earnings before income taxes | **1,250** | 1,451 | **1,382** | 2,089 |
| Current income tax expense | **480** | 670 | **1,238** | 1,685 |
| Deferred income tax expense | **29** | 33 | **101** | 94 |
| Total income tax expense | **509** | 703 | **1,339** | 1,779 |
| **Net earnings** | **$ 741** | $ 748 | **$ 43** | $ 310 |
| **Attributable to:** | | | | |
| Non-controlling interest | **$ 18** | $ (26) | **$ 39** | $ (74) |
| Equity holders of FTG | **$ 723** | $ 774 | **$ 4** | $ 384 |
| **Earnings per share, attributable to the equity holders of FTG** | | | | |
| Basic *(Note 3.2)* | **$ 0.03** | $ 0.03 | **$ 0.00** | $ 0.01 |
| Diluted *(Note 3.2)* | **$ 0.03** | $ 0.03 | **$ 0.00** | $ 0.01 |

See accompanying notes.

# Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

| (Unaudited)<br>(in thousands of Canadian dollars) | Three months ended<br>**September 2, 2022** | Three months ended<br>September 3, 2021 | Nine months ended<br>**September 2, 2022** | Nine months ended<br>September 3, 2021 |
|---|---|---|---|---|
| Net earnings | **$ 741** | $ 748 | **$ 43** | $ 310 |
| Other comprehensive income (loss) to be reclassified to net earnings (loss) in subsequent periods: | | | | |
| Change in foreign currency translation adjustments | **734** | 862 | **200** | (645) |
| Net gain (loss) on valuation of derivative financial instruments designated as cash flow hedges *(Note 6.1, Note 6.2)* | **(2,937)** | (2,511) | **(1,902)** | 1,246 |
| Deferred income taxes on net gain (loss) on valuation of derivative financial instruments designated as cash flow hedges | **734** | 628 | **475** | (312) |
| | **(1,469)** | (1,021) | **(1,227)** | 289 |
| **Total comprehensive income (loss)** | **$ (728)** | $ (273) | **$ (1,184)** | $ 599 |
| **Attributable to:** | | | | |
| Equity holders of FTG | **$ (746)** | $ (247) | **$ (1,167)** | $ 756 |
| Non-controlling interest | **$ 18** | $ (26) | **$ (17)** | $ (157) |

See accompanying notes.

# Interim Condensed Consolidated Statements of Changes in Equity

| **Nine months ended September 2, 2022** | **Attributed to the equity holders of FTG** | | | | | | |
|---|---|---|---|---|---|---|---|
| (Unaudited)<br>(in thousands of Canadian dollars) | **Common shares** | **Retained earnings** | **Contributed surplus** | **Accumulated other comprehensive income** | **Total** | **Non-controlling interest** | **Total equity** |
| Balance, November 30, 2021 | **$ 21,881** | **$ 19,391** | **$ 8,352** | **$ 478** | **$ 50,102** | **$ 940** | **$ 51,042** |
| Net income | **-** | **4** | **-** | **-** | **4** | **39** | **43** |
| Stock-based compensation | **-** | **-** | **21** | **-** | **21** | **-** | **21** |
| Repurchase and cancellation of shares | **(425)** | **(509)** | **-** | **-** | **(934)** | **-** | **(934)** |
| Other comprehensive loss | **-** | **-** | **-** | **(1,176)** | **(1,176)** | **(51)** | **(1,227)** |
| Balance, September 2, 2022 | **$ 21,456** | **$ 18,886** | **$ 8,373** | **$ (698)** | **$ 48,017** | **$ 928** | **$ 48,945** |

| Nine months ended September 3, 2021 | Attributed to the equity holders of FTG | | | | | | |
|---|---|---|---|---|---|---|---|
| (Unaudited)<br>(in thousands of Canadian dollars) | Common shares | Retained earnings | Contributed surplus | Accumulated other comprehensive income (loss) | Total | Non-controlling interest | Total equity |
| Balance, November 30, 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 |

See accompanying notes.

