



**FIRAN TECHNOLOGY GROUP
CORPORATION**

**Third Quarter Report
For the period ended
September 1, 2023**

October 10, 2023

Management's Discussion and Analysis

October 10, 2023

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

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

This Management's Discussion and Analysis ("MD&A") for the three months ended September 1, 2023 (third quarter of fiscal 2023 or Q3 2023) is as of October 10, 2023 and provides information on the operating activities, performance and financial position of Firan Technology Group Corporation ("FTG" or the "Corporation") and should be read in conjunction with the interim condensed consolidated financial statements of the Corporation for the third quarter of fiscal 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The Corporation assumes that the reader of this MD&A has access to, and has read the audited consolidated financial statements prepared in accordance with IFRS and MD&A of the Corporation for the year ended November 30, 2022 (Fiscal 2022) and, accordingly, the purpose of this document is to provide a third quarter update to the information contained in the fiscal 2022 MD&A. Additional information is contained in the Corporation's filings with Canadian securities regulators, including its Annual Information Form dated February 8, 2023, found on SEDAR at www.sedar.com and on the Corporation's website at www.ftgcorp.com.

CORE BUSINESS AND STRATEGY

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

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

FTG Circuits is a leading manufacturer of high technology/high reliability printed circuit boards within the Global marketplace. Currently, FTG Circuits has manufacturing operations in the following locations:

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

FTG Circuits' customers are technological and market leaders in the aviation, defence and other high technology industries.

FTG Aerospace designs and manufactures illuminated cockpit panels, keyboards, bezels, sub-assemblies and assemblies for original equipment manufacturers ("OEMs") of avionics products as well as for airframe manufacturers. FTG Aerospace has manufacturing operations in the following locations:

- Toronto, Ontario, Canada
- Chatsworth, California, USA
- Tianjin, China

Management's Discussion and Analysis

These products are interactive devices that display information and contain buttons and switches that can be used to input signals into an avionics box or aircraft.

With these facilities in place in North America and China, FTG has completed some key strategic goals including expanding its presence in the large U.S. aerospace and defence market, penetrating the rapidly growing Asian aerospace market, and becoming a more strategic supplier to many of its customers. FTG has become a truly global company with revenues coming from all geographic regions of the world and its current strategy is to increase the utilization and operational leverage of these facilities and realize 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 these markets is based on a belief that it can provide a unique solution to its customers and attain a sustainable competitive advantage.

Going forward, the Corporation's focus and initiatives will continue to revolve around controlling the Corporation's infrastructure, material and labour costs while increasing the utilization of its facilities 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.

Management's Discussion and Analysis

RESULTS OF OPERATIONS FOR THE THIRD QUARTER and YEAR-TO-DATE FISCAL 2023

	Third Quarter		Year-to-Date	
<i>(in thousands of dollars except per share amounts)</i>	2023	2022	2023	2022
	\$	\$	\$	\$
Sales	36,611	23,095	95,209	65,874
Gross margin	8,776	5,708	28,546	15,574
Net earnings attributable to equity holders of FTG	1,320	723	7,795	4
Weighted average number of common shares (in thousands)	23,911	24,294	23,913	24,426
Earnings per share:				
Basic	0.06	0.03	0.33	0.00
Diluted	0.05	0.03	0.32	0.00
EBITDA ¹	4,894	2,755	16,512	6,183
Total assets	121,827	77,397	121,827	77,397
Net cash position ²	(5,680)	16,805	(5,680)	16,805
Free cash flow ³	755	(5,112)	8,631	(6,175)

¹ Earnings before interest, tax, depreciation and amortization ("EBITDA") is a non-IFRS measure. Please refer to the Non-IFRS Financial Measures section.

² Net cash is defined as cash and cash equivalents less bank debt and government loan.

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

Sales

	Third Quarter				Year-to-Date			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Circuits	27,230	14,577	12,653	86.8	64,042	44,270	19,772	44.7
Aerospace	10,014	9,637	377	3.9	33,785	25,416	8,369	32.9
Inter-segment sales	(633)	(1,119)	486	43.4	(2,618)	(3,812)	1,194	31.3
Net sales	36,611	23,095	13,516	58.5	95,209	65,874	29,335	44.5

Sales for Q3 2023 increased by \$13.5 million or 58.5% from Q3 2022 due to organic growth, acquisitions and favourable foreign exchange rates.

- Sales for the Circuits segment increased by \$12.7 million or 86.8% as compared to Q3 22, with \$9.2 million of the sales increase attributable to the newly acquired Circuits sites in Minnetonka and Haverhill, and organic growth of \$2.9 million. Favourable foreign exchange rates added \$0.6 million to Circuits sales.
- Sales for the Aerospace segment increased by \$0.4 million or 3.9% as compared to Q3 22, which included organic growth of \$0.2 million and a favourable foreign exchange impact of \$0.2 million. The supply of electronic components continues to be a constraint on making product deliveries to customers, as well as the cycle time in qualifying new products.

A large majority of FTG's customer contracts are denominated in U.S. dollars and recent depreciation of the Canadian dollar relative to the U.S. dollar had a positive impact on reported sales. The average FX rate

Management's Discussion and Analysis

experienced in Q3 2023 was 4.2 cents or 3.3% more favourable than in Q3 2022 and the estimated positive impact on sales is \$0.8 million, including a \$0.1 million favourable adjustment to sales from FTG's currency hedging program.

On a year-to-date basis, the revenue increase in 2023 of \$29.3 million is attributable to a \$12.6 million contribution from the newly acquired sites, \$7.2 million from increased sales of Simulator products, \$5.9 million from other organic growth and a \$3.6 million increase attributable to favourable foreign exchange rates.

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

Third Quarter						
	2023		2022		Change	
	\$	%	\$	%	\$	%
Canada	2,203	6.0	2,154	9.3	49	2.3
United States	28,893	78.9	17,618	76.3	11,275	64.0
Asia	3,603	9.8	1,849	8.0	1,754	94.9
Europe	1,460	4.0	1,201	5.2	259	21.6
Other	452	1.3	273	1.2	179	65.6
Total	36,611	100	23,095	100	13,516	58.5

Year-to-Date						
	2023		2022		Change	
	\$	%	\$	%	\$	%
Canada	6,693	7.0	6,187	9.4	506	8.2
United States	73,101	76.8	49,001	74.4	24,100	49.2
Asia	9,178	9.6	5,545	8.4	3,633	65.5
Europe	5,076	5.3	4,247	6.4	829	19.5
Other	1,161	1.3	894	1.4	267	29.9
Total	95,209	100	65,874	100	29,335	44.5

In Q3 2023, sales in all geographic regions were increased from Q3 2022. The \$13.5 million increase in sales over the prior year quarter was driven by the two newly acquired sites, which primarily deal with US based customers, and by strong demand for commercial aerospace parts in Asia.

In the year-to-date period for 2023, sales in all geographic regions are increased over prior years levels, for the same reasons as the most recent quarter.

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

	Third Quarter		Year-to-Date	
	2023	2022	2023	2022
	%	%	%	%
Largest customer	16.2	26.0	18.3	26.5
Second largest customer	12.6	10.6	10.9	10.2
Third to fifth largest customers	26.7	21.8	23.1	20.5
Largest five customers	55.5	58.4	52.3	57.2

As a result of sales growth by acquisition to an expanded customer list, the percentage of sales to FTG's largest customer and top 5 customers is reduced for both Q3 2023 and the corresponding year-to date period.

