ADF Group Inc.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF THE FINANCIAL POSITION AND OPERATING RESULTS

FISCAL YEAR ENDED JANUARY 31, 2018

## TABLE OF CONTENTS



**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, 2018.

## 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 January 31, 2017 and January 31, 2018. It also compares the operating results and cash flows for the fiscal year ended January 31, 2018 to those of the previous year. This MD&A covers all major events that occurred during the 2018 fiscal year and between February 1, 2018 and April 11, 2018, on which date ADF Group Inc.'s Board of Directors approved the consolidated financial statements, as well as the MD&A for the fiscal year ended January 31, 2018.

This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and the notes thereto for the fiscal year ended January 31, 2018. The consolidated financial statements and the comparative information have been prepared in accordance with the International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies applied by the Corporation in accordance with IFRS are presented in Note 2 to the consolidated financial statements for the fiscal year ended January 31, 2018.

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 25 "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. GENERAL 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 infrastructure. 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) dual-purpose building, adjacent to the fabrication plant, housing a 2,323-square-meter (25,000 square feet) paint and blast zone, and a 2,137-square-meter (23,000 square feet) area for preparation and detailing work.

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 fiscal year ended on January 31, 2018 has been an eventful year. At the time of writing these lines, the U.S. government had just announced new tariffs on steel and aluminum imports. However, for the time being, these tariffs will not apply to imports from Canada or Mexico. This announcement, and the period preceding this announcement, adds to the overall uncertainties currently affecting our markets. There is also uncertainties with regard to the North American Free Trade Agreement (NAFTA) negotiations, and despite the progress made thus far, this process can derail at any time. This is the environment in which the Corporation's 2019 fiscal year begins.

Still on the American site, and paradoxically, ADF's markets are generally robust or at least show a significant number of major projects. Despite a slight drop during the third quarter, the *Architectural Billing Index* (ABI) is rising and the number of bids that our teams are working on remains high.

As for the Canadian market, it still lags. The recent federal budget confirmed the postponement of the monies reserved for infrastructure projects and the oil and gas industry in Western Canada is not showing any signs of recovery in the short-term. This being said, a number of residential and commercial projects are on the horizon and could be promising for the Corporation.

## 6. SIGNIFICANT EVENTS OF THE FISCAL YEAR

### 6.1 Change to the U.S. Federal Tax Rate

On December 22, 2017, the President of the United States passed into law the H.R.1. *Tax Cuts and Jobs Act* (U.S. Tax Reform). This major reform significantly modifies several aspects of the U.S. taxation for companies doing business in the United States. As a result, the enacted U.S. federal corporate income tax rate was reduced from 35% to 21% effective January 1, 2018, thus reducing ADF's future tax burden. However, these decreased rates resulted in a reassessment of existing deferred income tax assets and deferred income tax liabilities as at January 31, 2018, related to the Corporation's U.S. subsidiaries, to reflect the new lower income tax rate. This reduction in enacted income tax rates resulted in a decrease in net deferred income tax assets and an increase in deferred income tax expense of $1.7 million.

### 6.2 Deferred Income Tax Assets Write-Off

During the quarter ended January 31, 2018, the Corporation's management decided to write-off certain deferred tax assets, which are mainly the result of tax losses from ADF's U.S. subsidiaries. This decision was made as it became more likely than not that the U.S. tax authorities would accept the position issued by the Canadian authorities following the transfer pricing audit of the Corporation. In essence, this decision transfers initially Canadian tax losses to the U.S. side. In light of the results of its U.S. subsidiaries and accounting policies, the Corporation has considered it prudent not to recognize its new deferred income tax assets related to U.S. operations and also to write-off deferred income tax assets, also coming from tax losses of U.S. subsidiaries, which were previously already recorded in the books. The impact of this adjustment is to add a one-time non-monetary charge of $7.5 million to the results for the fiscal year ended January 31, 2018. It is important to note that as soon as the Corporation has better visibility on the future profitability of its U.S. subsidiaries, these assets may be recognized when it becomes more likely than not that these assets will be realized.

### 6.3 Other Significant Events During The Fiscal Year

In addition to these items, the following main events marked the fiscal year ended January 31, 2018:

— On April 12, 2017, the Corporation's Board of Directors approved a semi-annual dividend of $0.01 per share to be paid on May 16, 2017 to shareholders of record as at April 28, 2017.

— On May 19, 2017, a subsidiary of the Corporation contracted a new loan to finance the purchase of equipment for its fabrication plant in Great Falls, Montana. This US$520,000 loan from a U.S. bank has a 5-year term and bears a fixed annual interest rate of 3.84%. On that same date, pursuant to the closing of the new long-term debt mentioned above, the U.S. revolving credit was reduced to US$440,360. All other conditions thereof remain unchanged. Both the new long-term debt and the U.S. revolving credit are secured by a US$3.4 million letter of credit.

— On May 30, 2017, the Corporation announced having concluded a series of commercial agreements, totalling $51.0 million. These new orders were obtained in the U.S. East Coast and West Coast markets and are for the fabrication and the erection of complex steel structures and heavy steel components that are part of new commercial building projects. These new contracts will extend over a 16-month period.

— On June 27, 2017 and January 9, 2018, the Corporation has drawn the third and fourth tranches of $5.0 million totaling $10.0 million from a loan obtained during the third quarter of the 2016 fiscal year. The Corporation obtained this long-term loan with progressive disbursement, for a total value of $20.0 million, from a government corporation, to finance, among others, its working capital. The initial $5.0 million tranche was received at the issuance of the loan in August 2015, whereas the second $5.0 million tranche was received in February 2016.

