



**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE FINANCIAL POSITION AND OPERATING RESULTS**

Three-Month and Nine-Month Periods Ended October 31, 2016



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FORWARD-LOOKING STATEMENTS | Management of ADF Group Inc. wishes to inform the reader that this document contains forward-looking statements within the meaning of applicable securities laws, in which Management's expectations regarding ADF Group Inc.'s future performance may be discussed. These forward-looking statements include information concerning ADF Group's probable or foreseeable future operating results and financial position, and involve certain risks and uncertainties with regard to their future realization. These forward-looking statements are based on currently available data in regard to competition, financial position, economic conditions and operating plans. The principal risks and uncertainties that could affect ADF Group Inc.'s results, such that those results could differ materially from those expressed in any forward-looking statements, are presented in Sections "Current Economic Environment" and "External Factors to Which the Corporation's Performance is Exposed" of the MD&A Report for the fiscal year ended January 31, 2016.

1. GENERAL

The purpose of this management's discussion and analysis of the financial position and operating results ("MD&A") is to provide the reader with an overview of the changes in the financial position of ADF Group Inc. ("ADF", "ADF Group" or "the Corporation") between February 1, 2016 and October 31, 2016. It also compares the operating results and cash flows for the three-month and nine-month periods ended October 31, 2016 to those for the same periods of the previous year. This MD&A covers all major events that occurred between February 1, 2016 and December 7, 2016, on which date ADF Group Inc.'s Board of Directors approved the consolidated financial statements, as well as the MD&A for the three-month and nine-month periods ended October 31, 2016.

This MD&A should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and the notes thereto for the three-month and nine-month periods ended October 31, 2016. The unaudited condensed interim consolidated financial statements and the comparative information have been prepared in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable to interim financial reports, including International Accounting Standard 34 "Interim Financial Reporting".

The Corporation reports its results in Canadian dollars. All amounts in this MD&A are expressed in Canadian dollars, except where otherwise indicated.

2. FORWARD-LOOKING STATEMENTS

In order to provide shareholders and potential investors with additional information regarding ADF, in particular Management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ from those expressed in or implied by these forward-looking statements.

Such factors include, but are not limited to: the impact of economic conditions in Canada and the United States; industry conditions including amendments in laws and regulations; increased competition; potential shortfall of qualified personnel or managers; availability and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, U.S. and international standard setters. Some of these factors are further discussed under Section 20 "External Factors to Which the Corporation's Performance is Exposed" in this MD&A. It should be noted that the list of factors that may affect future growth, results and performance, provided in this MD&A, is not exhaustive. The reader should not place undue reliance on forward-looking statements.

The expectations expressed by the forward-looking statements are based on information available to the Corporation on the date such statements were made. However, there can be no assurance that such estimates will prove to be correct. All subsequent forward-looking statements made, whether written or verbally, by the Corporation or persons acting on its behalf, are expressly qualified in their entirety by the caveats referred to above. Unless otherwise required by applicable securities legislation, the Corporation expressly disclaims any intention, and assumes no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

3. OVERVIEW

From a blacksmith shop founded in 1956, ADF Group has become over the years a North American leader in 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. 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.

The Corporation uses the latest technologies in its industry and operates two state-of-the-art fabrication plants and two cutting-edge paint shops. ADF Group's complex located in Canada houses the Corporation's head office, the 58,530-square-metre (630,000-square-foot) fabrication plant, which includes the 3,900 square-meter (42,000 square feet) paint shop. ADF's complex in the United-States is home to the 9,290-square-metre (100,000 square feet) fabrication plant, the 60-acre pre-assembly yard and the 4,460-square-meter (48,000 square feet) paint shop built next to the fabrication plant.

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

4. **COMMERCIAL POSITIONING**

ADF Group serves a diversified client base in the non-residential construction market in Canada and the United States:

- General contractors;
- Project owners;
- Engineering firms and project architects;
- Structural steel erectors; and
- Other steel structure fabricators.

5. **MARKET TRENDS**

The non-residential construction industry includes the products and services related to the construction of commercial, institutional and industrial buildings, such as office towers, commercial buildings, hotels, sports complexes, museums, recreational complexes, as well as manufacturing plants and other industrial facilities. This sector also encompasses public works, including the construction and renovation of infrastructures and buildings, notably, hydroelectric dams, airports, bridges and overpasses. It should be noted that the demand in this sector is related to business cycles. Generally, there are more private projects in a bull cycle, whereas government projects take over in a bear cycle.

According to Management, approximately half of the non-residential projects use structural steel as a structural component, while the other half primarily uses concrete. Generally, structural steel accounts for about 10% to 20% of a project's total cost, depending on the project's nature. Structural steel offers a number of advantages when compared to other materials, which explains its increasing use in the construction of complex structures. These advantages include durability, speed of installation, greater flexibility in fast-track projects, lower installation and maintenance costs, as well as its high strength/weight ratio as a result of improved alloys.

Generally, there are more complex steel structure projects in the United States than in Canada, which can result in a certain dependence of the Corporation on the U.S. market.

The outcome of the US elections will create some uncertainty on the markets served by our Corporation. This being said, and as mentioned in our previous interim MD&A Report, the two candidates had relatively similar views regarding the level of investment in public infrastructure, which should be good news.

More specifically, and as shown by our recent contracts announcements, our markets, primarily in the USA, are still booming. Although there are currently rumors concerning the renegotiation of Free Trade agreements, the sector in which ADF operates is already governed by the provisions of the "Buy American Act, which suggests that there should not be too many changes, at least in the short term.

6. **SIGNIFICANT EVENTS OF THE THREE-MONTH PERIOD ENDED OCTOBER 31, 2016**

On September 13, 2016, the Corporation's Board of Directors approved a semi-annual dividend of \$0.01 per subordinate and multiple voting shares, which was paid on October 17, 2016, to shareholders of record as at September 30, 2016.

On October 4, 2016, the Corporation announced the award of new major contracts in the United States, totalling \$133.0 million. The largest of the contracts concerns the new airport in Salt Lake City, Utah, which includes the fabrication, industrial coatings and the steel structures and miscellaneous metals erecting work for the new terminal, two concourses and the airport's passenger gateway. ADF's contract also includes the supply of the shop drawings, the design and engineering of connections, as well as the supply of the raw material (steel). This project, which is characterized by a high volume of tonnage, will entirely be carried out at ADF's fabrication plant and industrial paint shop based in Great Falls, Montana, USA. The project will extend until the second quarter of ADF Group's 2019 fiscal year.

