Circuit World Corporation

Partners in Performance

2004 1ST QUARTER REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This report is management's analysis of Circuit World Corporation's ("CWC") financial results for the first quarter ended February 27th, 2004 and 2003 and its outlook for the future. It should be read in conjunction with the financial statements and accompanying notes for the first quarter of fiscal 2004.

This document may contain forward-looking statements that reflect the current views and/or expectations of CWC with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions. Actual results and events may vary significantly from such statements.

Overview

CWC is a leading manufacturer of high technology/high reliability printed circuit boards within the North American marketplace. Our customers are technological and market leaders in the aviation, defence, medical, telecommunications, test and instrumentation industries.

CWC also operates FTG Aerospace a division that manufactures illuminated cockpit panels for original equipment manufacturers of avionics products as well as airframe manufacturers. FTG also manufactures keyboards and bezels used in cockpits.

On July 30th, 2003, CWC completed the acquisition of Firan Technology Group Inc. ('FTG'), a wholly owned subsidiary of Glendale International Corp. ('Glendale'). Under the terms of the agreement, CWC issued 8,541,987 common shares to Glendale, representing 49% of the outstanding voting shares of CWC.

The transaction was accounted for as a reverse takeover of CWC by FTG. Legally, CWC is regarded as the parent company. However in accordance with generally accepted accounting principles, since the former shareholders of FTG have effective control of CWC after the acquisition, FTG is treated as the acquirer and CWC is treated as the acquired company. These financial statements are issued under the name of the CWC but are considered a continuation of the financial statements of FTG. Being the acquiring company, the net assets of FTG are included at their book value, and the net assets of CWC are included at their fair values.

Results of Operations

The operating results for Q1 2004 reflect the combined operations of FTG and CWC as compared to the standalone FTG results for Q1 2003.

Revenue

Net sales for the first quarter of 2004 were $9,478,000, an increase of 56% compared with $6,072,000 for the same quarter last year. The increase is mainly attributable to the Circuits segment, which accounted for $3,259,000 of the increase. The balance of $147,000 or 10% is attributable to the Aerospace segment of the business. Although the Circuits segment is higher versus 2003, quarterly revenues were down as compared to Q4 2003 by $2,050,000 or 18%.

The Circuits shortfall is the direct result of closing the former FTG Circuit production facility in December 2003 and the impact of a 6-week delay integrating all manufacturing operations into the main Finchdene facility. Production levels have increased significantly since mid January 2004 to expected levels and the quarter concluded with a strong month of operating results. The month of February accounted for 55% of the Circuits revenue for Q1 2004 signaling a return to normal operations.

CCW worked very closely with its customer base during the integration delays and has retained all of its significant customers. This is evidenced by a growing backlog that is currently in excess of $13,000,000.

Export sales to the United States represented 82% of overall sales as compared to 80% in 2003.

Below is a table outlining historical quarterly performance.

(000's)	Q2-02	Q3-02	Q4-02	Q1-03	Q2-03	Q3-03	Q4-03	Q1-04
Net Sales	$ 5,423	$ 6,812	$ 7,508	$ 6,072	$ 7,173	$ 8,034	$ 11,528	$ 9,478
Net Operating Income/(Loss)	13	355	361	212	250	203	(245)	(860)
Operating Earnings/(Loss) per share – Basic	$ 0.00	$ 0.04	$ 0.04	$ 0.02	$ 0.02	$ 0.02	$ (0.01)	$ (0.06)
Operating Earnings/(Loss) per share – fully diluted	$ 0.00	$ 0.04	$ 0.04	$ 0.02	$ 0.02	$ 0.02	$ (0.01)	$ (0.06)
Net Income/(Loss)	13	355	361	212	250	(2,364)	(125)	(2,060)
Earnings/(Loss) per share –Basic	$ 0.00	$ 0.04	$ 0.04	$ 0.02	$ 0.02	$ (0.22)	$ (0.01)	$ (0.13)
Earnings/(Loss) per share – fully diluted	$ 0.00	$ 0.04	$ 0.04	$ 0.02	$ 0.02	$ (0.22)	$ (0.01)	$ (0.13)

Gross Margin

Gross margin decreased by $375,000 to $1,403,000 or 15% of revenue in Q1 2004 as compared with $1,778,000 or 29% in 2003. The primary cause for the decrease were the delays experienced in the integration. The main reason for combining the two businesses was to increase the critical mass of the printed circuit side of the Company, increase capacity utilization and achieve cost savings through operational efficiencies. Despite the first quarter results management believes all the expected savings from combining the businesses will be achieved.

