

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### of Operating Results and Changes in Financial Position

#### 1. GENERAL

Management's discussion and analysis of operating results and changes in financial position ("MD&A") of ADF Group Inc. ("ADF" or the "Corporation") concerns the fiscal year ended January 31, 2010, compared with the fiscal years ended January 31, 2009 and 2008, as well as the Corporation's financial position at those dates. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the fiscal year ended January 31, 2010, accompanying this MD&A.

This MD&A covers all major events that occurred during fiscal 2010 and between February 1, 2010 and April 14, 2010, on which date ADF Group's Board of Directors approved the consolidated financial statements as well as the management's discussion and analysis for the fiscal year ended January 31, 2010.

All amounts and tabular figures herein are expressed in thousands of Canadian dollars, unless otherwise specified.

During the fiscal year ended January 31, 2010, the Corporation used the following exchange rates between the Canadian and U.S. dollars:

	Statement of Earnings and Comprehensive	
	Income	Balance Sheet
	(CA\$/US\$)	(CA\$/US\$)
First quarter - April 30, 2009	1.2446	1.1930
Second quarter - July 31, 2009	1.1324	1.0775
Third quarter - October 31, 2009	1.0754	1.0819
Fourth quarter - January 31, 2010	1.0530	1.0693

#### 2. CORPORATE PROFILE

From a blacksmith shop founded in 1956, ADF Group Inc. has become over the years a North American leader in the design and engineering of connections, fabrication and installation of complex steel superstructures, heavy and oversized steel built-ups, as well as miscellaneous and architectural metalwork for the five principal segments of the non-residential construction market, namely: office towers and high-rises, commercial and recreational buildings, airport facilities, industrial complexes and transport infrastructures. The Corporation operates a modern 58,530-square-metre (630,000-square-foot) fabrication plant in Canada and uses the latest technologies in its industry.

A pioneer in the development and implementation of innovative solutions, the Corporation is recognized for its engineering expertise, its project management, its important fabrication capacity and its skills in two specialized market niches: the fabrication of steel superstructures with a high level of architectural and geometric complexity, and projects subject to fast-track schedules. In addition, ADF recently obtained its qualification for the nuclear system requirements in effect in America, which will allow the Corporation to develop a third specialized market niche: the fabrication of steel structures for the construction or refurbishment of nuclear power plants.

Its commitment to deliver every project in accordance with the industry's highest quality standards constitutes a core aspect of the Corporation's mission.

#### 3. FORWARD-LOOKING STATEMENTS

Various sections of this MD&A may refer to the Corporation management's expectations regarding ADF Group's future performance. Forward-looking statements include information concerning ADF Group's probable or foreseeable future results of operations and financial position and are therefore subject to certain risks and uncertainties in regard to their realization. These forward-looking statements are based on currently available data in regard to competition, financial position, economic conditions and operating plans. Important factors, in addition to those presented in Section 16 "External Factors to Which the Corporation's Performance is Exposed" herein, could affect the future results of ADF Group and could cause those results to differ materially from those expressed in any forward-looking statements.

#### 4. REVENUE AND COST RECOGNITION

As further discussed under Section 20 a) "Revenue and Cost Recognition" hereinafter, in accordance with the construction industry's standard practices ADF uses the percentage-of-completion method to estimate the revenues and costs recorded for every contract and for every given financial period. The mechanisms related to the percentage-of-completion method can cause fluctuations in the recognition of revenues and costs from one quarter to another with regard to the contracts underway. Consequently, while the Corporation tends to realize its profitability objective on its overall order backlog and the full project execution term, gross margins can vary from quarter to quarter based on specific mix of revenues and costs recorded on all projects for every given period.

## 5. SIGNIFICANT EVENTS OF THE FISCAL YEAR ENDED JANUARY 31, 2010 AND SUBSEQUENT EVENTS

Management believes that the following events are relatively important for any investor seeking to form an opinion about the Corporation's activities and the last fiscal year's financial results.

### a) Redemption of Subordinate Voting Shares in the Normal Course of Business

On April 15, 2009, the Corporation announced its intention to redeem, over a 12-month period beginning April 16, 2009, for cancellation purposes, up to 1,850,000 of its outstanding subordinate voting shares, representing approximately 10% of this class of shares held by the public and outstanding.

As at January 31, 2010, the Corporation redeemed all of its 1,850,000 subordinate voting shares under the normal course issuer bid ("NCIB") program, for a net consideration of \$4.5 million, representing an average price of \$2.45 per share.

### b) Foreign Currency Hedge

During the last fiscal year, in accordance with its foreign currency hedge policy, ADF Group subscribed to the following foreign forward contracts:

- In February 2009, the Corporation agreed to sell US\$10 million, at rates between CA\$1.2425 and CA\$1.2591 for US\$1.00. These forward contracts matured as follows: US\$1.25 million in April 2009, US\$1.25 million in July 2009, US\$1.25 million in October 2009 and US\$6.25 million in January 2010;
- In July 2009, the Corporation agreed to sell US\$12 million, at a rate of CA\$1.16 for US\$1.00. These forward contracts, each totalling US\$3 million, mature as follows: January 2010, April 2010, July 2010 and October 2010; and
- In October 2009, the Corporation agreed to sell US\$8 million, at a rate of CA\$1.08 for US\$1.00. These forward contracts, each totalling US\$2 million, mature as follows: April 2010, July 2010, October 2010 and January 2011.

As at January 31, 2010, the residual commitments on these foreign exchange contracts totalled US\$17 million, at an average conversion rate of CA\$1.1224 for US\$1.00. These commitments represent a foreign currency hedge of about 45% of the net risk between the future cash inflows and outflows denominated in U.S. dollars in regard to the order backlog in hand for the fiscal year ending January 31, 2011. These foreign exchange contracts mature as follows: US\$5 million in April 2010, US\$5 million in July 2010, US\$5 million in October 2010 and US\$2 million in January 2011.

### c) New Major Contracts

In May 2009, ADF Group was awarded a major contract totalling \$22 million, which includes the fabrication, the supply of steel and the delivery of the steel structure of a significant portion of the 65-storey high WTC Tower 4 in New York, U.S.A.

In July 2009, the Corporation was awarded a \$77 million contract in the North American public infrastructures sector. Under the terms of the contract, ADF Group fabricates the oversized steel components with complex geometry each weighing close to 100 tons, as well as highly complex architectural elements, and also supplies the design and engineering of connections as well as the steel.

### d) Order Backlog

As at January 31, 2010, ADF Group's order backlog totalled \$116 million, compared with \$99 million on the same date a year earlier. This 17% increase, compared with January 31, 2009, is attributable to the contract awards mentioned previously. As at January 31, 2010, 63% of the order backlog consisted of fabrication hours - the Corporation's core business and most value-added activity - compared with 82% in 2009. Contracts in hand as at January 31, 2010 will be progressively executed over the next 12 to 15 months.

### e) Investment Program and New Financing

In order to enhance its service capacity after being awarded the \$77 million contract in July 2009, ADF announced the creation of about 50 additional jobs at the Terrebonne plant, as well as a new investment program of up to \$6 million to acquire additional production equipment, including two 50-ton overhead cranes and to re-engineer one of the fabrication bays for the production of oversized steel components.

As at January 31, 2010, these new investments totalled close to \$5.5 million. Of this amount, \$3.9 million has already been disbursed, while the balance was committed toward different suppliers. This investment program will be completed during the first six months ending July 31, 2010.

To finance this program the Corporation concluded, in October 2009, an agreement with its principal long-term lender amending the current financing. (See Section 5 g) "Events Subsequent to the 2010 Fiscal Year End" hereinafter.)

### f) Development of a New Market Niche

At the beginning of the second quarter of fiscal 2010, ADF took steps to comply with the nuclear system requirements in effect in order to participate in the fabrication of steel structures for nuclear power plants in North America and overseas - a specialized activity that fits ideally with ADF's positioning strategy in high value-added niches.

At the end of fiscal 2010, ADF reached that objective and now meets the requirements of the American Society of Mechanical Engineering ("ASME") qualification.

