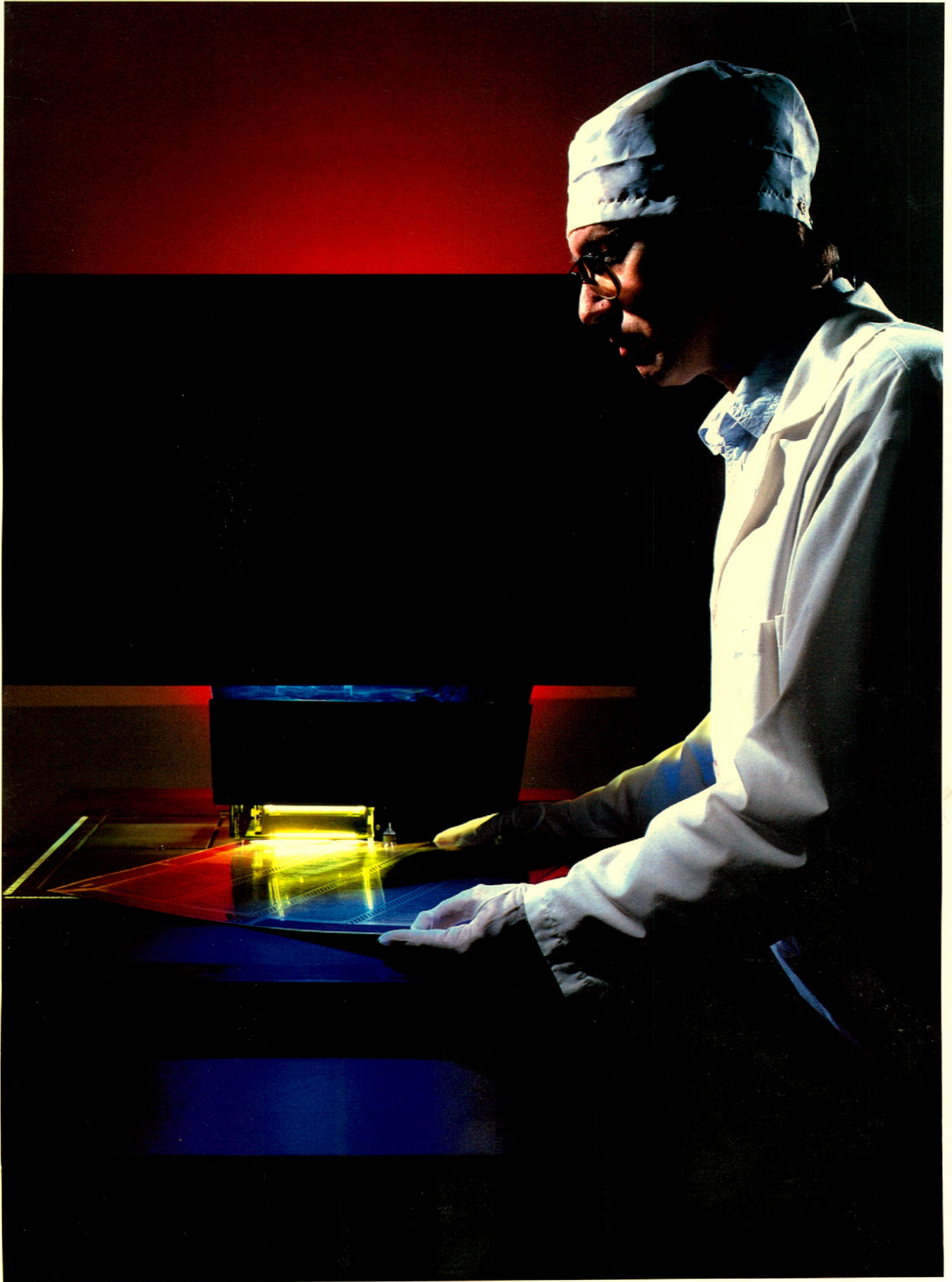


Annual Report 1986



Commitment to Excellence

Circo Craft's dedication to quality and to engineering excellence is an ongoing commitment. Continuous process development programs, characterization and reliability testing ensure the best engineering solutions. Value analysis is applied to processes and designs to ensure that cost effective products are manufactured. The Quality Program is designed to meet and often exceed the many and varied external standards and specifications in use in the industry today. Shipped quality levels are such that certain of our clients dispense with incoming inspection and accept Circo Craft products directly into stock or assembly. It is this level of quality that characterizes Circo Craft's commitment to excellence today and for the future.

Table of Contents

2	1986 In Brief
3	Financial Highlights
4-5	Directors' Report to Shareholders
6-11	Review of Operations
12-13	Financial Review
14-21	Financial Statements
22-23	Selected Data – 10 years
24	Directors and Officers
25	Corporate Information

Annual Meeting

Shareholders are invited to attend Circo Craft's annual meeting which will be held on Wednesday, April 29, 1987 at 11:30 a.m. (EST), at the Four Seasons Hotel, 1050 Sherbrooke Street West, Montréal, Québec.

Corporate Profile

Circo Craft Co. Inc. is the leading independent Canadian based technology company designing and manufacturing microelectronic products and printed circuits which are vital to the successful operations of telecommunication, computer and other electronic systems. The Company works closely with multinational manufacturers of electronic equipment to meet their stringent quality requirements for high-density double-sided and multilayer printed circuits and thick-film hybrids.

Circo Craft has largely completed a five-year major expansion program totaling approximately \$50.0 million, the most significant in the Company's history. This established the base for production of increasingly complex and higher value-added products.

With three Canadian manufacturing facilities and more than 740 employees, Circo Craft is one of the largest independent manufacturers of printed circuit boards and hybrid circuits in North America.

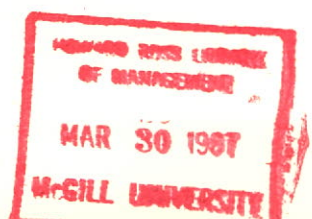
The rapid growth throughout the world of electronics provides Circo Craft the opportunity to accelerate growth through expansion into international markets. Circo Craft has one of the most modern facilities, equipped with state-of-the-art manufacturing systems for large-scale production of a broad range of high quality products.

The opportunities of the future are supported by a record of rapidly rising sales and continuous profitability since the Company was founded in 1973.

Circo Craft common shares are traded on the Montreal and Toronto Stock Exchanges. The stock symbol is CCC.