On October 31, 2016, the Corporation announced the award of \$42 million worth in new contracts. These contracts include the fabrication of various steel components for transport infrastructure projects in the US Northeast and Midwest regions. These contracts will be carried out at ADF's Terrebonne Complex.

7. **MAJOR EVENT THAT OCCURED SINCE OCTOBER 31, 2016**

On November 18, 2016, the Corporation finalized the renewal of its Canadian operating credit facility, and increasing at the same time the total credit available from CAD\$10 million to CAD\$20 million, or its equivalent in U.S. dollars. This facility is not based on margination of the lending value, unless the order backlog is below \$70 million (was formerly \$50 million). Effective February 1, 2018, this limit will increase to \$100 million. All other conditions, including the guarantees, remain unchanged (see Section 12 d) "Canadian Operations Credit Facility") herein.

8. **EXCHANGE RATE**

The Corporation is subject to foreign currency fluctuations from the translation of revenues, expenses, assets and liabilities of its foreign operations and from commercial transactions denominated in foreign currencies. Average monthly rates (considered a reasonable approximation to actual rates at the date of transactions) are used to translate revenues (except for forward foreign exchange contracts) and expenses for the periods mentioned, while closing rates translate assets and liabilities.

During the three-month and nine-month periods ended October 31, 2016, as well as during each of the four previous quarters, the Corporation used the following exchange rates between the Canadian and U.S. dollars:

(CA\$/US\$)	Statements of Income and Comprehensive Income		Statements of Financial Position
	Quarterly	Cumulative	
Third quarter (October 31, 2015)	1.3160	1.2707	1.3075
Fourth quarter (January 31, 2016)	1.3734	1.2957	1.4006
First quarter (April 30, 2016)	1.3263	1.3263	1.2548
Second quarter (July 31, 2016)	1.2957	1.3109	1.3056
Third quarter (October 31, 2016)	1.3112	1.3110	1.3411

During the third quarter ended October 31, 2016, the Canadian dollar loss value in relation to the U.S. dollar. This loss is also reflected in the closing rates. However, when analyzing the third quarters ended October 31, 2015 and 2016, the Canadian dollar is slightly up when compared to the U.S. dollar.

In general, the variation in the exchange rate had an immaterial impact on the gross margin for the three-month period ended October 31, 2016, and had a favorable impact of \$0.5 million during the nine-month period ended October 31, 2016.

9. NON-GAAP MEASURES

The financial information in this MD&A has been prepared in accordance with IFRS, with the exception of certain financial indicators that do not have standardized meaning as prescribed by IFRS and therefore are considered non-generally accepted accounting principles ("GAAP"). When such indicators are used, they are defined and the reader is informed. The Corporation uses the following non-GAAP indicators to measure its operating performance and the achievement of objectives:

	9-Month Periods Ended October 31,		12-Month Periods Ended January 31,	
	2016	2015	2016	2015
Working capital (in thousands of dollars)	\$24,048	\$23,891	\$20,961	\$19,476
Current ratio	2.15:1	2.91:1	1.96 :1	1.88 :1
Long-term debt to shareholders' equity ratio ^{a)}	0.22:1	0.14:1	0.14:1	0.10:1
Total debt, net of liquidities (total liquidities, net of debt) (in thousands of dollars)	\$23,321	\$9,356	\$12,842	\$1,402
Total cash, cash equivalents and short-term investments, net of long-term debt, to shareholders' equity ratio ^{b)}	(0.22):1	(0.09):1	(0.12):1	(0.01):1
Liabilities to shareholders' equity ratio	0.40:1	0.28:1	0.36:1	0.33:1
Earnings before interest, tax, depreciation and amortization (EBITDA) (in thousands of dollars) ^{c)}	\$6,149	\$5,161	\$7,244	\$1,594
EBITDA margin (as a percentage of revenues) ^{c)}	9.3%	7.5%	7.4%	2.1%
Book value per share (in dollars)	\$3.26	\$3.18	\$3.30	\$3.20
Return on shareholders' equity	2.2%	0.0%	1.6%	(1.5)%

See Section 10 "Non-GAAP Measures" of the Management's Discussion and Analysis of the Financial Position and Operating Results for the Fiscal Year Ended January 31, 2016, for the definition of the financial indicators included in this table, except for items a) to c) below.

a) Long-Term Debt to Shareholders' Equity Ratio

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 and credit facilities, over shareholders' equity.

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

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 and credit facilities, over shareholders' equity.

c) EBITDA and EBITDA Margin

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

- Financial revenues and financial expenses;
- Income tax expense;
- Foreign exchange gains or losses; and
- Depreciation and amortization of property, plant and equipment and intangible assets.

Net income is reconciled with EBITDA in the table below:

Periods Ended October 31, (In thousands of dollars and in percentages)	3 Months		9 Months	
	2016	2015	2016	2015
Net income	\$ 36	1,041	\$ 1,246	561
Income tax expense	9	483	396	705
Financial revenues	(2)	(33)	(45)	(65)
Financial expenses	243	151	667	373
Amortization	1,181	1,181	3,559	3,415
Foreign exchange (gain) loss	(30)	25	326	172
EBITDA	1,437	2,848	6,149	5,161
— As a % of revenues	6.8%	13.4%	9.3%	7.5%

10. ANALYSIS OF OPERATING RESULTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED OCTOBER 31, 2016

a) Revenues and Gross Margin

Three-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Revenues	21,089	21,260	(171)	(0.8)
Cost of goods sold	17,836	16,760	1,076	6.4
Gross margin	3,253	4,500	(1,247)	(27.7)
— As a % of revenues	15.4%	21.2%		(5.8)

Nine-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Revenues	66,390	69,005	(2,615)	(3.8)
Cost of goods sold	54,013	59,048	(5,035)	(8.5)
Gross margin	12,377	9,957	2,420	24.3
— As a % of revenues	18.6%	14.4%		4.2

Revenues

Revenues during the three-month period ended October 31, 2016, totalled \$21.1 million, which is almost the same level as the corresponding period of the 2016 fiscal year. Revenues during the nine-month period ended October 31, 2016, totalled \$66.4 million, down by \$2.6 million compared with the same period of the 2016 fiscal year.

The revenues are determined on the basis of the costs incurred on the various projects executed by the Corporation during the period.