Given, among others, the large number of nuclear power plants in operation in North America that could be the focus of upgrading work in the coming years, this new market holds potential for ADF and will give the Corporation access to a third market niche, in addition to steel superstructures and fast-track projects.

g) **Events Subsequent to the 2010 Fiscal Year-End**

On February 11, 2010, to finance a portion of the investment program described under Section 5 e) "Investment Program and New Financing", the Corporation used an additional \$4.2 million financing from its principal long-term lender. The terms and conditions of this additional financing targeted by the amendment are essentially the same as those of the financing in place, in particular with regard to the interest rate and the monthly instalments, only the repayment schedule of which will be extended for a 21-month period. In addition to the universal guarantee on the building and on specific equipment, the long-term lender has a specific guarantee on the new equipment acquired as part of this new investment program. During the guarantee provisioning period in the fall of 2009, the monthly repayments were subject of a moratorium. The US\$0.2 million monthly repayments resumed on March 1, 2010.

On April 15, 2010, the Corporation announced its intention to redeem, over a 12-month period ending no later than April 18, 2011, for cancellation purposes, up to 1,940,000 of its outstanding subordinate voting shares, representing approximately 10% of this class of shares held by the public and outstanding. When the Corporation considers it appropriate, the shares will be redeemed through the Toronto Stock Exchange mechanisms and in compliance with its requirements.

**6. SELECTED ANNUAL FINANCIAL INFORMATION**

The financial information discussed in the following sections is presented in accordance with Canadian generally accepted accounting policies ("GAAP"), unless otherwise indicated.

<u>Fiscal Years Ended January 31,</u>	<u>(In thousands of \$, except per-share amounts)</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues	65,740	98,851	59,470
Net earnings	6,992	15,574	33,963
— Basic per share	0.20	0.43	1.02
— Diluted per share	0.19	0.42	0.98
Total assets <sup>1</sup>	103,368	115,402	96,214
Long-term liabilities	5,358	6,874	8,089
Dividend per share	—	—	—

1. Restated. For more details, see Note 8 "Property, Plant and Equipment" of the notes to the consolidated financial statements for January 31, 2010, herein included.

Analysis of the table shows the following changes:

- A 33% decrease in revenues during the fiscal year ended January 31, 2010, compared with the fiscal year ended January 31, 2009, and an 11% increase compared with the fiscal year ended January 31, 2008. The decrease in revenues compared with January 31, 2009, is explained by various factors, of which the different mix of revenues recorded on contracts executed during the two comparable years (see Section 7 b) "Revenues and Gross Margin"), as well as delays attributable to clients in the progress of certain major contracts. According to the revenue and cost recognition method described in Section 20 a) "Revenue and Cost Recognition", the revenues recorded at the end of every period on a given contract are computed according to the percentage of costs incurred attributable to the contract in question. Therefore, the factors mentioned previously had the effect of reducing the incurred costs and, consequently, the recorded revenues;
- A decrease in net earnings compared with the two previous fiscal years, which is primarily explained by a decrease in the volume of business during the 2010 fiscal year, by the recognition of a \$3.8 million foreign exchange gain during the 2009 fiscal year, and by the recognition of net tax attributes of \$28.2 million during the 2008 fiscal year;
- A 10% decrease in assets as at January 31, 2010, compared with January 31, 2009, primarily attributable to net decreases of \$9.4 million in short-term assets and \$2.6 million in long-term assets, for a total net amount of \$12 million. As at January 31, 2010, assets posted a 7% net increase over that of January 31, 2008, for the most part attributable to increases of \$0.3 million in short-term assets and of \$6.9 million in long-term assets, representing a general increase of \$7.2 million; and
- A reduction of 22.1% and 33.8% in long-term liabilities as at January 31, 2010, compared with January 31, 2009 and 2008 respectively, resulting primarily from the repayments on the long-term debt, and the fluctuations in the exchange rates between the Canadian and American currencies, since the majority of the long-term debt is denominated in U.S. dollars.

Moreover, the Corporation has not declared any dividends in the past years, having a strategy of reinvesting its liquidity in its continuing operations, the redemption of a part of its subordinate voting shares in the normal course of business, the acquisition of property, plant and equipment and intangible assets and the reduction of its long-term debt.

## 7. ADDITIONAL INFORMATION AND ANALYSIS OF OPERATING RESULTS FOR THE FISCAL YEAR ENDED JANUARY 31, 2010

### a) Business Continuity

For the 12-month period between February 1, 2009 and January 31, 2010, the Corporation pursued its activities consisting of the connection design and engineering, fabrication and installation of complex steel structures and heavy built-ups, mainly in the United States and Canada.

### b) Revenues and Gross Margin

Fiscal Years Ended January 31,		(In thousands of \$, except %)					
	2010	2009	Changes 2010/2009		2008	Changes 2010/2008	
	\$	\$	\$	%	\$	\$	%
Revenues	65,740	98,851	(33,111)	(33)%	59,470	6,270	11%
Cost of goods sold	47,087	69,396	(22,309)	(32)%	39,983	7,104	18%
Gross margin	18,653	29,455	(10,802)	(37)%	19,487	(834)	(4)%
– As a % of revenues	28.4%	29.8%	–	(1.4)%	32.8%	–	(4.4)%

#### – Revenues

As mentioned in the previous section, the decrease in revenues during the fiscal year ended January 31, 2010, compared with the fiscal year ended January 31, 2009, is for the most part explained by the different mix of revenues recorded on contracts executed during the two comparable years, as well as delays incurred in the progress of certain major contracts. Consequently, these factors reduced the costs incurred on contracts, which are used as a basis for the computation of revenues posted to the Corporation's books at the end of every period. Therefore, for the fiscal year ended January 31, 2010, the costs related to the contracts decreased by 37% compared with the 2009 fiscal year. Given the mix of the current order backlog, management expects an increase in revenues during the next quarters.

In terms of economic dependency, two clients accounted for an aggregate 70% of revenues during the fiscal year ended January 31, 2010, each of which having accounted for more than 10% of the Corporation's revenues, in amounts ranging from \$10 million to \$36 million severally. Although the Corporation strives to limit the concentration of its revenues, given the nature of its activities and market, its revenues are likely to remain concentrated among a restricted number of clients in upcoming quarters. However, it is rarely the same clients who account for a significant proportion of its revenues from one fiscal year to the next.

#### – Gross Margin

For the fiscal year ended January 31, 2010, the gross margin decreased in dollar value from the 2009 fiscal year, mainly as a result of the revenue decrease previously mentioned. However, the gross margin as a percentage of revenue remained basically the same compared with the previous year, due to the fact that during the fourth quarter ended January 31, 2010, the Corporation settled certain contractual changes for which costs were recorded in previous quarters.

Increases or decreases in the price of the raw material (steel) do not generally have a material impact on the gross margin since clients supply the steel to be transformed by ADF for certain contracts, whereas protection clauses with regard to price-level changes are usually included in contracts where ADF supplies the steel.

### c) Selling and Administrative Expenses

Fiscal Years Ended January 31,		(In thousands of \$, except %)					
	2010	2009	Changes 2010/2009		2008	Changes 2010/2008	
	\$	\$	\$	%	\$	\$	%
Selling and administrative expenses	4,493	6,496	(2,003)	(31)%	4,418	75	2%
– As a % of revenues	6.8%	6.6%	–	0.2%	7.4%	–	(0.6)%

The decrease in selling and administrative expenses during the 2010 fiscal year compared with the 2009 fiscal year is due to:

- A \$1.0 million recognition, as at January 31, 2009, for anticipated losses related to an indemnity of a former subsidiary. The Corporation did not have to increase this provision as at January 31, 2010;
- A \$0.5 million decrease in anticipated costs related to a legal dispute with regard to another project following recent favourable developments; and
- A \$0.4 million reduction in the provision for payment of the tax on capital.

## d) Amortization

Fiscal Years Ended January 31,		(In thousands of \$, except %)					
	2010	2009	Changes 2010/2009		2008	Changes 2010/2008	
	\$	\$	\$	%	\$	\$	%
<b>Amortization</b>	<b>3,057</b>	<b>2,372</b>	<b>685</b>	<b>29%</b>	<b>2,474</b>	<b>583</b>	<b>24%</b>
- As a % of revenues	4.7%	2.4%	—	2.3%	4.2%	—	0.5%

The increase in amortization during the 2010 fiscal year compared with the 2009 fiscal year is mainly explained by the commissioning of all the new production equipment acquired during the last two fiscal years, and of the intangible assets developed internally.