Selling, General and Administrative

Selling, general and administrative expenses ("SG&A") were $1,322,000 or 14% of sales as compared to $1,057,000 or 17% in 2003. The increase over last year is primarily a result of the business combination. When taking into account foreign exchange gains and losses, the difference between the two years would be higher. In Q1 2003, the Company experienced a foreign exchange loss of $121,000, which increased SG&A. The opposite occurred in the current quarter as the Company experienced a foreign exchange gain of $120,000 and a corresponding reduction in SG&A.

Interest

Interest costs in Q1 2004 were $53,000 as compared to $nil during the same period in 2003.

Severance Costs

The Company incurred severance costs of $1,200,000 resulting from the termination of employees in the first quarter of 2004. It is expected these costs will be funded into 2005. There were no severance costs in the first quarter of 2003.

Net Income / Loss

Net loss for the first quarter was $2,060,000 or $0.13 per share as compared with a net income of $211,000 or $0.02 per share in the same period in 2003.

Capital Expenditures

The Company invested $299,000 in plant and equipment during the first quarter of 2004, a decrease from $874,000 in the same period in 2003. The expenditures in 2004 related primarily to upgrades to machinery and leaseholds, advancing the integration of the two merged businesses.

Liquidity

As at February 27 2004, the Company had drawn $424,000 on its operating line of credit and had a current ratio of 1.02:1.0. Given the liquidity issues facing the Company, it obtained new financing by way of a secured term loan. The financing closed on March 3, 2004, subsequent to the end of the first quarter. The loan for USD$2,800,000 is payable over three years at an interest rate of US prime plus 2%. As a condition of the loan, should the Company sell the Aerospace division the lender may at its discretion demand repayment of the loan at a penalty to the Company of three months interest. The proceeds of the loan were used to pay down the existing term loan to the Company's main lender with the balance used for working capital purposes.

Accounts receivable at the end of the first quarter decreased 1% to $7,390,000 from $7,470,000 at November 30, 2003.

In the first quarter of 2004, the inventory increased by $104,000 from the prior year-end. The increase is a result of increases in work in process inventory due to increased orders.

Accounts payable and accrued liabilities increased in the first quarter of 2004 by 12% to $7,988,000. The increase is due to the Company slowing payments to its suppliers until new financing was in place. Supplier relations have been normalized.

Cash Flow

Cash used from operating activities in the first quarter amounted to $1,160,000 as compared to cash generated of $594,000 during the same period in 2003. The Company generated $1,406,000 from reductions in working capital in the current quarter. In 2003, the Company generated $484,000 through reductions in working capital.

Cash used in investing activities in the first quarter of 2004 amounted to $299,000 as compared to $874,000 in 2003. These amounts related to capital expenditures made by the Company.

Cash used in financing activities amounted to $410,000 in the first quarter of 2004 as compared to 2003 when the Company generated cash of $206,000.

Outlook

Overall, market conditions in the printed circuit board industry have improved. Industry book to bill ratios reported by IPC, the industry association, remain in excess of 1 to 1. The Company has experienced improved demand for its products and has steadily grown its backlog.

While the delays in the integration were costly, the integration is now complete. CWC's achievements related to the merger are significant and included:

- Obtained all customer approvals to move production to the Finchdene facility
- Successfully transferred all military and security certifications and approvals
- Transferred and installed key pieces of production equipment to enable all types of materials to be run in the new facility
- Successfully integrated all production staff into one facility
- Achieved targeted cost savings from suppliers, operating costs and staffing
- Retooled over 1,000 FTG part numbers to run in the Finchdene facility
- Raised $2.8M in new financing to fund working capital
- Disposed of surplus equipment

With the integration complete, CWC is focused on continuously improving the business and growing it.