Management's Discussion and Analysis

Gross Margin

	Third Quarter				Year-to-Date			
	2023 \$	2022 \$	Change \$	Change %	2023 \$	2022 \$	Change \$	Change %
Gross profit	8,776	5,708	3,068	53.7	28,546	15,574	12,972	83.3
% of net sales	24.0%	24.7%			30.0%	23.6%		
Government assistance included in gross profit	-	-	-	-	3,170	314	2,856	909.6
Gross profit excluding government assistance	8,776	5,708	3,068	53.7	25,376	15,260	10,116	66.3
% of net sales	24.0%	24.7%			26.7%	23.2%		

The increase in gross margin dollars for the third quarter of 2023 and on a year-to-date basis is primarily the result of increased higher sales volumes from the newly acquired Circuits sites, operational improvements including favourable pricing actions, and favourable foreign exchange rates. On a year-to-date basis, gross profit excluding government assistance increased by \$10,116 on incremental sales of \$29,335.

Selling, General and Administrative Expenses

	Third Quarter				Year-to-Date			
	2023 \$	2022 \$	Change \$	Change %	2023 \$	2022 \$	Change \$	Change %
Selling, general and administrative expenses	4,052	3,253	799	24.6	12,251	9,530	2,721	28.6
% of net sales	11.1%	14.1%			12.9%	14.5%		

The increase in selling, general and administrative expenses of \$799 or 24.6% during the third quarter of 2023 as compared to the prior year includes \$635 from the newly acquired sites.

The increase in selling, general and administrative expenses on a year-to-date basis of \$2,721 includes expenses from the acquired businesses of \$867, professional fees and expenses related to acquisitions of \$536 and increased performance compensation expense.

The SG&A percentage of sales is lower for both Q3 2023 and the corresponding year-to-date period as the growth of expenses is below the combined organic sales growth and growth by acquisition.

Management's Discussion and Analysis

Research and Development

	Third Quarter				Year-to-Date			
	2023 \$	2022 \$	Change \$	Change %	2023 \$	2022 \$	Change \$	Change %
Research and development costs	1,618	1,390	228	16.4	4,588	4,422	166	3.8
Recovery of investment tax credits	(185)	(142)	(43)	30.3	(529)	(498)	(31)	6.2

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 2023, ITCs were earned from qualifying research and development expenditures in Canada.

The Corporation has, as at September 1, 2023, \$Nil (November 30, 2022 – \$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			
	2023 \$	2022 \$	Change \$	Change %	2023 \$	2022 \$	Change \$	Change %
Depreciation of plant and equipment	1,186	1,018	168	16.5	3,245	3,227	18	0.6
Depreciation of right-of-use assets	716	311	405	130.2	1,544	1,046	498	47.6
Amortization of intangible assets	132	31	101	325.8	231	92	139	151.1
Amortization, other	(36)	7	(43)	(614.3)	(82)	23	(105)	(456.5)
Total	1,998	1,367	631	46.2	4,938	4,388	550	12.5

The increase in depreciation of plant and equipment during the third quarter of fiscal 2023 is mainly due to the impact of acquired businesses, which incurred \$154 of depreciation of plant and equipment during the third quarter of fiscal 2023 and \$204 on a year-to-date basis. For the year-to-date period, timing of new capital expenditures is also a factor.

The increase in depreciation of right-of-use assets is primarily due to the newly acquired Circuits sites in Minnetonka and Haverhill as well as the sale leaseback of the Aerospace Chatsworth facility.

The increase in amortization of intangible assets is due to a higher level of intangible assets carried on the balance sheet in the third quarter of 2023, as a result of the newly acquired Circuits sites in Minnetonka and Haverhill.

Variances in other amortization during the third quarter of fiscal 2023 and on a year-to-date basis are mainly due to the amortization of deferred government grants.

Management's Discussion and Analysis

Interest Expense (Income)

	Third Quarter				Year-to-Date			
	2023 \$	2022 \$	Change \$	Change %	2023 \$	2022 \$	Change \$	Change %
Interest expenses (income)								
on bank debt, net	98	(10)	108	(1,080)	(95)	(13)	(82)	631
Accretion on lease liabilities	380	114	266	233	731	332	399	120
Notional interest expense on government loans	64	-	64	100	135	-	135	100
Interest and accretion expense	542	104	438	421	771	319	452	142

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

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

Foreign Exchange

The Canadian dollar spot rate, as compared to the U.S. dollar has (appreciated) depreciated as follows during the third quarter of 2023 and during the year-to-date period of 2023:

Third Quarter	2023				2022			
	September 1, 2023 \$	June 2, 2023 \$	Change		September 2, 2022 \$	June 3, 2022 \$	Change	
			\$	%			\$	%
CAD/USD	1.3580	1.3435	0.01	1.1	1.3121	1.2579	0.05	4.3

Year-to-Date	2023				2022			
	September 1, 2023 \$	November 30, 2022 \$	Change		September 2, 2022 \$	November 30, 2021 \$	Change	
			\$	%			\$	%
CAD/USD	1.3580	1.3508	0.01	0.5	1.3121	1.2792	0.03	2.6

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

	Third Quarter			Year-to-Date		
	2023 \$	2022 \$	Change \$	2023 \$	2022 \$	Change \$
Foreign exchange (gain) loss	121	(298)	419	78	(9)	87

The foreign exchange loss for the third quarter of fiscal 2023 was mainly on the re-valuation of the U.S. dollar assets and liabilities on the respective balance sheets. These foreign exchange fluctuations are due to the variance in U.S. dollar balances held by the Corporation, the changes in average and quarter-end Canadian dollar versus U.S. dollar exchange rates and the foreign exchange hedging contracts that the Corporation has in place.

The table below shows the effect of the net realized gain (loss) on foreign exchange forward contracts on net sales and gross margin:

Management's Discussion and Analysis

	Third Quarter		Year-to-Date	
	2023	2022	2023	2022
	\$	\$	\$	\$
Sales before adjustment for net realized gain (loss) on f/x forward contracts designed as cash flow hedges	36,528	23,083	95,077	65,453
Add (deduct): adjustment for net realized gain (loss) on hedged f/x forward contracts designed as cash flow hedges	83	12	132	421
Net sales	36,611	23,095	95,209	65,874
Costs of sales	26,001	16,126	62,075	46,230
Depreciation of plant and equipment and right-of-use assets	1,834	1,261	4,588	4,070
Total cost of sales	27,835	17,387	66,663	50,300
Gross margin	8,776	5,708	28,546	15,574
Gross margin %	24.0%	24.7%	30.0%	23.6%
Gross margin before f/x gain (loss)	8,693	5,696	28,414	15,153
Gross margin % before f/x gain (loss)	23.8%	24.7%	29.9%	23.2%

Income Tax Expense

	Third Quarter				Year-to-Date			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Current income tax expense	907	480	427	89.0	2,587	1,238	1,349	109.0
Deferred income tax expense	37	29	8	27.6	106	101	5	5.0

Income tax expenses recorded during the third quarter of 2023 and during the year-to-date period of 2023 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 in which the Corporation operates. The Corporation's consolidated effective tax rate differs from the statutory rates mainly as a result of tax benefits not recognized.