## e) (Interest Income) Financial Charges

Fiscal Years Ended January 31,		(In thousands of \$, except %)					
	2010	2009	Changes 2010/2009		2008	Changes 2010/2008	
	\$	\$	\$	%	\$	\$	%
<b>(Interest income) financial charges</b>	<b>(489)</b>	<b>307</b>	<b>(796)</b>	<b>(259)%</b>	<b>1,417</b>	<b>(1,906)</b>	<b>(135)%</b>
- As a % of revenues	(0.7)%	0.3%	—	(1.0)%	2.4%	—	(3.1)%

Financial charges decreased during the 2010 fiscal year compared with the 2009 fiscal year due to the monthly repayments of the long-term debt, the decrease in the floating interest rate and the increase in interest income from available liquidities, which are applied against financial charges.

The Corporation estimates that a 1% fluctuation in the effective interest rate on the long-term debt would have an impact of about \$0.1 million on earnings before income taxes on an annual basis. However, as long as the Corporation's cash, cash equivalents and short-term investments exceed its long-term debt, as it is the case now, the adverse impact of a possible increase in interest rates on the debt service would be offset by the favourable impact of such an increase on the Corporation's interest income.

## f) (Gain) Loss on Foreign Exchange

Fiscal Years Ended January 31,		(In thousands of \$, except %)					
	2010	2009	Changes 2010/2009		2008	Changes 2010/2008	
	\$	\$	\$	%	\$	\$	%
<b>(Gain) loss on foreign exchange</b>	<b>(1,680)</b>	<b>(3,759)</b>	<b>2,079</b>	<b>(55)%</b>	<b>1,730</b>	<b>(3,410)</b>	<b>(197)%</b>
- As a % of revenues	(2.6)%	(3.8)%	—	1.2%	2.9%	—	(5.5)%

The foreign exchange gain realized in the 2010 fiscal year includes a \$1.9 million foreign exchange gain on ongoing operations and a \$2.5 million foreign exchange gain on matured foreign currency forwards, net of a \$2.7 million foreign exchange loss on the conversion of foreign subsidiaries.

As at January 31, 2010, the Corporation posted a favourable fair value position of \$0.8 million on unmatured foreign currency forwards in the amount of US\$17 million, representing an average rate of CA\$1.1224 for US\$1.00, compared with an unfavourable fair value position of \$1.1 million at January 31, 2009, on unmatured foreign currency forwards on that date.

Like in previous years, the Corporation maintained its foreign exchange policy. These derivative financial instruments are classified as held for trading and are measured at their fair value at the end of every period, since they are not designated as part of an effective hedging relationship, and consequently, hedge accounting was not applied.

The Corporation's principal foreign exchange risk resides in the fact that its revenues are mostly denominated in U.S. dollars while its costs, other than raw material (steel), are mostly in Canadian dollars.

As shown in the following table, taking into account the foreign currency forwards in the amount of US\$17 million and the net change position between the assets and liabilities denominated in U.S. dollars in the amount of US\$21.9 million, ADF had a US\$4.9 million net foreign exchange position as at January 31, 2010.

As at January 31, 2010, the assets and liabilities denominated in U.S. dollars included the following amounts:

	(In thousands of \$)	
	US\$	CA\$
Cash and cash equivalents	3,334	3,565
Accounts receivable	12,319	13,173
Holdbacks on contracts receivable	3,188	3,409
Work in progress	1,417	1,515
Future income tax assets	10,571	11,304
	<b>30,829</b>	<b>32,966</b>
Accounts payable and accrued charges	(621)	(664)
Deferred revenues	(1,835)	(1,962)
Long-term debt	(6,400)	(6,844)
Other liabilities	(55)	(59)
	<b>(8,911)</b>	<b>(9,529)</b>
Net currency risk related to the balance sheet items	21,918	23,437
Foreign currency forwards	(17,000)	(19,080)
Net foreign exchange position	<b>4,918</b>	<b>4,357</b>

Thus, a 10% fluctuation in the exchange rate between the Canadian and U.S. dollars could result in a \$2.3 million variation in earnings before income taxes, taking into account this net foreign exchange position. However, this information does not take into account the impact of the fluctuations in foreign exchange on revenues and other miscellaneous expenses for a complete fiscal year.

g) **Income Taxes**

Fiscal Years Ended January 31,	(In thousands of \$, except %)						
	2010	2009	Changes 2010/2009		2008	Changes 2010/2008	
	\$	\$	\$	%	\$	\$	%
<b>Income taxes</b>	<b>6,280</b>	<b>8,465</b>	<b>(2,185)</b>	<b>(26)%</b>	<b>(22,001)</b>	<b>28,281</b>	<b>(129)%</b>
– As a % of revenues	9.6%	8.6%	—	1%	(37)%	—	46.6%

For the 2010 fiscal year, income tax expenses represent an effective tax rate of 47.3%, compared with 35.2% for the 2009 fiscal year. A portion of the 2010 earnings was generated by foreign subsidiaries, which are subject to a higher tax rate than in Canada. Furthermore, a variance caused by a non-deductible loss on the conversion of integrated foreign subsidiaries also had an upward impact on the tax rate. Finally, the tax attributes were adjusted to take into account the anticipated decrease in Canada's tax rates. However, it should be noted that the tax expense has no material impact on the Corporation's cash outflows. Because of the available tax attributes, a \$0.2 million expense represented the sole outflow for the fiscal year 2010.

It should be noted that a balance of \$14 million relating to tax attributes remains available as at January 31, 2010. This will have a favourable impact on the future disbursements of the Corporation, which will not have to pay future income taxes until the full amount of the tax attributes has been recorded in the different jurisdictions where the Corporation executes contracts. Once these future income tax assets are fully used in each of the jurisdictions, the Corporation will be required to resume paying income taxes.

h) **Net Earnings, Basic and Diluted Earnings Per Share**

Fiscal Years Ended January 31,	(In thousands of \$, except per-share amounts and %)		
	2010	2009	2008
	\$	\$	\$
<b>Total net earnings</b>	<b>6,992</b>	<b>15,574</b>	<b>33,963</b>
– As a % of revenues	11%	16%	57%
Total basic earnings per share	0.20	0.43	1.02
Total diluted earnings per share	0.19	0.42	0.98

The reduction in net earnings during the 2010 fiscal year compared with 2009 fiscal year is attributable to the principal facts previously mentioned in this Section.

## 8. COMMENTS ON QUARTERLY RESULTS

### a) Results for the Last 12 Quarters

Trends observed in the analysis of quarterly results do not necessarily represent those of future results of the Corporation. ADF's fabrication activities are not, as such, subject to seasonal fluctuations. However, the non-residential construction market in which the Corporation is active goes through upward and downward cycles, as attested to by the current economic context. Generally, fluctuations in the following indicators from one quarter to another result mainly from the changes in the revenue and cost mix in connection with different projects and for every given period, together with the time lag between the recognition of costs and revenues, where appropriate, that can arise given the use of estimates based on the percentage of completion.