To continue to improve the business internally, CWC has a number of initiatives already underway. In cooperation with Rockwell and the US Navy (Rockwell's customer), CWC is participating in a year-long lean manufacturing program.

In February, CWC issued a press release indicating the Company has been certified by NASA Marshall Space Flight Center. This allows CWC to supply circuit boards to NASA and their suppliers for all applications including flight safety critical, engineering and laboratory equipment.

CWC's focus for growth is in the aerospace/military markets and high technology, high reliability commercial markets such as telecom, medical, and instrumentation and test. Management believes these markets represent the best opportunities for sustainable growth, offering attractive margins and are defendable against North American and Far East competitors.

BALANCE SHEETS

(in thousands of dollars)	**27-Feb-04** (unaudited)	28-Feb-03 (unaudited)	30-Nov-03 (audited)
ASSETS			
CURRENT			
Cash	**$ —**	$ 410	$ 39
Accounts receivable	**7,390**	4,534	7,470
Inventories	**4,928**	3,076	4,824
Prepaid expenses	**222**	156	275
Future Income Taxes	**—**	110	—
	12,540	8,286	12,608
PLANT AND EQUIPMENT	**11,653**	6,599	12,242
FUTURE INCOME TAXES	**3,515**	405	3,515
PROMISSORY NOTE	**1,500**	—	1,500
GOODWILL	**896**	—	896
OTHER ASSETS	**58**	—	70
	$ 30,162	$ 15,290	$ 30,831
LIABILITIES			
CURRENT			
Bank indebtedness	**$ 424**	$ —	$ —
Accounts payable and accrued liabilities	**7,988**	3,741	7,135
Accrued restructuring	**2,234**	—	1,710
Current portion of long-term debt (Note 3)	**1,497**	100	1,473
Income taxes payable	**208**	20	208
Due to parent	**—**	8,605	—
	12,351	12,466	10,526
LONG-TERM DEBT (Note 3)	**1,632**	200	2,066
	13,983	12,666	12,592
SHAREHOLDERS' EQUITY			
SHARE CAPITAL - PREFERRED SHARES	**10,347**	1,465	10,347
SHARE CAPITAL - COMMON SHARES	**2,218**	—	2,218
CONTRIBUTED SURPLUS	**6,753**	—	6,753
(DEFICIT)/RETAINED EARNINGS	**(3,139)**	1,159	(1,079)
	16,179	2,624	18,239
	$ 30,162	$ 15,290	$ 30,831

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(in thousands of dollars except per share amounts)	Three Months Ended 27-Feb-04 (unaudited)	28-Feb-03 (unaudited)
SALES	**$ 9,478**	$ 6,072
COST OF SALES	**8,075**	4,294
	1,403	1,778
EXPENSES		
Selling, general and administrative	**1,322**	1,057
Severance costs (Note 2)	**1,200**	—
Amortization of plant and equipment	**888**	383
Interest expense on long-term debt	**53**	—
	3,463	1,440
OPERATING (LOSS)/EARNINGS	**(2,060)**	338
(LOSS)/EARNINGS BEFORE TAX	**(2,060)**	338
INCOME TAX PROVISION	**—**	127
NET (LOSS)/EARNINGS	**(2,060)**	211
(DEFICIT)/RETAINED EARNINGS, BEGINNING OF PERIOD	**(1,079)**	948
(DEFICIT)/RETAINED EARNINGS, END OF PERIOD	**$ (3,139)**	$ 1,159
EARNINGS/(LOSS) PER SHARE		
Basic and diluted	**$ (0.13)**	$ 0.02