— On July 27, 2017, the Corporation obtained a temporary increase of its credit facility. Effective on that date, the Corporation's Canadian operating credit facility increased from $20.0 million to $24.4 million. This increase was in effect until September 30, 2017, on which date the credit facility was reduced back to $20.0 million. This temporary increase will allow the Corporation to better manage the pressure exerted by the new projects on its working capital. Other than the loan's amount, all other terms and conditions remained unchanged.

— On August 17, 2017, the Corporation rebalanced its foreign exchange contracts on hand at that date. In order to adjust the net currency exchange risk, the Corporation cashed out all of its foreign exchange contracts on that date and immediately entered into new foreign exchange contracts expiring over the next 18 months. Pursuant to this transaction, the Corporation cashed $2.4 million from the difference between the exchange rate at the time of the transaction and the average rate of the foreign exchange contracts the Corporation had on that date.

— On September 13, 2017, the Corporation's Board of Directors approved a semi-annual dividend of $0.01 per subordinate and multiple voting share, that was paid on October 17, 2017, to shareholders of record as at September 29, 2017.

## 7. SIGNIFICANT EVENTS THAT OCCURRED SINCE JANUARY 31, 2018

— On March 27, 2018, the Corporation announced that it had to proceed to the temporary layoff of fifty employees at its Terrebonne facilities. This temporary measure, which does not result in additional costs, occurred as a result of three unsuccessful bids submitted by the Corporation for major projects in the United States. The recall to work of employees targeted by this temporary layoff will be done progressively as new contracts are signed, and taking into account the usual delay between the signing of a contract and the start of production in the plant.

— On April 11, 2018, the Corporation's Board of Directors approved a semi-annual dividend of $0.01 per share to be paid on May 16, 2018 to shareholders of record as at April 30, 2018.

## 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 foreign exchange forward contracts) and expenses for the periods mentioned, while closing rates translate assets and liabilities.

During the fiscal year ended January 31, 2018, as well as during the previous fiscal year, the Corporation used the following exchange rates between the Canadian and U.S. dollars:

| | **Statements of Income and Comprehensive Income (Loss)** | | | | **Statements of Financial Position** | |
|---|---|---|---|---|---|---|
| | *Quarterly* | | *Cumulative* | | | |
| ($ CA/$ US) | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| First quarter (April 30) | **1.3317** | 1.3263 | **1.3317** | 1.3263 | **1.3662** | 1.2548 |
| Second quarter (July 31) | **1.3214** | 1.2957 | **1.3264** | 1.3109 | **1.2485** | 1.3056 |
| Third quarter (October 31) | **1.2503** | 1.3112 | **1.3009** | 1.3110 | **1.2893** | 1.3411 |
| **Fourth quarter (January 31)** | **1.2648** | 1.3327 | **1.2919** | 1.3161 | **1.2293** | 1.3012 |
| Annual averages | **1.2919** | 1.3161 | | | | |

The Canadian dollar closed the 2018 fiscal year at a rate of 1.2293, recording a sharp increase compared with the closing rate a year ago. This variation has been highly cyclical, as seen in the quarterly variations, meaning that on a cumulative basis the variation in the average tax rate was considerably less. Despite these rate variations, the Corporation's results have not been significantly impacted, as evidenced by the $0.2 million foreign exchange loss.

Moreover, as explained further in this MD&A, from time to time and accordingly to its internal policy, the Corporation enters into foreign exchange forward contracts to mitigate the exchange risk.

## 9. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The summary of ADF's significant accounting policies is described in Note 2 "Summary of Significant Accounting Policies" of the notes to consolidated financial statements for the fiscal year ended January 31, 2018. The policies that the Corporation deems the most critical to adequately understand and assess its reported financial results, include the following:

### 9.1 Revenue and Cost Recognition

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

Given the complexity of the estimation process, even when applying business practices, the projected costs can vary from the estimates. The revision of such estimates could reduce or increase the profit on a contract and also, under certain circumstances, result in the immediate recognition of estimated losses. Furthermore, in the normal course of business, changes to contracts often occur while they are in progress. Generally, the revenues relating to those contract modifications are included in the total estimated revenues when it is probable that the client will approve the contract modifications and that the amount of revenue can be reliably measured.

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

### 9.2 Measurement Uncertainty

The preparation of financial statements in conformity with IFRS requires Management to make judgments in applying accounting methods used and to make estimates and assumptions for the future that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Because financial reporting involves accounting judgments and entails the use of estimates, actual results could differ from those estimates.

As indicated hereinabove, the valuation of work in progress and deferred revenues requires Management to estimate the percentage of completion, cost of completion and anticipated gross margin. The identification and assessment of claims and notices of contract modifications, the assessment of long-term assets and related impairment, as well as the valuation of stock options, taxes, provisions and contingencies, also require estimates.

