ADF Group Inc.

# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three-Month Period Ended April 30, 2016

1956 - 2016
60 Years

# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**NOTE TO THE READERS**

These condensed interim consolidated financial statements have been prepared by the Management of ADF Group Inc. and have not been audited or reviewed by an external auditor.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at | **April 30, 2016** | January 31, 2016 |
|---|---|---|
| (In thousands of Canadian dollars) | **(Unaudited)** | (Audited) |
| **ASSETS** | **$** | $ |
| Current assets | | |
| Cash and cash equivalents (Note 15) | **803** | 2,377 |
| Accounts receivable | **24,588** | 23,146 |
| Holdbacks on contracts (Note 9) | **1,671** | 1,693 |
| Income tax assets | **746** | — |
| Work in progress (Note 9) | **4,317** | 7,521 |
| Inventories | **6,314** | 6,180 |
| Prepaid expenses and other current assets | **1,263** | 1,889 |
| Derivative financial instruments (Note 16) | **1,214** | — |
| Total current assets | **40,916** | 42,806 |
| Non-current assets | | |
| Property, plant and equipment (Note 4) | **89,010** | 91,067 |
| Intangible assets (Note 5) | **2,887** | 2,871 |
| Other non-current assets | **3,347** | 3,337 |
| Deferred income tax assets | **5,873** | 6,390 |
| Total assets | **142,033** | 146,471 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and other current liabilities | **13,176** | 17,772 |
| Income tax liability | **—** | 49 |
| Deferred revenues (Note 9) | **2,544** | 2,753 |
| Derivative financial instruments (Note 16) | **—** | 403 |
| Current portion of long-term debt | **789** | 868 |
| Total current liabilities | **16,509** | 21,845 |
| Non-current liabilities | | |
| Long-term debt (Note 6) | **18,166** | 14,351 |
| Deferred income tax liabilities | **3,292** | 2,742 |
| Total liabilities | **37,967** | 38,938 |
| **SHAREHOLDERS’ EQUITY** | | |
| Capital stock (Note 7) | **68,077** | 68,077 |
| Contributed surplus | **6,405** | 6,397 |
| Accumulated other comprehensive income (Note 8) | **5,393** | 9,507 |
| Retained income | **24,191** | 23,552 |
| Total shareholders’ equity | **104,066** | 107,533 |
| Total liabilities and shareholders’ equity | **142,033** | 146,471 |

*The accompanying notes are an integral part of these consolidated financial statements.*

ON BEHALF OF THE BOARD OF DIRECTORS,

**Mr Jean Paschini**

/ Signed /

Director

**Mr. Frank Di Tomaso**, FCPA, FCA, ICD.D

/ Signed /

Director

## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of Canadian dollars and in dollars per share) | **$** | $ |
| Revenues (Note 9) | **25,440** | 28,682 |
| Cost of goods sold (Note 10) | **19,306** | 25,114 |
| Gross Margin | **6,134** | 3,568 |
| Selling and administrative expenses (Note 10) | **4,258** | 2,836 |
| Financial revenues | **(35)** | (16) |
| Financial expenses (Note 13) | **190** | 98 |
| Foreign exchange loss | **375** | 488 |
| | **4,788** | 3,406 |
| Income before income tax expense | **1,346** | 162 |
| Income tax expense | **381** | 105 |
| Net income for the period | **965** | 57 |
| Earnings per share | | |
| Basic per share (Note 14) | **0.03** | 0.00 |
| Diluted per share (Note 14) | **0.03** | 0.00 |
| Average number of outstanding shares (in thousands) (Note 14) | **32,621** | 32,541 |
| Average number of outstanding diluted shares (in thousands) (Note 14) | **32,749** | 33,098 |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of Canadian dollars) | **$** | $ |
| Net income for the period | **965** | 57 |
| Other comprehensive income (Note 8) [(a)] : | | |
| Exchange differences on translation of foreign operations | **(4,114)** | (1,795) |
| Comprehensive income for the period | **(3,149)** | (1,738) |

(a) Will subsequently be reclassified to net income.