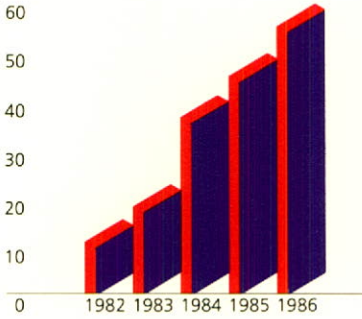


Hans-Karl Muhlegg
President and Chief Executive Officer

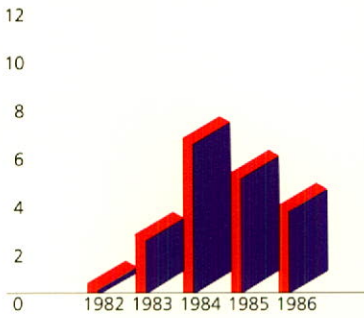


1986 In Brief

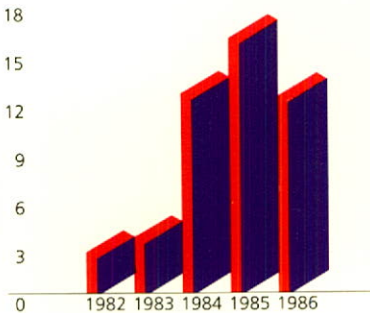
Sales
(millions of dollars)



Net Earnings
(millions of dollars)



Capital Expenditures
(millions of dollars)



A five-year diversification program totaling approximately \$50.0 million is largely completed. Circo Craft now has one of the most technically advanced, large volume facilities of its kind in the world for fabrication of complex printed circuits and thick-film hybrid products.

Record sales of \$55.3 million were achieved in 1986, an increase of 22.1 percent, despite generally depressed market conditions in the electronics industry. Total sales have increased almost fivefold in the past five years.

Net earnings amounted to \$3.8 million, 31 cents per share, compared with \$5.3 million or 44 cents per share in 1985.

Significantly higher net earnings after taxes would have been reported had it not been for the costs incurred in the development and start of large volume production of our hybrid operations; resulting in a net loss of \$4.0 million before income taxes, equivalent to 21 cents in net after tax earnings per common share in 1986, compared to start-up costs, net of income taxes, equivalent to 7 cents per common share in 1985.

The customer and product bases continue to be diversified. Circo Craft's leadership in Canada, with the broad range of products available, is further extended with the introduction of surface mount assembly in large volume.

Circo Craft intensified its marketing activities in the United States. These sales amounted to \$7.3 million in 1986, compared to \$2.4 million in 1985, an increase of \$4.9 million or 204 percent.

The Printed Circuit Board Division achieved record production levels and operating margins, as a result of continued enhancement of production methods.

The Hybrid Microelectronics Division completed, in the last quarter of 1986, the last stage for large volume production and has significantly increased its production output and sales volume.

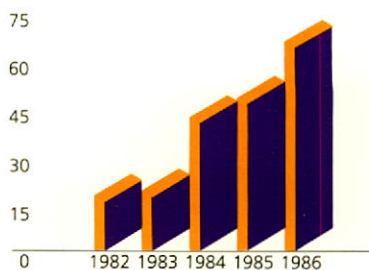
All elements are therefore in place for major growth in business in 1987.

Financial Highlights

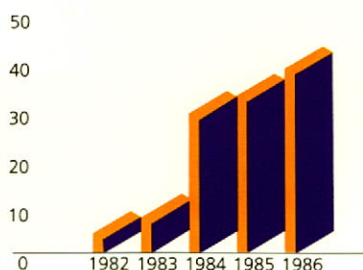
	1986	% change	1985	1984
Operations (millions of dollars)				
Sales	\$ 55.3	22.1%	\$ 45.3	\$ 37.3
Operating margin	15.9	(5.4%)	16.8	15.3
Pre-tax earnings	5.9	(30.6%)	8.5	9.3
Net earnings	3.8	(28.3%)	5.3	6.6
Financial Position (millions of dollars)				
Working capital	\$ 11.8	15.7%	\$ 10.2	\$ 12.2
Shareholders' equity	38.5	11.0%	34.7	29.4
Total assets	65.2	29.4%	50.4	40.8
Per share (in dollars)				
Net earnings	\$ 0.31	(29.5%)	\$ 0.44	\$ 0.64
Closing shareholders' equity	3.19	10.8%	2.88	2.44
Key Ratios				
Return on sales	6.8%	(42.4%)	11.8%	17.8%
Return on average equity	10.2%	(38.6%)	16.6%	36.4%
Current ratio	1.9	(26.9%)	2.6	2.6
Other Statistics (millions of dollars)				
Capital expenditures	\$ 12.6	(21.7%)	\$ 16.1	\$ 12.7
Cash flow from operations	9.1	(3.2%)	9.4	8.8
Data on Common Shares (in millions)				
Outstanding at year end	12.0	—	12.0	12.0
Monthly average	12.0	—	12.0	10.4
Trading Statistics* (in dollars, except share data)				
High	\$ 11.75	—	\$ 9.88	\$ 8.25
Low	7.00	—	6.50	7.00
Close	7.00	—	8.50	7.50
Shares traded (in thousands)	3,128	—	2,002	388

*Circo Craft shares were posted for trading on October 17, 1984.

Total Assets
(millions of dollars)



Shareholders' Equity
(millions of dollars)



To Our Shareholders

Circo Craft continued to make excellent progress in 1986 despite a second year of generally difficult conditions in the markets served.

The Company

- substantially completed a capital investment and diversification program totaling approximately \$50.0 million, initiated five years ago, which has established the base for major sales expansion;
- again achieved record sales with successful penetration into the large United States market;
- introduced surface mount technology to further improve the range of higher value-added products and services; and
- broadened and diversified its customer base as an approved and/or certified supplier to multinational companies, while increasing sales to existing customers.

These constructive developments place Circo Craft in an excellent position to benefit from the indications of renewed and accelerating growth in the electronics industry, which appeared late in the year.

Sales Increase

Sales rose 22.1 percent, from \$45.3 million to \$55.3 million in 1986. Net earnings amounted to \$3.8 million, 31 cents per share, compared with \$5.3 million or 44 cents per share for the previous year.

Considering the high costs related to the start of large volume production of hybrid circuits, the overall earnings performance was satisfactory in 1986 despite a reduction in net earnings compared to the previous year.

Record sales were reached and increased production output was achieved by the Printed Circuit Division in 1986.