RECONCILIATION OF NET INCOME TO EBITDA

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

	Third Quarter		Year-to-Date	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net earnings to equity holders of FTG	1,320	723	7,795	4
Add back:				
Interest and accretion expense	542	104	771	319
Income tax expense	944	509	2,693	1,339
Depreciation and amortization	1,998	1,367	4,938	4,388
Stock based compensation	90	52	315	133
EBITDA	4,894	2,755	16,512	6,183
% of net sales	13.4%	11.9%	17.3%	9.4%

Management's Discussion and Analysis

OVERVIEW OF HISTORICAL QUARTERLY RESULTS

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

	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
Circuit segment sales	\$14,324	\$14,194	\$15,499	\$14,577	\$15,578	\$15,612	\$21,200	\$27,230
Aerospace segment sales	7,007	7,750	8,030	9,637	9,141	10,005	13,766	10,014
Inter-segment sales	(1,004)	(1,483)	(1,211)	(1,119)	(969)	(978)	(1,007)	(633)
Total net sales	20,327	20,461	22,318	23,095	23,750	24,639	33,959	36,611
Earnings (Loss) before income taxes	489	(399)	531	1,250	960	4,864	3,438	2,338
Net earnings (loss) attributable to equity holders of FTG	(128)	(733)	14	723	694	4,072	2,403	1,320
Earnings (Loss) per share:								
Basic	\$0.00	(\$0.03)	\$0.00	\$0.03	\$0.03	\$0.17	\$0.10	\$0.06
Diluted	\$0.00	(\$0.03)	\$0.00	\$0.03	\$0.03	\$0.17	\$0.10	\$0.05
Quarterly average CDN\$ US\$ exchange rates	\$1.2561	\$1.2709	\$1.2709	\$1.2907	\$1.3494	\$1.3493	\$1.3562	\$1.3333

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 1, 2023 \$	November 30, 2022 \$
Total liquidity (cash, accounts receivable, contract assets and inventory)	67,456	52,449
Unused credit facilities ¹	22,340	24,841
Working capital	35,232	30,513

¹ U.S. \$16.5 million (2022 – U.S. \$18.8 million)

	Q3 2023 \$	Q4 2022 \$
Accounts receivables days outstanding	68	64
Inventory turns	3.1	3.7
Accounts payable days outstanding	79	73

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

The Corporation was in compliance with all of its financial loan covenants as at September 1, 2023.

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

Management's Discussion and Analysis

The following table outlines the contractual obligations of the Corporation as at September 1, 2023.

	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	More than 5 years \$	Amount \$
Bank debt (committed facility)	1,023	797	2,925	-	4,745
Bank debt interest payments	293	230	500	-	1,023
Accounts payable and accrued liabilities, and provisions	24,992	-	-	-	24,992
Contract liabilities	2,971	-	-	-	2,971
Income tax payable	756	-	-	-	756
Lease liabilities (undiscounted contractual cash flows)	3,259	3,118	7,518	925	14,820
Contingent consideration	-	2,219	-	-	2,219
Operating leases	63	-	-	-	63
Government loan	-	441	3,037	1,453	4,931
	33,357	6,805	13,980	2,378	56,520

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation follows hedge accounting on its derivative financial instruments and as a result, has designated certain derivative financial instruments as cash flow hedges. The fair value of the Corporation's foreign exchange forward contracts, gold forward contracts and interest rate swap is based on the current market values of similar contracts with similar remaining durations as if the contract had been entered into on September 1, 2023. The table below summarizes the unrealized gains (losses) included in the fair values:

	September 1, 2023 \$	November 30, 2022 \$
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	(3,171)	(1,720)
Gold forward contracts	112	(70)
Interest rate swaps	12	25
Net unrealized gains (losses) of derivative instruments	(3,047)	(1,765)
Tax effect	762	441
Included in accumulated other comprehensive income	(2,285)	(1,324)

The Corporation entered into interest rate swaps to hedge certain of its term loans. The interest rate swaps have been designated as cash flow hedges and measured at fair value. The unrealized gain (loss) is included in other comprehensive loss and accounts payable and accrued liabilities as at September 1, 2023 and November 30, 2022. The table below summarizes the Corporation's interest rate swaps:

Management's Discussion and Analysis

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

CAPITAL EXPENDITURES (PLANT AND EQUIPMENT)

	Third Quarter		Year-to-Date	
	2023	2022	2023	2022
	\$	\$	\$	\$
Additions to plant and equipment	1,755	683	4,218	3,241

Net capital expenditures during fiscal 2023 included new equipment investments 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.

CASH FLOW

	Third Quarter			Year-to-Date		
	2023	2022	Change	2023	2022	Change
	\$	\$	\$	\$	\$	\$
Operating activities	3,363	5,461	(2,098)	7,284	6,949	335
Investing activities	(1,706)	(9,034)	7,328	(22,795)	(10,569)	(12,226)
Financing activities	(454)	(109)	(345)	3,968	(1,511)	5,479

Cash flow from operations in the third quarter of 2023 decreased from the same period last year with higher net earnings offset by increased non-cash operating working capital. The increase in non-cash working capital during Q3 2023 is the result of increases in accounts receivable and inventory, which were partially offset by increases in contract liabilities and accounts payable and accrued liabilities.

On a year-to-date basis, cash flow from operating activities is increased by \$0.3 million over the prior year period. The increase in net earnings of \$7.9 million, which includes \$3.8M of ERC funds, is partially offset by increased non-cash working capital of \$6.7 million. Increased non-cash working capital is driven by increased accounts receivable resulting from strong third quarter 2023 revenues, and by increased raw material and work-in-process inventories in support of near-term customer deliveries. Some customer deliveries are running late to contract, which has resulted in higher than normal inventory levels.

Management's Discussion and Analysis

Investing activities in the third quarter of fiscal 2023 included \$1,755 for capital expenditures (Q3 2022 – \$683). Investing activities on a year-to-date basis in fiscal 2023 include \$26,254 of cash used for business acquisitions (2022 year-to-date – \$nil) as well as \$4,218 capital expenditures (2022 – \$3,241).

Cash from financing activities in the third quarter of fiscal 2023 includes \$716 of proceeds from government loans and \$23 used to buy back FTG stock. On a year-to-date basis, cash from financing activities includes proceeds of \$4,073 from bank debt and \$3,005 from government loans.

The following table reconciles net cash flow from operating and investing activities to Free Cash Flow ("FCF"):

	Third Quarter			Year-to-Date		
	2023	2022	Change	2023	2022	Change
	\$	\$	\$	\$	\$	\$
Net cash flow from operating and investing activities	1,657	(3,573)	5,230	(15,511)	(3,620)	(11,891)
Add back: Acquisitions of businesses	-	-	-	26,254	-	26,254
Less: Lease liability payments	(904)	(382)	(522)	(1,925)	(1,205)	(720)
Add: Effects of foreign exchange rate changes on cash flow	2	(1,157)	1,159	(187)	(1,350)	1,163
FCF	755	(5,112)	5,867	8,631	(6,175)	14,806

FCF in Q3 2023 increased by \$5.9 million from Q3 2022, however Q2 2022 included the purchase of Aerospace Chatsworth facility for \$8.5 million. Excluding this investment, FCF is \$2.7 million lower than Q3 2022, which is the result of increased net earnings offset by increased levels of non-cash working capital and increased capital expenditures in support of growth of the business.

On a year-to-date basis, free cash flow in 2023 includes proceeds of the sale-leaseback of the Aerospace Chatsworth facility, whereas the prior year includes the purchase of this facility. Excluding these items, FCF is approximately \$2.1 million lower in 2023 which is the result of increased net earnings offset by increased levels of non-cash working capital and increased capital expenditures in support of growth of the business.

RELATED PARTY TRANSACTIONS

There were no related party transactions on a year-to-date basis in fiscal 2023 and 2022.

FINANCIAL RISK MANAGEMENT

Disclosures regarding the nature and extent of the Corporation's exposure to risks arising from financial instruments, including credit risk, liquidity risk, foreign currency risk and interest rate risk and how the Corporation manages those risks can be found under the heading "Financial Instruments" in *Note 6* of the consolidated financial statements as at September 1, 2023 and are designed to meet the requirements set out by the International Accounting Standards Board (IASB) in IFRS 7 *Financial Instruments: Disclosures*.

OUTSTANDING SHARES

The authorized capital of the Corporation consists of an unlimited number of common shares ("Common Shares") and an unlimited number of preference shares issuable in series. The outstanding common shares at the year ended September 1, 2023 were 23,904,802 (November 30, 2022 – 23,926,901).

Management's Discussion and Analysis

During the third quarter of 2023 the Corporation granted Nil performance share units ("PSU's") (2022 – Nil). On a year-to-date basis, the Corporation granted 90,000 performance share units ("PSU's") (2022 – 90,000). 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 1, 2023, nil of the 258,750 (November 30, 2022 – nil of the 253,958) 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 permitted the purchase of up to 1,224,560 of the Corporation's Common Shares, pursuant to TSX rules, by way of normal course purchases effected through the facilities of the TSX and/or alternative Canadian trading systems permitted by TSX.