*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

| (In thousands of Canadian dollars) | Capital Stock | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Income | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance, February 1, 2015 | 69,185 | 6,433 | 5,835 | 22,505 | 103,958 |
| Net income for the period | — | — | — | 57 | 57 |
| Other comprehensive income | — | — | (1,795) | — | (1,795) |
| Comprehensive income for the period | — | — | (1,795) | 57 | (1,738) |
| Share-based compensation (Note 7) | — | 14 | — | — | 14 |
| Redemption of subordinate voting shares (Note 7) | (2,139) | 339 | — | — | (1,800) |
| Options exercised | 882 | (319) | — | — | 563 |
| Dividends (Note 7) | — | — | — | (326) | (326) |
| Balance, April 30, 2015 | 67,928 | 6,467 | 4,040 | 22,236 | 100,671 |

| (In thousands of Canadian dollars) | Capital Stock | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Income | Total |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Balance, February 1, 2016 | **68,077** | **6,397** | **9,507** | **23,552** | **107,533** |
| Net income for the period | **—** | **—** | **—** | **965** | **965** |
| Other comprehensive income | **—** | **—** | **(4,114)** | **—** | **(4,114)** |
| Comprehensive income for the period | **—** | **—** | **(4,114)** | **965** | **(3,149)** |
| Share-based compensation (Note 7) | **—** | **8** | **—** | **—** | **8** |
| Dividends (Note 7) | **—** | **—** | **—** | **(326)** | **(326)** |
| Balance, April 30, 2016 | **68,077** | **6,405** | **5,393** | **24,191** | **104,066** |

*The accompanying notes are an integral part of these consolidated financial statements.*

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of Canadian dollars) | **$** | $ |
| **OPERATING ACTIVITIES** | | |
| Net income for the period | **965** | 57 |
| Non-cash items: | | |
| Amortization of property, plant and equipment (Note 4) | **1,081** | 1,029 |
| Amortization of intangible assets (Note 5) | **86** | 77 |
| Unrealized gain on derivative financial instruments | **(1,617)** | (361) |
| Non-cash exchange loss | **1,558** | 217 |
| Share-based compensation (Note 7) | **645** | 14 |
| Income tax expense | **381** | 105 |
| Financial revenues | **(35)** | (16) |
| Financial expenses | **190** | 98 |
| Net income adjusted for non-cash items | **3,254** | 1,220 |
| Changes in non-cash working capital items (Note 15) | **(4,254)** | (2,831) |
| Income tax paid | **(777)** | — |
| Cash flows from (used in) operating activities | **(1,777)** | (1,611) |
| **INVESTING ACTIVITIES** | | |
| Net acquisition of property, plant and equipment | **(4,192)** | (1,622) |
| Acquisition of intangible assets | **(102)** | (88) |
| (Increase) decrease in other non-current assets | **(10)** | 650 |
| Interest received | **35** | 13 |
| Cash flows from (used in) investing activities | **(4,269)** | (1,047) |
| **FINANCING ACTIVITIES** | | |
| Issuance of long-term debt (Note 6) | **5,000** | — |
| Repayment of long-term debt | **(207)** | (187) |
| Redemption of subordinate voting shares (Note 7) | **—** | (1,800) |
| Issuance of subordinate voting shares (Note 7) | **—** | 563 |
| Interest paid | **(194)** | (100) |
| Cash flows from (used in) financing activities | **4,599** | (1,524) |
| Impact of fluctuations in foreign exchange rate on cash flows | **(127)** | (56) |
| Net change in cash and cash equivalents during the period | **(1,574)** | (4,238) |
| Cash and cash equivalents, beginning of the period (Note 15) | **2,377** | 7,946 |
| **Cash and cash equivalents, end of the period** (Note 15) | **803** | 3,708 |

Supplemental information on cash flows is provided in Note 15.

*The accompanying notes are an integral part of these consolidated financial statements.*

*All tabular figures are in thousands of Canadian dollars (CA$) and in dollars per share, unless otherwise specified.*

**NOTE 1**
NATURE OF BUSINESS

**ADF GROUP INC.** ("ADF", "ADF Group" or "the Corporation") is the parent company and is incorporated under the Canada Business Corporations Act. Its head office is located at 300 Henry-Bessemer Street, in Terrebonne, Quebec. The Corporation's securities are traded on the Toronto Stock Exchange under the ticker symbol DRX. The Corporation operates two fabrication plants and two paint shops; in Canada and in the United States. The Corporation concentrates its activities in the design and engineering of connections, fabrication, including the application of industrial coatings, and the installation of complex steel superstructures, heavy steel built-ups, as well as miscellaneous and architectural metalwork. The Corporation's products and services are intended for the following five principal segments of the non-residential construction industry: office towers and high-rises, commercial and recreational buildings, airport facilities, industrial complexes, and transport infrastructures.