Certified Supplier Award

Circo Craft's expansion emphasized putting in place facilities to produce large volumes of more sophisticated products while, at the same time, improving production flexibility to meet customer needs. Circo Craft's relationship with its customers is as an approved supplier.

In December 1986, Circo Craft was designated a "Certified Supplier" by its largest Canadian customer, the Digital Switching Division of Northern Telecom Canada Limited. This is a most significant development, culminating three years of joint efforts in a true-partner buyer-supplier relationship.

The designation recognizes the success of Circo Craft's manufacturing methods which assure the highest quality and reliability of product. We are the first Canadian printed circuit manufacturer to receive this "Certified Supplier" status from the Digital Switching Division of Northern Telecom Canada Limited.

Relationships of this kind take years to develop with customers. Circo Craft products and production methods are closely integrated into the production process of its customers.

Customer Base Diversifies

Increasingly, the product diversification and expansion programs are showing positive results.

Circo Craft was able to increase product output of printed circuit boards by approximately 50 percent in 1986. Noteworthy is the continuing trend to a greater proportion of higher value-added products in the larger number of units being produced. The highly-automated, advanced technology equipment and internally-trained staff provide a base with capacity to generate an increasing volume of business.

The trend reported last year of a broadening of the customer base is accelerating. More multinational customers were added and volume increased with certain long-established customers.

Growth in sales to U.S. manufacturers is a significant illustration of our marketing strategies. In 1986, sales to the U.S. increased 204 percent to \$7.3 million, compared to \$ 2.4 million in 1985 when the entry into selected markets was first initiated.

Ample Room to Expand Output

The expanded production facilities are now fully operational to support the aggressive drive for new business. This is especially the case in the fastest-growing market segment – hybrid microelectronics – where large volume capability has been established. Our printed circuit board manufacturing facilities have also been expanded, and output can further be increased without major additional capital expenditures.

Circo Craft's outlook is further enhanced by the start-up, in mid-1986, of surface mount assembly (SMT), an increasingly demanded product/service, not previously available in Canada in large volume. This will provide Circo Craft with the ability to offer more complete packaging services.

It should be noted that Circo Craft's sales growth has always surpassed general market forecasts. With strong marketing strategies and a significantly increased production capacity now in place, we expect to continue outperforming the industry's average sales growth rate. The outlook is therefore very positive for major growth in business in 1987.

Circo Craft has completed a period of major development. The success in continuing to build and diversify, while concurrently carrying out major expansions, reflects the competence and dedication of all those associated with the Company. Appreciation is expressed to our employees, our customers, as well as to our suppliers for their continuing valuable contributions.

On behalf of the Board of Directors,



Hans-Karl Muhlegg
President and Chief Executive Officer

February 17, 1987

Review of Operations

The capital investments made over the last five years have placed Circo Craft in the strong position of being able to provide its customers with a wide range of technologies for a total packaging capability. This total capability includes printed circuit boards, hybrid microelectronics, surface mount and back-panel assemblies, and polymer technology including carbon ink.

Printed Circuit Board Division

Printed circuit board sales of \$51.5 million, accounted for 93.1 percent of Circo Craft's total sales volume in 1986. Production reached record levels, yet output can still readily be increased to meet rising demand without major additional capital expenditures in 1987.

Total production capacity has been further augmented in 1986 by continuing investment in automation and refinement of our manufacturing processes. This has enabled us to more than compensate for a weaker market. The significant increase achieved in production output therefore compensated for decreased unit prices due to prevailing market conditions. Sales of printed circuit boards were up 15.1 percent, compared to the previous year.

The product range includes both high-density double-sided and multilayer printed circuits. The fastest market growth is in more complex multilayer products which contributed about 35 percent of total sales in 1986.

Printed circuits are essential components in the manufacture of electronic systems. Circo Craft is an approved supplier for the commercial products of major U.S. and Canadian companies and has been approved as a supplier to NATO member nations for specialized non-commercial and aerospace applications.

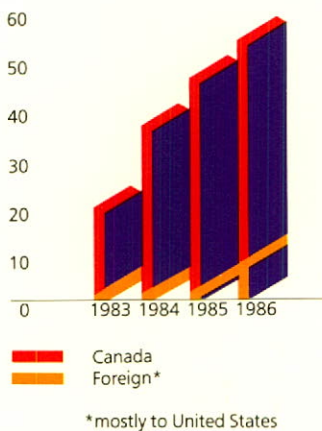
Major printed circuit board users in North America are in computer and telecommunications related industries. Telecommunications is the fastest growing sector in an overall market considered to be expanding at an average annual compound rate of 15 percent. The North American printed circuit market alone totals over \$6 billion annually. The hybrid microelectronic market is of similar size.