The NCIB commenced on April 22, 2022 and concluded on April 21, 2023. Purchases were made by the Corporation in accordance with the requirements of the TSX and the price paid for any repurchased Common Shares was the market price of such Common Shares at the time of acquisition. For purposes of the TSX rules, a maximum of 6,546 Common Shares could be purchased by the Corporation on any one day under the bid, except where purchases were made in accordance with the "block purchase exception" of the TSX rules.

Following the completion of the NCIB, in June 2023, the Toronto Stock Exchange (the "TSX") accepted the Corporation's notice of intention to establish a normal course issuer bid program (the "NCIB-2"). The NCIB-2 permits the purchase of up to 1,195,550 of the Corporation's Common Shares, pursuant to TSX rules, by way of normal course purchases effected through the facilities of the TSX and/or alternative Canadian trading systems permitted by TSX.

The NCIB-2 commenced on June 5, 2023 and will conclude on the earlier of the date on which purchases under the bid have been completed and June 4, 2024. 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 5,736 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 1, 2023, the Corporation purchased and cancelled 6,200 Common Shares at a weighted average price of \$3.43 per share for a total amount of \$23 including commission and other transaction costs.

During the nine months ended September 1, 2023, the Corporation purchased and cancelled 22,100 Common Shares at a weighted average price of \$2.29 per share for a total amount of \$53 including commission and other transaction costs.

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, 2023 which is available on SEDAR at www.sedar.com.

The contract with the unionized production employees at the Aerospace Toronto site expired in August 2023. Negotiations between the Corporation and the union regarding wages and benefits are on-going. If

Management's Discussion and Analysis

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 from that facility.

ETHICAL BUSINESS CONDUCT

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

OUTLOOK

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

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

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

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

Management's Discussion and Analysis

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Corporation.

Internal Control Over Financial Reporting

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

During the three months ended September 1, 2023, there have been no changes in the Corporation's internal controls over financial reporting that may have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond FTG's control, affect the operations, performance and results of FTG and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: impact or unanticipated impact of general economic, political and market factors in North America and internationally; intense business competition and uncertain demand for products; technological change; customer concentration; foreign currency exchange rates; dependence on key personnel; ability to retain and develop sufficient labour and management resources; ability to complete strategic transactions, integrate acquisitions and implement other growth strategies; litigation and product liability proceedings; increased demand from competitors with lower production costs; reliance on suppliers; credit risk of customers; compliance with environmental laws; possibility of damage to manufacturing facilities as a result of unforeseeable events, such as natural disasters or fires; fluctuations

Management's Discussion and Analysis

in operating results; possibility of intellectual property infringement claims; demand for the products of FTG's customers; ability to obtain continued debt and equity financing on acceptable terms; ability of a significant shareholder to influence matters requiring shareholder approval; historic volatility in the market price of the Corporation's common shares and risk of price decreases; production warranty and casualty claim losses; conducting business in foreign jurisdictions; income and other taxes; and government regulation and legislation and FTG's ability to successfully anticipate and manage the foregoing risks.

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

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

NON-IFRS FINANCIAL MEASURES

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP").

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

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

The Corporation calculates gross margin as net sales less cost of sales and expenses. Not included in the calculation of gross margin are selling, administrative and general expenses, research and development costs and recoveries, foreign exchange, gains or losses on the sale of assets, interest and income taxes.

These non-IFRS financial measures are not generally accepted measures and should not be considered as alternatives to IFRS measures. As there is no standardized method of calculating these measures, these non-IFRS financial measures may not be directly comparable with similarly titled measures used by other companies. Management believes these non-IFRS financial measures are important to many of the Corporation's shareholders, creditors and other stakeholders. The risks, uncertainties and other factors that could influence actual results are described in this MD&A based on information available as of October 10, 2023 and the Corporation's Annual Information Form (including documents incorporated by reference) dated February 9, 2023 which is available on SEDAR at www.sedar.com.

FIRAN TECHNOLOGY GROUP CORPORATION

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

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

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

Interim Condensed Consolidated Statements of Financial Position

(Unaudited) (in thousands of Canadian dollars)	September 1, 2023	November 30, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,936	\$ 15,666
Accounts receivable	27,269	16,615
Contract assets	136	504
Inventories	36,115	19,664
Prepaid expenses and other	1,454	1,201
	68,910	53,650
Non-current assets		
Non-current assets held for sale	-	8,471
Plant and equipment, net	14,897	10,718
Non-current prepaid assets	959	297
Right-of-use assets	24,313	9,463
Intangible assets	5,746	215
Deferred tax assets	823	748
Other assets, net	167	184
Goodwill (Note 4)	6,012	-
Total assets	\$ 121,827	\$ 83,746
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 24,201	\$ 14,906
Provisions	791	823
Contract liabilities	2,971	4,423
Current portion of bank debt	989	866
Current portion of government loan (Note 8.4)	145	47
Current portion of lease liabilities	3,825	1,360
Income tax payable	756	712
	33,678	23,137
Non-current liabilities		
Bank debt (Note 8.4)	3,656	532
Government loans (Note 8.4)	4,826	1,883
Lease liabilities	21,629	8,899
Contingent consideration (Note 4.1)	2,219	-
Total liabilities	66,008	34,451
Equity		
Retained earnings	\$ 27,283	\$ 19,521
Accumulated other comprehensive income (loss)	(1,967)	(867)
	25,316	18,654
Share capital		
Common Shares (Note 3.1)	21,337	21,357
Contributed surplus	8,453	8,319
Total equity attributable to FTG's shareholders	55,106	48,330
Non-controlling interest	713	965
Total equity	55,819	49,295
Total liabilities and equity	\$ 121,827	\$ 83,746

Interim Condensed Consolidated Statements of Earnings

(Unaudited) (in thousands of Canadian dollars, except per share amounts)	Three months ended		Nine months ended	
	September 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
Sales	\$ 36,611	\$ 23,095	\$ 95,209	\$ 65,874
Cost of sales				
Cost of sales	26,001	16,126	62,075	46,230
Depreciation of plant and equipment	1,134	962	3,092	3,058
Depreciation of right-of-use assets	700	299	1,496	1,012
Total cost of sales	27,835	17,387	66,663	50,300
Gross margin	8,776	5,708	28,546	15,574
Expenses				
Selling, general and administrative	4,052	3,253	12,251	9,530
Research and development costs	1,618	1,390	4,588	4,422
Recovery of investment tax credits	(185)	(142)	(529)	(498)
Depreciation of plant and equipment	52	56	153	169
Depreciation of right-of-use assets	16	12	48	34
Amortization of intangible assets	132	31	231	92
Interest expense (income), net	98	(10)	(95)	(13)
Notional interest expense on government loans (Note 8.4)	64	-	135	-
Accretion on lease liabilities	380	114	731	332
Stock based compensation	90	52	315	133
Foreign exchange (gain) loss (Note 8.2)	121	(298)	78	(9)
Total expenses	6,438	4,458	17,906	14,192
Earnings before income taxes	2,338	1,250	10,640	1,382
Current income tax expense	907	480	2,587	1,238
Deferred income tax expense	37	29	106	101
Total income tax expense	944	509	2,693	1,339
Net earnings	\$ 1,394	\$ 741	\$ 7,947	\$ 43
Attributable to:				
Non-controlling interest	\$ 74	\$ 18	\$ 152	\$ 39
Equity holders of FTG	\$ 1,320	\$ 723	\$ 7,795	\$ 4
Earnings per share, attributable to the equity holders of FTG				
Basic (Note 3.2)	\$ 0.06	\$ 0.03	\$ 0.33	\$ 0.00
Diluted (Note 3.2)	\$ 0.05	\$ 0.03	\$ 0.32	\$ 0.00

See accompanying notes.