**NOTE 2**
BASIS OF PREPARATION

a) **Statement of Compliance**

The Corporation prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), applicable to interim financial reports, including International Accounting Standard 34, "Interim Financial Reporting". These condensed interim consolidated financial statements are intended to provide an update on the January 31, 2016 annual Audited Consolidated Financial Statements. Accordingly, they do not include all of the information required for annual financial statements and must be read in conjunction with the Corporation's annual Audited Consolidated Financial Statements as at January 31, 2016.

The Board of Directors approved these condensed interim consolidated financial statements on June 14, 2016. The financial statements have been prepared using the same accounting policies as outlined in Note 2 to the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2016.

b) **Basis of Assessment**

These consolidated financial statements have been prepared under the historical cost convention, except for the evaluation of certain financial instruments measured at the fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

c) **Functional and Reporting Currency**

Items included in each of the Corporation's entities financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Corporation's functional currencies are the Canadian dollar for its Canadian entity, and the U.S. dollar for its U.S. entities. The unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's reporting currency. All amounts are rounded to the nearest thousand dollars, except where otherwise indicated.

d) **Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. Areas involving a greater degree of judgment or complexity, or areas where assumptions and estimates have a significant impact on the consolidated financial statements, are disclosed in Note 4 to the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2016, and remained unchanged for the three-month period ended April 30, 2016.

**NOTE 3**
RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

A summary of recent IFRS pronouncements not yet adopted is included in Note 3 of the annual financial statements of January 31, 2016, and consists of the IFRS 15 "Revenue from Contracts with Customers" published by the IASB in May 2014, the IFRS 16 "Leases" published by the IASB in January 2016, as well as the IFRS 9 "Financial Instruments" published by the IASB in November 2009. The Corporation has not yet assessed the impact of the adoption of these standards on its consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

**NOTE 4**
PROPERTY, PLANT AND EQUIPMENT

For the three-month period ended April 30, 2016, the amortization of property, plant and equipment totalled $1,081,000 ($1,029,000 for the three-month period ended April 30, 2015) of which an amount of $877,000 is included in the cost of goods sold, and $204,000 is recorded as part of selling and administrative expenses (respectively $860,000 and $169,000 for the three-month period ended April 30, 2015).

As at April 30, 2016 and 2015, all property, plant and equipment were subject to amortization. During the three-month period ended April 30, 2016, the Corporation acquired, $4,192,000 in property, plant and equipment, primarily for the new paint shop in Terrebonne, distributed as follows:

| | As at April 30, 2016 |
|---|---|
| (In thousands of CA$) | **$** |
| Building and improvement to land | **2,285** |
| Equipment and overhead cranes | **1,757** |
| Office furniture, rolling stock, and computer hardware | **150** |
| | **4,192** |

**NOTE 5**
INTANGIBLE ASSETS

As at April 30, 2016 and 2015, all intangible assets were subject to amortization.

For three-month period ended April 30, 2016, amortization of intangible assets totalled $86,000 ($77,000 for the three-month period ended April 30, 2015) of which $36,000 is recorded in the cost of goods sold, and an amount of $50,000 is included in the selling and administrative expenses (respectively $36,000 and $41,000 for the three-month period ended April 30, 2015).

**NOTE 6**
LONG TERM DEBT

As described in Note 14 "Long-term debt" of the notes to the annual consolidated financial statements as at January 31, 2016, the second tranche of $ 5,000,000 of its new long-term bank loan obtained from the Business Development Bank of Canada during the year ended January 31, 2016, was paid on February 22, 2016. This second installment brings the total of this loan to $ 9,896,000 as at April 30, 2016, net of deferred financing fees ($4,895,000 as at January 31, 2016).

The first principal repayment, in the amount of $26,500, will be made on March 1st, 2018, followed by equal monthly installments of $24,500, beginning April 1st, 2018 and ending February 1st, 2035, being the loan’s maturity date.