Fiscal Year Ended January 31,	(In thousands of \$, except per-share amounts and %)			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
	\$	\$	\$	\$
<b>2010</b>				
Revenues	16,752	18,748	15,769	14,471
Gross margin <sup>1</sup>	5,384	4,586	3,932	4,751
– As a % of revenues	32%	24%	25%	33%
EBITDA <sup>2</sup>	4,080	3,581	3,276	3,223
– As a % of revenues	24%	19%	21%	22%
Earnings before income taxes	3,985	3,732	2,674	2,881
– As a % of revenues	24%	20%	17%	20%
Net earnings	2,240	1,845	1,380	1,527
– Basic per share	0.06	0.05	0.04	0.04
– Diluted per share	0.06	0.05	0.04	0.04
<b>2009</b>				
Revenues	25,159	23,994	25,104	24,594
Gross margin <sup>1</sup>	7,115	6,943	7,295	8,102
– As a % of revenues	28%	29%	29%	33%
EBITDA <sup>2</sup>	5,900	6,081	5,776	5,202
– As a % of revenues	23%	25%	23%	21%
Earnings before income taxes	5,149	6,085	9,092	3,713
– As a % of revenues	20%	25%	36%	15%
Net earnings	3,234	4,050	6,518	1,772
– Basic per share	0.09	0.11	0.18	0.05
– Diluted per share	0.09	0.11	0.18	0.05
<b>2008</b>				
Revenues	10,919	13,767	15,535	19,249
Gross margin <sup>1</sup>	3,930	5,281	5,355	4,921
– As a % of revenues	36%	38%	34%	26%
EBITDA <sup>2</sup>	2,690	4,094	4,372	3,913
– As a % of revenues	25%	30%	28%	20%
Earnings before income taxes	1,068	2,420	4,891	3,583
– As a % of revenues	10%	18%	31%	19%
Net earnings	1,403	2,211	27,576	2,773
– Basic per share	0.05	0.07	0.80	0.08
– Diluted per share	0.04	0.07	0.77	0.08

1. Gross margin, excluding foreign exchange variation for the periods included in the 2010, 2009 and 2008 fiscal years.

2. See Section 10 "Non-Canadian GAAP Financial Indicators" for the definition of EBITDA.

### b) Results for the Fourth Quarter Ended January 31, 2010

Fiscal 2010 fourth-quarter results, compared with the corresponding period in 2009, are in line with the trend observed throughout the year. More precisely, revenues for the fourth quarter ended January 31, 2010, totalled \$14.5 million, posting a decrease of \$10.1 million or 41% from the fourth quarter of fiscal 2009.

However, as a percentage of revenues, the Corporation's net earnings for the fourth quarter ended January 31, 2010 were higher than those for the fourth quarter ended January 31, 2009, standing at 10.6% in 2010 compared with 7.2% in 2009. In addition to an increase in the EBITDA margin, this difference is largely explained by the recognition of a \$0.2 million gain on foreign exchange in 2010 compared with a \$0.8 million loss on foreign exchange in 2009. However, the tax rate was higher in 2010 than in 2009.

## 9. CHANGES IN ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY AS AT JANUARY 31, 2010, COMPARED WITH JANUARY 31, 2009

### a) Assets

ADF closed the 2010 fiscal year with assets of \$103.4 million, compared with \$115.4 million as at January 31, 2009. This \$12 million decrease is explained by the following factors:

– *Cash, cash equivalents and short-term investments*

A \$11.1 million decrease resulting from the \$4.7 million used by investing activities (excluding the short-term investments purchase of \$5.7 million), the \$6.2 million used by financing activities and the adverse impact of \$0.5 million due to exchange rate fluctuations on cash, which was however offset by the \$0.3 million in funds generated by the operating activities.

– *Accounts receivable*

A \$3.7 million increase attributable for the most part to deposits on new production equipment totalling \$0.5 million, and a \$2.8 million increase in contracts receivable stemming from the fact that the current projects are of a governmental nature, which tends to increase the collection delay in contracts receivable. Conversely, these governmental contracts reduce the risk of collection for the Corporation.

– *Holdback on contracts (short-term and long-term)*

A \$0.6 million decrease due to the billing of holdbacks.

– *Work in progress*

A \$0.9 million increase attributable to the spread between the progress of the work and client billing.

– *Income taxes*

A \$0.4 million increase resulting from the recognition of investment tax credits receivable on purchase of new machinery.

– *Property, plant and equipment*

A \$1.4 million increase attributable mostly to the cost of property, plant and equipment acquired during the year, which was offset partially by the increase in amortization subsequent to the commissioning of equipment acquired during the previous quarters.

– *Derivative financial instruments*

An increase of \$0.8 million representing the unrealized capital gain on current foreign exchange contracts recognized as at January 31, 2010 subsequent to the decrease in the U.S. dollar in relation to the Canadian dollar.

– *Future income tax assets (current and long-term)*

A \$7.5 million reduction resulting from the fiscal year income taxes and assumptions used to estimate the Corporation's future earnings by tax jurisdiction and the related income tax provision.

### b) Liabilities

ADF closed the 2010 fiscal year with liabilities of \$14.7 million, compared with \$29.6 million as at January 31, 2009. This \$14.9 million reduction is itemized as follows:

– *Accounts payable, accrued charges and salaries and fringe benefits payable*

A \$9 million reduction attributable to the decrease in accounts payable and accrued charges resulting from the decrease in business volume, together with a decrease in salaries and fringe benefits payable.

– *Deferred revenues*

A \$2.5 million decrease due to the spread between the progress of the work and client billing.

– *Derivative financial instruments*

A \$1.1 million reduction representing the reversal of the unrealized capital loss on foreign exchange contracts recognized as at January 31, 2009 subsequent to the decrease in the U.S. dollar in relation to the Canadian dollar.

– *Long-term debt (including current portion)*

A \$2.8 million reduction resulting from the monthly debt repayments and the impact of the decrease of the U.S. dollar in relation to the Canadian dollar on the balance of the long-term debt denominated in U.S. dollars.

c) **Shareholders' Equity**

ADF closed the 2010 fiscal year with shareholders' equity of \$88.7 million, compared with \$85.8 million as at January 31, 2009. This \$2.9 million or 3.4% increase resulted for the most part from the year's net earnings, net of the value of the subordinate voting shares redeemed during the year, as described in Note 13 b) "Subordinate Voting Shares" of the notes to the consolidated financial statements for January 31, 2010.

**10. NON-CANADIAN GAAP FINANCIAL INDICATORS**

The financial information presented in this MD&A has been prepared in accordance with Canadian GAAP, with the exception of certain financial indicators. In fact, the Corporation regularly uses measurements, which are not defined by GAAP, to assess its operating performance. Consequently, they are not standard and lend themselves with difficulty to a comparison with similar measurements presented by other public companies. When such indicators are used, they are defined and the reader is informed.

The Corporation uses the following financial indicators, which are not defined by GAAP, to measure its operating performance and the attainment of established objectives.

12-Month Periods Ended January 31,	(In thousands of \$, except for ratios and %)	
	2010	2009
a) Working capital	\$35,612	\$31,625
– Current ratio	4.81:1	2.39:1
b) Long-term debt to shareholders' equity <sup>1</sup>	0.08:1	0.11:1
c) Total cash, cash equivalents and short-term investments, net of long-term debt, to shareholders' equity <sup>1</sup>	0.12:1	0.22:1
d) Liabilities to shareholders' equity <sup>1</sup>	0.17:1	0.34:1
e) EBITDA	\$14,160	\$22,959
– EBITDA margin, as a percentage of revenues	21.5%	23.2%
f) Book value per share	\$2.57	\$2.37
g) Return on shareholders' equity <sup>1</sup>	7.9%	18.1%

1. At January 31, 2009, the amount in shareholders' equity was restated. (See Note 8 "Property, Plant and Equipment" of the notes to the consolidated financial statements for January 31, 2010.)

a) **Working Capital**

The working capital indicator is used by the Corporation to assess whether its current assets are sufficient to meet its current obligations. Working capital is equal to current assets less current liabilities, whereas the current ratio is calculated by dividing current assets by current liabilities.

Management's overall goal is to maintain the current ratio at about 2:1. The Corporation expects it will achieve this goal through the pursuit of its strategy focusing on the execution of contracts generating positive cash flows throughout their execution. It should be noted that the drawing up and/or revision of this corporate goal depends on a number of factors, such as the economic context, the continuation of the NCIB program, where appropriate, and the expansion projects that might arise.

b) **Long-term Debt to Shareholders' Equity**

This ratio indicates the extent to which the Corporation depends on long-term financing, as it measures the relationship between the Corporation's indebtedness and the capital invested by shareholders. It represents the Corporation's total long-term debt, including the current portion, over shareholders' equity.

The Corporation's goal is to continue reducing this ratio through monthly reimbursements to creditors and the expected operating profitability during the fiscal year ending January 31, 2011. However, at the beginning of February 2010, the pursuit of this objective was delayed by the amendment to its current financing with its long-term lender in connection with ADF's investment program. (See Section 5 g) "Events Subsequent to the 2010 Fiscal Year End"). This goal could also be delayed by the increase in the U.S. dollar in relation to the Canadian dollar since the majority of the long-term debt is denominated in U.S. dollars. In the long-term, management's strategy is to maintain prudent management of its capital structure and debt ratio based on its development projects, economic context and business opportunities.

c) **Total Cash, Cash Equivalents and Short-Term Investments, Net of Long-Term Debt, to Shareholders' Equity**

This ratio measures the level of cash, cash equivalents and short-term investments, net of long-term financing, in relation to the capital invested by shareholders. It represents the Corporation's total cash, cash equivalents and short-term investments, net of long-term debt, including the current portion, over shareholders' equity.