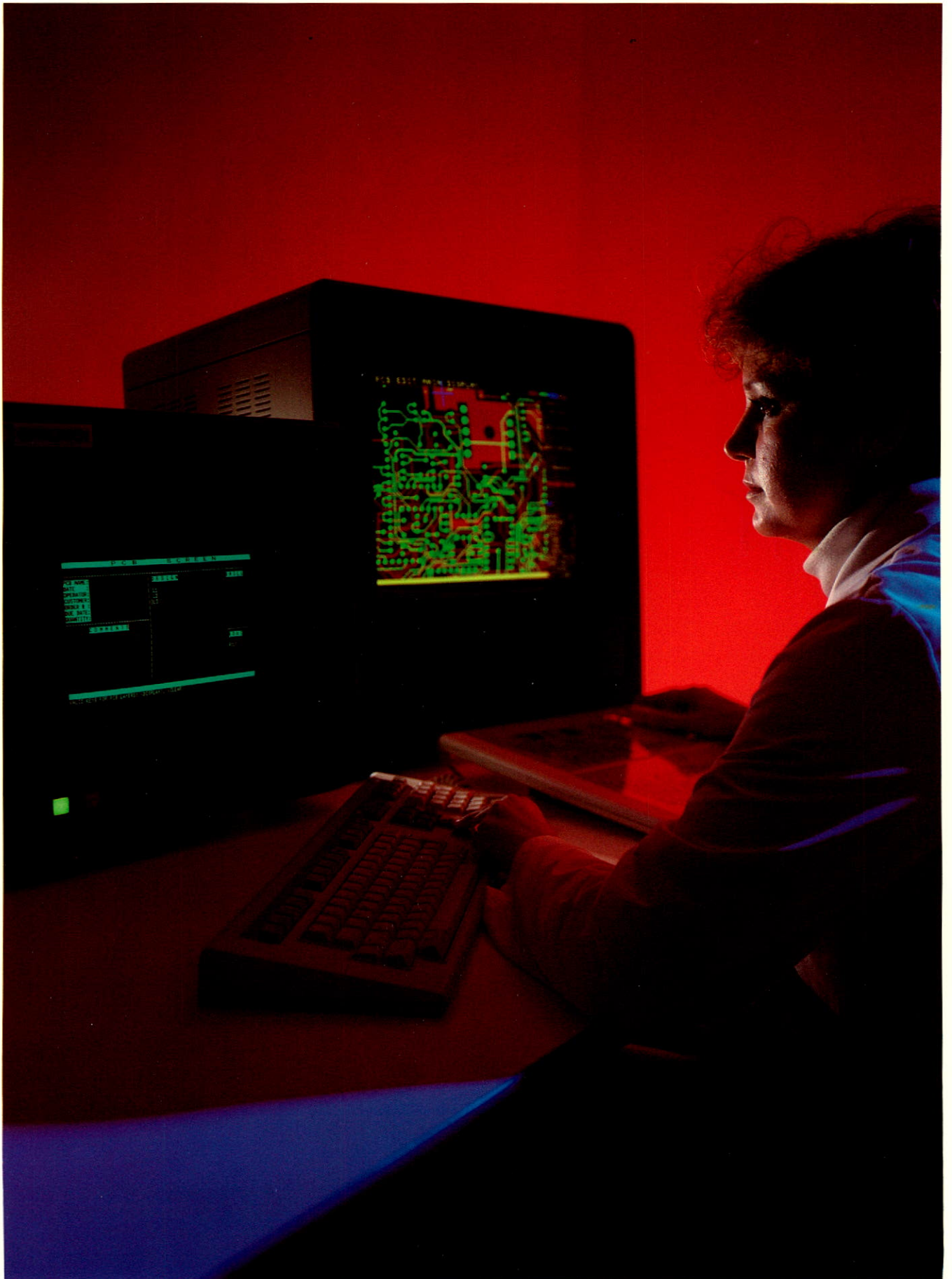
Major acquisitions of equipment in 1986 included a new generation automated optical inspection system at our Pointe-Claire facility. The equipment is the only one of its kind in Canada. This large capacity, in-line inspection system assists in the cost effective manufacturing of more complex multilayered products.

To cope with increased demand, a second expansion (phase V) of the Ciba-Geigy solder mask system, at our Kirkland facility, was completed in 1986. Circo Craft is in the unique position of being able to offer this latest European technology in North America. The company believes this is the best technology of its kind available today, especially for extremely dense boards and products where surface mount technology is used.

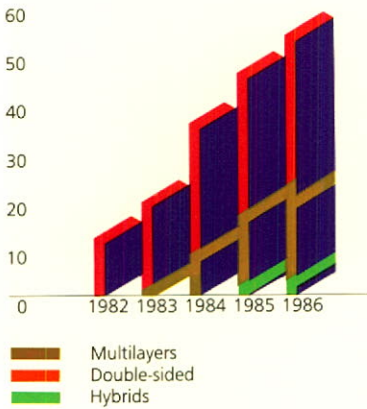
Another important investment in 1986 was the acquisition of a new, fully automated plating system which will enable, with minimal additional investment in 1987, a doubling of overall production capacity at the Granby facility by 1988.

Sales by Market
(millions of dollars)





Sales by Products
(millions of dollars)



In 1986, considerable emphasis was placed on the introduction of carbon ink in volume production. The use of polymer carbon ink is a major trend in certain new product applications and developments.

In 1987, the focus is on further enhancement of our process technology and quality control methods, to provide an ever stronger commitment to customer programs with requirements for "ship-to-stock" and "just-in-time" deliveries.

Hybrid Microelectronics Division

Circo Craft introduced production of thick-film hybrid products late in 1985 when a new facility was completed in the Pointe-Claire plant. This was a major step in a planned diversification program.

Through the first three quarters of 1986, our activities concentrated on becoming a qualified supplier and in producing prototypes for major multinational companies. Large volume production started in the fourth quarter of 1986.

Sales of these products amounted to \$3.8 million and accounted for 6.9 percent of total sales in 1986. By year end, production levels reached approximately \$1.0 million per month.

The new plant is one of the most technically advanced independent hybrid operations in North America and has ample capacity to accommodate increasing sales.

With highly automated manufacturing systems, this Division is in an excellent position to compete in the international marketplace.

Surface Mount Assembly

The application of surface mount assembly technology on printed circuit boards was introduced within the Microelectronics Division in 1986, concurrent with the start-up of production of the hybrid facilities. This is a major development, providing Circo Craft with yet another marketing advantage.

Surface mounting results in a considerable space saving, as components are generally smaller and both sides of a circuit board may be used.

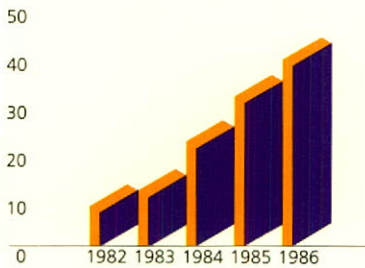
Circo Craft is now in a unique position to offer one-stop comprehensive packaging services consisting of the manufacture of printed circuit boards, hybrid microcircuit fabrication, surface mounting of electronic components and staking of pins and sockets for back-panel assemblies.

Technical Services

Circo Craft has improved its ability to provide advanced technical services and to respond to customer demands for more advanced applications. Complete design facilities are available. A new CAD/CAM system vastly improves the ability to design and produce more complex products.



Fixed Assets – Net
(millions of dollars)



Quality Control

Our continued commitment to stringent quality control has enabled Circo Craft to consolidate its leadership position in the marketplace. A comprehensive program of in-process inspection, applied by all production and quality control personnel, is the basis of our continued success.

Applications and Product Development

Our strong engineering resources have played an increasingly significant role in the diversification and expansion into new markets. Process refinement and productivity improvements have increased our efficiency and our competitive edge. Completely new processes have enabled us to develop new products approaching the limits of the present microelectronic technology.

Employees

A very important factor in our success has been Circo Craft's relationship with its employees. We are convinced that this is one of the key elements of our success.

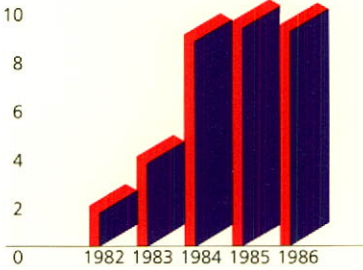
By having our technical management group work closely with the production team, we successfully demonstrate our "hands-on" management approach. While stressing management-employee communication, we remain sensitive to what motivates our employees. It is very important for our employees to realize that they are an important part of the Circo Craft team.