The decrease in revenues during the nine-month period ended October 31, 2016, when compared with the nine-month period ended October 31, 2015, is attributable, among others, to the mix of projects that were then in fabrication, and, as mentioned in the previous quarter's MD&A Report, by a delay, out of the Corporation's control, on a project in Florida.

In terms of economic dependency, 84% of the Corporation's revenues during the nine-month period ended October 31, 2016, were realized with four (4) clients for respective amounts of \$21.4 million from Canada and the United States, \$20.0 million and \$6.6 million from the United States, and \$7.6 million from Canada (74% of the revenues during the nine-month period ended October 31, 2015, were realized with three (3) clients for respective amounts of \$25.9 million from the United States, and \$12.9 million and \$12.1 million from Canada), and each client accounted for more than 10% of the Corporation's revenues.

Although the Corporation attempts 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.

Gross Margin

During the three-month period ended October 31, 2016, the gross margin in dollar value totalled \$3.3 million, which is \$1.2 million lower than during the corresponding period a year ago. As a percentage of revenues, the gross margin went from 21.2% during the three-month period ended October 31, 2015 to 15.4% for the same period ended October 31, 2016. For the quarter ended October 31, 2016, the decrease in gross margin, as a percentage of revenues, when compared with the same period ended October 31, 2015, is mainly explained by the start of several projects that were recently announced, adding a certain pressure on the margins because of the costs incurred, such as the purchase of raw material, when compared with the level of fabrication hours, which is still low.

During the nine-month period ended October 31, 2016, the gross margin in dollar value stood at \$12.4 million or 18.6% of revenues compared with \$10.0 million or 14.4% of revenues a year ago. Despite the unfavorable impact the new contracts had on the quarter's margins, the mix of projects, as well as a better costs absorption, had a favorable impact on the cumulative margin. In addition, the gross margin for the nine-month period ended October 31, 2016, also benefited from positive adjustments related to occupational health and safety costs, as well as steel scrap inventory. These adjustments were recorded in the first quarter ended April 30, 2016.

During the three-month and nine-month periods ended October 31, 2016, revenues included 71% and 72% respectively of fabrication hours, including industrial coating, compared with 68% and 63% respectively for the same periods a year ago. As previously mentioned, fabrication is not only the Corporation's core activity, but it is generally also its highest value-added activity.

Increases or decreases in raw material (mainly steel) prices do not generally have a material impact on the gross margin since in most cases, the clients supply the steel to be transformed by ADF, whereas protection clauses with regard to price changes are usually included in contracts where ADF supplies the steel. In addition, the natural hedge attributable to revenues and the purchase of raw materials in U.S. dollars mitigates the impact of exchange rate fluctuations.

b) **Selling and Administrative Expenses**

Three-Month Periods Ended October 31	2016	2015	Changes 2016/2015	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Selling and administrative expenses	2,997	2,833	164	5.8
— As a % of revenues	14.2%	13.3%		0.9

Nine-Month Periods Ended October 31	2016	2015	Changes 2016/2015	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Selling and administrative expenses	9,787	8,211	1,576	19.2
— As a % of revenues	14.7%	11.9%		2.8

For the three-month period ended October 31, 2016, selling and administrative expenses amounted to \$3.0 million, which is \$0.2 million more than the same period ended October 31, 2015. For the nine-month period ended October 31, 2016, selling and administrative expenses amounted to \$9.8 million, posting an increase of \$1.6 million over the same period ended October 31, 2015.

For the nine-month period ended October 31, 2016, the increase in dollar value stems mainly from the changes made to the Directors, Executive officers and key employees' compensation programs. In order to align the compensation of Directors, Executive Officers and key employees with the Corporation's performance, and in light of the benchmarking conducted by an independent consulting firm, Deferred Share Units (DSU) were awarded on February 1, 2016, on a discretionary basis, to five (5) External Directors and four (4) Executive Officers and key employees of the Corporation. Directors can vest their DSU upon grant, whereas Executive Officers and key employees will vest their DSU over a five-year period. The total expense recorded during the three-month and nine-month periods ended October 31, 2016 for all DSU totalled \$0.2 million and \$0.8 million respectively.

In addition to the aforementioned impact, the increase in selling and administrative expenses is also attributable to the increase in bid costs, marketing efforts, and the launch of the new business plan recently adopted, as discussed in the previous quarter's MD&A Report. This plan aims at enabling us to optimize all of our operations, including our new industrial coating facilities in Great Falls and Terrebonne, as well as the fabrication plant also in Great Falls, while at the same time developing new markets in light of these investments. These initiatives will continue to put a certain pressure on the selling and administrative expenses in the next quarters.

c) **Amortization**

In accordance with IFRS standards, amortization expense is included in cost of goods sold and selling and administrative expenses (see Note 11 "Classification of Expenses per Nature" to the Unaudited Condensed Interim Consolidated Financial Statements as at October 31, 2016, included in this MD&A). However, Management considers it appropriate to continue separately commenting on the trend in amortization expense since it is considered a significant, although non-cash, component in the analysis of the Corporation's profit margins.

Three-Month Periods Ended October 31,	2016	2015	Changes 2016/2015	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Amortization	1,181	1,181	—	—
— As a % of revenues	5.6%	5.6%		—

Nine-Month Periods Ended October 31,	2016	2015	Changes 2016/2015	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Amortization	3,559	3,415	144	4.2
— As a % of revenues	5.4%	4.9%		0.5

Three-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Amortization expense included in cost of goods sold	912	931	(19)	(2.0)
Amortization expense included in selling and administrative expenses	269	250	19	7.6
Total amortization	1,181	1,181	—	—

Nine-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Amortization expense included in cost of goods sold	2,777	2,738	39	1.4
Amortization expense included in selling and administrative expenses	782	677	105	15.5
Total amortization	3,559	3,415	144	4.2

Now that the major investments are almost completed, including the paint shops in Terrebonne and in Great Falls, the amortization expense for the quarters and nine-month periods ended October 31, 2015 and 2016 stayed relatively at the same level. The change in the depreciation allocation between the cost of goods sold and the selling and administrative expenses comes almost entirely from the difference between the commissioning of different production equipment and the evaluation of their useful life, the case may be.

d) **Financial Revenues and Financial Expenses**

Three-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Financial revenues	(2)	(33)	31	Pos.
Financial expenses	243	151	92	60.9
— As a % of revenues	1.1%	0.6%	123	104.2
				0.5

Nine-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Financial revenues	(45)	(65)	20	Pos.
Financial expenses	667	373	294	78.8
— As a % of revenues	0.9%	0.4%	314	101.9
				0.5