As at January 31, 2010, the Corporation's total cash, cash equivalents and short-term investments exceeded its long-term debt. However, this situation could change during the next quarters considering, among other things, the fluctuation in the Canadian dollar in relation to the U.S. dollar, the possibility that certain contracts concluded by the Corporation might not generate positive cash flows throughout their execution, the continuation of the NCIB program, where appropriate, and long-term debt financing of potential development projects.

**d) Liabilities to Shareholders' Equity**

This ratio indicates the extent to which the Corporation depends on debt financing. It represents the Corporation's total liabilities over shareholders' equity.

Management intends to further improve this ratio in the short term, among other things, through monthly repayments of long-term debt and its expected operating profitability during the fiscal year ending January 31, 2011. However, the achievement of this objective could be slowed down by certain factors, of which:

- An increase in accounts payable, accrued charges and salaries and fringe benefits payable;
- Obtaining the new financing described in Section 5 g) "Events Subsequent to the 2010 Fiscal Year-End";
- The continuation of the NCIB program, where appropriate; and
- The impact of fluctuations in the Canadian dollar in relation to the U.S. dollar on liabilities denominated in U.S. dollars.

**e) EBITDA and EBITDA Margin as a Percentage of Revenues**

EBITDA shows the extent to which the Corporation generates profits from operations, without considering the following items:

- Financial charges;
- Income taxes;
- Gains or losses on foreign exchange; and
- Depreciation and amortization of property, plant and equipment and intangible assets.

Net earnings are reconciled with EBITDA in the table below:

Fiscal Years Ended January 31,	(In thousands of \$, except %)	
	2010	2009
	\$	\$
Net earnings	6,992	15,574
Income taxes	6,280	8,465
(Interest income) financial charges	(489)	307
Amortization	3,057	2,372
Gain on foreign exchange	(1,680)	(3,759)
<b>EBITDA</b>	<b>14,160</b>	<b>22,959</b>
– As a % of revenues	21.5%	23.2%

**f) Book Value per Share**

This ratio indicates the book value of each outstanding share (multiple voting shares and subordinate voting shares) issued at the end of the targeted quarter. The book value is equal to shareholders' equity divided by the total number of shares outstanding.

Management expects that this value will further increase because it anticipates that the Corporation will be profitable throughout the fiscal year ending January 31, 2011, and will continue its NCIB program, where appropriate. The book value per share increased to \$2.57 as at January 31, 2010 from \$2.37 as at January 31, 2009, which represents an increase of 8.4%.

**g) Return on Shareholders' Equity**

This ratio indicates the return on shareholders' equity during the relevant fiscal year. It is equal to net earnings over shareholders' equity.

Based on net earnings for the fiscal year ended January 31, 2010, return on shareholders' equity worked out to 7.9% as at January 31, 2010, compared with 18.1% for the fiscal year ended January 31, 2009.

## 11. ANALYSIS OF CASH POSITION FOR THE FISCAL YEAR ENDED JANUARY 31, 2010

As at January 31, 2010, the Corporation had \$17.4 million in cash, cash equivalents and short-term investments. In addition, its authorized short-term credit facility of \$10 million remained unused. Management believes that these available funds will be sufficient to support the execution of its order backlog in hand on January 31, 2010 and to meet its financial commitments for the 2011 fiscal year. In addition, subsequent to the amendment of its long-term debt with its principal long-term lender at the close of the third quarter of the 2010 fiscal year, the Corporation received an additional US\$4.2 million in financing on February 11, 2010. This new loan covers a portion of the investments in property, plant and equipment made during the fiscal year ended January 31, 2010 and those that will be made during the first six months ending July 31, 2010.

Furthermore, the Corporation continually appraises the opportunities to use part of its liquidities to finance certain projects that could provide additional competitive advantages in the long term or benefits from accelerated payment negotiated with suppliers.

### a) Cash Flow Trend

The following table shows that during the fiscal year ended January 31, 2010, the Corporation generated cash flows of \$0.3 million from operations, invested \$10.3 million primarily for the purchase of an investment, production equipment and intangible assets, and used \$6.2 million for the partial redemption of outstanding subordinate voting shares and for contractual repayments of its long-term debt.

Fiscal Years Ended January 31,	(In thousands of \$)		
	2010	2009	2008
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
Adjusted net earnings of non-monetary items	16,064	24,549	11,717
Accounts receivable and holdbacks on contracts	(3,083)	5,624	(9,073)
Work in progress and deferred revenues	(3,471)	(615)	(1,222)
Accounts payable, accrued charges, salaries and fringe benefits payable	(8,967)	3,873	1,732
Income taxes	(668)	407	(285)
Other	408	(1,114)	1,335
	283	32,724	4,204
<b>INVESTING ACTIVITIES</b>			
Acquisition of short-term investments	(5,652)	(6,000)	—
Acquisition of property, plant and equipment	(4,046)	(8,623)	(4,693)
Other	(617)	(1,301)	(974)
	(10,315)	(15,924)	(5,667)
<b>FINANCING ACTIVITIES</b>			
Repayments of bank indebtedness	—	—	(263)
Repayment of long-term debt	(1,718)	(2,228)	(17,245)
Issuances of subordinate voting shares	87	68	20,186
Redemption of subordinate voting shares	(4,533)	—	—
Other	—	—	583
	(6,164)	(2,160)	3,261
Impact of fluctuations in foreign exchange rate on cash	(524)	164	(128)
<b>Total net cash (outflows) inflows</b>	<b>(16,720)</b>	<b>14,804</b>	<b>1,670</b>

### b) Indebtedness

Balances Due as at January 31,	(In thousands of \$)		
	2010	2009	2008
	\$	\$	\$
Loans on building and equipment	7,067	9,840	10,298
Capital leases	—	5	19
<b>Total</b>	<b>7,067</b>	<b>9,845</b>	<b>10,317</b>

The Corporation has reduced its total debt by \$2.8 million compared with January 31, 2009 and by \$3.3 million compared with January 31, 2008. It should be noted that since November 2007, most of the long-term debt relating to the building and equipment has been denominated in U.S. dollars. The balance due in U.S. dollars was \$6.4 million as at January 31, 2010, compared with US\$7.8 million as at January 31, 2009, representing an 18% reduction.

c) **Payment of Rent and Interest, and Payment of Principal on Debt**

The Corporation pays interest on one of the three long-term loans. The interest rate on this interest-bearing loan was 2.25% as at January 31, 2010. Since March 1, 2008, the Corporation has been making monthly principal repayments of US\$0.2 million on one of the loans. However, further to an agreement with its lender, this monthly repayment was suspended from September 1, 2009 to February 1, 2010 inclusively. On the other hand, the principal repayments on the largest of the other loans, in the amount of \$31,000 biannually, began in May 2009. Other rent payments, in immaterial amounts, are described under Note 17 "Commitments" of the notes to consolidated financial statements accompanying this MD&A.

d) **Debt Covenants**

As at January 31, 2010, the Corporation respected all covenants with its lenders, and still did at the date hereof.

e) **Contractual Obligations**

Long-term debt (in thousands of \$)	<b>Total</b> .....	<b>7,067</b>
	Less than one year .....	2,422
	2 to 3 years .....	4,592
	4 to 5 years .....	53

Taking into account the additional financing of US\$4.2 million received on February 11, 2010, the contractual obligations related to the debt are as follows:

Long-term debt (in thousands of \$)	<b>Total</b> .....	<b>11,510</b>
	Less than one year .....	2,422
	2 to 3 years .....	5,232
	4 to 5 years .....	3,856

f) **Commitments Related to Capital Expenditures as at January 31, 2010**

In addition to the investment program mentioned in Section 5 e) "Investment Program and New Financing", of which \$0.5 million was committed as deposits as at January 31, 2010, the Corporation expects to invest between \$1 million and \$2 million annually in property, plant and equipment and intangible assets in the next fiscal years. These investments will mainly be used for the maintenance of its production equipment and IT infrastructure. The Corporation intends to use its working capital to finance these amounts.

g) **Commitments Related to Letters of Credit as at January 31, 2010**

The Corporation contracted letters of credit of \$0.8 million as at January 31, 2010.