## 10. 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-GAAP (Generally Accepted Accounting Principles). 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:

| Fiscal Year Ended January 31, | **2018** | 2017 |
|---|---|---|
| Working capital (in thousands of dollars) | **$34,768** | $24,769 |
| Current ratio | **1.74:1** | 1.77 :1 |
| Long-term debt to shareholders' equity ratio | **0.40:1** | 0.30 :1 |
| Total debt, net of liquidities (in thousands of dollars) | **$35,353** | $31,716 |
| Total bank overdraft, credit facilities and long-term debt, net of cash and cash equivalents, to shareholders' equity ratio | **0.37:1** | 0.30:1 |
| Liabilities to shareholders' equity ratio | **0.83:1** | 0.50:1 |
| Earnings before interest, tax, depreciation and amortization (EBITDA) (in thousands of dollars) | **$8,436** | $8,462 |
| EBITDA margin (as a percentage of revenues) | **4.7%** | 8.2% |
| Book value per share (in dollars) | **$2.93** | $3.24 |
| Return on shareholders' equity | **(7.5)%** | 1.4% |

### 10.1 Working Capital

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

Generally, Management's goal is to maintain a current ratio of at least 2:1. Although this ratio was a little below this goal as at January 31, 2018 and 2017, the Corporation establishes the achievement of this goal on the pursuit of its strategy focusing on the execution of contracts generating positive cash flows throughout their execution. It should be noted that the drawing up and/or revision of this corporate goal depends on a number of factors, such as the economic context and development projects that might materialize.

More specifically, for fiscal year ended January 31, 2018, although the working capital at $34.8 million, is $10.0 million higher than the previous fiscal year, the ratio's level attests to the pressure on the Corporation's liquidities exerted by the start of certain major projects (for fiscal 2017), and tighter margins (for fiscal 2018).

### 10.2 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.

Generally, the Corporation's goal is to reduce this ratio through monthly reimbursements to creditors and the expected operating profitability. However, the pursuit of this goal could be hindered by the increase in the U.S. dollar in relation to the Canadian dollar since a portion of the long-term debt is denominated in U.S. dollars. In the long-term, Management's strategy is to maintain prudent management of its capital structure and debt ratio based on its potential development projects, economic context and business opportunities.

During the 2018 fiscal year, the long-term debt to shareholders' equity ratio and the total debt net of liquidities (see paragraph 10.3 below) have been impacted by the use of the operational credit facility during the fiscal year and the issuance of new debts totalling $10.7 million.

### 10.3 Total Debt, Net of Liquidities

This indicator indicates, in absolute value, the Corporation's total net leverage. Although total debts exceed the liquidities, the Corporation believes that a reasonable leverage represents an effective use of its liquidities and its borrowing power.

The table below reconciles this indicator with the items in the Consolidated Statement of Financial Position:

| As at January 31, | **2018** | 2017 |
|---|---|---|
| (In thousands of dollars) | | $ |
| Cash and cash equivalents | **(4,905)** | (334) |
| Bank overdraft | **1,907** | — |
| Credit facilities | **10,150** | 13,336 |
| Current portion of long-term debt | **2,066** | 844 |
| Long-term debt | **26,135** | 17,870 |
| **Total debt, net of liquidities** | **35,353** | 31,716 |

### 10.4 Total Bank Overdraft, Credit Facilities and Long-Term Debt, Net of Cash and Cash Equivalents, to Shareholders' Equity Ratio

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

### 10.5 Liabilities to Shareholders' Equity Ratio

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

In the short-term, Management's goal is to maintain this ratio at a comfortable level through, among other things, monthly repayments of the long-term debt and the anticipated operating profitability. However, the achievement of this objective could be slowed down by certain factors, of which:

- An increase in accounts payable and other current liabilities;
- The issuance of new long-term debts, and
- The impact of fluctuations in the Canadian dollar in relation to the U.S. dollar on liabilities denominated in U.S. dollars.

### 10.6 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 losses, and
- Depreciation and amortization of property, plant and equipment and intangible assets.

Net income is reconciled with EBITDA in the table below:

| Fiscal Years Ended January 31, | **2018** | 2017 |
|---|---|---|
| (In thousands of dollars) | **$** | $ |
| Net income | **(7,213)** | 1,499 |
| Income tax expense | **9,385** | 1,014 |
| Financial revenues | **(30)** | (49) |
| Financial expenses | **1,638** | 1,057 |
| Amortization | **4,423** | 4,687 |
| Foreign exchange loss | **233** | 254 |
| **EBITDA** | **8,436** | 8,462 |
| — As a % of revenues | **4,7%** | 8.2% |

### 10.7 Book Value

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

The book value per share went from $3.24 on January 31, 2017 to $2.93 on January 31, 2018, which represents a 9.6% drop. This decrease is mainly due to the write-off of deferred income tax assets totaling $7.5 million, as explained previously in Section 6.2 "Deferred Income Tax Assets Write-Off". This decrease is also due to the $2.0 million decrease in accumulated other comprehensive income (loss), which is attributable to the exchange loss on translation of the Corporation's foreign operations. This non-cash loss stems from the translation of the assets and liabilities of the Corporation's U.S. subsidiaries, at a lower rate on January 31, 2018, compare with January 31, 2017.

Management expects this value to further increase because it anticipates that the Corporation will be profitable throughout the fiscal year ending January 31, 2019.

### 10.8 Return on Shareholders' Equity

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

Based on net income for the fiscal year ended January 31, 2018, return on shareholders' equity was negative 7.5% compared to a positive return of 1.4% for the fiscal year ended January 31, 2017. As previously explained, had it not been for the change to the U.S. federal tax rate (see Section 6.1 "Change to the U.S. Federal Tax Rate") and the write-off of deferred income tax assets (Section 6.2 "Deferred Income Tax Assets Write-Off"), the return on equity would have been similar to that of last fiscal year.

## 11. KEY PERFORMANCE INDICATORS ("KPI")

The Corporation measures its performance on a company-wide basis through the following elements:

— Profitability;
— Liquidities;
— Growth and competitive positioning, and
— Financial position and returns.