The increase in net financial expenses during the quarter and the nine-month period ended October 31, 2016, compared with the same periods a year ago, is mainly explained by new debts totalling \$10.0 million issued since July 31, 2015, and the use of the Canadian operating credit facility (see Section 12 "Cash Flows and Financial Position").

e) **Foreign Exchange (Gain) Loss**

Three-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Foreign exchange loss (gain)	(30)	25	(55)	Neg.
— As a % of revenues	(0.1)%	0.1%		(0.2)

Nine-Month Periods Ended October 31, (In thousands of dollars and in percentages)	2016	2015	Changes 2016/2015	
	\$	\$	\$	%
Foreign exchange loss (gain)	326	172	154	89.5
— As a % of revenues	0.5%	0.2%		0.3

The foreign exchange gain recorded during the quarter ended October 31, 2016, includes a \$0.6 million foreign exchange gain on ongoing operations, and a \$0.6 million realized and not realized foreign exchange loss relating to the fair value of financial derivatives. During the three-month period ended October 31, 2016, a \$1.0 million foreign exchange gain on the translation of foreign subsidiaries was recorded in comprehensive income.

The foreign exchange loss recorded during the nine-month period ended October 31, 2016, includes a \$0.5 million foreign exchange loss on ongoing operations, and a \$0.2 million realized and unrealized foreign exchange gain relating to the fair value of financial derivatives. During the nine-month period ended October 31, 2016, a \$1.7 million foreign exchange loss on the translation of foreign subsidiaries was recorded in comprehensive income.

The foreign exchange losses recorded during the nine-month period ended October 31, 2015, includes a \$0.4 million foreign exchange gain on ongoing operations and a \$0.5 million realized and not realized foreign exchange loss relating to the fair value of financial derivatives. During the nine-month period ended October 31, 2015, a \$1.1 million foreign exchange gain on the translation of foreign subsidiaries was recorded in comprehensive income.

The Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollars since a significant portion of its revenues is usually generally recorded in U.S. dollars. During the three-month and nine-month periods ended October 31, 2016, the portion of revenues realized in U.S. dollars was 64% and 63% (88% and 77% respectively during the three-month and nine-month periods ended October 31, 2015, and 58% during the fiscal year ended January 31, 2016). Considering the improvement in U.S. markets and operations of its fabrication plant and new paint shop in Great Falls, Montana, the Corporation expects that the percentage of its revenues in U.S. dollars should continue to increase in fiscal 2017.

In line with its hedging policy and given the increase in its net risk between future U.S. denominated cash inflows and outflows, the Corporation used, during the three-month and nine-month periods ended October 31, 2016, the following derivative financial instruments, which are classified as held-for-trading and measured at their fair value at the end of each period, since they are not designated as part of an effective hedging relationship.

The detail of the derivative financial instruments on hand as at October 31, 2016, was as follows:

	As at October 31, 2016			
	In thousands of US\$ ⁽¹⁾	In thousands of CA\$ ⁽¹⁾	Average rate	Expiration date
Forward foreign exchange contracts	(4,300)	(5,758)	1.3391	November 1, 2016
	1,000	1,280	1.2800	November 2, 2016
	750	973	1.2971	January 31, 2017
	3,200	4,013	1.2542	January 31, 2017
	750	955	1.2732	April 28, 2017
	1,000	1,384	1.3837	April 28, 2017
	1,000	1,316	1.3163	April 28, 2017
	1,000	1,320	1.3200	July 31, 2017
	2,000	2,668	1.3338	October 31, 2017
	4,300	5,736	1.3340	October 31, 2017
Foreign currency options	800	1,096	1.3700	January 31, 2017
	(800)	(1,120)	1.4005	January 31, 2017
	750	960	1.2800	April 28, 2017
	(750)	(986)	1.3150	April 28, 2017
	750	945	1.2600	July 31, 2017
	(750)	(965)	1.2860	July 31, 2017
	2,000	2,600	1.3000	October 31, 2017
	(2,000)	(2,752)	1.3760	October 31, 2017

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

Based on the balance of the Corporation's financial instruments denominated in foreign currencies, as at October 31, 2016, a 10% fluctuation in the exchange rate between the Canadian and the U.S. dollars (all other variables remaining constant) would have resulted in an immaterial impact on the net income before income tax and in comprehensive income before income tax, taking into account foreign exchange contracts and currency options on hand as at October 31, 2016. However, this information only applies to financial instruments based on period-end balances and does not take into account the impact of foreign exchange fluctuations on revenues and other miscellaneous expenses for a complete fiscal year.

f) **Income Tax Expense**

Three-Month Periods Ended October 31,	2016	2015	Changes 2016/2015	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Income tax expense	9	483	(474)	(98.1)
— As a % of revenues	0.0%	2.3%		(2.3)

Nine-Month Periods Ended October 31,	2016	2015	Changes 2016/2015	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Income tax expense	396	705	(309)	(43.8)
— As a % of revenues	0.6%	1.0%		(0.4)

For the three-month and nine-month periods ended October 31, 2016, the income tax expense represented an average effective tax rate of 18% and 24% respectively. The difference between this rate and the Corporation's Canadian effective rate (27%) is mainly explained by the breakdown of income before income tax (profits or losses) from U.S. and Canadian jurisdictions which use different income tax rates.

A balance of \$3.0 million relating to net deferred income tax assets remained available as at October 31, 2016. This will have a favourable impact on the future cash outflows of the Corporation, which will not have to pay future income taxes until the full amount of available tax attributes has been used in the different jurisdictions where the Corporation executes contracts. Once these future tax attributes are fully used in a given jurisdiction, the Corporation will be required to resume paying income taxes in that jurisdiction.

g) **Net Income, Basic and Diluted Earnings per Share**

Three-Month Periods Ended October 31, (In thousands of dollars and in dollars per share)	2016	2015
	\$	\$
Total net income	36	1,041
— As a % of revenues	0.2%	4.9%
Total basic earnings per share	0.00	0.03
Total diluted earnings per share	0.00	0.03

Nine-Month Periods Ended October 31, (In thousands of dollars and in dollars per share)	2016	2015
	\$	\$
Total net income	1,246	561
— As a % of revenues	1.9%	0.8%
Total basic earnings per share	0.04	0.02
Total diluted earnings per share	0.04	0.02

The variations in net income during the three-month and nine-month periods ended October 31, 2016, compared with the same periods a year ago is for the most part explained by the previously described reasons.