# Interim Condensed Consolidated Statements of Cash Flows

| (Unaudited)<br>(in thousands of Canadian dollars) | Three months ended<br>**September 2, 2022** | <br>September 3, 2021 | Nine months ended<br>**September 2, 2022** | <br>September 3, 2021 |
|---|---|---|---|---|
| Net inflow (outflow) of cash related to the following: | | | | |
| **Operating activities** | | | | |
| Net earnings | **$ 741** | $ 748 | **$ 43** | $ 310 |
| Items not affecting cash and cash equivalents | | | | |
| Stock-based compensation | **52** | (36) | **133** | 26 |
| Gain on disposal of plant and equipment | **-** | (4) | **(10)** | (3) |
| Effect of exchange rates on U.S. dollar bank debt | **(282)** | 90 | **(345)** | (194) |
| Depreciation of plant and equipment | **1,018** | 1,088 | **3,227** | 3,327 |
| Depreciation of right-of-use assets | **311** | 391 | **1,046** | 1,163 |
| Amortization of intangible assets | **31** | 51 | **92** | 210 |
| Amortization, other | **7** | 9 | **23** | 35 |
| Investment tax credits/deferred income taxes | **183** | 155 | **858** | 201 |
| Accretion on lease liabilities | **114** | 120 | **332** | 368 |
| Forgiveness of debt *(Note 6.2)* | **-** | (1,668) | **-** | (3,004) |
| Net change in non-cash operating working capital *(Note 5)* | **3,450** | 708 | **2,464** | 2,578 |
| | **5,625** | 1,652 | **7,863** | 5,017 |
| **Investing activities** | | | | |
| Purchase of Aerospace Chatsworth facility *(Note 8)* | **(8,518)** | - | **(8,518)** | - |
| Additions to plant and equipment | **(683)** | (956) | **(3,241)** | (1,951) |
| Recovery of contract and other costs | **4** | (2) | **281** | 20 |
| Additions to deferred financing costs | **(1)** | (54) | **(5)** | (62) |
| | **(9,198)** | (1,012) | **(11,483)** | (1,993) |
| **Net cash flow from operating and investing activities** | **(3,573)** | 640 | **(3,620)** | 3,024 |
| **Financing activities** | | | | |
| Proceeds from ARRI loan | **1,325** | - | **1,325** | - |
| Repayments of debt | **(235)** | (227) | **(697)** | (685) |
| Lease liability payments | **(382)** | (444) | **(1,205)** | (1,343) |
| Repurchase and cancellation of shares | **(817)** | - | **(934)** | - |
| | **(109)** | (671) | **(1,511)** | (2,028) |
| **Effects of foreign exchange rate changes on cash flow** | **(1,157)** | 519 | **(1,350)** | (481) |
| **Net increase (decrease) in cash and cash equivalent** | **(4,839)** | 488 | **(6,481)** | 515 |
| Cash and cash equivalents, beginning of the period | **18,554** | 19,059 | **20,196** | 19,032 |
| **Cash and cash equivalents, end of period** | **$ 13,715** | $ 19,547 | **$ 13,715** | $ 19,547 |
| | | | | |
| **Disclosure of cash payments** | | | | |
| Payment for interest | **$ 21** | $ 31 | **$ 68** | $ 102 |
| Payments for income taxes | **$ 218** | $ 112 | **$ 694** | $ 706 |

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 2, 2022 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 11, 2022.

## 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, 2021, which are available on SEDAR at www.sedar.com and on the Corporation's website at www.ftgcorp.com.

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the audited consolidated financial statements for the year ended November 30, 2021.

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

### 2.1 Use of estimates, judgements and assumptions

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

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

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

## 3. SHARE CAPITAL

### 3.1 Authorized

Authorized share capital consists of an unlimited number of Common Shares with no par value and an unlimited number of Preferred Shares with no par value, issuable in series, with the attributes of each series to be fixed by the Board of Directors. Each Common and Preferred Share carries the right to one vote. The outstanding common shares as at September 2, 2022 were 24,033,501 (November 30, 2021 – 24,491,201).

During the three months ended September 2, 2022, the Corporation granted nil performance share units ("PSU's") (2021 – nil). During the nine months ended September 2, 2022, the Corporation granted 90,000 performance share units ("PSU's") (2021 – 98,000), 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 2, 2022, nil of the 257,958 (November 30, 2021 – nil of the 182,233) outstanding PSU's had vested or were exercisable.