**12. OUTLOOK**

During the fiscal year ended January 31, 2010, ADF Group achieved the key objectives established at the beginning of the year, namely:

- Reducing its long-term debt;
- Increasing its shareholders' equity;
- Maintaining strict cash flow management; and
- Further optimizing the plant's fabrication areas.

Today, ADF benefits from a solid balance sheet, as attested to by its cash surplus of more than of \$10 million (including cash, cash equivalents and short-term investments) over its long-term debt, including the current portion.

In addition, the business strategy implemented in the past years in order to position the Corporation in value-added market niches yielded tangible results as reflected by, among other things, the order backlog, which will provide work in the plant for the next 12 to 15 months, and a gross margin of 28.4% of revenues during the fiscal year ended January 31, 2010.

In upcoming fiscal years, the Corporation's management will focus its efforts on the following:

- Finalizing negotiations of contractual changes on ongoing contracts;
- Growing the order backlog by bidding on projects offering potential profit margins and cash flows consistent with the Corporation's objectives, while ensuring the targeted projects' financing are secured by their owners prior to signing the contracts;
- Continuing to optimize the new production equipment in order to increase productivity, as well as to diversify the production methods at ADF's fabrication complex;
- Continuing to closely follow the trend in the financial position of current and potential clients, in view of the current economic context;
- Further promoting ADF's distinctive competitive advantages in its current markets and emerging markets, with a focus on its strengths in project management and connection engineering, as well as its Terrebonne plant's significant fabrication capacity;
- Optimizing the profitability of contracts currently underway through strict cost management and continuous improvement of fabrication methods, by way of innovation and targeted investments;

- Steadily improving the Corporation's operational systems through the development and reinforcement of management tools;
- Maintaining strict cash flow management;
- Developing a new market niche for the Corporation's future, namely the fabrication of steel structures for the construction and modernization of nuclear power plants; and
- Looking for partnerships, alliances or acquisitions opportunities that would allow the Corporation to serve other geographic markets or specialized market niches.

### 13. ISSUES RELATING TO THE CURRENT ECONOMIC ENVIRONMENT

Although management is witnessing a slight improvement in conditions in its principal markets, as attested to in particular by the increase in bidding activities, there are still uncertainties arising from the current economic context. In uncertain economic periods, the Corporation is faced with the following challenges:

- Its business segment is strongly dependent on project owners' capacity to finance their projects. For lack of financing, certain projects can be delayed or simply abandoned. Although the Corporation strives to mitigate this risk by focusing its marketing efforts on projects whose financing is most likely to materialize, it has no control over financial market trends; and
- Certain project owners who secured financing on the start-up of projects could be forced to cease the work for lack of financing, due to a lack of capital of either the project lender or the owner. The Corporation mitigates this risk by ensuring that amounts due are diligently collected and, when possible, that positive cash flows are generated by every project. Moreover, the Corporation does business with owners who are financially solid. At the date hereof, no project of the Corporation is subject to such constraints.

### 14. RELATED-PARTY TRANSACTIONS

These transactions are measured at the exchange value, which is the consideration established and accepted by the related parties:

Fiscal Years Ended January 31,			(In \$)	
Company	Owners	Transactions with ADF	2010	2009
			\$	\$
Groupe JPMP Inc.	Directors	<p>The three senior officers of ADF Group are compensated by means of this company for their work within the Corporation, as stipulated in their contract of employment. (See Section 10 of the 2010 Management Information Circular.)</p> <p>In addition, in accordance with the recommendations made by the Compensation, Nominating and Corporate Governance Committee on April 18, 2007, Jean Paschini, Pierre Paschini and Marise Paschini were granted an aggregate amount of \$0.3 million which is divided between them in equal parts (\$0.1 million each), as risk premium related to the personal bonding they granted or maintained between July 2003 and June 2007. The payment of this said \$0.3 million is spread over a three-year period, commencing February 1, 2007, by way of bi-monthly instalments that will be added to the management fees payable by the Corporation to Groupe JPMP Inc.</p> <p style="text-align: center;">This agreement ended on January 31, 2010.</p>	1,487,150	1,416,700

### 15. EXECUTIVE OFFICERS AND DIRECTORS

#### a) *Management Committee*

Jean Paschini  
Chairman of the Board and Chief Executive Officer

Pierre Paschini, Eng.  
President and Chief Operating Officer

Marise Paschini  
Executive Vice-President, Corporate Secretary and Treasurer

Louis Potvin, CA, MBA  
Chief Financial Officer

Carolyn (Hanson) Carbonneau, M.Eng.  
Vice-President, Engineering and Operations

#### *Primary Competencies*

Business and project management, administration, operations and fabrication methods and processes

Business management, administration, sales and estimating, operations and engineering

Business management, administration, human resources and treasury

Accounting, finance, administration and cost and risk management

Engineering, operations, project management and information technologies

b) **External Directors**

Marc A. Benoit, CA  
Vice-President, SNC Lavalin Capital

Marc L. Belcourt, Eng.  
Construction Consultant and Independent Leader of the Board of Directors of ADF Group

Marc Filion, Eng, Ph.D, MBA  
President, CHIM International;  
President and Chief Executive Officer, Creso Resources Inc.  
Executive Vice-President, Nichromet Extraction Inc.

Antonio P. Meti  
President, Services conseils GDNP Inc.

Robert Paré  
Senior Partner, Law firm Fasken Martineau DuMoulin

**Primary Competencies**

Financing, investment, control and risk management

Contractor (construction industry, steel structures, machinery and technique)

Development of complex projects, project construction abroad, engineering (mines and metal sector)

Financial analysis, corporate financing and management

Business law, development strategy, mergers and acquisitions

The total compensation of the Corporation's executive officers is competitive and is generally placed between the first and second quartile of a reference group made up of 15 Canadian companies operating in the same business segment as the Corporation, that is, the engineering and fabrication of construction products, and are similar to the Corporation in terms of size (sales figure or performance) and geographic scale. Although their size is more important, the Corporation's three principal competitors have been included in the reference group since they belong to the same labour market for the studied positions. Concerning the compensation of external directors, their fees are deemed competitive, whereas their annual fees remain modest (below the first quartile) compared with the practices in effect within the said reference group. (See Sections 10 and 11 of the 2010 Management Information Circular.)

**16. EXTERNAL FACTORS TO WHICH THE CORPORATION'S PERFORMANCE IS EXPOSED**

a) **Exchange Rate**

Exchange rate fluctuations between the Canadian and the U.S. dollars have an impact on the Corporation's results, as a \$1.7 million exchange gain was recorded for the fiscal year ended January 31, 2010, compared with an exchange gain of \$3.8 million for the 2009 fiscal year, and an exchange loss of \$1.7 million for the 2008 fiscal year.

In order to minimize the impact of exchange rate fluctuations on its results, the Corporation implemented the following allowance measures:

- The conversion, in November 2007, of a significant proportion of its long-term debt denominated in Canadian dollars (\$11.6 million) into U.S. dollars (US\$12.4 million). At the time of the conversion, the conversion rate used was CA\$0.9364 for US\$1.00. This measure remained further to the increase of the long-term debt in February 2010. (See Section 5 g) "Events Subsequent to the 2010 Fiscal Year End".)
- When advantageous, purchasing the raw material (steel) and welding products required for fabrication in U.S. dollars; and
- An exchange rate policy aimed at protecting a portion of the net exchange risk between cash inflows and outflows denominated in U.S. dollars. (See Section 5 b) "Foreign Currency Hedge" in this MD&A.)

b) **Corporation's Operating Risks and Uncertainties**

The following is a description of the Corporation's main operating risks and uncertainties:

— **Indemnity Agreement**

The Corporation entered into an indemnity agreement when it sold a subsidiary in 2004. This former subsidiary is currently involved in legal proceedings. The impact, as well as the amounts that could be due by the Corporation under the terms of this indemnity agreement, were subject to the recognition on January 31, 2009, of a provision for an expected loss of \$1 million, including fees incurred at that date. At the date hereof, there was no significant development with regard to this lawsuit.