11. **COMPARATIVE INFORMATION FOR THE LAST EIGHT QUARTERS**

The trends observed in the analysis of quarterly results do not necessarily represent those of the future results of the Corporation. ADF's 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.

Overall, quarterly fluctuations in the following indicators result mainly from the changes in the revenue mix and the costs recognized on different projects underway and for each given period, together with the lags between the recognition of costs and revenues, where appropriate, that could result from the use of estimates based on the percentage-of-completion method.

More specifically, and in light of the results for the last eight quarters presented below, the variations from one quarter to the other are mostly explained by the respective fabrication schedules of the various projects announced by the Corporation. Considering that revenues are established based on incurred costs on these different projects carried out by the Corporation, revenues and operating results can differ significantly from quarter to quarter because of these execution schedules.

Fiscal Years	2017			2016				2015
	3 rd Quarter (10.31.2016)	2 nd Quarter (07.31.2016)	1 st Quarter (04.30.2016)	4 th Quarter (01.31.2016)	3 rd Quarter (10.31.2015)	2 nd Quarter (07.31.2015)	1 st Quarter (04.30.2015)	4 th Quarter (01.31.2015)
Three-Month Periods Ended (In thousands of dollars and in dollars per share)	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	21,089	19,861	25,440	29,084	21,260	19,063	28,682	18,750
Gross margin	3,253	2,990	6,134	4,063	4,500	1,889	3,568	1,456
— As a % of revenues	15%	15%	24%	14%	21%	10%	12%	8%
EBITDA ⁽¹⁾	1,437	1,669	3,043	2,083	2,848	475	1,838	203
— As a % of revenues	7%	8%	12%	7%	13%	2%	6%	1%
Income before income tax expense (recovery)	45	251	1,346	1,521	1,524	(420)	162	(872)
— As a % of revenues	0%	1%	5%	5%	7%	(2)%	1%	(5)%
Net income	36	245	965	1,138	1,041	(537)	57	(554)
— Basic per share	0.00	0.01	0.03	0.03	0.03	(0.02)	0.00	(0.02)
— Diluted per share	0.00	0.01	0.03	0.03	0.03	(0.02)	0.00	(0.02)

(1) See Section 9 "Non-GAAP Measures" for the definition of EBITDA.

12. CASH FLOWS AND FINANCIAL POSITION

The Corporation posts a sound financial position and is on solid footing to address its financial needs. Taking into account its cash and cash equivalents position, its credit facility and the level of planned capital spending, the Corporation does not expect any liquidity risk in a foreseeable future.

As at October 31, 2016, the Corporation had \$0.6 million in cash and cash equivalents. At that same date, the Corporation had drawn \$4.7 million under its credit facility. This pressure on liquidity comes mainly from the delay, beyond the Corporation's control, in the start of a project and cash outflows required to finance daily operations, as explained under Section 10 b) "Selling and Administrative Expenses". This temporary situation will abate in the coming months. To that effect, the Corporation concluded a new financing in order to remedy this specific pressure on its liquidities (see Section 7 "Major Event that Occurred since October 31, 2016" and 12 d) "Canadian Operating Credit Facility").

Despite this temporary situation, Management believes that these available funds, considering the available credit facilities, will allow it to support the execution of its order backlog in hand on October 31, 2016, and to meet its expected financial commitments for the 2017 fiscal year.

Furthermore, the Corporation continually appraises the opportunities to use part of its liquidities to finance certain projects that could provide additional long-term competitive advantages (see Section 25 "Outlook"). It also looks at opportunities for accelerated payments discounts negotiated with suppliers.

a) Operating Activities

During the three-month and nine-month periods ended October 31, 2016, the Corporation generated cash flows from its operating activities and assigned them as follows:

Periods Ended October 31,	3 Months		9 Months	
	2016	2015	2016	2015
(In thousands of dollars)	\$	\$	\$	\$
Net income adjusted for non-cash items	1,939	2,506	7,370	3,554
Changes in non-cash operating working capital items:				
Accounts receivable	(5,322)	(1,494)	(2,000)	(2,763)
Holdbacks on contracts	(839)	2,513	(1,267)	2,875
Income tax	—	—	—	9
Work in progress	(1,307)	(499)	(891)	3,843
Inventories	(185)	(1,065)	(542)	(736)
Prepaid expenses and others current assets	(5)	(364)	68	(397)
Accounts payable and other current liabilities	3,518	421	(4,832)	(6,495)
Deferred revenues	1,346	(967)	(241)	(2,291)
	(2,794)	(1,455)	(9,705)	(5,955)
	(855)	1,051	(2,335)	(2,401)
Income tax paid	(191)	—	(1,128)	—
Cash flows from (used in) operating activities	(1,046)	1,051	(3,463)	(2,401)

During the three-month period ended October 31, 2016, the Corporation recorded a net income adjusted for non-cash items of \$1.9 million, which is \$0.6 million less than for the same period ended October 31, 2015. This decrease results mainly from the decrease in net income.

The net income adjusted for non-cash items for the nine-month period ended October 31, 2016, went up by \$3.8 million over the same period ended October 31, 2015. This increase results from the increase in net income and from the change in the unrealized foreign exchange gain and loss on derivative financial instruments.

During the three-month period ended October 31, 2016, the change in non-cash operating working capital items used cash outflows of \$2.8 million, which is mostly explained by the increase in accounts receivable (\$5.3 million), increase in work in progress (\$1.3 million), net of the increase in accounts payable and other current liabilities (\$3.5 million) and the increase in deferred revenues (\$1.3 million). Overall, these variations are directly attributable to the level of activities at October 31, 2016, compared with the same period a year ago.

During the nine-month period ended October 31, 2016, the change in non-cash operating working capital items used cash outflows of \$9.7 million, which is mostly explained by the increase in accounts receivable (\$2.0 million), the increase in holdbacks on contracts (\$1.3 million) and the decrease in accounts payable and other current liabilities (\$4.8 million).