### 3.2 Earnings per share

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 2, 2022** | September 3, 2021 | **September 2, 2022** | September 3, 2021 |
| *Numerator* | | | | |
| Net earnings | **$ 741** | $ 748 | **$ 43** | $ 310 |
| Net earnings (loss) attributable to non-controlling intere | **18** | (26) | **39** | (74) |
| Net earnings attributable to equity holders of FTG | **$ 723** | $ 774 | **$ 4** | $ 384 |
| Numerator for basic earnings per share - net earnings applicable to Common Shares | **$ 723** | $ 774 | **$ 4** | $ 384 |
| Numerator for diluted earnings per share - net earnings applicable to Common Shares | **$ 723** | $ 774 | **$ 4** | $ 384 |
| *Denominator* | | | | |
| Denominator for basic earnings per share - weighted average number of Common Shares outstanding | **24,294,424** | 24,491,201 | **24,425,669** | 24,491,201 |
| Effect of dilutive securities | | | | |
| Weighted average number of PSU's | **257,958** | 186,157 | **228,017** | 160,729 |
| Denominator for diluted earnings per share - weighted average number of Common Shares outstanding and assumed conversions | **24,552,382** | 24,677,358 | **24,653,686** | 24,651,930 |
| Earnings per share data attributable to the equity holders of FTG | | | | |
| Basic earnings per share | **$ 0.03** | $ 0.03 | **$ 0.00** | $ 0.01 |
| Diluted earnings per share | **$ 0.03** | $ 0.03 | **$ 0.00** | $ 0.01 |

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

The Corporation has 257,958 PSU's outstanding as at September 2, 2022 (September 3, 2021 – 182,333). The PSU's were included, as dilutive securities, in calculating diluted earnings per share for the three months and nine months ended September 2, 2022 and September 3, 2021 as the Corporation had net earnings.

### 3.3 Management of capital

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

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

The Corporation's managed capital is as follows:

| | **September 2, 2022 $** | November 30, 2021 $ |
|---|---|---|
| Total equity attributable to FTG's shareholders | **48,017** | 50,102 |
| Debt | **2,557** | 2,262 |
| Managed capital | **50,574** | 52,364 |

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.

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

### 3.4 Normal course issuer bid program

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

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

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

During the three months ended September 2, 2022, the Corporation purchased and cancelled 412,700 Common Shares at a weighted average price of $1.96 per share for a total amount of $817 including commission and other transaction costs.

During the nine months ended September 2, 2022, the Corporation purchased and cancelled 457,700 Common Shares at a weighted average price of $2.01 per share for a total amount of $934 including commission and other transaction costs.

## 4. INCOME TAX EXPENSE

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

## 5. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

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

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **September 2, 2022** | September 3, 2021 | **September 2, 2022** | September 3, 2021 |
| | **$** | $ | **$** | $ |
| Accounts receivable, contract assets | **(1,171)** | (933) | **(746)** | 3,439 |
| Inventories | **(1,416)** | 578 | **(1,844)** | 1,706 |
| Prepaid expenses | **1,765** | (181) | **1,620** | (561) |
| Contract liabilities | **3,768** | 70 | **3,984** | 22 |
| Accounts payable and accrued liabilities, and provisions | **764** | 823 | **(151)** | (2,579) |
| Income tax payable | **(260)** | 351 | **(399)** | 551 |
| | **3,450** | 708 | **2,464** | 2,578 |

## 6. FINANCIAL INSTRUMENTS

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

Level 1: Quoted (Unadjusted) Prices in Active Markets for Identical Assets or Liabilities: This level includes equity securities traded on an active market and quoted corporate and government-backed debt instruments. The Corporation did not have any Level 1 financial instruments carried at fair value as at September 2, 2022 and November 30, 2021.

Level 2: Valuation Techniques with Observable Parameters: The financial instruments held by the Corporation in this level included cash, accounts receivable, contract assets, accounts payable and accrued liabilities and provisions, contract liabilities, bank debt, foreign exchange forward contracts, gold forward contracts and interest rate swaps as at September 2, 2022 and November 30, 2021.

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 2, 2022 and November 30, 2021.