**NOTE 7**
CAPITAL STOCKS

a) **Capital Stocks**

Authorized: Unlimited number of subordinate voting shares, carrying one (1) vote per share.
Unlimited number of multiple voting shares, carrying ten (10) votes per share.
Unlimited number of preferred shares, issuable in series.

| | Subordinate Voting Shares | | Multiple Voting Shares | | Total | |
|---|---|---|---|---|---|---|
| (In thousands of CA$ and in number of shares) | Number | $ | Number | $ | Number | $ |
| As at February 1, 2015 | 18,191,035 | 53,184 | 14,343,107 | 16,001 | 32,534,142 | 69,185 |
| Issued on exercise of stock options | 887,400 | 1,174 | — | — | 887,400 | 1,174 |
| Share redemption | (800,000) | (2,282) | — | — | (800,000) | (2,282) |
| **As at January 31, 2016 and April 30, 2016** | **18,278,435** | **52,076** | **14,343,107** | **16,001** | **32,621,542** | **68,077** |

During the three-months ended April 30, 2016, the Corporation has not issued any subordinate voting shares pursuant to the exercise of stock options. For the three months ended April 30, 2015, the Corporation issued 793,400 subordinate voting shares pursuant to the exercise of stock options for a total of $882,000, comprised of a cash consideration of $563,000 and $319,000 from contributed surplus.

b) **Subordinate Voting Shares Redemption**

On May 30, 2014, the Corporation announced that it had received the approval from its Board of Directors and the Toronto Stock Exchange to renew its normal course issuer bid ("NCIB"), under which it could repurchase, for cancellation purposes, up to 1,375,824 of its subordinate voting shares between June 4, 2014 and June 3, 2015. These 1,375,824 shares represented approximately 10% of the public float of adjusted subordinate voting shares. These shares could have been repurchased from time to time when deemed appropriate by the Corporation, while considering the economic conditions and its liquidities. Except for the shares repurchased, as mentioned in the following paragraph, no other shares were repurchased during the three-month ended April 30, 2015, under this NCIB.

During the three-month period ended April 30, 2015, the Corporation repurchased the 750,000 subordinate voting shares held by three of its executive officers, pursuant to the exercise of the stock options awarded to them in April 2005, for a total amount of $2,139,000 ($2.85 per share) including a disbursement of $1,800,000 ($2.40 per share) and $339,000 from contributed surplus. In the context of the share repurchase, the Corporation amended its NCIB in order to specifically authorize off-Exchange purchases under the exemptions provided under applicable securities legislation or issued by securities regulatory authorities. In accordance with the Toronto Stock Exchange’s rules, the share repurchase was factored in the computation of the annual aggregate limit of shares eligible for buyback by the Corporation under the NCIB. Therefore, following this transaction, a balance of 625,824 shares could have been eligible for repurchase until June 3, 2015, under the NCIB.

c) **Dividend**

During the three-month period ended April 30, 2016, the Corporation recognized as distribution to its shareholders of record as at April 29, 2016 and paid on May 16, 2016, semi-annual dividends of totalling $326,000 or $0.01 per share, of which $183,000 for subordinate voting shares and $143,000 for multiple voting shares.

During the three-month period ended April 30, 2015, the Corporation recognized, as distribution to its shareholders of record as at April 30, 2015 and paid on May 15, 2015, semi-annual dividends of $0.01 per share, totalling $326,000 of which $182,000 was for subordinate voting shares and $144,000 for multiple voting shares.

d) **Stock Option Plan**

At April 30, 2016, a total of 3,542,629 subordinate voting shares (3,542,629 shares as at January 31, 2016) were reserved for the Stock Option Plan (the "Plan"), of which 1,401,029 shares as at April 30, 2016 (1,401,029 shares as at January 31, 2016), had not yet been granted.

The Plan requires that the exercise price of the options granted must not be less than the closing market value on the day the options are granted by the Corporation's Board of Directors. These options start vesting one year after the grant date, at the rate of 20% per year, except those issued on February 20, 2007, which vested at a rate of 50% per year, and those issued on July 17, 2009 and December 14, 2009, having an acquisition rate of 33% per year, commencing at these dates. All options have a 10-year life from the grant date.

| As at | **April 30, 2016** | | January 31, 2016 | |
|---|---|---|---|---|
| | **Options** | **Weighted Average Exercise Price** | Options | Weighted Average Exercise Price |
| (In dollars per option and in number of options) | Number | $ | Number | $ |
| Outstanding, at the beginning | **461,664** | **2.68** | 1,426,064 | 1.51 |
| Exercised | **—** | **—** | (887,400) | 0.82 |
| Canceled | **—** | **—** | (77,000) | 2.34 |
| Outstanding, at the end | **461,664** | **2.68** | 461,664 | 2.68 |
| Exercisable, at the end | **359,664** | **2.77** | 349,664 | 2.81 |