During the three-month period ended October 31, 2015, change in non-cash operating working capital items used cash outflows of \$1.5 million. During the nine-month period ended on October 31, 2015, the change in non-cash operating working capital items used liquidities of \$6.0 million, which is mostly explained by the increase in accounts receivable and the decrease in accounts payable and other current liabilities and deferred revenues; net of the decrease in contract holdbacks and work in progress. Overall, during the three-month and nine-month periods ended October 31, 2015, these variations are directly attributable to the level of activities during the reference periods.

b) **Investing Activities**

The Corporation's investing activities are summarized as follows:

Periods Ended October 31,	3 Months		9 Months	
	2016	2015	2016	2015
(In thousands of dollars)	\$	\$	\$	\$
Net acquisition of property, plant and equipment	(561)	(1,295)	(5,854)	(3,473)
Acquisition of intangible assets	(90)	(104)	(295)	(306)
Disposal of an investment	—	—	—	9
Decrease (increase) in other non-current assets	2	(5)	(7)	632
Disposal of property, plant and equipment	—	12	—	12
Interest received	—	31	43	69
Cash flows from (used in) investing activities	(649)	(1,361)	(6,113)	(3,057)

During the three-month and nine-month periods ended October 31, 2016, liquidities of \$0.6 million and \$6.1 million respectively, were used, mostly for the construction of the new paint shop at ADF's Complex in Terrebonne, as well as for certain fabrication equipment required for the new Champlain Bridge project in Montreal.

During the three-month and nine-month periods ended October 31, 2015, liquidities of \$1.4 million and \$3.1 million respectively, were used mostly to complete the construction of the paint shop in Great Falls, Montana, as well as for the construction of a paint shop at the Corporation's own Terrebonne facilities, in Quebec.

The Corporation estimates capital expenditures for fiscal 2017 at approximately \$8.0 million, which will primarily be used to maintain the fabrication equipment current at both of ADF's plants in Terrebonne, Quebec and Great Falls, Montana.

c) **Financing Activities**

The Corporation's financing activities were as follows:

Periods Ended October 31,	3 Months		9 Months	
	2016	2015	2016	2015
(In thousands of dollars)	\$	\$	\$	\$
Issuance of long-term debt ⁽¹⁾	—	4,893	5,000	4,893
Variation in the credit facilities	(762)	—	4,738	—
Repayment of long-term debt	(200)	(196)	(607)	(566)
Redemption of subordinate voting shares	—	(118)	—	(1,918)
Issuance of subordinate voting shares	—	—	6	688
Dividends paid	(326)	(326)	(652)	(652)
Interest paid	(241)	(131)	(667)	(351)
Cash flows from (used in) financing activities	(1,529)	4,122	7,818	2,094

(1) Net of \$0.1 million of financing costs for the three-month and nine-month periods ended October 31, 2015.

During the three-month period ended October 31, 2016, the financing activities used liquidities of \$1.5 million. During the quarter, this cash outflow comes from the repayment of the credit facilities, the long-term debt and from the payment of the second semi-annual dividend.

During the nine-month period ended October 31, 2016, financing activities generated liquidities of \$7.8 million, compared with a cash inflow of \$2.1 million for the same period of the previous year. This cash inflow stems from the second tranche of \$5.0 million drawn during the first quarter ended April 30, 2016, under the new debt concluded during the fiscal year ended January 31, 2016, and the variation in the credit facilities.

During the nine-month period ended October 31, 2015, the cash inflow stems from the above-mentioned loan, net of the redemption of 800,000 subordinate voting shares, as previously explained in Section 15 "Normal Course Issuer Bid".

During the nine-month period ended October 31, 2016, the Corporation issued 6,000 subordinate voting shares under its Stock Option Plan for a cash consideration of \$6,000 (867,400 shares issued during the nine-month period ended October 31, 2015 for a cash consideration of \$0.7 million).

d) **Canadian Operating Credit Facility**

On November 18, 2016, the Corporation renewed its Canadian credit facility and increased at the same time the available amount. According to its credit agreement, renewable annually, the Corporation has access to a credit facility of up to \$20 million (was formerly \$10 million). This credit facility is not based on margination of the lending value when the order backlog reaches \$70 million or more (was formerly \$50 million). However, if the order backlog is below \$70 million a monthly calculation based on contracts receivable and inventories, which may limit the amount of the credit facility, is applied. Effective February 1st, 2018, this limit will increase to \$100 million. All other conditions, including guarantees, covenants and interest rates remain unchanged.

e) **Payment of Rents and Interest and Payment of Principal on Debt**

The Corporation pays interest on its long-term loans. The interest rates on these loans were between 1.98% and 3.55% as at October 31, 2016. The Corporation is making total monthly principal repayments of US\$0.1 million on these loans. Other rent payments are described under Note 25 "Commitments and Guarantees" of the Notes to the Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2016.

f) **Debt Covenants**

As at October 31, 2016, the Corporation respected all of the covenants with its lenders, and still did at the date hereof. Management expects it will continue to respect its commitments during the fiscal year 2017.

g) **Commitments Related to Letters of Credit as at October 31, 2016**

The Corporation contracted letter of credits, the balance of which was \$4.6 million as at October 31, 2016, compared with \$4.9 million as at October 31, 2015, and \$5.4 million as at January 31, 2016.

13. **CAPITAL STOCK**

Information on the outstanding shares, including stock options:

(In thousands of dollars, and in number of shares and options)	Subordinate Voting Shares		Multiple Voting Shares ⁽¹⁾		Total Outstanding Shares		Stock Options
	Number	\$	Number	\$	Number	\$	Number
As at January 31, 2015	18,191,035	53,184	14,343,107	16,001	32,534,142	69,185	1,426,064
Issued on exercise of stock options	887,400	1,174	—	—	887,400	1,174	(887,400)
Share redemption ⁽²⁾	(800,000)	(2,282)	—	—	(800,000)	(2,282)	—
Granted (forfeited)	—	—	—	—	—	—	(77,000)
As at January 31, 2016	18,278,435	52,076	14,343,107	16,001	32,621,542	68,077	461,664
Issued on exercise of stock options	6,000	11	—	—	6,000	11	(6,000)
Granted (forfeited)	—	—	—	—	—	—	(72,000)
As at October 31, 2016	18,284,435	52,087	14,343,107	16,001	32,627,542	68,088	383,664

(1) These shares carry 10 votes per share.

(2) See Section 15 "Normal Course Issuer Bid".

As at October 31, 2016, the Corporation had 32,627,542 shares outstanding (32,621,542 as at January 31, 2016). During the nine-month period ended October 31, 2016, the Corporation did not grant stock options and issued 6,000 subordinate voting shares, under its Stock Options Plan (867,400 shares issued during the nine-month period ended October 31, 2015). At the date hereof, being December 7, 2016, the number of shares outstanding remained practically unchanged.