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited) (in thousands of Canadian dollars)	Three months ended		Nine months ended	
	September 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
Net earnings	\$ 1,394	\$ 741	\$ 7,947	\$ 43
Other comprehensive income (loss) to be reclassified to net earnings (loss) in subsequent periods:				
Change in foreign currency translation adjustments	330	734	(147)	200
Net loss on valuation of derivative financial instruments designated as cash flow hedges (<i>Note 7.3</i>)	(945)	(2,937)	(1,281)	(1,902)
Deferred income taxes on net gain (loss) on valuation of derivative financial instruments designated as cash flow hedges	236	734	320	475
	(379)	(1,469)	(1,108)	(1,227)
Total comprehensive income (loss)	\$ 1,015	\$ (728)	\$ 6,839	\$ (1,184)
Attributable to:				
Equity holders of FTG	\$ 941	\$ (746)	\$ 6,679	\$ (1,141)
Non-controlling interest	\$ 74	\$ 18	\$ 160	\$ (43)

See accompanying notes.

Interim Condensed Consolidated Statements of Changes in Equity

Nine months ended September 1, 2023		Attributed to the equity holders of FTG					
		Accumulated				Non-controlling interest	Total equity
		Common shares	Retained earnings	Contributed surplus	other comprehensive income (loss)		
(Unaudited) (in thousands of Canadian dollars)							
Balance, November 30, 2022		\$ 21,357	\$ 19,521	\$ 8,319	\$ (867)	\$ 48,330	\$ 965
Net income		-	7,795	-	-	7,795	152
Stock-based compensation (PSU's)		-	-	134	-	134	-
Repurchase and cancellation of shares		(20)	(33)	-	-	(53)	-
Return of capital to non-controlling interest		-	-	-	-	-	(396)
Other comprehensive loss		-	-	-	(1,100)	(1,100)	(8)
Balance, September 1, 2023		\$ 21,337	\$ 27,283	\$ 8,453	\$ (1,967)	\$ 55,106	\$ 713

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

See accompanying notes.

Interim Condensed Consolidated Statements of Cash Flows

	Three months ended		Nine months ended	
(Unaudited) (in thousands of Canadian dollars)	September 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
Net inflow (outflow) of cash related to the following:				
Operating activities				
Net earnings	\$ 1,394	\$ 741	\$ 7,947	\$ 43
Items not affecting cash and cash equivalents				
Stock-based compensation - PSU	43	52	134	133
(Gain) loss on disposal of plant and equipment	25	-	55	(10)
Effect of exchange rates on U.S. dollar bank debt	45	(282)	(41)	(345)
Depreciation of plant and equipment	1,186	1,018	3,245	3,227
Depreciation of right-of-use assets	716	311	1,544	1,046
Amortization of intangible assets	132	31	231	92
Amortization, other	(36)	7	(82)	23
Notional interest expense on government loans	64	-	135	-
Deferred taxes	37	183	106	858
Accretion on lease liabilities	380	114	731	332
Net change in non-cash operating working capital (Note 6)	(623)	3,286	(6,721)	1,550
	3,363	5,461	7,284	6,949
Investing activities				
Acquisition of Holaday Circuits, LLC (Note 4.1)	-	-	(24,410)	-
Acquisition of IMI, Inc. (Note 4.2)	-	-	(1,844)	-
Purchase of Aerospace Chatsworth facility	-	(8,518)	-	(8,518)
Proceeds from sale-leaseback of Aerospace Chatsworth facility	-	-	8,382	-
Additions to plant and equipment	(1,755)	(683)	(4,218)	(3,241)
Additions to non-current prepaid assets	58	164	(657)	914
Recovery of contract and other costs	6	4	18	281
Additions to deferred financing costs	(15)	(1)	(66)	(5)
	(1,706)	(9,034)	(22,795)	(10,569)
Net cash flow from operating and investing activities	1,657	(3,573)	(15,511)	(3,620)
Financing activities				
Proceeds from government loans (Note 8.4)	716	1,325	3,005	1,325
Proceeds from bank debt	-	-	4,073	-
Repayments of bank debt	(243)	(235)	(736)	(697)
Return of capital to non-controlling interest	-	-	(396)	-
Lease liability payments	(904)	(382)	(1,925)	(1,205)
Repurchase and cancellation of shares	(23)	(817)	(53)	(934)
	(454)	(109)	3,968	(1,511)
Effects of foreign exchange rate changes on cash flow	2	(1,157)	(187)	(1,350)
Net increase (decrease) in cash and cash equivalent	1,205	(4,839)	(11,730)	(6,481)
Cash and cash equivalents, beginning of the period	2,731	18,554	15,666	20,196
Cash and cash equivalents, end of period	\$ 3,936	\$ 13,715	\$ 3,936	\$ 13,715
Disclosure of cash payments				
Payments for interest	\$ 98	\$ 21	\$ 84	\$ 68
Payments for income taxes	\$ 442	\$ 218	\$ 1,730	\$ 694
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 1, 2023 comprise FTG, its subsidiaries and its joint venture.

These interim condensed consolidated financial statements were approved for issuance by the Board of Directors on October 10, 2023.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Corporation for the year ended November 30, 2022, which are available on SEDAR at www.sedarplus.ca and on the Corporation’s website at www.ftgcorp.com.

With the exceptions of the accounting policies specified below, the same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the audited consolidated financial statements for the year ended November 30, 2022.

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

2.1 Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Corporation. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Corporation’s intangible assets comprise strategic customer relationships acquired in business combinations and the cost of registering trademarks. These relationships and trademarks are considered to have finite useful lives and are amortized on a straight-line basis over their useful life of 5 to 15 years. The amortization period and the amortization method are reviewed at least annually.

2.2 Goodwill

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The fair value methodologies used by the Company in testing goodwill include assumptions related to sales trends, discount rates and other assumptions that are judgmental in nature. If future economic conditions or operating performance, such as declines in sales or increases in discount rates, are different than those projected by management in its most recent impairment tests for goodwill and indefinite-lived intangible assets, future impairment charges may be required.

2.3 Use of estimates, judgements and assumptions

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

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

2.4 Use of significant estimate and judgements – business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. All acquisitions have been accounted for using the acquisition method.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

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 1, 2023 were 23,904,802 (November 30, 2022 – 23,926,901).

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

During the three months ended September 1, 2023, the Corporation granted Nil performance share units (“PSU’s”) (2022 – Nil). During the nine months ended September 1, 2023, the Corporation granted 90,000 performance share units (“PSU’s”) (2022 – 90,000), 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 1, 2023, Nil of the 258,750 (November 30, 2022 – Nil of the 253,958) outstanding PSU’s had vested or were exercisable.

3.2 Earnings per share

	Three months ended		Nine months ended	
	September 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
<i>Numerator</i>				
Net earnings	\$ 1,394	\$ 741	\$ 7,947	\$ 43
Net earnings attributable to non-controlling interests	74	18	152	39
Net earnings attributable to equity holders of FTG	\$ 1,320	\$ 723	\$ 7,795	\$ 4
Numerator for basic earnings per share - net earnings applicable to Common Shares	\$ 1,320	\$ 723	\$ 7,795	\$ 4
Numerator for diluted earnings per share - net earnings applicable to Common Shares	\$ 1,320	\$ 723	\$ 7,795	\$ 4
<i>Denominator</i>				
Denominator for basic earnings per share - weighted average number of Common Shares outstanding	23,910,934	24,294,424	23,912,656	24,425,669
Effect of dilutive securities				
Weighted average number of PSU's	258,750	257,958	251,893	228,017
Denominator for diluted earnings per share - weighted average number of Common Shares outstanding and assumed conversions	24,169,684	24,552,382	24,164,549	24,653,686
Earnings (loss) per share data attributable to the equity holders of FTG				
Basic earnings (loss) per share	\$ 0.06	\$ 0.03	\$ 0.33	\$ 0.00
Diluted earnings (loss) per share	\$ 0.05	\$ 0.03	\$ 0.32	\$ 0.00

The Corporation has 258,750 PSU’s outstanding as at September 1, 2023 (September 2, 2022 – 257,958). The PSU’s were included, as dilutive securities, in calculating diluted earnings per share for the three and nine months ended September 1, 2023 and September 2, 2022 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.