As at April 30, 2016, the weighted average exercise price and the weighted average remaining contractual life of the options were as follows:

| (In dollars per option and number of options) | **Outstanding Options** | | | **Exercisable Options** | |
|---|---|---|---|---|---|
| **Exercise Price** | **Outstanding** | **Weighted Average Remaining Life** | **Weighted Average Exercise Price** | **Exercisable** | **Weighted Average Exercise Price** |
| $ | Number | Year | $ | Number | Year |
| 6.48 | 5,000 | 1.70 | 6.48 | 5,000 | 6.48 |
| 5.65 | 60,000 | 1.96 | 5.65 | 60,000 | 5.65 |
| 2.66 | 100,000 | 8.21 | 2.66 | 20,000 | 2.66 |
| 2.52 | 60,000 | 3.62 | 2.52 | 60,000 | 2.52 |
| 2.45 | 96,000 | 3.21 | 2.45 | 96,000 | 2.45 |
| 2.14 | 7,664 | 0.80 | 2.14 | 7,664 | 2.14 |
| 1.88 | 50,000 | 4.37 | 1.88 | 50,000 | 1.88 |
| 1.35 | 50,000 | 6.96 | 1.35 | 30,000 | 1.35 |
| 1.21 | 5,000 | 6.12 | 1.21 | 3,000 | 1.21 |
| 1.14 | 20,000 | 0.11 | 1.14 | 20,000 | 1.14 |
| 1.05 | 8,000 | 0.06 | 1.05 | 8,000 | 1.05 |
| | **461,664** | **4.50** | **2.68** | **359,664** | **2.77** |

A total expense of $8,000 for share-based compensation was recorded in the Consolidated Statement of Income for the three-month period ended April 30, 2016, and a corresponding amount was recognized in contributed surplus (an expense of $14,000 for the three-month period ended April 30, 2015).

No options were granted during the three-month periods ended April 30, 2016 and 2015.

e) **Deferred Share Units Plan ("DSU")**

i. **External Director**

During the three-month periods ended April 30, 2016 and 2015, the DSU compensation amounted to $556,000 and $14,000 respectively, each representing 179,477 units and 6,137 units, and are recorded in "Accounts payable and other current liabilities" in the Consolidated Statements of Financial Position. The DSU compensation for the three-month period ended April 30, 2016, include 175,000 units granted, on a discretionary basis, for a total amount of $543,000.

| Three-Month Periods ended April 30, | **2016** | 2015 |
|---|---|---|
| (Number of deferred share units) | | |
| Outstanding, at the beginning of the period | **121,346** | 175,645 |
| Attributed | **179,477** | 6,137 |
| Outstanding, at the end of the period | **300,823** | 181,782 |

The DSU's are re-evaluated at fair market value at the end of each reporting period until the vesting date, using the market price of the Corporation's subordinate voting shares. During the three-month period ended April 30, 2016, no amount affected the compensation expense, since the outcome of the re-evaluation was immaterial. During the three-month period ended April 30, 2015, this re-evaluation generated a $23,000 increase in the compensation expense and in accounts payable and other current liabilities.

ii. **Executive Officers and Key Employees**

As set forth in the DSU Plan (see Note 2 p) to the Notes to the Consolidated Financial Statements for the Fiscal Year Ended January 31, 2016), on February 1, 2016, the Corporation granted, on a discretionary basis, Executive Officers and key employees a total of 236,162 units of DSUs, the vesting of which will extend over a 5-year period, at a rate of 20% per year. The vested DSUs will be bought back in cash by the Corporation on the date its holder ceases to be an officer or employee of the Corporation by reason of death, retirement or loss of function as officer or employee.

The DSU are recognized as they are vested and their costs is determined using a valuation model, and re-evaluated at each reporting period. The share-based compensation expense, totalling $81,000, was recorded in the Consolidated Statement of Income for the Three-Month Period Ended April 30, 2016, and the corresponding amount was recognized in accounts payable and other current liabilities in the Consolidated Statements of Financial Position.