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

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

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

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

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

### 6.2 Bank debt

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

### 6.3 Derivative instruments

The fair value of the Corporation's foreign exchange forward contracts, gold forward contracts and interest rate swap is based on the current market values of similar contracts with similar remaining durations as if the contract had been entered into on September 2, 2022. The table below summarizes the unrealized gains (losses) included in the fair values:

| | **September 2, 2022 $** | November 30, 2021 $ |
|---|---|---|
| Unrealized gains (losses) of derivative instruments | | |
| Foreign exchange forward contracts | **(728)** | 1,131 |
| Gold forward contracts | **(128)** | (14) |
| Interest rate swaps | **15** | (58) |
| Net unrealized gains (losses) of derivative instruments | **(841)** | 1,059 |
| Tax effect | **210** | (265) |
| Included in accumulated other comprehensive income | **(630)** | 794 |

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

a) Foreign exchange forward contracts

Foreign exchange forward contracts are transacted with a financial institution to hedge part of a foreign currency denominated anticipated sale of products. The following table summarizes the Corporation's outstanding commitments to buy and sell foreign currency under foreign exchange forward contracts, all of which have a maturity date of no more than thirty six months as at September 2, 2022 and November 30, 2021:

| As at | Currency sold | Currency bought | Notional value | Forward value at transaction date | Forward current value | Unrealized gain (loss) |
|---|---|---|---|---|---|---|
| **September 2, 2022** | **USD** | **CAD** | **US$56,150** | **$72,975** | **$73,703** | **($728)** |
| November 30, 2021 | USD | CAD | US$53,850 | $70,368 | $69,237 | $1,131 |

As at September 2, 2022 and November 30, 2021, 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 gain (loss) and prepaid expenses and other. This net unrealized gain in other comprehensive income gain (loss) is expected to be realized through net earnings on the interim condensed consolidated statements of earnings over the next thirty six months when the sales are recorded.

b) Gold forward contracts

As at September 2, 2022, in addition to the foreign exchange forward contracts per above, the Corporation had an outstanding commitment to buy 1,050 ounces of gold (November 30, 2021 – 600 ounces of gold) under gold forward contracts at a contract price of approximately $2.44 per ounce (November 30, 2021 – $2.29) expiring quarterly from September 2022. These gold forward contracts qualify for hedge accounting. The table below summarizes the outstanding commitments under these gold forward contracts, all of which have a maturity date of less than one year:

| As at | Nature of contract | Quantity | Forward value at transaction date | Forward current value | Unrealized loss |
|---|---|---|---|---|---|
| **September 2, 2022** | **Gold forward contract** | **1,050 ounces** | **$2,556** | **$2,428** | **($128)** |
| November 30, 2021 | Gold forward contracts | 600 ounces | $1,376 | $1,362 | ($14) |

As at September 2, 2022 and November 30, 2021, the gold forward contracts are designated as cash flow hedges, all of which was recognized in other comprehensive income (loss), prepaid expenses and other and accounts payable and accrued liabilities. This unrealized gain (loss) in other comprehensive income (loss) is expected to be reclassified to the interim condensed consolidated statements of loss over the next twelve months when the cost of sales are recorded.

The terms of the foreign currency and gold forward contracts match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arises requiring recognition through earnings or loss. The amounts as at September 2, 2022 retained in other comprehensive income related to these contracts are expected to be recognized through net earnings on the interim condensed consolidated statement of loss in fiscals 2022, 2023, 2024 and 2025.

c) Interest rate swaps

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

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 2, 2022 and November 30, 2021. The table below summarizes the Corporation's interest rate swaps:

| | | | | Unrealized gain (loss) | |
|---|---|---|---|---|---|
| **Date** | **Corresponding Loan description** | **Loan interest rate** | **Interest rate swap** | **September 2, 2022** | November 30, 2021 |
| 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% | **$6** | ($7) |
| 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% | **$5** | ($27) |
| 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% | **$4** | ($24) |
| | | | | **$15** | ($58) |

## 7. FINANCIAL RISKS

### 7.1 Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Corporation's interest rate and cash flow risks are primarily related to the Corporation's revolving credit facilities, for which amounts drawn are subject to varying rates at the time of borrowing. The interest rates on amounts currently drawn on the revolving facility and on any future borrowings will vary and are unpredictable. The Corporation monitors its exposure to interest rates and has entered into derivative contracts to mitigate this risk (see *Note 6.3*).

### 7.2 Currency risk

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

During the three and nine months ended September 2, 2022, net realized gain of $12 and $421, respectively (2021 – gain of $200 and $1,082, 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.