To this end, the Corporation developed KPIs. The indicators against which each item is assessed are presented below:

| Items measured | Profitability | Liquidities | Growth and Competitive Positioning | Financial Position and Returns |
|---|---|---|---|---|
| KPI | Gross margin | EBITDA | Revenues | Working capital |
| | EBITDA | Cash flows | Order backlog | Long-term debt to shareholders' equity ratio |
| | Production capacity utilization | | | Total net debt to shareholders' equity ratio<br>Return on equity |
| What is being measured | Operating performance assessment | Assessment of liquidity generation | Assessment of growth, future revenues and competitive positioning | Assessment of short-term and long-term financial position soundness, and return to shareholders |

Most of these KPIs are discussed later in this MD&A. Some of these KPIs are not publicly disclosed since they are of a competitive nature.

Moreover, the Corporation's incentive plan is based on the achievement of financial objectives and specific personal goals.

## 12. SELECTED ANNUAL FINANCIAL INFORMATION

| Fiscal Years Ended January 31, | **2018** | 2017 | 2016 |
|---|---|---|---|
| (In thousands of dollars and in dollars per share) | **$** | $ | $ |
| Revenues | **180,474** | 102,846 | 98,089 |
| Net income | **(7,213)** | 1,499 | 1,699 |
| — Basic per share | **(0.22)** | 0.05 | 0.05 |
| — Diluted per share | **(0.22)** | 0.05 | 0.05 |
| Total assets | **175,258** | 158,684 | 146,471 |
| Non-current liabilities | **32,188** | 20,821 | 17,093 |
| Annual dividend per share | **0.02** | 0.02 | 0.02 |

For the fiscal year ended January 31, 2018, revenues totalled $180.5 million, recording a $77.6 million increase compared with the previous fiscal year. Net income has recorded a decrease during the fiscal year ended January 31, 2018.

As further explained below, the increase in revenues stems from the higher level of activity recorded during the fiscal year ended January 31, 2018. As previously explained (Section 6 "Significant Events of the Fiscal Year"), the write-off of deferred income tax assets combined with the change to the U.S. federal tax rate, reduced the net income for the fiscal year ended January 31, 2018, by $9.2 million. Moreover, the current pressure on prices on markets served by the Corporation also explain the level of net income, especially when compared to the growth in revenues.

During the fiscal year 2018, the increase in total net assets results from the increase in activities which pushed both the accounts receivable and the work in progress upward, net of the impact of the translation of U.S. foreign operations and the reduction in the deferred income tax assets, as mentioned previously.

Finally, the increase in non-current liabilities during the fiscal year 2018 is mainly explained by the issuance of new debts (refer to paragraph 15.3 "Financing Activities").

## 13. ANALYSIS OF OPERATING RESULTS FOR THE FISCAL YEAR ENDED JANUARY 31, 2018

During the 12 months of operations between February 1, 2017 and January 31, 2018, the Corporation pursued its activities consisting of the design and engineering of connections, fabrication, including industrial coating, and installation of complex steel structures and heavy steel built-ups, in Canada and the United States.

### 13.1 Revenues and Gross Margin

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| **Revenues** | **180,474** | 102,846 | 77,628 | 75.5 |
| Cost of goods sold | **164,352** | 85,635 | 78,717 | 91.9 |
| Gross margin | **16,122** | 17,211 | (1,089) | (6.3) |
| — As a % of revenues | **8.9%** | 16.7% | | (7.8) |

a) **Revenues**

Revenues during the fiscal year ended January 31, 2018, totalled $180.5 million, up by $77.6 million compared with the fiscal year ended January 31, 2017.

The revenues are determined on the basis of the costs incurred on the various projects executed during the fiscal year.

The increase in revenues stems mainly from the increase in the level of fabrication volume across the Corporation's operations. The change in the foreign exchange rate during the 2018 fiscal year has in turn reduced revenues by $2.6 million.

In terms of economic dependency, 85% of the Corporation's revenues during the fiscal year ended January 31, 2018, were realized with three (3) clients (one (1) of whom was part of the revenues concentration for the fiscal year ended January 31, 2017), for amounts of $29.4 million, $43.1 million and $81.1 million, all from the United States, who each accounted for 10% or more of the Corporation's revenues.

During the fiscal year ended January 31, 2017, 60% of the Corporation's revenues were realized with two (2) clients, for respective amounts of $36.8 million from the United States and $24.3 million from the United States and Canada, who each accounted for 10% or more of the Corporation's revenues, and one (1) of whom was part of the Corporation's revenues concentration during the fiscal year ended January 31, 2016.

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.

b) **Gross Margin**

The gross margin in dollar value decreased by $1.1 million during the 2018 fiscal year compared with the 2017 fiscal year. As a percentage of revenues, the gross margin went from 16.7% during the fiscal year ended January 31, 2017, to 8.9% during the fiscal year ended January 31, 2018.

This decrease as a percentage of revenues is mainly driven by the drop in prices obtained on contracts awarded during the 2018 fiscal year and those currently underway. Moreover, it should be noted that the gross margin during the fiscal year ended January 31, 2017, benefited from a $1.0 million non-recurrent adjustments resulting from the sale of steel scrap and occupational health and safety costs.

In addition, as described in Section 20 "Order Backlog", the fabrication hours are not only the Corporation's core activity, but are also its most value-added activity. To that effect, the revenues during the fiscal year ended January 31, 2018, were comprised of 47% of fabrication hours, which also includes industrial coating, compared with 60% for the fiscal year ended January 31, 2017, which also explains the decline in gross margin from one year to another.

Increases or decreases in raw material (mainly steel) prices do not generally have a material impact on the gross margin since in some of the contracts in hand, 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.