**NOTE 8**

ACCUMULATED OTHER COMPREHENSIVE INCOME

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Exchange differences on translation of foreign operations | | |
| Opening balance | **9,668** | 5,996 |
| Changes during the period | **(4,114)** | (1,795) |
| Closing balance | **5,554** | 4,201 |
| Hedging of foreign operations, net of related income taxes (1) | | |
| Opening balance | **(300)** | (300) |
| Changes during the period | **—** | — |
| Closing balance | **(300)** | (300) |
| Change in value of available-for-sale financial assets | | |
| Opening balance | **139** | 139 |
| Changes during the period | **—** | — |
| Closing balance | **139** | 139 |

Allocated as follows:

| As at | **April 30, 2016** | January 31, 2016 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Exchange differences on translation of foreign operations, net of related hedging activities, net of related income taxes (2) | **5,254** | 9,368 |
| Change in value of available-for-sale financial assets (3) | **139** | 139 |
| | **5,393** | 9,507 |

(1) To protect itself against the foreign exchange risk related to net investments in its foreign subsidiaries, the Corporation used hedge accounting until July 2014 by fully designating one of its US-denominated long-term debts as a hedge. However, because this long-term debt was fully reimbursed in July 2014, hedge accounting ceased to apply on that date.

(2) The component "Translation of foreign operations" represents exchange differences relating to the translation from the functional currencies of the Corporation's foreign operations into Canadian dollars. On disposal of a foreign operation, the cumulative translation differences are reclassified to the Consolidated Statement of Income as part of the gain or loss on disposal.

(3) The component "Available-for-sale financial assets" arises upon the revaluation of available-for-sale financial assets. When a revaluated financial asset is sold, the portion of the component that relates to that financial asset, and is effectively realized, is recognized in the Consolidated Statement of Income. When a revaluated financial asset is impaired, the portion of the component that relates to that financial asset is recognized in Consolidated Statement of Income.

**NOTE 9**

INFORMATION RELATED TO CONTRACTS

Revenues from construction contracts totalling $25,440,000 for the three-month period ended April 30, 2016 ($28,682,000 for the three-month period ended April 30, 2015) have been included in revenues of the reporting period. The amounts recorded in the Consolidated Statement of Financial Position relate to current contracts at the end of the reporting period.

The amounts are calculated as net incurred costs, plus profits, less recognized losses and billings for the period. The carrying amount of assets and liabilities is as follows:

| As at April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Total amount of cost incurred and profits and losses recorded on all ongoing contracts | **130,139** | 125,413 |
| Less progress billings | **(128,366)** | (122,024) |
| | **1,773** | 3,389 |

Recognized as follows:

| As at | **April 30, 2016** | January 31, 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Amount owed by clients for work performed on contracts, recorded in work in progress | **4,317** | 7,521 |
| Amount owed to clients for work performed on contracts, recorded in deferred revenues | **(2,544)** | (2,753) |
| | **1,773** | 4,768 |

Advances received from clients on contracts for work not yet realized are recognized in accounts payable and other current liabilities. These advances were $1,010,000 as at April 30, 2016 ($1,350,000 as at January 31, 2016).

Holdbacks on contracts will be received at the time of the client's approval of the work performed and amounts to $1,671,000 as at April 30, 2016, ($1,693,000 as at January 31, 2016) and are included in current assets in the Consolidated Statement of Financial Position.

**NOTE 10**

CLASSIFICATION OF EXPENSES PER NATURE

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Raw material, consumables and subcontracting | **6,861** | 14,512 |
| Salaries and employees' benefit expenses (Note 11) | **11,038** | 7,898 |
| Amortization expenses (Notes 4 and 5) | **1,167** | 1,106 |
| Drafting and engineering | **1,294** | 1,058 |
| Transport | **231** | 694 |
| Professional fees | **680** | 483 |
| Travelling expenses and representation | **558** | 397 |
| Management fees with related companies (Note 12) | **337** | 349 |
| Electricity and heating | **363** | 328 |
| Maintenance and repairs | **213** | 323 |
| Taxes and permits | **297** | 300 |
| Insurance | **227** | 259 |
| Office expenses | **129** | 117 |
| Other | **169** | 126 |
| | **23,564** | 27,950 |

Distributed as follows:

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Cost of goods sold | **19,306** | 25,114 |
| Selling and administrative expenses | **4,258** | 2,836 |
| | **23,564** | 27,950 |

Cost of goods sold is as follows:

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Cost of goods sold excluding amortization | **18,393** | 24,218 |
| Amortization of property, plant and equipment and intangible assets | **913** | 896 |
| | **19,306** | 25,114 |

**NOTE 11**

SALARIES AND EXPENSES RELATED TO EMPLOYEES BENEFITS

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Salaries and other short-term benefits | **8,526** | 5,956 |
| Social security costs | **1,227** | 1,526 |
| Pension plan contributions | **570** | 402 |
| Share-based compensation (1) | **645** | 14 |
| Other | **70** | — |
| | **11,038** | 7,898 |

(1) Includes discretionary DSUs, totaling $624,000 for the three-month period ended April 30, 2016 (see Note 7 e) (none for the three-month period ended April 30, 2015).