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands of dollars except per share amounts)	Three Months Ended 27-Feb-04 (unaudited)	28-Feb-03 (unaudited)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net (loss)/earnings	**$ (2,060)**	$ 211
Items not affecting cash		
Amortizarion of other assets	**12**	—
Amortization of plant and equipment	**888**	383
	(1,160)	594
Changes in non-cash operating working capital	**1,406**	484
	246	1,078
INVESTING		
Additions to plant and equipment	**(299)**	(874)
	(299)	(874)
FINANCING		
Bank borrowings	**424**	—
Advances due to parent	**—**	306
Repayment of long-term debt	**(410)**	(100)
	14	206
(DECREASE)/INCREASE IN CASH	**(39)**	410
CASH, BEGINNING OF PERIOD	**39**	—
(BANK INDEBTEDNESS) CASH, END OF PERIOD	**$ —**	$ 410

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Accounting Policies

The accompanying unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the 2003 audited financial statements of Circuit World Corporation. These unaudited interim financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the said audited financial statements and the notes below.

2. Severance Costs

During the period, Circuit World Corporation terminated the employment of certain individuals. It is estimated the cost of these terminations will total $1,200,000 and be paid into 2005. The amount of the obligation outstanding at February 27, 2004 totaled $1,103,000.

3. Long-Term Debt

(000's)	**27-Feb-04**	30-Nov-03
Promisory notes, interest free, repayable at $100,000 annually to acquire certain assets	**$ 200**	$ 300
Term loan secured by a first charge on certain property, with interest at bank base rate plus 0.25%, repayable in monthly principal payments of $41,000 to January 2007	**1,722**	1,845
Term loan secured by a first charge on certain property, with interest at bank prime plus 2.25%, repayable in monthly principal payments of $7,848 to June 2005	**126**	149
Term loan secured by a first charge on certain property, with interest at U.S. bank prime plus 2.25%, repayable in monthly payments of U.S. $50,430 to June 2005	**1,081**	1,245
	3,129	3,539
Less amounts due within one year	**1,497**	1,473
	$ 1,632	$ 2,066

4. Segmented Information

The Company reports segmented information based on the two operating segments within the Corporation.

Three Months Ended, February 27 (in thousands of dollars)	Operating Segments 2004 Circuits	2004 Aerospace	2004 Total	2003 Printed Circuits	2003 Aerospace	2003 Total
Sales	**$ 7,794**	**$ 1,684**	**$ 9,478**	$ 4,534	$ 1,538	$ 6,072
Amortization of plant and equipment	**800**	**88**	**888**	257	126	383
Interest expense on long-term debt	**54**	**(1)**	**53**	—	—	—
Income tax provision	**—**	**—**	**—**	85	42	127
Net (loss)/earnings	**(2,149)**	**89**	**(2,060)**	141	70	211
Segment assets	**26,576**	**3,586**	**30,162**	9,438	5,852	15,290
Additions to plant and equipment	**289**	**10**	**299**	788	86	874

5. Restructuring

The Company recorded a $2,567,000 restructuring charge in the third quarter of 2003 related to the integration of FTG with CWC. The restructuring costs are comprised of workforce reduction costs of $1,205,000 related to employee severances and benefits; charges of $800,000 related to excess equipment; $250,000 for relocation costs; $228,000 for data migration and $84,000 for other costs.

A continuity of the restructuring reserve, which has been included in accounts payable and accrued liabilities, is as follows:

(000's)	Severance and benefits	Excess equipment	Relocation costs	Data migration	Other costs	Total
Initial Charge August 2003	**$ 1,205**	**$ 800**	**$ 250**	**$ 228**	**$ 84**	**$ 2,567**
payments or drawdown during the period	(85)	(800)	(53)	(77)	(84)	$ (1,099)
November 30, 2003	**1,120**	**—**	**197**	**151**	**—**	**$ 1,468**
payments or drawdown during the period	(249)	—	(30)	(159)	—	$ (438)
February 27, 2004	**$ 871**	**$ —**	**$ 167**	**$ (8)**	**$ —**	**$ 1,030**

6. Comparative Figures

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

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