This successful approach to management recently culminated in the designation of "Certified Supplier" to the Digital Switching Division of Northern Telecom Canada Limited, Circo Craft's largest customer. This certification recognizes the high quality and outstanding reliability of our products, the result of hard work, dedication, and the ongoing commitment to quality by the entire Circo Craft team.

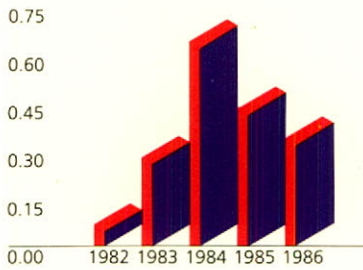


Financial Review

Cash flow from Operations
(millions of dollars)



Net Earnings per Share
(in dollars)



Results of Operations

Sales in 1986 increased by \$10.0 million or 22.1 percent, to reach a record level of \$55.3 million despite generally depressed market and pricing conditions in the electronics industry. The growth in sales is attributable to increased marketing activities, particularly in the U.S., record level production output by our Printed Circuit Board Division, and the start-up of large volume production of hybrid microelectronic products in the fourth quarter of 1986.

Operating margin decreased from 37.1 percent to 28.7 percent in 1986 due primarily to hybrid microelectronic production start-up costs and to lower margins on printed circuit boards resulting from depressed market conditions in the electronics industry.

Selling, general and administrative expenses, as a percentage of sales, increased from 9.9 percent to 10.9 percent in 1986. This was the result of additional marketing and selling expenses related to increased representation in the U.S. and the addition of personnel to support the anticipated growth in business.

Depreciation expense increased by \$1.1 million, due to the expansion of the Company's overall production capacity.

Interest on long-term debt increased from \$78,000 to \$613,000 in 1986, as a result of increased long-term debt borrowing. These additional funds were used to partially finance the last phase of the major five-year capital investment program totaling approximately \$50.0 million.

Net earnings per share for 1986 were 31 cents, compared to 44 cents per common share in 1985. It should be noted that net earnings per share would have been approximately 21 cents higher had it not been for the net loss incurred by the Hybrid Microelectronics Division, which resulted from the delayed start of large volume production of thick-film hybrids.

Capital expenditures, net of proceeds on the disposal of fixed assets, amounted to \$12.4 million in 1986 and were financed as follows:

- Increase in long-term debt
- Government capital grants received in 1986 for the funding of fixed assets acquired in prior years
- Use of funds generated by operations

\$	2.2 million
	2.7 million
	<u>7.5 million</u>
	<u>\$12.4 million</u>

Capitalization

The Company remains in a very strong financial position with long-term debt accounting for only 14.3 percent of total capitalization. Shareholders' equity increased during the year by 10.8 percent to \$38.5 million, the equivalent of 59.0 percent of total assets as at December 31, 1986.

Cash Flow from Operations

Cash flow from operations, net of cash used for working capital, reached a record level of \$7.5 million in 1986, compared to \$6.6 million in 1985, despite adverse market conditions and the high costs associated with the Company's major expansion program.

Working capital increased by \$1.6 million to \$11.8 million, compared to \$10.2 million as at year end 1985, thereby providing a strong financial base to support the anticipated growth in business in 1987.

Capitalization (at December 31)	1986		1985		1984	
	million	%	million	%	million	%
Long-term debt, including current portion	\$ 7.4	(14.3)	\$ 5.2	(11.8)	\$ 1.2	(3.6)
Deferred income taxes	5.9	(11.4)	4.0	(9.1)	2.4	(7.3)
Common shareholders' equity	38.5	(74.3)	34.7	(79.1)	29.4	(89.1)
	<u>\$ 51.8</u>	<u>(100.0)</u>	<u>\$ 43.9</u>	<u>(100.0)</u>	<u>\$ 33.0</u>	<u>(100.0)</u>

Quarterly Financial Data (unaudited)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	(in thousands of dollars, except per share data)				
1986					
Sales	\$ 12,607	\$ 13,923	\$ 12,115	\$ 16,690	\$ 55,335
Operating Margin	4,009	4,297	3,795	3,799	15,900
Net Earnings	1,026	1,092	734	899	3,751
Net Earnings per common share (in dollars)	0.09	0.09	0.06	0.07	0.31
1985					
Sales	\$ 11,363	\$ 11,250	\$ 10,623	\$ 12,081	\$ 45,317
Operating Margin	3,743	4,301	4,014	4,729	16,787
Net Earnings	1,566	1,298	1,190	1,278	5,332
Net Earnings per common share (in dollars)	0.13	0.11	0.10	0.10	0.44
1984					
Sales	\$ 8,190	\$ 9,502	\$ 8,266	\$ 11,377	\$ 37,335
Operating Margin	3,702	3,879	3,413	4,338	15,332
Net Earnings	1,755	1,604	1,452	1,824	6,635
Net Earnings per common share (in dollars)	0.18	0.16	0.15	0.15	0.64

Statement of Earnings

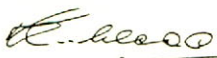
for the year ended December 31, 1986

(thousands of dollars except per share amounts)	1986	1985
Sales	\$ 55,335	\$ 45,317
Cost of Sales	39,435	28,530
Operating Margin	15,900	16,787
Selling, General and Administrative Expenses	6,011	4,481
Other Expenses (Income)		
Depreciation	3,533	2,407
Research and development costs	541	506
Interest on long-term debt	613	78
Interest income – net (note 2)	(735)	(641)
Start-up costs – Hybrid Division	—	1,445
	3,952	3,795
Earnings before Income Taxes	5,937	8,511
Provision for Income Taxes (note 7)	2,186	3,179
Net Earnings for the Year	\$ 3,751	\$ 5,332
Earnings per Share	\$ 0.31	\$ 0.44