**NOTE 12**
EXECUTIVES' COMPENSATION

The Corporation's principal executive officers are members of the Board of Directors and members of the Management Committee of ADF Group (the parent company) and their related persons. Their compensation includes the following expenses:

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Salaries and other short-term benefits | **972** | 342 |
| Social security costs | **80** | 94 |
| Management fees (1) | **337** | 349 |
| Pension plan contributions | **86** | 75 |
| Share-based compensation (2) | **628** | 3 |
| Attendance fees | **70** | 93 |
| | **2,173** | 956 |

(1) In the normal course of business, management agreements have been reached with companies held by a group of majority shareholders and are measured at exchange amount.

(2) Includes discretionary DSUs, totaling $613,000 for the three-month period ended April 30, 2016 (see Note 7 e) (none for the three-month period ended April 30, 2015).

**NOTE 13**
FINANCIAL EXPENSES

Financial expenses were as follows:

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Interest on long-term debt | **181** | 96 |
| Other interest | **9** | 2 |
| | **190** | 98 |

**NOTE 14**
EARNINGS PER SHARE

Diluted earnings per share were calculated using the treasury stock method. The table hereafter reconciles the numerator and denominator used in the calculation of basic and diluted earnings per share.

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| **Numerator** (in thousands of CA$) | | |
| Numerator applicable to basic and diluted earnings per share | **965** | 57 |
| **Denominator** (in thousands) | | |
| Basic weighted average number of shares | **32,621** | 32,541 |
| Effect of dilutive instruments: | | |
| — Stock options | **128** | 557 |
| Diluted weighted average number of shares | **32,749** | 33,098 |

For the purpose of computing diluted earnings per share, the Corporation must account for stock options as a dilutive instrument.

During the three-month periods ended April 30, 2016, only 303,664 stock options (231,664 stock options during the three-month period ended April 30, 2015) were included in the computation of diluted earnings per share since the other options were antidilutive.

**NOTE 15**
SUPPLEMENTAL CASH FLOWS INFORMATION

The following table sets out in detail the components of the "Changes in non-cash working capital items":

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Accounts receivable | **(3,495)** | (808) |
| Holdbacks on contracts | **(145)** | 1,177 |
| Work in progress | **3,071** | 1,801 |
| Inventories | **(257)** | 29 |
| Prepaid expenses and other current assets | **555** | (1,122) |
| Accounts payable and other current liabilities | **(3,949)** | (1,361) |
| Deferred revenues | **(34)** | (2,547) |
| Changes in non-cash working capital items | **(4,254)** | (2,831) |

For the purpose of the Consolidated Statements of Cash Flows, cash and cash equivalents consisted of $803,000 and $2,377,000 in cash at April 30, 2016 and January 31, 2016, respectively.

**NOTE 16**

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) **Financial Risk Management**

As described in Note 29 to the Audited Consolidated Financial Statements for the fiscal year ended January 31, 2016, the Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollars, since a significant portion of its revenues is generally recorded in U.S. dollars. During the three-month period ended April 30, 2016, 60% of the Corporation's revenues were concluded in U.S. dollars (66% during the three-month period ended April 30, 2015). As part of its foreign currency hedge policy, the Corporation uses different mechanisms, where appropriate, to mitigate the impact of these fluctuations on its results, such as:

- Maximizing purchases in U.S. dollars when possible to avail itself of a natural hedging;
- Acquiring fabrication equipment in U.S. dollars;
- Issuance of long-term debt into U.S. dollars;
- Using hedging accounting, the case may be; and
- Using foreign exchange forward contracts and/or foreign currency options to hedge part of the residual exchange risk.