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 2, 2022** | November 30, 2021 |
|---|---|---|---|---|
| *(In thousands of U.S. dollars)* | **Canadian and other operations $** | **U.S. operations $** | **Consolidated financial statements $** | Consolidated financial statements $ |
| Cash | **5,644** | **669** | **6,313** | 5,148 |
| Accounts receivable, contract assets | **8,250** | **3,912** | **12,162** | 11,647 |
| Accounts payable and accrued liabilities, contract liabilities and current portion of lease liabilities | **(2,048)** | **(3,956)** | **(6,004)** | (7,003) |
| Total bank borrowings | **(1,586)** | **-** | **(1,586)** | (1,820) |
| Balance sheet exposure, excluding financial derivatives | **10,260** | **625** | **10,885** | 7,972 |
| Reporting date CAD:USD exchange rate | | | **1.3121** | 1.2792 |

| | Three months ended | | | |
|---|---|---|---|---|
| | | | **September 2, 2022** | September 3, 2021 |
| *(In thousands of U.S. dollars)* | **Canadian and other operations $** | **U.S. operations $** | **Total $** | Total $ |
| Net sales | **10,653** | **7,490** | **18,143** | 14,679 |
| Operating expenses | **(6,659)** | **(8,436)** | **(15,095)** | (11,218) |
| Net exposure | **3,994** | **(946)** | **3,048** | 3,461 |

| | Nine months ended | | | |
|---|---|---|---|---|
| | | | **September 2, 2022** | September 3, 2021 |
| *(In thousands of U.S. dollars)* | **Canadian and other operations $** | **U.S. operations $** | **Total $** | Total $ |
| Net sales | **29,844** | **20,793** | **50,637** | 43,678 |
| Operating expenses | **(11,996)** | **(25,029)** | **(37,025)** | (31,723) |
| Net exposure | **17,848** | **(4,236)** | **13,612** | 11,955 |

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 2, 2022 and September 3, 2021 would change 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.

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

| | Three months ended | | | |
|---|---|---|---|---|
| | | | **September 2, 2022** | September 3, 2021 |
| 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 | **(103)** | **(6)** | **(109)** | (70) |
| Net sales and operating expenses (net exposure) | **(40)** | **9** | **(31)** | (35) |
| Net exposure | **(143)** | **3** | **(140)** | (105) |

| | Nine months ended | | | |
|---|---|---|---|---|
| | | | **September 2, 2022** | September 3, 2021 |
| 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 | **(103)** | **(6)** | **(109)** | (70) |
| Net sales and operating expenses (net exposure) | **(178)** | **42** | **(136)** | (119) |
| Net exposure | **(281)** | **36** | **(245)** | (189) |

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

| | **September 2, 2022** | | November 30, 2021 | |
|---|---|---|---|---|
| | **RMB** | **$** | RMB | $ |
| Cash | **4,631** | **880** | 901 | 181 |
| Short-term deposit with a financial institution with maturity of less than 1 year | **5,130** | **975** | 4,078 | 819 |
| Balance sheet exposure | **9,761** | **1,855** | 4,979 | 1,000 |

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 2, 2022 would decrease by approximately $19 and $19, respectively (2021 – $9 and $9, respectively). An assumed 1% weakening of the Canadian dollar versus the RMB would have had an equal but opposite effect on these amounts.

### 7.3 Credit risk

The Corporation considers that there has been a significant increase in credit risk when contractual payments are more than 120 days past due. 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 2, 2022, the Corporation's largest and second largest customer accounted for approximately 26.0% and 10.6% of sales (2021 – 24.1% and 10.4%), respectively. During the nine months ended September 2, 2022, the Corporation's largest and second largest customer accounted for approximately 26.5% and 10.2% of sales (2021 – 25.1% and 9.6%), respectively. The Corporation may also have credit risk relating to cash and foreign exchange forward contracts, which it manages by dealing with its current bank, a major financial institution that the Corporation anticipates will satisfy its obligations under the contracts.

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

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

### 7.4 Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage, as outlined in *Note 3.3*. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account sales, receipts, expenditures and matching the maturity profile of financial assets and liabilities. The Board of Directors review and approve the Corporation's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on mergers, acquisitions or other major investments or divestitures. The Corporation currently finances its operations through internally generated cash flows and the use of its credit facility.