Balance Sheet
as at December 31, 1986

(thousands of dollars)	1986	1985
Assets		
Current Assets		
Short-term deposits	\$ 4,626	\$ 1,975
Accounts receivable	9,659	6,839
Income taxes	915	1,256
Inventories (note 3)	9,778	6,256
Prepaid expenses	269	288
	<u>25,247</u>	<u>16,614</u>
Fixed Assets (note 4)	<u>39,966</u>	<u>33,806</u>
	<u>\$ 65,213</u>	<u>\$ 50,420</u>
Liabilities		
Current Liabilities		
Bank indebtedness	\$ 3,244	\$ 661
Accounts payable and accrued liabilities	10,165	5,787
Current portion of long-term debt (note 5)	18	16
	<u>13,427</u>	<u>6,464</u>
Long-Term Debt (note 5)	7,424	5,212
Deferred Income Taxes	5,865	3,998
	<u>26,716</u>	<u>15,674</u>
Shareholders' Equity		
Share Capital (note 6)	17,100	17,100
Retained Earnings	<u>21,397</u>	<u>17,646</u>
	<u>38,497</u>	<u>34,746</u>
	<u>\$ 65,213</u>	<u>\$ 50,420</u>

Signed on behalf of the board



Hans-Karl Muhlegg
Director



Norman Thorne Currie
Director

Auditors' Report to the Shareholders

We have examined the balance sheet of Circo Craft Co. Inc. as at December 31, 1986 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other proce-

dures as we considered necessary in the circumstances. In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chartered Accountants

Coopers & Lybrand
Montréal, Québec
February 6, 1987

Chartered Accountants

Dellisle, H. Desjardins, Gaudin, Desjardins
Granby, Québec
February 6, 1987

Statement of Retained Earnings
for the year ended December 31, 1986

(thousands of dollars)	1986	1985
Balance – Beginning of Year	\$ 17,646	\$ 12,314
Net earnings for the year	3,751	5,332
Balance – End of Year	<u>\$ 21,397</u>	<u>\$ 17,646</u>

Statement of Changes in Financial Position
for the year ended December 31, 1986

(thousands of dollars)	1986	1985
Operating Activities		
Net earnings for the year	\$ 3,751	\$ 5,332
Non-cash items –		
Depreciation	3,533	2,407
Deferred income taxes	1,867	1,572
(Gain) Loss on disposal of fixed assets	(55)	88
	<u>9,096</u>	<u>9,399</u>
Cash used for working capital	<u>(1,604)</u>	<u>(2,841)</u>
	<u>7,492</u>	<u>6,558</u>
Financing Activities		
Increase in long-term debt	2,230	4,000
Decrease in long-term debt	(16)	(17)
	<u>2,214</u>	<u>3,983</u>
Investing Activities		
Acquisition of fixed assets	(12,648)	(16,095)
Proceeds from sale of fixed assets	245	124
Government capital grants for the funding of fixed assets acquired	<u>2,765</u>	<u>538</u>
	<u>(9,638)</u>	<u>(15,433)</u>
Increase (Decrease) in Funds	68	(4,892)
Funds – Beginning of Year	<u>1,314</u>	<u>6,206</u>
Funds – End of Year	<u>\$ 1,382</u>	<u>\$ 1,314</u>
Funds are made up as follows:		
Short-term deposits	4,626	1,975
Bank indebtedness	(3,244)	(661)
	<u>\$ 1,382</u>	<u>\$ 1,314</u>

1. Accounting Policies

Inventories

Inventories are valued at the lower of cost and market. Cost is determined on the first-in, first-out basis for raw materials and maintenance supplies. The cost of work in process inventories includes the cost of raw materials, direct labour and applicable manufacturing overhead, excluding depreciation. Market is defined as replacement cost for raw materials and as net realizable value less cost to complete for work in process.

Fixed assets and depreciation

Fixed assets are reported at cost less accumulated depreciation. Cost is reduced by applicable investment tax credits. Assets acquired prior to 1982 are depreciated using the diminishing balance method at rates varying between 2½% and 15%. Assets acquired after 1981 are depreciated using the straight-line method at rates varying between 2½% and 20%. Machinery utilized for hybrid microelectronic products was depreciated in 1986 using the straight-line method at rates which reflect the fact that such machinery was gradually brought into operation during the year.

Government grants relating to the acquisition of fixed assets are credited to the cost of acquisition.

Foreign exchange

Monetary assets and liabilities are translated into Canadian dollars at December 31 exchange rates and non-monetary assets

and liabilities at the exchange rates prevailing when the assets were acquired and liabilities incurred. Sales and expenses, with the exception of depreciation, are translated at average monthly rates. Depreciation is translated at the rates used in the translation of the relevant asset accounts. Translation gains and losses are included in determining net earnings in the year in which the exchange rate changes.

Income taxes

The company follows the tax allocation method of providing for income taxes.

Deferred income taxes result primarily from the difference between capital cost allowance claimed for income tax purposes and depreciation recorded for accounting purposes.

Investment tax credits

Investment tax credits earned from January 1, 1985 are accounted for using the cost reduction method. Under this method, credits arising from the acquisition of fixed assets are deducted from the cost of the related assets and credits relating to research and development are included in the determination of net earnings for the current year.

Investment tax credits earned prior to December 31, 1984 are recognized as a reduction in the provision for income taxes in the year in which such items are claimed for tax purposes.

2. Government Assistance

The company obtained the following government grants during the year:

- Department of Regional Economic Expansion
An amount of \$1,565,000 (1985 – \$537,000) relating to the acquisition of certain fixed assets has been credited to the cost of acquisition.

- Société de développement industriel du Québec
An amount of \$409,000 (1985 – \$427,000) representing a rebate of interest paid on long-term debt and bank indebtedness in prior years has been included with interest income in the statement of earnings. As at December 31, 1986 the unrealized interest rebate relating to future years amounted to \$570,000.

Notes to Financial Statements
for the year ended December 31, 1986

3. Inventories

	1986	1985
	(thousands of dollars)	
Raw materials	\$ 5,532	\$ 3,434
Work in process	2,820	1,802
Maintenance supplies	1,426	1,020
	<u>\$ 9,778</u>	<u>\$ 6,256</u>

4. Fixed Assets

(thousands of dollars)	1986			1985
	Cost	Accumulated depreciation	Net	Net
Land and non-depreciable assets	\$ 857	\$ —	\$ 857	\$ 857
Buildings	20,410	1,071	19,339	16,756
Machinery and equipment	33,138	9,641	23,497	17,905
Vehicles	255	109	146	267
Deposits on machinery and equipment	357	—	357	88
	<u>\$ 55,017</u>	<u>\$ 10,821</u>	44,196	35,873
Less: Government grants – net of accumulated amortization of \$1,500,000 (1985 – \$897,000)			4,230	2,067
			<u>\$ 39,966</u>	<u>\$ 33,806</u>