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

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, research and development costs, 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 1, 2023	November 30, 2022
	\$	\$
Total equity attributable to FTG's shareholders	55,106	48,330
Bank debt	4,645	1,398
Government loans	4,971	1,930
Managed capital	64,722	51,658

The Corporation manages its capital structure and makes adjustments to it as necessary, taking into account the economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, may increase or repay long-term debt, issue shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves 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, 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 concluded on April 21, 2023. Purchases were 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 could be purchased by the Corporation on any one day under the bid, except where purchases were made in accordance with the "block purchase exception" of the TSX rules.

Following the completion of the NCIB, in June 2023, the Toronto Stock Exchange (the "TSX") accepted the Corporation's notice of intention to establish a normal course issuer bid program (the "NCIB-2"). The NCIB-2 permits the purchase of up to 1,195,550 of the Corporation's Common Shares, pursuant to TSX rules, by way of normal course purchases effected through the facilities of the TSX and/or alternative Canadian trading systems permitted by TSX.

The NCIB-2 commenced on June 5, 2023 and will conclude on the earlier of the date on which purchases under the bid have been completed and June 4, 2024. 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

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

5,736 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 1, 2023, the Corporation purchased and cancelled 6,200 Common Shares at a weighted average price of \$3.43 per share for a total amount of \$23 including commission and other transaction costs.

During the nine months ended September 1, 2023, the Corporation purchased and cancelled 22,099 Common Shares at a weighted average price of \$2.29 per share for a total amount of \$53 including commission and other transaction costs.

As at September 1, 2023, the Corporation has purchased and cancelled 586,399 shares cumulatively during the NCIB and NCIB-2.

4. BUSINESS COMBINATIONS

4.1 Acquisition of Holaday Circuits, LLC

On April 28, 2023, the Corporation acquired all of membership interests of Holaday Circuits, LLC (“Holaday”), a manufacturer of high technology circuit boards focused on the aerospace and defense markets, for a total purchase consideration of up to US\$22,378 or \$30,385. Holaday was renamed to FTG Circuits Minnetonka LLC immediately following the acquisition.

The total purchase consideration consists of:

- (i) US\$15,778 or \$21,423 paid in cash to the seller, net of working capital adjustments and cash acquired;
- (ii) US\$2,200 or \$2,987 paid in cash to an escrow agent, to be released to the seller 18 months after closing, upon the joint instruction of FTG and the seller;
- (iii) Earn-out consideration of up to US\$4,400 or \$5,975, contingent on the achievement of a predetermined financial target over an 18 month period after closing. As of the acquisition date, the estimated fair value of the contingent consideration was US\$2,075 or \$2,817.

The purchase consideration is subject to the final determination of working capital adjustments.

The fair value of acquired accounts receivables is \$5,713. The gross contractual amount for accounts receivable is \$5,864, with expected credit loss allowance of \$151 recognized on acquisition.

Acquired identifiable intangible assets include customer relationships. The fair value of customer relationships was determined using the multiple-period excess earnings method and a discount rate of 15.8%. Goodwill recognized is attributable to Holaday’s access to the U.S. defense market for high technology circuit boards.

Holaday contributed revenue of \$11,175 and net loss of \$125 to the Corporation for the period from April 29, 2023 to September 1, 2023. If the acquisition had occurred on December 1, 2022, consolidated pro-forma revenue and profit for the nine months ended September 1, 2023 would have been \$107,524 and \$6,464 respectively.

4.2 Acquisition of IMI, Inc.

On April 28, 2023, the Corporation acquired all of the outstanding shares of IMI, Inc. ("IMI"), a manufacturer of specialty radio frequency circuit boards focused on the aerospace and defense markets, for a total purchase consideration of US\$1,658 or \$2,251. IMI was renamed to FTG Circuits Haverhill Inc. immediately following the acquisition.

The total purchase consideration consists of:

- (i) US\$1,358 or \$1,844 paid in cash, net of working capital adjustments and cash acquired;
- (ii) US\$300 or \$407 holdback, payable upon satisfaction of certain representations and warranties of the seller, no later than 12 months following the closing date, which is included in accounts payable and accrued liabilities.

The purchase consideration is subject to the final determination of working capital adjustments.

The fair value of acquired accounts receivables is \$561. The gross contractual amount for accounts receivable is \$588, with expected credit loss allowance of \$27 recognized on acquisition.

Acquired identifiable intangible assets include customer relationships. The fair value of customer relationships was determined using multiple-period excess earnings method and a discount rate of 15.8%. Goodwill recognized is attributable to IMI's access to radio frequency circuit boards market.

IMI contributed revenue of \$1,442 and net income of \$47 to the Corporation for the period from April 29, 2023 to September 1, 2023. If the acquisition had occurred on December 1, 2022, consolidated pro-forma revenue and profit for the nine months ended September 1, 2023 would have been \$96,651 and \$7,912 respectively.

4.3 Acquisitions

In connection with the Holaday and IMI acquisitions, during the three and nine months ended September 1, 2023, the Corporation recognized \$79 and \$563 in acquisition-related costs which were expensed as incurred. These costs are included in selling, general and administrative expenses such as fees for professional services.

The Holaday and IMI acquisitions were accounted for by the Corporation as business combinations under IFRS 3. Under this method, the identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. Any excess of the acquisition date fair value of the consideration paid over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill and any deficiency is recognized as a bargain purchase gain. Acquisition costs associated with the business combination are expensed in the year incurred. The results of the operations have been consolidated from the acquisition date.

The following table sets out the allocation of the purchase price to assets acquired and liabilities assumed as at April 28, 2023, based on management's provisional estimates of fair value. If new information obtained within one year of the date of acquisition identifies adjustments to the below amounts, adjustments are recognized in the period in which the adjustment amount is determined and adjustments to fair values and allocations are retrospectively adjusted.

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

	Holaday \$	IMI \$
Fair value of consideration		
Cash paid	22,667	2,285
Contingent consideration	2,219	-
Holdback paid into escrow	2,987	-
Holdback retained by the Corporation	-	407
Gross consideration	27,873	2,692
Less: Cash acquired	(1,244)	(441)
Net consideration	26,629	2,251
Assets Acquired		
Accounts receivable	5,713	561
Inventories	9,561	553
Prepaid expenses and other current assets	-	48
Property, plant and equipment	2,497	623
Right-of-use assets	10,966	2,572
Customer relationships	5,078	686
	33,815	5,043
Liabilities Assumed		
Accounts payable and accrued liabilities	1,970	357
Lease liabilities	10,966	2,572
Deferred tax liabilities	-	140
	12,936	3,069
Net identifiable assets acquired net of cash	20,879	1,974
Goodwill	5,750	277
Net assets acquired	26,629	2,251

5. INCOME TAX EXPENSE

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

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

6. 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 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
	\$	\$	\$	\$
Accounts receivable, contract assets	(1,772)	(1,171)	(4,002)	(746)
Inventories	(2,405)	(1,416)	(6,329)	(1,844)
Prepaid expenses	(768)	1,601	(1,560)	706
Contract liabilities	2,054	3,768	(1,452)	3,984
Accounts payable and accrued liabilities, and provisions	2,001	764	6,580	(151)
Income tax payable	267	(260)	42	(399)
	(623)	3,286	(6,721)	1,550

7. 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 1, 2023 and November 30, 2022.

Level 2: Valuation Techniques with Observable Parameters: The financial instruments held by the Corporation in this level included cash, accounts receivable, contract assets, accounts payable and accrued liabilities and provisions, contract liabilities, bank debt, foreign exchange forward contracts, gold forward contracts and interest rate swaps as at September 1, 2023 and November 30, 2022.