— **Uncertainties Relating to the Global Economy**

The uncertainties related to the global economy could have a negative impact on the Corporation's business segment, that is, the non-residential construction market, more particularly in North America, the Corporation's primary market. Although the Corporation's order backlog at the date hereof will provide work in the plant for the next 12 to 15 months, the uncertainties relating to the global economy could adversely affect the Corporation's revenues and profitability beyond that period.

— **Bonding Capacity and Irrevocable Letters of Credit**

During the fiscal year ended January 31, 2010, the Corporation issued the necessary bid bonds and/or letters of credit to its business partners, required in the scope of bids as well as in the scope of contractual commitments, or other financial instruments, such as performance, payment and supply bonds or an irrevocable letter of credit.

– ***Operational Risks and Uncertainties That Could Have an Impact on the Corporation's Financial Position and Operating Results***

ADF's contracts are performed under contractual arrangements at firm prices. ADF has developed and applies rigorous risk assessment and management practices to reduce the nature and extent of the financial, technical and legal risks specific to each of these contractual agreements. ADF's continued commitment to strict risk management practices when undertaking and executing contracts includes technical risk assessment, a legal review of contracts, the application of tight cost controls and scheduling of projects, the regular review of project revenues, costs and cash flows, and the implementation of agreements aimed at generating positive cash flows from projects and other provisions aimed at mitigating risks.

The following items could have an impact on the Corporation's future financial position and operating results:

- Current economic conditions could put a strain on the margins of new contracts to be negotiated with clients and thereby have an impact on the order backlog and the signing of new contracts;
- Contractual changes extending over two periods, for which costs have been recognized but no revenues have been recorded during the first period and no final settlement was concluded with the client at the end of this period, could have an impact on the Corporation's results and cash flows in the following period, subsequent to the signing of this agreement;
- An increase in the price of steel. This risk would be mitigated by a sale price adjustment clause included in the contracts binding both parties;
- Fluctuations in interest rates. This risk would be mitigated by the Corporation's low level of indebtedness, as well as its available liquidities generating interest income;
- Competition in the Corporation's business segment;
- The economic dependency related to the concentration of its client base. The Corporation is currently mitigating this risk by broadening its market strategy and niche approach;
- The assessment of custom duties and other protectionist measures on fabricated steel imports in the United States, ADF's primary market;
- Fluctuations in the exchange rate between the Canadian and U.S. dollars. However, this risk is mitigated in part by the foreign currency hedge policy adopted by the Corporation's Board of Directors; and
- The nature of the contracts in hand, the fact that most are from governmental instances, which can affect upward the delay in the collection of contracts receivable be affected upward. However, the credit risk is mitigated when contracts are financed by government agencies.

## 17. FINANCIAL INSTRUMENTS

According to its foreign currency hedge policy, ADF Group regularly uses foreign exchange contracts to eliminate or mitigate the risk of currency fluctuations related to contracts receivable. The Corporation does not use these instruments for speculation or trading purposes, and only concludes these contracts with large financial institutions. Information about the classification and fair value of the Corporation's financial instruments, as well as the scope and management of risks ensuing from their application, is presented in Notes 2 and 22 of the notes to the consolidated financial statements for the fiscal year ended January 31, 2010.

## 18. EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's management is responsible for maintaining appropriate information systems, procedures and control systems to ensure that the information disclosed by the Corporation is complete and reliable. The Corporation applies the financial reporting rules and takes the necessary actions to comply with the new accounting standards once they come into force. The Corporation also applies the standards imposed by capital market regulatory authorities with regard, in particular, to Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.

### a) Disclosure Controls and Procedures

ADF Group's management, with the participation of the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, has designed disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) to provide reasonable assurance that the material information related to the Corporation is made known to them, and the information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the time period specified in securities legislation. Management has also evaluated the effectiveness of ADF Group's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and has concluded that such disclosure controls and procedures are effective.

### b) Internal Control Over Financial Reporting

ADF Group's management, with the participation of the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Canadian GAAP. They have also evaluated the effectiveness of ADF Group's internal control over financial reporting and have concluded that such controls are effective, with the exception of what follows.

During the fourth quarter ended January 31, 2010, there has been no change, compared with the last assessment conducted at the end of the third quarter ended October 31, 2009, in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting, with the exception of the internal controls related to consolidation entries, which were improved further to the finding of an isolated error with regard to the \$1 million profit recognition on previous disposal of assets of a subsidiary. Formerly this transaction was properly recorded because it had no impact on the consolidated statement of earnings since the sale of assets occurred between two of ADF's subsidiaries. However, when one of these subsidiaries was sold to a third party during the fiscal year ended January 31, 2005, the profit recognition on previous disposal of assets should have been recorded. Subsequent to the finding of this error, management added an additional control and is confident that this type of situation will not recur. (For more details concerning this adjustment, see Note 8 of the notes to the consolidated financial statements.)

#### 19. DISCLOSURE AND INSIDER TRADING POLICIES

In accordance with its internal policies and guidelines, the Corporation diligently reports all relevant financial information. In addition, when the Corporation publishes its financial results or announces major contract awards or material information, it enforces a blackout period for its directors and managers, as well for all its employees who wish to trade on the Corporation's securities, in order to ensure compliance and transparency of any trading by persons regarded as insiders. With regard to the employees, this blackout period can be, under the circumstances, either enforced for all the Corporation's employees or limited to a more restricted number of employees according to their knowledge of privilege information concerning the event to be disclosed.

In addition, the brokerage firm retained for the normal course issuer bid is subject to the same rules with regard to the blackout period.

#### 20. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The summary of ADF Group's significant accounting policies is described in Note 2 "Significant Accounting Policies" of the notes to consolidated financial statements for the fiscal year ended January 31, 2010.

##### a) Revenue And Cost Recognition

Like the construction industry as a whole, ADF uses the percentage-of-completion method to estimate the revenues and costs recorded for every contract and for every given financial period. This method requires management to make estimates with regard to the work completed, as well as the costs to complete the remainder of the work in order to recognize revenues and profits at the end of every period. Under the percentage-of-completion method, the profits recognized are dependent on a variety of estimates, including the progress of the engineering work, the quantities of material, the achievement of certain contractual milestones, cost estimates with regard to the changes made by the professionals hired by the project's owner, site conditions and other situations having an impact on costs. These estimates depend on the judgment of such factors at a specific date and certain estimates are difficult to determine before the project is sufficiently advanced.

Given the complexity of the estimation process, even with the best business practices, it is possible that actual costs could vary from the estimates. The revision of such estimates could reduce or increase the profit on a contract and also, under certain circumstances, result in the immediate recognition of estimated losses. Furthermore, in the normal course of business, changes to contracts often occur while they are in progress. The revenues relating to those contract changes are included in the total estimated revenues up to the anticipated costs when there is a verbal agreement with the client. Consequently, the profits related to these changes are recognized only upon the written approval of these contract change orders.

In most cases, the costs are incurred and recognized before a settlement is finalized and recorded. This situation often leads to the recognition of losses when the costs are incurred before an agreement is reached with the client, and the recognition of profits when the negotiated agreement is signed and posted to the Corporation's books.

In summary, management wishes to point out that the mechanisms related to the percentage-of-completion method can cause fluctuations in the recognition of revenues and costs from one quarter to another with regard to the contracts underway. Consequently, while the Corporation tends to realize its profitability objective on its overall order backlog and the full project execution term, gross margins can vary from quarter to quarter based on specific mix of revenues and costs recorded on all projects for every given period.

##### b) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the fiscal year. Actual results could differ from those estimates. As indicated hereinabove, the valuation of work in progress requires management to estimate the percentage of completion, cost of completion and anticipated gross margin. The valuation of long-term assets and related impairment, options, taxes, provisions and contingencies, also requires estimates.