On October 31, 2016, a total of 383,664 stock options were issued and outstanding. These options, which had a weighted average life of 2.97 years before maturity, had a weighted average exercise price of \$4.00 (see Note 8 "Capital Stock" to the Unaudited Condensed Interim Consolidated Financial Statements for the Three-Month and Nine-Month Periods Ended October 31, 2016).

14. **DEFERRED SHARE UNITS PLAN**

a) **External Directors**

This deferred compensation plan allows every external director, who wants to participate, to defer in whole or in part his/her director's compensation (including fees and attendance fees), by electing to receive a percentage of this compensation in the form of DSUs, which will be bought back in cash by the Corporation on the date the external director ceases to be a director of the Corporation by reason of death, retirement or loss of function as director.

When a director elects to participate in this plan, the Corporation credits the account of the director for a number of units equal to the deferred compensation divided by the market value of the subordinate voting shares, which is established using the average closing price during the five (5) trading days preceding the date of grant. DSU are not convertible into shares of the Corporation and do not result in a dilution to shareholders.

When the Corporation pays dividends on subordinate and multiple voting shares, the accounts of the directors, executive officers and key employees (see Section 14 b) below) are credited for the equivalent amount in the form of additional units using the same basis of calculation previously described.

For every DSU awarded, as well as for the variation in fair value, the Corporation recognizes a compensation expense with the counterpart in "Accounts payable and other current liabilities" of the Consolidated Statement of Financial Position.

During the three-month and nine-month periods ended October 31, 2016, the DSU compensation amounted to \$13,000 and \$579,000 respectively, each representing 4,194 units and 187,445 units (respectively \$12,000 and \$61,000, each representing 4,818 units and 16,093 units for the three-month and nine-month periods ended October 31, 2015).

The DSU compensation for the nine-month period ended October 31, 2016, includes 175,000 units that were granted on a discretionary basis, for a total amount of \$543,000 (none for during the three-month period ended October 31, 2016).

Three-Month Periods Ended October 31,	2016	2015
(Number of deferred share units)		
Outstanding, at the beginning of period	304,597	150,111
Granted	4,194	4,818
Exercised	—	—
Outstanding, at the end of period	308,791	154,929

Nine-Month Periods Ended October 31,	2016	2015
(Number of deferred share units)		
Outstanding, at the beginning of period	121,346	175,645
Granted	187,445	16,093
Exercised	—	(36,809)
Outstanding, at the end of period	308,791	154,929

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 October 31, 2016, an upward re-evaluation in the amount of \$0.1 million (none for the three-month period ended October 31, 2015) was recorded as an increase in compensation expense, with the consideration recorded as an increase in accounts payable and other current liabilities in the Consolidated Statement of Financial Position. During the nine-month period ended October 31, 2016, a downward re-evaluation in amount of \$38,000 was recorded as a decrease in compensation expense, contrary to an increase in compensation expense in amount of \$23,000 for the nine-month period ended October 31, 2015.

b) Executive Officers and Key Employees

As set forth in the DSU Plan (see Section 18 "Deferred Share Units Plan" of the Management's Discussion and Analysis of the Financial Position and Operating Results 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 \$96,000 and \$239,000, was recorded in the Consolidated Statement of Income for the Three-Month and Nine-Month Periods Ended October 31, 2016 respectively, and the corresponding amount was recognized in accounts payable and other current liabilities in the Consolidated Statements of Financial Position.

15. NORMAL COURSE ISSUER BID

On May 30, 2014, the Corporation announced the renewal of its normal course issuer bid ("NCIB") under which it was able to 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 subordinate voting shares. Except for the shares repurchased, as mentioned in the following paragraph, no other shares were repurchased during the three-month and nine-month periods ended October 31, 2015, under this NCIB.

During the nine-month period ended July 31, 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.

During the three-month period ended October 31, 2015, the Corporation repurchased off-Exchange, under the exemptions provided under applicable securities legislation, a total of 50,000 subordinate voting shares held by a former director for a total amount of \$143,000 (\$2.85 per share), made up of a \$118,000 disbursement and \$25,000 from contributed surplus.

16. DIVIDEND

On September 13, 2016, the Corporation's Board of Directors approved a semi-annual dividend of \$0.01 per subordinate and multiple voting shares (totalling \$0.3 million), which was paid on October 17, 2016, to shareholders of record as at September 30, 2016.

17. ORDER BACKLOG

ADF Group's order backlog totalled \$215.8 million on October 31, 2016, compared with \$89.4 million on the same date a year earlier and \$70.6 million on January 31, 2016. This variation, compared with January 31, 2016, is attributable to the newly signed contracts and contractual changes, net of the execution of contracts and the impact of the exchange rate on US-denominated contracts.

As at October 31, 2016, 49% of the order backlog consisted of fabrication hours – the Corporation’s core business and most value-added activity – compared with 61% on January 31, 2016. Most of the contracts on hand as at October 31, 2016, will progressively be executed between now and the second quarter of the 2019 fiscal year.

18. FINANCIAL POSITION

As at October 31, 2016, the Corporation had a sound financial position. The Corporation’s solid consolidated statement of financial position allowed it to obtain, when required, the necessary bonding for the award of large-scale contracts. This represents a major advantage for ADF within its markets.

The following table provides details on the major changes in the Consolidated Statement of Financial Position between January 31, 2016 and October 31, 2016.

Sections	Changes	Explanatory Notes
	(In millions of dollars)	
Cash, cash equivalents and short-term investments, net of the change in the credit facilities	(6.5)	See Section 12 "Cash Flow and Financial Position" herein.
Accounts receivable	0.5	Variation in line with the progress schedules and contracts billing.
Holdbacks on contracts	1.2	Variation in line with the billing schedules on ongoing contracts.
Work in progress/Deferred revenues (net)	1.2	Difference between the work progress and revenues billing.
Property, plant and equipment and intangible assets	0.5	Difference resulting from the acquisition of property, plant and equipment and intangible assets (\$6.2 million), net of amortization (\$3.6 million) and the exchange rate impact (\$2.1 million).
Accounts payable and other current liabilities	(5.3)	In line with the level of activities as at October 31, 2016.
Long-term debt (including current portion)	4.0	Change attributable to the issuance of the second \$5.0 million tranche of the financing agreement concluded during the 2016 fiscal year, net of the reimbursement of debt (\$0.6 million) and the impact of the exchange rate (\$0.4 million).
Accumulated other comprehensive income	(1.7)	Impact of the variation in the foreign exchange rates on the translation of foreign operations.