13.2 **Selling and Administrative Expenses**

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| **Selling and administrative expenses** | **12,109** | 13,436 | (1,327) | (9.9) |
| — As a % of revenues | **6.7%** | 13.1% | | (6.4) |

Selling and administrative expenses amounted to $12.1 million, posting a $1.3 million decrease over the 2017 fiscal year. This decrease is essentially attributable to cost-reduction efforts, and more specifically, through active management of professional fees. As a percentage of revenues, the selling and administrative expenses, standing at 6.7% of revenues, have come back to a more reasonable level.

13.3 **Amortization**

In accordance with IFRS standards, amortization expense is included in the cost of goods sold and selling and administrative expenses (see Note 16 "Classification of Expenses by Nature" to the consolidated financial statements). However, Management considers it appropriate to continue separately commenting on amortization expense since it is considered a significant, although non-cash, component in the analysis of the Corporation's profit margins.

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| **Amortization** | **4,423** | 4,687 | (264) | (5.6) |
| — As a % of revenues | **2.4%** | 4.6% | | (2.2) |

The amortization expense for the 2018 fiscal year amounted to $4.4 million, which was $0.3 million less than that of the 2017 fiscal year.

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| Amortization expense included in cost of goods sold | **3,403** | 3,631 | (228) | (6.3) |
| Amortization expense included in selling and administrative expenses | **1,020** | 1,056 | (36) | (3.4) |
| **Total amortization** | **4,423** | 4,687 | (264) | (5.6) |

13.4 **Financial Revenues and Financial Expenses**

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| **Financial revenues** | **(30)** | (49) | 19 | 38.8 |
| **Financial expenses** | **1,638** | 1,057 | 581 | 55.0 |
| | **1,608** | 1,008 | 600 | 60.0 |
| — As a % of revenues | **0.9%** | 1.0% | | |

The increase in net financial expenses relates to the issuance of new debts, as well as the use of the credit facilities during the fiscal year ended January 31, 2018.

13.5 **Foreign Exchange Loss**

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| **Foreign exchange loss** | **233** | 254 | (21) | (8.3) |
| — As a % of revenues | **0.1%** | 0.2% | | (0.1) |

The foreign exchange loss recorded during the fiscal year ended January 31, 2018, includes a $2.7 million foreign exchange loss on ongoing operations and a $2.4 million realized and not realized foreign exchange gain relating to the fair value of financial derivatives. During the 2018 fiscal year, in accordance with the new IFRS standards, a $2.0 million foreign exchange loss on the translation of foreign subsidiaries was recorded in Comprehensive Income (Loss).

The foreign exchange loss recorded during the fiscal year ended January 31, 2017, includes a $1.4 million foreign exchange loss on ongoing operations and a $1.1 million realized and not realized foreign exchange gain relating to the fair value of financial derivatives. During the 2017 fiscal year, in accordance with the new IFRS standards, a $2.8 million foreign exchange loss on the translation of foreign subsidiaries was recorded in Comprehensive Income (Loss).

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. For the fiscal year ended January 31, 2018, 91% of the Corporation's revenues were recorded in U.S. dollars (72% during the fiscal year ended January 31, 2017). Considering the improvement in U.S. markets and its new plant in Great Falls, Montana, the Corporation expects that the percentage of its revenues in U.S. dollars will continue to be significant during the fiscal year 2019.

In line with its hedging policy, to manage its net risk between the future US-denominated cash inflows and outflows, the Corporation entered into foreign exchange forward contracts. As at January 31, 2018, the Corporation was party to foreign exchange forward contracts for the sale of US$19.7 million (US$31.4 million as at January 31, 2017) with maturities varying between one (1) month to 12 months with rates between 1.2285 and 1.2646 (between 1.2600 and 1.3837 as at January 31, 2017).

Based on the balance as at January 31, 2018, of the Corporation's financial instruments denominated in foreign currencies, a 10% fluctuation in the exchange rate between the Canadian and U.S. dollars (all other variables remaining constant), would have had an insignificant effect on net income before tax and in comprehensive income (loss) before tax ($0.4 million in fiscal 2017). However, this information only applies to financial instruments based on year-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.

### 13.6 Income Tax Expense

As previously explained, the income tax expense includes additional expenses of $1.7 million resulting from the reduction in deferred income tax assets following the decrease in the U.S. federal corporate tax rate (see Section 6.1 "Change to the U.S. Federal Tax Rate") and of $7.5 million corresponding to the write-off of deferred income tax assets resulting from the settlement between the Corporation and the Canadian and U.S. tax authorities (see Section 6.2 "Deferred Income Tax Assets Write-Off"). Excluding these non-recurrent and non-cash expenses, the income tax expense for the 2018 fiscal year represented an average effective tax rate of 8.5%, compared with an average effective tax rate of 40.4% for the 2017 fiscal year. The difference between these rates and the Corporation's Canadian effective rate (27%) is mainly explained by the breakdown of income before income tax (profits or losses) from American and Canadian jurisdictions, which use different income tax rates.

| Fiscal Years Ended January 31, | **2018** | 2017 | Changes 2018/2017 | |
|---|---|---|---|---|
| (In thousands of dollars and in percentages) | **$** | $ | $ | % |
| **Income tax expense** | **9,385** | 1,014 | 8,371 | Pos. |
| — As a % of revenues | **5.2%** | 1.0% | | 4.2 |

As at January 31, 2018, the Corporation had operating tax losses of $33.8 million available in the United States for carry forwards, for which no deferred tax benefit has been recorded in the Corporation's accounts. This will have a favourable impact on future cash outflows of the Corporation, which will not have to pay future income tax until the full amount of available tax attributes has been used in the different jurisdictions where the Corporation executes contracts.