The detail of the derivative financial instruments on hand as at April 30, 2016, in line with its hedging policy, was established as follows:

| | **As at April 30, 2016** | | | |
|---|---|---|---|---|
| | **In thousands of US$ (1)** | **In thousands of CA$ (1)** | **Average rate** | **Expiration date** |
| **Forward foreign exchange contracts** | **2,000** | **2,740** | **1.3700** | **May 02, 2016** |
| | **2,000** | **2,632** | **1.3162** | **July 29, 2016** |
| | **2,625** | **3,617** | **1.3779** | **July 29, 2016** |
| | **2,000** | **2,631** | **1.3156** | **October 31, 2016** |
| | **1,000** | **1,386** | **1.3864** | **October 31, 2016** |
| | **1,000** | **1,315** | **1.3146** | **January 31, 2017** |
| | **3,200** | **4,013** | **1.2542** | **January 31, 2017** |
| | **1,000** | **1,384** | **1.3837** | **April 28, 2017** |
| **Foreign currency options** | **1,000** | **1,240** | **1.2400** | **July 29, 2016** |
| | **(1,280)** | **(1,000)** | **1.2800** | **July 29, 2016** |
| | **1,000** | **1,240** | **1.2400** | **October 31, 2016** |
| | **(1,280)** | **(1,000)** | **1.2800** | **October 31, 2016** |
| | **800** | **1,096** | **1.3700** | **January 31, 2017** |
| | **(1,120)** | **(800)** | **1.4005** | **January 31, 2017** |

(1) A positive amount represents the sale of U.S. dollars, whereas a negative amount represents the purchase of U.S. dollars.

The Corporation's position is summarized below:

| As at | **April 30, 2016** | January 31, 2016 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| Forward foreign exchange contracts included in current assets | **1,214** | — |
| Forward foreign exchange contracts included in current liabilities | — | (403) |

b) **Financial Instruments**

Financial assets and liabilities have been classified in categories specifying their basis for measurement, and in the case of items measured at fair value specifying whether changes in the fair value are recognized in the net income or in other comprehensive income. These categories are: fair value through net income, loans and receivables, assets available-for-sale and, in the case of liabilities, amortized cost.

As at April 30, 2016, the carrying amount of these financial instruments did not significantly differ from the fair market value, either because of their forthcoming maturity date (in the case of cash, cash equivalents, short-term investments, accounts receivable, other current assets, holdbacks on contracts and accounts payable and other current liabilities), or because the Corporation believed it could obtain similar conditions and schedules (in the case of the long-term debt) or since they are re-evaluated at their fair value at the end of every period (in the case of equity investments and derivative financial instruments).

Therefore, to determine fair value, the financial instruments measured at the fair value at the Consolidated Statements of Financial Position are classified using the following fair value hierarchies in accordance with IFRS, which have been defined as follows:

- Fair value - Level 1: Quoted price (unadjusted) in active markets for identical assets or liabilities;
- Fair value - Level 2: For inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Fair value - Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation classified its equity investments within fair value level 1, since they are based on inputs that are observable in an active market.

The Corporation classified its derivative financial instruments, which include forward foreign exchange contracts and foreign currency options within fair value level 2, since they are essentially based on inputs that are observable other than in an active market.

**NOTE 17**
SEGMENTED INFORMATION

The Corporation operates in the non-residential construction sector, primarily in the United States and Canada. Its operations include the design and engineering of connections, fabrication, including industrial coating, and installation of complex steel structures, heavy steel built-ups, as well as miscellaneous and architectural metalwork.

| Three-Month Periods Ended April 30, | **2016** | 2015 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| **Revenues** | | |
| Canada | **1,442** | 9,815 |
| United States | **23,998** | 18,867 |
| | **25,440** | 28,682 |

| As at | **April 30, 2016** | January 31, 2016 |
|---|---|---|
| (In thousands of CA$) | **$** | $ |
| **Non-current assets (1)** | | |
| Canada | **50,676** | 47,480 |
| United States | **44,568** | 49,795 |
| | **95,244** | 97,275 |

(1) The non-current assets mainly include property, plant and equipment, intangible assets, investment tax credits and others non-current assets.

Revenues from external clients were allocated to each Country on the basis of project's location.

During the three-month period ended April 30, 2016, 79% of the Corporation's revenues were realized with three (3) clients, each representing more than 10 % of revenues, for respective amounts of $11,244,000 from Canada and United States, and $6,274,000 and $2,604,000 from United States.

During the three-month period ended April 30, 2015, 70% of the revenues were realized with three (3) clients for amounts of $12,085,000 from the United States, and $4,902,000 and $3,206,000 from Canada, and therefore each client accounted for more than 10% of the Corporation's revenues.

The electronic version of this report is available at www.adfgroup.com and at www.sedar.com.

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