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

The following is the summary of contractual maturities of financial liabilities and obligations, excluding future interest payments but including interest, accrued to September 2, 2022 and November 30, 2021:

| | | | | | **September 2, 2022** | November 30, 2021 |
|---|---|---|---|---|---|---|
| | **Less than 1 year $** | **1 to 2 years $** | **2 to 5 years $** | **More than 5 years $** | **Amount $** | Amount $ |
| Bank debt[1] (committed facility) | 1,001 | 469 | 164 | - | **1,634** | 2,327 |
| Bank debt interest payments | 51 | 20 | 2 | - | **73** | 135 |
| Accounts payable and accrued liabilities, and provisions | 14,099 | **-** | **-** | **-** | **14,099** | 13,803 |
| Contract liabilities | 4,292 | **-** | **-** | **-** | **4,292** | 335 |
| Lease liabilities (undiscounted contractual cash flows) | 1,338 | 1,181 | 1,989 | 120 | **4,628** | 5,960 |
| Operating leases | 83 | 61 | - | **-** | **144** | 227 |
| Government loan | - | - | 662 | 663 | **1,325** | - |
| | **20,864** | **1,731** | **2,817** | **783** | **26,195** | 20,460 |

1. Bank debt as at September 2, 2022 is offset by $48 of deferred financing charge ($65 as at November 30, 2021).

a) 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 month and nine months ended September 3, 2021, $1,668 (US$1,337) and $3,004 (US$2,369), respectively, of the PPP loans were forgiven. As at September 3, 2021, the PPP loan balance was fully forgiven.

b) Canada Emergency Wage Subsidy

During the second quarter of fiscal 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program. The Corporation applied for the CEWS and the three month and nine months ended September 3, 2021, the Corporation recorded $737 and $2,925, respectively, in government subsidies as a reduction to operating expenses in the interim condensed consolidated statement of earnings. The CEWS program ended during the fourth quarter of fiscal 2021.

c) Aviation Manufacturing Jobs Protection Program

During the third quarter of fiscal 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.

During the three month and nine months ended September 2, 2022, the Corporation recorded $Nil and $314, respectively, of AMJP funding as a reduction to cost of sales in the consolidated statement of earnings (2021 – Nil).

d) Aerospace Regional Recovery Initiative Program

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

During the three month and nine months ended September 2, 2022, the Corporation received $1,325 of ARRI funding. In accordance with IFRS, the benefit of the interest-free loan has been recognized as deferred government grant in the interim condensed consolidated statements of financial position. As at September 2, 2022, the carrying value of the ARRI loan and the deferred government grant are $970 and $355, respectively (November 30, 2021 – Nil and Nil, respectively).

## 8. SEGMENTED INFORMATION

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

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

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

| | Three months ended September 2, 2022 | | | |
|---|---|---|---|---|
| | **Circuits** | **Aerospace** | **Eliminations and Corporate** | **Total** |
| | **$** | **$** | **$** | **$** |
| Gross segment sales | **14,577** | **9,637** | **-** | **24,214** |
| Inter-segment sales | **-** | **-** | **(1,119)** | **(1,119)** |
| Net sales | **14,577** | **9,637** | **(1,119)** | **23,095** |
| Cost of sales and selling, general and administrative expenses | **11,732** | **8,043** | **(344)** | **19,431** |
| Research and development costs | **1,238** | **152** | **-** | **1,390** |
| Recovery of investment tax credits | **(116)** | **(26)** | **-** | **(142)** |
| Depreciation of plant and equipment | **823** | **150** | **45** | **1,018** |
| Depreciation of right-of-use assets | **194** | **109** | **8** | **311** |
| Amortization of intangible assets | **31** | **-** | **-** | **31** |
| Foreign exchange loss (gain) on conversion of assets and liabilities | **(160)** | **(171)** | **33** | **(298)** |
| Earnings (loss) before interest and income taxes | **835** | **1,380** | **(861)** | **1,354** |
| Interest expense on bank debt, net | **-** | **-** | **(10)** | **(10)** |
| Accretion on lease liabilities | **74** | **39** | **1** | **114** |
| Income tax expense | **-** | **-** | **509** | **509** |
| Net earnings (loss) | **761** | **1,341** | **(1,361)** | **741** |
| | | | | |
| Other operating segments disclosures: | | | | |
| Additions to plant and equipment | **608** | **8,658** | **-** | **9,266** |