## 21. CHANGES IN ACCOUNTING POLICIES

The Corporation adopted the following recommendations of the new sections published by the Canadian Institute of Chartered Accountants ("CICA"):

### a) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which supersedes Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This Section applies, retroactively with comparative figures, to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. More precisely, the new Section was issued to clarify the recognition and measurement of internally generated intangible assets, including research and development costs. Section 3064 reinforces the approach under which assets are recorded only if they meet the definition of an asset and the asset recognition criteria. Adoption of this Section, on February 1, 2009, had no impact on the Corporation's consolidated financial statements.

### b) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued Emerging Issue Committee Abstract ("EIC") 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This standard provides guidance on determining the fair value of financial assets and liabilities, whereby the Corporation's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of derivative instruments. This standard applies retrospectively, without restatement of prior periods, to interim and annual financial statements published on or after January 20, 2009. The application of this new recommendation, on February 1, 2009, had no significant effect on the Corporation's consolidated financial statements.

### c) Financial Instruments - Disclosures

In June 2009, the CICA amended Section 3862 "Financial Instruments - Disclosures" to require enhance disclosures about financial instruments, in particular, the classification of the financial instruments measured at a fair value hierarchy according to the significance of the inputs to fair value measurements and the entities' exposure to liquidity risk. The new requirements apply to annual financial statements for fiscal years ending after September 30, 2009. The Corporation applied this standard in its January 31, 2010 annual financial statements. The Corporation is exempt from providing comparative information in the year of adoption. The application of these new amendments had no effect on the Corporation's statements of earnings, balance sheet and cash flows. These amendments aim specifically the disclosure. (See Note 22 "Financial Instruments" of the notes to the consolidated financial statements for the fiscal year ended January 31, 2010.)

## 22. FUTURE ACCOUNTING CHANGES

The CICA has released the following new sections, which apply to future fiscal years:

### a) Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

CICA Handbook Section 1582, "Business Combinations", applies to business combinations for which the acquisition date is on or after January 1, 2011. This Section requires the measurement of the fair value, recognition of additional assets and liabilities, and disclosure of supplemental information. Adoption of this Section should have a significant impact on how the Corporation recognizes future business combinations. Sections 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" must be adopted concurrently with Section 1582. These sections will require modification in the measurement of non-controlling interest and disclosure of that interest as shareholder's equity on the balance sheet. Moreover, the controlling parent company's income statement will include 100% of its subsidiary's results and will then present the breakdown between the controlling and non-controlling interests. These sections come into effect on January 1, 2011, although earlier adoption is permitted. Changes resulting from the adoption of Section 1582 will apply prospectively, while changes subsequent to the adoption of Section 1601 and 1602 will be applied retrospectively.

### b) Revenue Arrangements with Multiple Deliverables

In December 2009, the CICA issued Emerging Issue Committee Abstract ("EIC") 175, "Revenue Arrangements with Multiple Deliverables", which modifies EIC 142 "Revenue Arrangements with Multiple Deliverables". EIC 175 provides guidance on certain aspects of the accounting for arrangements under which the Corporation will perform multiple revenue-generating activities. Under the new abstract, when vendor specific evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price methods. EIC 175 also includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. EIC 175 is effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year.

The Corporation is currently evaluating the impact of the adoption of these new sections and standards on its consolidated financial statements.

### **23. INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable companies to replace Canadian GAAP and to start using International Financial Reporting Standards ("IFRS"). IFRS use a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the first year of adoption, companies will be required to provide comparative information, as if the financial statements of the previous year had been prepared in accordance with IFRS, and to report supplemental information in the financial statements. The Corporation will start applying IFRS in its first quarter ending April 30, 2011. In order to move the transition of ADF Group's consolidated financial statements to IFRS, the Corporation established a transition plan, which outlines the phases and timetables. Moreover, the Corporation has set up a team to conduct this transition who regularly reports on the progress of conversion to the Audit Committee. The latter's objective is to approve the accounting policies recommended by the project team, and ensure that adjustments are made, among others, to information technology, contracts and internal control. The external auditors will review the choices made by management and ADF Group's Audit Committee will ensure that management fulfills its responsibilities and achieves a successful transition to IFRS. To this regard, in January 2010, the Corporation's Board of Directors and members of the Audit Committee received training on IFRS.

The conversion plan consists of the following three phases:

#### **a) Preliminary Diagnosis Review and Scoping**

The first phase, which included planning, analyzing current accounting standards and identifying the major differences between Canadian GAAP and IFRS, has been completed. The key standards that could lead to significant differences in the Corporation's financial statements are property, plant and equipment, impact of price changes in foreign currencies, assets depreciation, stock option and the optional adoption exemption according to IFRS 1 "First-time Adoption of International Financial Reporting Standards".

#### **b) Analysis and Design**

This phase consists in performing a detailed review of the differences between IFRS and Canadian GAAP, the identifying supplemental to be reported in the financial statements, quantifying the current and potential impacts on previously reported results, cash flows and financial position, and recommending accounting policy choices, and identifying the impacts on other operations of ADF Group, namely information technology, internal control and contracts. This analysis includes the assessment of voluntary exemptions under IFRS 1 "First-time Adoption of International Financial Reporting Standards". This second phase is currently underway and the Corporation expects to complete this phase by the end of its second quarter of the 2011 fiscal year.

#### **c) Implementation and Disclosure**

This phase consists in approving the accounting policy choices, completing the collection of data required to prepare the financial statements, implementing the changes to systems and business processes with regard to the financial reporting, training of key personnel and monitoring the standards currently being amended by the International Accounting Standard Board. The goal is to obtain, at the end of this phase, the final approval by the Audit Committee of the opening balance sheet at February 1, 2010. At this date, it is impossible to determine the overall impact of the changes related to the transition to IFRS on the financial position and future results of ADF Group. However, at the date of transition, that being February 1, 2010, the Corporation believes that the impact of some of the known changes will be positive, especially with regard to the increase in retained earnings arising among other, from the reversed depreciation of property, plant and equipment in the amount of \$1.75 million recorded at January 31, 2004. Moreover, during the next fiscal year, the Corporation intends to prepare two financial statements; one according to Canadian GAAP and one according to IFRS, in order to ensure the optimal transition at the time of the changeover on February 1, 2011.

The International Accounting Standards Board intends to make a certain number of amendments to the current IFRS. It is therefore impossible to determine with accuracy which IFRS will be applicable on the transition date, or the impacts of the revised standards will have on the Corporation's financial statements.

### **24. HUMAN RESOURCES**

As at January 31, 2010, the Corporation employed a total of 331 people in its offices, fabrication plant and construction sites in Florida.

## 25. CAPITAL STOCK

Information on the Corporation's outstanding shares, including stock options:

(In thousands of \$, except number of shares and stock options)

	Subordinate voting shares		Multiple voting shares <sup>1</sup>		Total outstanding shares		Stock options <sup>2</sup>
	Number	\$	Number	\$	Number	\$	Number
As at January 31, 2009	21,854,469	64,684	14,343,107	16,001	36,197,576	80,685	1,481,200
Issued on exercise of stock options	118,136	131	—	—	118,136	131	(118,136)
Granted	—	—	—	—	—	—	228,000
Share redemption	(1,850,000)	(5,465)	—	—	(1,850,000)	(5,465)	—
As at January 31, 2010	20,122,605	59,350	14,343,107	16,001	34,465,712	75,351	1,591,064
Issued on exercise of stock options	12,000	9	—	—	12,000	9	(12,000)
As at April 14, 2010	20,134,605	59,359	14,343,107	16,001	34,477,712	75,360	1,579,064

1. These shares carry ten (10) votes per share.

2. The weighted average exercise price of the current stock options is \$1.27 per unit.

## 26. ADDITIONAL INFORMATION

Management's discussion and analysis of operating results and changes in financial position for the fiscal year ended January 31, 2010 has been approved as of April 14, 2010.

The Corporation regularly discloses information through press releases, quarterly and annual reports and the Annual Information Form, available on the Corporation's website at [www.adfgroup.com](http://www.adfgroup.com) and SEDAR (System for Electronic Document Analysis and Retrieval) website at [www.sedar.com](http://www.sedar.com).

Marise Paschini

/ Signed /

Executive Vice-President,  
Treasurer and Corporate Secretary

Terrebonne, Quebec, April 14, 2010

Louis Potvin, CA, MBA

/ Signed /

Chief Financial Officer