### 13.7 Net Income, Basic and Diluted Earnings per Share

| Fiscal Years Ended January 31, | **2018** | 2017 |
|---|---|---|
| (In thousands of dollars and in dollars per share) | **$** | $ |
| **Total net income** | **(7,213)** | 1,499 |
| — As a % of revenues | **(4.0)%** | 1.5% |
| Total basic earnings per share | **(0.22)** | 0.05 |
| Total diluted earnings per share | **(0.22)** | 0.05 |

The decrease in net income recorded during the fiscal year ended January 31, 2018, compared with the 2017 fiscal year, is previously explained in this section. In addition, and as described in previous paragraphs, had it not been for the non-recurrent and non-cash income tax expenses totalling $9.2 million, the Corporation would have recorded a net income of $2.0 million, or $0.06 per share, basic and diluted.

## 14. COMMENTS ON QUARTERLY RESULTS

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 accrued costs within different projects and for every 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 (8) quarters presented hereinafter, these fluctuations are mostly explained by the fabrication schedules of the different 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.

14.1 **Results for the Last Eight Quarters**

| Fiscal Years Ended January 31, | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **4th Quarter (01.31.2018)** | **3rd Quarter (10.31.2017)** | **2nd Quarter (07.31.2017)** | **1st Quarter (04.30.2017)** | 4th Quarter (01.31.2017) | 3rd Quarter (10.31.2016) | 2nd Quarter (07.31.2016) | 1st Quarter (04.30.2016) |
| (In thousands of dollars and in dollars per share) | **$** | **$** | **$** | **$** | $ | $ | $ | $ |
| Revenues | **49,346** | **37,212** | **45,278** | **48,638** | 36,456 | 21,089 | 19,861 | 25,440 |
| Gross margin | **4,188** | **2,419** | **4,289** | **5,226** | 4,833 | 3,253 | 2,990 | 6,134 |
| — As a % of revenues | **8%** | **7%** | **9%** | **11%** | 13% | 15% | 15% | 24% |
| EBITDA (1) | **2,785** | **468** | **2,102** | **3,081** | 2,313 | 1,437 | 1,669 | 3,043 |
| — As a % of revenues | **6%** | **1%** | **5%** | **6%** | 6% | 7% | 8% | 12% |
| Income before income tax expense (recovery) | **553** | **(1,319)** | **2,315** | **623** | 871 | 45 | 251 | 1,346 |
| — As a % of revenues | **1%** | **(4)%** | **5%** | **1%** | 2% | 0% | 1% | 5% |
| Net income | **(8,796)** | **(698)** | **1,927** | **354** | 253 | 36 | 245 | 965 |
| — Basic per share | **(0.27)** | **(0.02)** | **0.06** | **0.01** | 0.01 | 0.00 | 0.01 | 0.03 |
| — Diluted per share | **(0.27)** | **(0.02)** | **0.06** | **0.01** | 0.01 | 0.00 | 0.01 | 0.03 |

(1) See Section 10 "Non-GAAP Measures" for the definition of EBITDA.

14.2 **Results for the Fourth Quarter Ended January 31, 2018**

The Corporation recorded revenues of $49.3 million during the quarter ended January 31, 2018, up by $12.9 million over the fourth quarter of fiscal 2017. This variation, for each of the quarters of the 2018 fiscal year, is mostly due to the number of projects currently in fabrication and being installed, compared with the same periods a year ago.

The gross margin as a percentage of revenues stood at 8% for the fourth quarter ended January 31, 2018, compared with 13% for the same quarter in the 2017 fiscal year. The decline in margins continued in fiscal 2018 and attests to the lower prices on projects currently underway.

Although the mix in revenues had a favorable impact on gross margins, when considering that the fabrication percentage, which includes industrial coating activities, went from 39% during the quarter ended January 31, 2017, to 65% during the quarter ended January 31, 2018, this favorable impact was more than offset by the drop in prices, and thus, on margins on projects in the order book.

The Corporation recorded a negative net income of $8.8 million during the last quarter of 2018 fiscal year compared with a net income of $253,000 for the same period in fiscal 2017. As previously explained, this quarter's results include the impact from income tax adjustments. Had it not been for this decrease, the Corporation would have recorded a net income of $0.4 million during the quarter ended January 31, 2018.

15. **CASH FLOWS AND FINANCIAL POSITION**

Although under pressure, the Corporation has a sound financial position and is on a solid footing to address its financial needs. Taking into account its cash and cash equivalents position, the bank overdraft, its short-term credit facilities and the level of planned capital spending, the Corporation does not expect any liquidity risk in a foreseeable future.

On January 31, 2018, cash and cash equivalents, net of the bank overdraft, totalled $3.0 million, up by $2.7 million compared with January 31, 2017. In addition, as at January 31, 2018, the Corporation used $10.2 million on its credit facilities, whereas it used $13.3 million as at January 31, 2017.

Management believes that these available funds are sufficient to support the execution of its order backlog in hand on January 31, 2018, and to meet its financial commitments for the 2019 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 33 "Outlook"). It also looks at opportunities for accelerated payments discounts negotiated with suppliers.