19. CURRENT ECONOMIC ENVIRONMENT

Although the trends are improving in certain markets served by the Corporation, a degree of uncertainty remains regarding the economic context. In times of economic uncertainty, 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 pursuant to the withdrawal 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, insofar as possible, maintaining at all times a positive cash flow for 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.

From a financing point of view, the Corporation has a good financial position and currently respects all its financial covenants. It expects it will continue to do so during the next 12 months. Capital expenditures are subject to very close monitoring by Management. The Corporation does not anticipate any liquidity problems, in particular since its principal credit facility is issued by a Canadian chartered bank with a solid credit rating, and the Corporation’s major clients are leaders in their respective fields. Based on the foregoing, the Corporation maintains its short-term prospects (see Section 25 "Outlook") and does not currently foresee any short-term elements that could compromise its course of business.

That being said, and in light of the fact that the Corporation does not enjoy all the visibility from which it normally benefits in its markets, the Corporation will continue to use caution and will closely monitor the situation (see Sections 20 "External Factors to Which the Corporation’s Performance is Exposed" and 25 "Outlook").

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

a) Exchange Rate

The exchange rate fluctuation between the Canadian and U.S. dollars has an impact on the Corporation's results. Thus, a \$30,000 foreign exchange gain and a \$0.3 million foreign exchange loss were recorded for the three-month and nine-month periods ended October 31, 2016, compared with foreign exchange losses of \$25,000 and \$172,000 respectively for the three-month and nine-month periods ended October 31, 2015.

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

- Issuance of two new debts in U.S. dollar during the fiscal year ended January 31, 2014, and one debt during the fiscal year ended January 31, 2015;
- When advantageous, the raw material (steel) and welding products required for fabrication are purchased in U.S. dollar; and
- Implementation of a foreign exchange policy to protect a portion of the net exchange risk between cash inflows and outflows denominated in U.S. dollar.

b) Operating Risks and Uncertainties

ADF's markets are subject to several risk and uncertainty factors, which could have an impact on its business, financial position and operating results. These risks and uncertainties include, but are not limited to the following factors, which are further detailed in Section 26 "External Factors to Which the Corporation's Performance is Exposed" in the MD&A for the fiscal year ended January 31, 2016:

- Indemnity agreement;
- Uncertainties relating to the world economy;
- Bonding capacity and irrevocable letters of credit; and
- Operational risks and uncertainties that could have an impact on the Corporation's financial position and operating results.

21. FINANCIAL INSTRUMENTS

Many items in the Corporation's Statement of Financial Position include financial instruments. The Corporation's financial assets consist of cash, cash equivalents, short-term investments, accounts receivable, holdbacks on contracts, equity investments, as well as derivative financial instruments, whose fair market value is positive. Financial liabilities include accounts payable and other current liabilities, long-term debt and derivative financial instruments, whose fair market value is negative.

As at October 31, 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, holdbacks on contracts receivable, accounts payable and other current liabilities), or because the Corporation believes 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) (see Note 18 b) "Financial Instruments" to the Unaudited Condensed Interim Consolidated Financial Statements for the Three-Month and Nine-Month Periods Ended October 31, 2016, included in this MD&A).

Derivative financial instruments are typically used to manage the Corporation's foreign exchange and interest rate risk exposure. They are mostly comprised of foreign exchange forward contracts and/or foreign currency options, as well as interest rate swaps, the case may be.

The Corporation is mostly exposed to credit, liquidity and market risks, including exchange rate and interest rate risks, when using financial instruments. A description of how the Corporation manages these risks is included hereinabove in this MD&A, as well as in Note 18 a) "Financial Risk Management and 18 b) "Financial Instruments" to the Unaudited Condensed Interim Consolidated Financial Statements for the Three-Month and Nine-Month Periods Ended October 31, 2016.

22. ASSESSMENT OF THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, disclosure controls and procedures have been designed to provide reasonable assurance that the information that must be presented in Corporation's interim and annual reports is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, so that appropriate decisions can be made regarding disclosure. Internal control over financial reporting has also been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of Corporation's disclosure controls and procedures as of October 31, 2016, as well as the effectiveness of Corporation's internal control over financial reporting as of the same date using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 Framework) and have concluded that they are effective.

During the quarter ended October 31, 2016, no changes were made to internal control over financial reporting or disclosure controls and procedures that have materially affected, or are reasonably likely to materially affect, internal controls and procedures.

23. ACCOUNTING POLICIES

The significant accounting policies applied by the Corporation in accordance with IFRS are presented in Note 2 "Summary of Significant Accounting Policies" to the Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2016.

A summary of the recent IFRS pronouncements not yet adopted is included in Note 3 "Recent IFRS Pronouncements not yet Adopted" to the Unaudited Condensed Interim Consolidated Financial Statements for the Three-Month and Nine-Month Periods Ended October 31, 2016.

24. HUMAN RESOURCES

As at October 31, 2016, the Corporation employed a total of 629 people in its fabrication plant, paint shop and head office in Terrebonne, Quebec, its offices, fabrication plant and paint shop in Great Falls, Montana, USA, as well as the sales office and various construction sites in Florida, U.S.A.

25. OUTLOOK

Apart from the uncertainty surrounding the US election previously mentioned in Section 5 "Market Trends", the outlook is generally good. We have announced \$175 million worth in new contracts during the quarter, bringing our order backlog over the \$200-million mark for the first time since January 2003.

This being said, and as we have clearly mentioned in previous communications, we are pursuing our efforts to grow our order backlog.

At the same time, and following a global review of our business processes, we begin the implementation of our new business plan, which aims, among other things, to optimize our five divisions, which are our two (2) fabrication complexes in Terrebonne and in Great Falls, our two (2) industrial coating facilities also in Terrebonne and in Great Falls, as well as our Construction and Steel Erecting Services Division, based in Florida.

All these measures will allow us to reach our goals of growth and cash generation, while maintaining the level of operational excellence for which our Corporation is known for, for over 60 years.

26. ADDITIONAL INFORMATION

Management's discussion and analysis of changes in financial position and operating results for the three-month and nine-month periods ended October 31, 2016 has been approved by the Corporation's Board of Directors as of December 7, 2016.

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 and the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.SEDAR.com.

Ms. Marise Paschini

Mr. Jean-François Boursier, CPA, CA

/ Signed /

Executive Vice-President, Treasurer and Corporate Secretary

/ Signed /

Chief Financial Officer

Terrebonne, Quebec, Canada, December 7, 2016

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

Ce document est également disponible en français.



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