5. Long-Term Debt

(thousands of dollars)	1986	1985
a) Long-term debt is comprised of the following:		
Term loan bearing interest at an annual rate of prime plus 1/2% repayable in monthly capital instalments of \$142,000 commencing in January 1988	\$ 6,000	\$ 4,000
Balance of purchase price bearing interest at an annual rate of 9%, secured by a first mortgage on a certain property, repayable in monthly instalments of \$10,350 including principal and interest commencing in July 1984 and due in June 1989	1,212	1,228
Term loan from the Minister of Regional Industrial Expansion, non-interest bearing, repayable in three yearly equal instalments beginning September 1988	230	—
	<u>7,442</u>	<u>5,228</u>
Less: Current portion	18	16
	<u>\$ 7,424</u>	<u>\$ 5,212</u>

Notes to Financial Statements
for the year ended December 31, 1986

5. Long-Term Debt (continued)

The aggregate amount of payments required in each of the next five years to meet retirement provisions is as follows:

Year ending	
December 31, 1987	\$ 18,000
December 31, 1988	1,800,200
December 31, 1989	1,791,100
December 31, 1990	1,780,635
December 31, 1991	888,000

b) The term loan is guaranteed by a demand debenture in the amount of \$6,800,000. Under the terms of a Trust Deed, this debenture is secured by a specific charge of a second rank on a certain property.

6. Share Capital

a) As at December 31, 1986 the authorized share capital consists of the following:

- An unlimited number of First Preferred shares, without nominal or par value, issuable in series
- An unlimited number of Second Preferred shares, without nominal or par value, issuable in series
- An unlimited number of Common shares, without nominal or par value

The directors are responsible for defining the rights, privileges, restrictions and the conditions attached to each series of the First and Second Preferred shares upon their issuance.

b) The issued and paid capital stock as at December 31, 1986 consists of the following:

(thousands of dollars)	1986	1985
• 12,072,700 Common shares	\$ 17,100	\$ 17,100
• 1,200,000 Second Preferred shares, series A (none in 1985) (note 6 c)	—	—
	<u>\$ 17,100</u>	<u>\$ 17,100</u>

c) The company issued Second Preferred shares, Series A in connection with the financial assistance amounting to \$1,200,000 received from the Government of Quebec by the company for costs incurred for the installation of the thick film hybrid circuit facility. Such shares were issued in 1986 and are non-voting and are entitled to receive, as and when declared, an aggregate non-cumulative preferential dividend of \$1 and, upon liquidation, to receive an aggregate amount of \$1. The company issued such shares for the purposes of such financial assistance and will repurchase such shares at their issue price upon request of the holder thereof if the majority of the common shares or more than half of the assets of the company are transferred, within five years following the granting of such financial assistance, to an enterprise whose head office is not located in the Province of Quebec or to an individual who does not reside therein. The proceeds from this issue were deducted from the cost of certain fixed assets acquired during the year.

Notes to Financial Statements
for the year ended December 31, 1986

7. Income Taxes

(thousands of dollars)	1986	1985
The company's provision for income taxes includes the following:		
Current	\$ 319	\$ 1,607
Deferred	1,867	1,572
	<u>\$ 2,186</u>	<u>\$ 3,179</u>
The company's effective income tax rate is calculated as follows:	1986	1985
	%	%
Combined basic federal and provincial income tax rate	43.25	42.25
Increase (decrease) in income tax rate resulting from:		
Manufacturing and processing reduction	(6.00)	(6.00)
Inventory allowance	(0.04)	(0.98)
Other	(0.39)	2.08
	<u>36.82</u>	<u>37.35</u>

8. Legal Proceedings

<p>The company has been named defendant, in 1982, in a legal action claiming \$531,878 for unpaid amounts relating to the construction of its Kirkland plant. An amount of \$385,176 has been recorded as accounts payable as at December 31, 1986. Furthermore, the company has</p>	<p>initiated a legal action of its own claiming \$533,000 for damages due to unrespected specifications in the contract. The amount recorded as accounts payable is deemed by management to be sufficient to cover the eventuality of an unfavourable judgement.</p>
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9. Major Clients

<p>Approximately 57% (1985 – 57%) of the company's sales were to an unrelated multinational corporation which has</p>	<p>several divisions responsible for their own purchasing decisions.</p>
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Notes to Financial Statements
for the year ended December 31, 1986

10. Related Party Transactions

Shop supplies and machinery and equipment purchased from the parent company at fair market value are as follows:

(thousands of dollars)	1986	1985
Shop supplies	<u>\$ 1,406</u>	<u>\$ 1,049</u>
Machinery and equipment	<u>\$ 199</u>	<u>\$ 390</u>

The balance sheet as at December 31, 1986 includes accounts payable to the parent company of \$843,000 (1985 – \$12,000).

11. Commitments

Capital expenditures committed at December 31, 1986 amount to approximately \$1,055,000.

12. Geographic Segments

Sales to foreign countries amounted to approximately 13% in 1986 (1985 – 5%) of the company's total sales.

13. Comparative Figures

Certain comparative figures have been reclassified in order to match the presentation adopted in 1986.

Selected Data – 10 years (unaudited)

For the year	1986	1985	1984
Operations			
(thousands of dollars)			
Sales	55,335	45,317	37,335
Cost of Sales	39,435	28,530	22,003
Operating Margin	15,900	16,787	15,332
Depreciation	3,533	2,407	1,529
Interest (Income) Expense – net	(122)	(563)	532
Pre-tax Earnings	5,937	8,511	9,335
Income Taxes	2,186	3,179	2,700
Net Earnings	3,751	5,332	6,635
Balance Sheet			
(thousands of dollars)			
Total Assets	65,213	50,420	40,832
Current Assets	25,247	16,614	19,964
Current Liabilities	13,427	6,464	7,763
Working Capital	11,820	10,150	12,201
Shareholder's Equity	38,497	34,746	29,414
Long-Term Debt	7,424	5,212	1,229
Cash Flow (thousands of dollars)			
Cash Flow from Operations	9,096	9,399	8,797
Capital Expenditures	12,648	16,095	12,691
Cash Dividends	—	—	594
Key Financial Ratios			
Current Ratio	1.9	2.6	2.6
Net Earnings as a Percentage of Sales	6.8	11.8	17.8
Return on Average Shareholders' Equity	10.2	16.6	36.4
Sales/Fixed Assets	1.39	1.34	1.82
Sales/Total Assets	0.85	0.90	0.92
Per Share Data* (in dollars)			
Net Earnings	\$0.31	\$0.44	\$0.64
Dividends Paid	—	—	0.06
Shareholder's Equity	3.19	2.88	2.44
Other Information			
Number of Employees at Year-End			
Printed Circuit Division	550	460	465
Microelectronics Division	190	70	15
Total	740	530	480
Total Square Footage of Plant Facility			
Printed Circuit Division	185,000	175,000	110,000
Microelectronics Division	40,000	40,000	—
Available Future Expansion	105,000	115,000	142,000
Total	330,000	330,000	252,000

* By a certificate of amendment dated August 24, 1984, the outstanding common shares of the company were subdivided into 10,000,000 common shares. Per share

data for the years 1973 to 1983 have therefore been calculated based on the assumption that 10,000,000 shares were issued and outstanding.