15.1 **Operating Activities**

During the 2018 fiscal year the Corporation used cash flows from its operating activities and assigned its cash flows as follows:

| Fiscal Years Ended January 31, | 2018 | 2017 |
|---|---|---|
| (In thousands of dollars) | **$** | $ |
| Net income adjusted for non-cash items | **10,249** | 8,952 |
| Changes in non-cash operating working capital items: | | |
| Accounts receivable | **(11,514)** | 13 |
| Holdbacks on contracts | **(1,516)** | (1,895) |
| Work in progress | **(10,121)** | (13,688) |
| Inventories | **1,760** | (1,057) |
| Prepaid expenses and other current assets | **(1,330)** | 688 |
| Accounts payable and other current liabilities | **13,203** | (1,310) |
| Deferred revenues | **2,275** | (1,437) |
| | **(7,243)** | (18,686) |
| | **3,006** | (9,734) |
| Income tax expense recovery (paid) | **656** | (901) |
| Cash flows from (used in) operating activities | **3,662** | (10,635) |

Net income adjusted for non-cash items, totalling $10.2 million during the 2018 fiscal year, is $1.3 million higher than the 2017 fiscal year.

During the 2018 fiscal year, changes in non-cash operating working capital items used cash of $7.2 million. This cash outflow is mostly explained by the increase in accounts receivable ($11.5 million), and work in progress ($10.1 million), net of the increase in accounts payable and other current liabilities ($13.2 million). These variations relate to the activity level as at January 31, 2018, compared with the same date a year ago.

Overall, operating activities generated cash flows of $3.7 million during the fiscal year ended January 31, 2018, compared with cash outflows totalling $10.6 million during the fiscal year ended January 31, 2017.

During the 2017 fiscal year, changes in non-cash operating working capital items used cash of $18.7 million. This cash outflow is mostly explained by the increase in work in progress ($13.7 million), holdbacks on contracts ($1.9 million) and the decrease in accounts payable and other current liabilities ($1.3 million) and deferred revenues ($1.4 million).

15.2 **Investing Activities**

The Corporation's investing activities are summarized as follows:

| Fiscal Years Ended January 31, | 2018 | 2017 |
|---|---|---|
| (In thousands of dollars) | **$** | $ |
| Net acquisition of property, plant and equipment | **(4,831)** | (6,809) |
| Revenues from disposal of property, plant and equipment | **175** | — |
| Acquisition of intangible assets | **(671)** | (410) |
| Increase in other non-current assets | **(21)** | (12) |
| Interest received | **30** | 49 |
| Cash flows used in investing activities | **(5,318)** | (7,182) |

During the 2018 fiscal year, $5.3 million in liquidities were used for the acquisition of property, plant and equipment. These investments aimed at upgrading production equipment at both ADF's Terrebonne and Great Falls facilities. Investing activities during the 2017 fiscal year used a net total of $7.2 million in liquidities essentially to complete the construction of the new paint shop in Terrebonne, Quebec.

The increase in intangible assets for both fiscal years related primarily to the internal development and implementation of production and financial software.

The Corporation estimates capital expenditure for fiscal 2019 at approximately $4.0 million, which will primarily be used to keep the production equipment current at its plants in Terrebonne, Quebec and in Great Falls, Montana.

## 15.3 Financing Activities

The Corporation's financing activities were as follows:

| Fiscal Years Ended January 31, | 2018 | 2017 |
|---|---|---|
| (In thousands of dollars) | **$** | $ |
| Issuance of long-term debt | **10,702** | 5,000 |
| Variation in the credit facilities | **(3,159)** | 13,329 |
| Repayment of long-term debt | **(945)** | (816) |
| Issuance of subordinate voting shares | **17** | 6 |
| Dividends paid | **(653)** | (652) |
| Interest paid | **(1,603)** | (1,040) |
| Cash flow from financing activities | **4,359** | 15,827 |

During fiscal 2018, financing activities generated liquidities of $4.4 million compared with a cash inflow of $15.8 million the previous year. The funds for the 2018 fiscal year came from the issuance of new debts and the variation in the credit facilities. More specifically, on May 19, 2017, the Corporation contracted a new loan to finance the acquisition of new equipment for its facilities in Great Falls, Montana. This US$520,000 loan issued by a U.S. bank is for a 5-year term and carries a fixed annual interest rate of 3.84%.

On June 27, 2017 and January 9, 2018, the Corporation has drawn two $5.0 million tranches on a loan obtained during the third quarter of the 2016 fiscal year. This $20.0 million long-term loan, with progressive disbursements, was issued by a government corporation, to finance, among others, ADF's working capital. The initial $5.0 million tranche was received at the issuance of the loan in August 2015, and the second $5.0 million tranche was received in February 2016.

During the fiscal years 2018 and 2017, the Corporation reimbursed $0.9 million and $0.8 million respectively on these long-term debts. During both the 2018 and 2017 fiscal years, the Corporation also paid $0.7 million in dividend to its shareholders of record.

## 15.4 Payment of Rents and Interest and Payment of Principal on Debt

The Corporation pays interest on its long-term debts, based on interest rates ranging between 1.98% and 4.15% as of January 31, 2018. The Corporation is currently making monthly principal repayments totalling less than US$0.2 million on these debts. Other rent payments are described in paragraph 15.6) below.

## 15.5 Debt Covenants

During the fiscal year ended January 31, 2018, the Corporation respected all covenants with its lenders, and still did at the date hereof. Management expects it will continue to respect its commitments during fiscal 2019.