Level 3: Valuation Techniques with Significant Unobservable Parameters: Instruments classified in this category have a parameter input or inputs that are unobservable and have more than insignificant impact on either the fair value of the instrument or the profit or loss of the instrument. The financial instrument held by the Corporation in this level is contingent consideration as at September 1, 2023. The Corporation did not have any Level 3 financial instruments carried at fair value as at November 30, 2022.

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:

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

7.1 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.

7.2 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.

7.3 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 1, 2023. The table below summarizes the unrealized gains (losses) included in the fair values:

	September 1, 2023 \$	November 30, 2022 \$
Unrealized gains (losses) of derivative instruments		
Foreign exchange forward contracts	(3,171)	(1,720)
Gold forward contracts	112	(70)
Interest rate swaps	12	25
Net unrealized gains (losses) of derivative instruments	(3,047)	(1,765)
Tax effect	762	441
Included in accumulated other comprehensive income	<u>(2,285)</u>	<u>(1,324)</u>

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 1, 2023 and November 30, 2022:

As at	Currency sold	Currency bought	Notional value	Forward value at transaction date	Forward current value	Unrealized gain (loss)
September 1, 2023	USD	CAD	US\$54,900	\$71,067	\$74,238	(\$3,171)
November 30, 2022	USD	CAD	US\$56,150	\$73,053	\$74,773	(\$1,720)

As at September 1, 2023 and November 30, 2022, the foreign exchange forward contracts (contracts to sell foreign currency) are designated as cash flow hedges, all of which was recognized in other comprehensive income 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.

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

b) Gold forward contracts

As at September 1, 2023, in addition to the foreign exchange forward contracts per above, the Corporation had an outstanding commitment to buy 1,050 ounces of gold (November 30, 2022 – 1,050 ounces of gold) under gold forward contracts at a contract price of approximately \$2.64 per ounce (November 30, 2022 – \$2.52) expiring quarterly from September 2023. These gold forward contracts qualify for hedge accounting. The table below summarizes the outstanding commitments under these gold forward contracts, all of which have a maturity date of less than one year:

As at	Nature of contract	Quantity	Forward value at transaction date	Forward current value	Unrealized gain (loss)
September 1, 2023	Gold forward contract	1,050 ounces	\$2,770	\$2,882	\$112
November 30, 2022	Gold forward contract	1,050 ounces	\$2,645	\$2,575	(\$70)

As at September 1, 2023 and November 30, 2022, the gold forward contracts are designated as cash flow hedges, all of which was recognized in other comprehensive income (loss), prepaid expenses and other and accounts payable and accrued liabilities. This unrealized gain (loss) in other comprehensive income (loss) is expected to be reclassified to the interim condensed consolidated statements of earnings over the next twelve months when the cost of sales are recorded.

The terms of the foreign currency and gold forward contracts match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arises requiring recognition through earnings or loss. The amounts as at September 1, 2023 retained in other comprehensive income related to these contracts are expected to be recognized through net earnings on the interim condensed consolidated statement of earnings in fiscals 2023, 2024, 2025 and 2026.

c) Interest rate swaps

The Corporation entered into interest rate swaps to hedge certain of 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 1, 2023 and November 30, 2022. The table below summarizes the Corporation's interest rate swaps:

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

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

8. FINANCIAL RISKS

8.1 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 7.3*).

8.2 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 1, 2023, net realized gain of \$83 and \$132, respectively (2022 – gain of \$12 and \$421), 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:

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

			September 1, 2023	November 30, 2022
	Canadian and other operations \$	U.S. operations \$	Consolidated financial statements \$	Consolidated financial statements \$
<i>(In thousands of U.S. dollars)</i>				
Cash	935	845	1,780	8,597
Accounts receivable, contract assets	9,590	9,157	18,747	11,229
Accounts payable and accrued liabilities, contract liabilities and current portion of lease liabilities	(2,653)	(9,636)	(12,289)	(6,637)
Total bank borrowings	(4,645)	-	(4,645)	(1,398)
Balance sheet exposure, excluding financial derivatives	3,227	366	3,593	11,791
Reporting date CAD:USD exchange rate			1.3580	1.3508
Three months ended				
			September 1, 2023	September 2, 2022
	Canadian and other operations \$	U.S. operations \$	Total \$	Total \$
<i>(In thousands of U.S. dollars)</i>				
Net sales	12,865	13,062	25,927	18,143
Operating expenses	(3,734)	(14,794)	(18,528)	(15,095)
Net exposure	9,131	(1,732)	7,399	3,048
Nine months ended				
			September 1, 2023	September 2, 2022
	Canadian and other operations \$	U.S. operations \$	Total \$	Total \$
<i>(In thousands of U.S. dollars)</i>				
Net sales	39,626	27,294	66,920	50,637
Operating expenses	(11,727)	(29,187)	(40,914)	(37,025)
Net exposure	27,899	(1,893)	26,006	13,612

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 1, 2023 and September 2, 2022 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.

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

	Three months ended			
	September 1, 2023			September 2, 2022
Source of net earnings/loss variability from changes in foreign exchange rates	Canadian and other operations	U.S. operations	Total	Total
	\$	\$	\$	\$
Balance sheet exposure, excluding financial derivatives	(32)	(4)	(36)	(109)
Net sales and operating expenses (net exposure)	(91)	17	(74)	(31)
Net exposure	(123)	13	(110)	(140)
	Nine months ended			
	September 1, 2023			September 2, 2022
Source of net earnings/loss variability from changes in foreign exchange rates	Canadian and other operations	U.S. operations	Total	Total
	\$	\$	\$	\$
Balance sheet exposure, excluding financial derivatives	(32)	(4)	(36)	(109)
Net sales and operating expenses (net exposure)	(279)	19	(260)	(136)
Net exposure	(311)	15	(296)	(245)

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

	September 1, 2023		November 30, 2022	
	RMB	\$	RMB	\$
Cash	3,925	732	7,431	1,416
Short-term deposit with a financial institution with maturity of less than 1 year	3,546	661	2,571	490
Balance sheet exposure	7,471	1,393	10,002	1,906

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 1, 2023 would decrease by approximately \$14 and \$14, respectively (2022 – \$19 and \$19, respectively). An assumed 1% weakening of the Canadian dollar versus the RMB would have had an equal but opposite effect on these amounts.

8.3 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

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

are large, multi-national, stable organizations. During the three months ended September 1, 2023, the Corporation's largest and second largest customer accounted for approximately 16.2% and 12.6% of sales (2022 – 26.0% and 10.6%), respectively. During the nine months ended September 1, 2023, the Corporation's largest and second largest customer accounted for approximately 18.3% and 10.9% of sales (2022 – 26.5% and 10.2%), 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 is warranted. 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.

8.4 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 reviews and approves 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.