| | Three months ended September 3, 2021 | | | |
|---|---|---|---|---|
| | Circuits | Aerospace | Corporate Office | Total |
| | $ | $ | $ | $ |
| Gross segment sales | 13,122 | 7,404 | - | 20,526 |
| Inter-segment sales | - | - | (788) | (788) |
| Net sales | 13,122 | 7,404 | (788) | 19,738 |
| Cost of sales and selling, general and administrative expenses | 11,446 | 7,203 | (213) | 18,436 |
| Government subsidies | (452) | (300) | (35) | (787) |
| 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 | 1,693 | 355 | (463) | 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) | 1,615 | 314 | (1,181) | 748 |

Other operating segments disclosures:

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

| | Nine months ended September 2, 2022 | | | |
|---|---|---|---|---|
| | **Circuits** | **Aerospace** | **Eliminations and Corporate** | **Total** |
| | **$** | **$** | **$** | **$** |
| Gross segment sales | **44,270** | **25,416** | **-** | **69,686** |
| Inter-segment sales | **-** | **-** | **(3,812)** | **(3,812)** |
| Net sales | **44,270** | **25,416** | **(3,812)** | **65,874** |
| Cost of sales and selling, general and administrative expenses | **35,532** | **22,273** | **(1,598)** | **56,207** |
| Government subsidies | **(314)** | **-** | **-** | **(314)** |
| Research and development costs | **3,962** | **460** | **-** | **4,422** |
| Recovery of investment tax credits | **(394)** | **(104)** | **-** | **(498)** |
| Depreciation of plant and equipment | **2,588** | **501** | **138** | **3,227** |
| Depreciation of right-of-use assets | **580** | **446** | **20** | **1,046** |
| Amortization of intangible assets | **92** | **-** | **-** | **92** |
| Foreign exchange loss on conversion of assets and liabilities | **189** | **(179)** | **(19)** | **(9)** |
| Earnings (loss) before interest and income taxes | **2,035** | **2,019** | **(2,353)** | **1,701** |
| Interest expense on bank debt, net | **-** | **-** | **(13)** | **(13)** |
| Accretion on lease liabilities | **220** | **110** | **2** | **332** |
| Income tax expense | **-** | **-** | **1,339** | **1,339** |
| Net earnings (loss) | **1,815** | **1,909** | **(3,681)** | **43** |
| | | | | |
| Other operating segments disclosures: | | | | |
| Additions to plant and equipment | **2,925** | **8,899** | **-** | **11,824** |

| | Nine months ended September 4, 2021 | | | |
|---|---|---|---|---|
| | Circuits | Aerospace | Corporate Office | Total |
| | $ | $ | $ | $ |
| Gross segment sales | 38,142 | 23,199 | - | 61,341 |
| Inter-segment sales | - | - | (2,303) | (2,303) |
| Net sales | 38,142 | 23,199 | (2,303) | 59,038 |
| Cost of sales and selling, general and administrative expenses | 31,781 | 22,274 | (497) | 53,558 |
| Government subsidies | (1,805) | (1,196) | (138) | (3,139) |
| 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 | 3,556 | 1,084 | (2,102) | 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) | 3,322 | 952 | (3,964) | 310 |

Other operating segments disclosures:

**(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 2, 2022** | | | As at November 30, 2021 | | |
|---|---|---|---|---|---|---|
| | **Circuits** | **Aerospace** | **Total** | Circuits | Aerospace | Total |
| | **$** | **$** | **$** | $ | $ | $ |
| Total segment assets | **47,922** | **33,264** | **81,186** | 59,364 | 20,088 | 79,452 |
| Intangible and other assets | **236** | **201** | **437** | 596 | 209 | 805 |
| Total segment liabilities | **21,169** | **11,072** | **31,241** | 21,591 | 6,819 | 28,410 |

In July 2022, the Corporation acquired the facility occupied by the Aerospace Chatsworth operation for cash consideration of $8,518 (US$6,582). This facility was previously leased.