1983	1982	1981	1980	1979	1978	1977
19,593	11,893	12,195	7,196	6,010	2,617	1,693
12,415	8,334	7,282	4,688	3,848	1,859	1,271
7,178	3,559	4,913	2,508	2,162	758	422
1,151	610	176	149	114	57	32
776	586	40	63	18	38	22
3,113	897	3,689	1,646	1,512	270	141
543	389	1,206	645	475	59	30
2,570	508	2,483	1,001	1,037	211	111
19,888	16,079	17,540	4,982	3,448	1,491	1,004
9,272	7,441	9,618	3,260	2,152	886	626
4,409	3,561	5,222	1,394	1,079	573	323
4,863	3,880	4,396	1,866	1,073	313	303
7,046	4,476	4,594	2,363	1,462	588	377
6,607	6,265	6,395	794	560	234	263
3,857	1,580	3,559	1,238	1,402	322	148
3,832	2,579	6,387	609	852	314	179
—	627	252	100	163	—	—
2.1	2.1	1.8	2.2	1.9	1.6	1.9
13.1	4.3	20.4	13.9	17.3	8.1	6.6
44.6	11.2	71.4	52.3	101.2	43.7	34.5
1.85	1.38	1.54	4.18	4.64	4.33	4.48
0.98	0.74	0.70	1.44	1.74	1.76	1.69
\$0.26	\$0.05	\$0.25	\$0.10	\$0.10	\$0.02	\$0.01
—	0.06	0.02	0.01	0.02	—	—
0.70	0.45	0.46	0.23	0.15	0.06	0.04
317	156	167	112	135	120	119
—	—	—	—	—	—	—
317	156	167	112	135	120	119
100,000	100,000	35,000	35,000	30,000	20,000	20,000
—	—	—	—	—	—	—
—	—	65,000	—	—	—	—
100,000	100,000	100,000	35,000	30,000	20,000	20,000

Board of Directors

Hans-Karl Muhlegg

President and
Chief Executive Officer.

Renato Cervini

Vice President and
Chief Operating Officer.

Norman Thorne Currie, F.C.A.*

President and
Chief Executive Officer,
Corporate Foods Limited.

Derek Austin Hanson, Q.C.

Partner,
Clarkson, Tétrault,
(Barristers and Solicitors).

Peter David Kyle, C.A.*

Chairman and
Chief Executive Officer,
JM Asbestos Inc.

Jean-Guy Fontaine, C.G.A.*

Vice President, Finance and
Secretary

Lorenz Mink

Vice President,
Microelectronics Division.

*Member of the Audit Committee

Officers

Hans-Karl Muhlegg

President and
Chief Executive Officer.
(44 years of age) A co-founder of the
Company, 23 years of experience in
printed circuit manufacturing and sales.

Renato Cervini

Vice President and
Chief Operating Officer.
(40 years of age) A co-founder of the
Company, 19 years of experience in
printed circuit manufacturing.

Jean-Guy Fontaine, C.G.A.

Vice President,
Finance and Secretary.
(38 years of age) With the Company
since 1980. A senior auditor with
a chartered accounting firm for nine
years.

Lorenz Mink

Vice President,
Microelectronics Division.
(46 years of age) With the Company
since 1984. 22 years of experience in
hybrid circuit manufacturing.

Louis-Philippe Constantin, C.A.

Controller.
(43 years of age) With the Company
since 1982. A chartered accountant
with 22 years of corporate financial
management experience.

Corporate Information

General Administration and

Head Office

17600 Trans Canada Highway
Kirkland, Que. H9J 3A3
514-694-8000
Telex: 05-823523
Twx: 610-531-6600

Sales Office-Multilayer and Double-Sided Printed Circuits

17600 Trans Canada Highway
Kirkland, Que. H9J 3A3
514-694-8000

Sales Office-Hybrid Circuits

205 Brunswick Blvd.,
Pointe-Claire, Que. H9R 1A5
514-694-8400
Telex: 05-823642

Manufacturing Facilities

17600 Trans Canada Highway
Kirkland, Que. H9J 3A3
514-694-8000

379 Brignon Street,
Granby, Que. J2G 8N5
514-378-0193

205 Brunswick Blvd.,
Pointe-Claire, Que. H9R 1A5
514-694-8400

Bank

The Royal Bank of Canada,
405 de Maisonneuve Blvd. West,
Montreal, Que. H3A 1L7

Legal Advisors

Clarkson, Tétrault
630 Dorchester Blvd. West
Montreal, Que. H3B 1V7

Auditors

Coopers & Lybrand, C.A.,
630 Dorchester Blvd. West,
Montreal, Que. H3B 1W5
and
Dallaire, Alain, Brodeur,
Dextrateur, C.A.
74 Court Street
Granby, Que. J2G 4Y5

Transfer Agent and Registrar

Montreal Trust Company,
at its principal offices in Montreal,
Toronto, Winnipeg, Regina, Calgary,
and Vancouver

Stock Listing

The shares of Circo Craft are traded
on the Montreal and Toronto Stock
Exchanges under the stock symbol,
CCC. Market information can be
found in the stock tables of Canadian
newspapers under the acronym
CIRCO CRFT.

Shareholders Information

Requests for information should
be directed to:

The office of the Secretary
Circo Craft Co. Inc.
17600 Trans Canada Highway
Kirkland, Que. H9J 3A3

Si vous désirez vous procurer
la version française
du présent rapport,
veuillez vous adresser comme suit:
Le Bureau du Secrétaire
Compagnie Circo Craft Inc.
17 600, route Trans Canada
Kirkland (Québec)
Canada H9J 3A3



Circo Craft Co. Inc.
17600 Trans Canada Highway
Kirkland, Quebec
Canada H9J 3A3