Notes to the Interim Condensed Consolidated Financial Statements
(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 1, 2023 and November 30, 2022:

	September 1, 2023				November 30, 2022	
	Less than 1 year \$	1 to 2 years \$	2 to 5 years \$	More than 5 years \$	Amount \$	Amount \$
Bank debt ¹ (committed facility)	1,023	797	2,925	-	4,745	1,445
Bank debt interest payments	293	230	500	-	1,023	57
Accounts payable and accrued liabilities, and provisions	24,992	-	-	-	24,992	15,729
Contract liabilities	2,971	-	-	-	2,971	4,423
Income tax payable	756	-	-	-	756	712
Lease liabilities (undiscounted contractual cash flows)	3,259	3,118	7,518	925	14,820	5,618
Contingent consideration	-	2,219	-	-	2,219	-
Operating leases	63	-	-	-	63	121
Government loans ²	-	441	3,037	1,453	4,931	1,926
	33,357	6,805	13,980	2,378	56,520	30,031

1. Bank debt as at September 1, 2023 is offset by \$100 of deferred financing charge (\$47 as at November 30, 2022).

2. Government loans as at September 1, 2023 also includes \$40 of accrued notional interest (\$4 as at November 30, 2022).

a) 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 1, 2023, the Corporation recorded \$Nil of AMJP funding as a reduction to cost of sales in the consolidated statement of earnings (2022 – \$Nil and \$314).

b) Employee Retention Credit

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

During the three and nine months ended September 1, 2023, the Corporation's U.S. operations were approved for and received \$Nil and \$3,758 (US\$2,735) in funds pursuant to the ERC program. The funds received were recorded as reductions to cost of sales and selling, general and administrative expenses.

c) 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

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

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 1, 2023, the Corporation received \$716 and \$2,481 of ARRI funding (2022 – \$Nil and \$Nil). 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 1, 2023, the carrying value of the ARRI loan and the deferred government grant are \$3,349 and \$1,100, respectively (November 30, 2022 – \$1,419 and \$511, respectively).

d) Advanced Manufacturing and Innovation Competitiveness Program

Effective February 24, 2023, the Corporation was awarded up to \$2,615 of funding from the Ontario Ministry of Economic Development, Job Creation and Trade pursuant to the Advanced Manufacturing and Innovation Competitiveness (AMIC) program in Ontario, Canada. This funding will be in the format of a conditional loan against qualifying investments made by FTG during a 33-month period ending November 30, 2024. The conditional loan will be non-interest bearing through November 30, 2024, with up to \$500 forgivable upon achievement of specified objectives. The residual loan amount and interest accruing from December 1, 2024 at a rate of 6.81% per annum are repayable in quarterly instalments commencing February 28, 2025 and ending November 30, 2028.

During the three month and nine months ended September 1, 2023, the Corporation received \$Nil and \$Nil of AMIC funding (2022 – \$Nil and \$Nil). In accordance with IFRS, the benefit of the interest-free period has been recognized as deferred government grant in the interim condensed consolidated statements of financial position. As at September 1, 2023, the carrying value of the AMIC loan and the deferred government grant are \$470 and \$53, respectively (November 30, 2022 – \$Nil and \$Nil, respectively).

9. SEGMENTED INFORMATION

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

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

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

	Three months ended September 1, 2023			
	Circuits	Aerospace	Eliminations and Corporate	Total
	\$	\$	\$	\$
Gross segment sales	27,230	10,014	-	37,244
Inter-segment sales	-	-	(633)	(633)
Net sales	27,230	10,014	(633)	36,611
Cost of sales and selling, general and administrative expenses	22,129	7,766	248	30,143
Research and development costs	1,354	264	-	1,618
Recovery of investment tax credits	(123)	(62)	-	(185)
Depreciation of plant and equipment	1,038	112	36	1,186
Depreciation of right-of-use assets	530	175	11	716
Amortization of intangible assets	132	-	-	132
Foreign exchange loss on conversion of assets and liabilities	-	121	-	121
Earnings (loss) before interest and income taxes	2,170	1,638	(928)	2,880
Interest and notional interest expense (income), net	56	5	101	162
Accretion on lease liabilities	299	80	1	380
Income tax expense	-	-	944	944
Net earnings (loss)	1,815	1,553	(1,974)	1,394
Other operating segments disclosures:				
Additions to plant and equipment	1,637	118	-	1,755

	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	543	8,658	-	9,201

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

	Nine months ended September 1, 2023			
	Circuits	Aerospace	Eliminations and Corporate	Total
	\$	\$	\$	\$
Gross segment sales	64,042	33,785	-	97,827
Inter-segment sales	-	-	(2,618)	(2,618)
Net sales	64,042	33,785	(2,618)	95,209
Cost of sales and selling, general and administrative expenses	48,868	25,257	516	74,641
Research and development costs	3,759	829	-	4,588
Recovery of investment tax credits	(368)	(161)	-	(529)
Depreciation of plant and equipment	2,754	376	115	3,245
Depreciation of right-of-use assets	1,043	468	33	1,544
Amortization of intangible assets	231	-	-	231
Foreign exchange loss on conversion of assets and liabilities	183	310	(415)	78
Earnings (loss) before interest and income taxes	7,572	6,706	(2,867)	11,411
Interest and notional interest expense (income), net	53	(10)	(3)	40
Accretion on lease liabilities	519	209	3	731
Income tax expense	-	-	2,693	2,693
Net earnings (loss)	7,000	6,507	(5,560)	7,947
Other operating segments disclosures:				
Additions to plant and equipment	3,766	444	8	4,218

	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	2,858	8,899	-	11,757

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

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

	As at September 1, 2023			As at November 30, 2022		
	Circuits	Aerospace	Total	Circuits	Aerospace	Total
	\$	\$	\$	\$	\$	\$
Total segment assets	92,515	29,312	121,827	52,999	30,747	83,746
Intangible, other assets and goodwill	11,755	170	11,925	211	188	399
Total segment liabilities	51,061	14,947	66,008	22,480	11,971	34,451

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

	Three months ended				Nine months ended			
	September 1, 2023		September 2, 2022		September 1, 2023		September 2, 2022	
	\$	%	\$	%	\$	%	\$	%
Canada	2,203	6.0	2,154	9.3	6,693	7.0	6,187	9.4
United States	28,893	78.9	17,618	76.3	73,101	76.8	49,001	74.4
Asia	3,603	9.8	1,849	8.0	9,178	9.6	5,545	8.4
Europe	1,460	4.0	1,201	5.2	5,076	5.3	4,247	6.4
Other	452	1.3	273	1.2	1,161	1.3	894	1.4
Total	36,611	100.0	23,095	100.0	95,209	100.0	65,874	100.0

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

	As at September 1, 2023			
	Canada	United States	Asia	Total
	\$	\$	\$	\$
Intangible and other assets (by location of division)	167	11,755	3	11,925
Plant and equipment (by location of division)	5,578	8,315	1,004	14,897
Right-of-use assets (by location of division)	5,368	18,461	484	24,313

	As at November 30, 2022			
	Canada	United States	Asia	Total
	\$	\$	\$	\$
Intangible and other assets (by location of division)	184	211	4	399
Plant and equipment (by location of division)	4,715	5,000	1,003	10,718
Right-of-use assets (by location of division)	5,783	3,235	445	9,463

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

	Three months ended		Nine months ended	
	September 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
	\$	\$	\$	\$
Sale of goods	36,234	22,948	94,386	65,243
Services	377	147	823	631
	36,611	23,095	95,209	65,874

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

Timing of revenue recognition based on transfer of control is as follows:	Three months ended		Nine months ended	
	September 1, 2023	September 2, 2022	September 1, 2023	September 2, 2022
	\$	\$	\$	\$
At a point of time	36,234	22,948	94,386	65,243
Over time	377	147	823	631
	36,611	23,095	95,209	65,874

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

For the three months ended September 1, 2023	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		\$	\$	\$	
Customer A	United States, Europe & Canada	4,109	1,835	5,944	16.2
Customer B	United States, Asia & Canada	4,368	254	4,622	12.6

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 B	Canada, United States & Asia	2,375	84	2,459	10.6

For the nine months ended September 1, 2023	Location	Circuits Segment	Aerospace Segment	Total	% of FTG total net sales
		\$	\$	\$	
Customer A	United States, Europe & Canada	13,561	3,826	17,387	18.3
Customer B	Asia, United States & Canada	9,522	860	10,392	10.9

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 B	Canada, United States & Asia	6,317	397	6,714	10.2



HEAD OFFICE:

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

CIRCUITS FACILITIES:

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

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

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

FTG Circuits – Haverhill
140 Hilldale Avenue,
Haverhill, Massachusetts
U.S.A. 01832
Tel: 978-373-9190

FTG Circuits – Minnetonka
11126 Bren Road West,
Minnetonka, Minnesota
U.S.A. 55343
Tel: 952-933-3303
Fax: 952-933-2393

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

AEROSPACE FACILITIES:

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

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

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