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

| | **Three months ended** | | | | **Nine months ended** | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 2, 2022** | **%** | September 3, 2021 | % | **September 2, 2022** | **%** | September 3, 2021 | % |
| Canada | **$ 2,154** | **9.3** | $ 1,389 | 7.0 | **$ 6,187** | **9.4** | $ 5,695 | 9.6 |
| United States | **17,618** | **76.3** | 14,602 | 74.0 | **49,001** | **74.4** | 44,391 | 75.2 |
| Asia | **1,849** | **8.0** | 1,853 | 9.4 | **5,545** | **8.4** | 4,933 | 8.4 |
| Europe | **1,201** | **5.2** | 1,816 | 9.2 | **4,247** | **6.4** | 3,824 | 6.5 |
| Other | **273** | **1.2** | 78 | 0.4 | **894** | **1.4** | 195 | 0.3 |
| Total | **$ 23,095** | **100.0** | $ 19,738 | 100.0 | **$ 65,874** | **100.0** | $ 59,038 | 100.0 |

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

| | **As at September 2, 2022** | | | |
|---|---|---|---|---|
| | **Canada** | **United States** | **Asia** | **Total** |
| | **$** | **$** | **$** | **$** |
| Intangible and other assets (by location of division) | **197** | **236** | **4** | **437** |
| Plant and equipment (by location of division) | **4,979** | **13,587** | **1,078** | **19,644** |
| Right-of-use assets (by location of division) | **5,805** | **3,256** | **479** | **9,540** |

| | As at November 30, 2021 | | | |
|---|---|---|---|---|
| | Canada | United States | Asia | Total |
| | $ | $ | $ | $ |
| Intangible and other assets (by location of division) | 205 | 322 | 278 | 805 |
| Plant and equipment (by location of division) | 4,911 | 4,797 | 1,370 | 11,078 |
| Right-of-use assets (by location of division) | 6,209 | 3,712 | 177 | 10,098 |

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

| The Corporation's primary sources of revenue are as follows: | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **September 2, 2022** | September 3, 2021 | **September 2, 2022** | September 3, 2021 |
| | **$** | $ | **$** | $ |
| Sale of goods | **22,948** | 19,384 | **65,243** | 57,841 |
| Services | **147** | 354 | **631** | 1,197 |
| | **23,095** | 19,738 | **65,874** | 59,038 |

| Timing of revenue recognition based on transfer of control is as follows: | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **September 2, 2022** | September 3, 2021 | **September 2, 2022** | September 3, 2021 |
| | **$** | $ | **$** | $ |
| At a point of time | **22,948** | 19,384 | **65,243** | 57,841 |
| Over time | **147** | 354 | **631** | 1,197 |
| | **23,095** | 19,738 | **65,874** | 59,038 |

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

| **For the three months ended September 2, 2022** | **Location** | **Circuits Segment** | **Aerospace Segment** | **Total** | **% of FTG total net sales** |
|---|---|---|---|---|---|
| | | **$** | **$** | **$** | |
| Customer A | United States & Europe | **4,166** | **1,838** | **6,004** | **26.0** |
| Customer C | Canada, United States & Asia | **2,375** | **84** | **2,459** | **10.6** |

| For the three months ended September 3, 2021 | Location | Circuits Segment | Aerospace Segment | Total | % of FTG total net sales |
|---|---|---|---|---|---|
| | | $ | $ | $ | |
| Customer A | United States & Europe | 3,553 | 1,207 | 4,760 | 24.1 |
| Customer B | United States & Asia | 742 | 1,308 | 2,050 | 10.4 |

| **For the nine months ended September 2, 2022** | **Location** | **Circuits Segment** | **Aerospace Segment** | **Total** | **% of FTG total net sales** |
|---|---|---|---|---|---|
| | | **$** | **$** | **$** | |
| Customer A | United States & Europe | **11,863** | **5,564** | **17,427** | **26.5** |
| Customer C | Canada, United States & Asia | **6,317** | **397** | **6,714** | **10.2** |

| For the nine months ended September 3, 2021 | Location | Circuits Segment | Aerospace Segment | Total | % of FTG total net sales |
|---|---|---|---|---|---|
| | | $ | $ | $ | |
| Customer A | United States & Europe | 9,843 | 4,984 | 14,827 | 25.1 |
| Customer B | United States & Asia | 2,461 | 3,199 | 5,660 | 9.6 |

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