## 15.6 Contractual Obligations

### a) Long-Term Debt

Long-term debt, including the obligations under a financial leases, before interest:

| (In thousands of dollars) | $ |
|---|---|
| Less than one year | **2,066** |
| 2 to 3 years | **4,419** |
| 4 to 5 years | **4,379** |
| And more | **17,337** |
| Total | **28,201** |

### b) Operating Leases and Other Long-Term Contracts

As at January 31, 2018, the Corporation's commitments totalled $0.8 million under operating leases and $0.2 million under other long-term contracts. The minimum annual payments due during the next five fiscal years are as follows:

| | **2019** | **2020** | **2021** | **2022** | **2023** |
|---|---|---|---|---|---|
| (In thousands of CA$) | $ | $ | $ | $ | $ |
| Operating leases (1) | 301 | 261 | 165 | 67 | 13 |
| Other long-term contracts (2) | 93 | 71 | 41 | — | — |
| | 394 | 332 | 206 | 67 | 13 |

(1) Includes operating leases for rental space, as well as for rental vehicles and office equipment.
(2) Include long-term commitments with suppliers for services provided.

## 15.7 Commitments Related to Letters of Credit as at January 31, 2018

The Corporation held letters of credit, totalling US$3.4 million as at January 31, 2018 and 2017, corresponding to $4.2 million and $4.4 million respectively.

## 16. 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 [2] |
|---|---|---|---|---|---|---|---|
| | Number | $ | Number | $ | Number | $ | Number |
| 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 January 31, 2017 | 18,284,435 | 52,087 | 14,343,107 | 16,001 | 32,627,542 | 68,088 | 383,664 |
| Issued on exercise of stock options | **7,664** | **32** | **—** | **—** | **7,664** | **32** | **(7,664)** |
| Granted (forfeited) | **—** | **—** | **—** | **—** | **—** | **—** | **(5,000)** |
| **As at January 31, 2018** | **18,292,099** | **52,119** | **14,343,107** | **16,001** | **32,635,206** | **68,120** | **371,000** |

(1) These shares carry 10 votes per share.
(2) The weighted average exercise price of the current stock options is $2.94 per unit.

## 17. STOCK OPTION PLAN

As at January 31, 2018, the Corporation had 32,635,206 shares outstanding (32,627,542 on January 31, 2017). During the 2018 fiscal year, the Corporation did not issue stock options and issued 7,664 subordinate voting shares under its Stock Option Plan at a weighted average price of $2.14 per share. At the date hereof, being April 11, 2018, the number of shares outstanding was practically unchanged.

During the 2017 fiscal year, the Corporation issued, under its stock option plan, 6,000 subordinate voting shares at a weighted average price of $1.05 per share, for a total consideration of $6,000.

As at January 31, 2018, a total of 371,000 stock options were issued and outstanding. These options, which had a weighted average life of 2.86 years before maturity, had a weighted average exercise price of $2.94 (see Note 13 "Capital Stock" in the Notes to the Consolidated Financial Statements).

## 18. DEFERRED SHARE UNITS PLAN

### 18.1 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 DSU, 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.

In addition and independently to DSU that can be granted to external directors for the purposes of deferring their directors' compensation, the Deferred Share Units Plan also allows the Corporation's Board of Directors to award, at its discretion, DSU to any external director, executive officer and key employee. If it sees fit, the Board of Directors can attach conditions related to time and/or to the Corporation's performance to the vesting of these DSU. The Corporation therefore provides a letter to the beneficiary attesting such award, including the number of DSU awarded and all vesting conditions.

When the Corporation pays dividends on subordinate and multiple voting shares, the accounts of the directors, executive officers and key employees (see paragraph 18.2 below) are credited for the amount in the form of additional units using the same basis of calculation previously described.

The DSU are re-evaluated at fair 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 fiscal years ended January 31, 2018 and 2017, DSU compensation to External Directors amounted to a recovery of $0.1 million and an expense of $0.6 million respectively, including the impact of the change in the market price of the Corporation's share amounting to a recovery of $0.3 million for the fiscal year ended January 31, 2018 (a recovery of $0.1 million during the fiscal year ended January 31, 2017).

The fluctuation in DSU issued to External Directors was as follows:

| Fiscal Years Ended January 31, | **2018** | 2017 |
|---|---|---|
| (In number of deferred share units) | **Number** | Number |
| Outstanding, at the beginning of year | **312,032** | 121,346 |
| Awarded | **79,863** | 190,686 |
| Outstanding and vested, at the end of year | **391,895** | 312,032 |

The carrying amount and the intrinsic value of the liabilities related to the External Directors' vested DSU amounted to $0.8 million as at January 31, 2018 ($0.9 million as at January 31, 2017), and is recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statements of Financial Position.

18.2 **Executive Officers and Key Employees**

As set forth in the DSU Plan, the Corporation may grant DSU, on a discretionary basis, executive officers and key employees. These DSU usually vest gradually over a 2 to 5-year period, at a rate of 20% to 50% per year. The vested DSU 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 progressively over the vesting period and their costs is determined using a valuation model based on the market price of the Corporation's subordinate voting shares. The based compensation expenses for executive officers and key employees, amounted to $0.1 million for the fiscal year ended January 31, 2018 ($0.4 million for the fiscal year ended January 31, 2017) including the impact of the change in the market price of the Corporation's share of an immaterial amount during each of the fiscal years ended January 31, 2018 and 2017.

The fluctuation in DSU for the executive officers and key employees was as follows:

| Fiscal Years Ended January 31, | **2018** | 2017 |
|---|---|---|
| (In number of deferred share units) | **Number** | Number |
| Outstanding, at the beginning of year | **273,162** | — |
| Awarded | **30,571** | 273,162 |
| Outstanding, at the end of year | **303,733** | 273,162 |
| Vested, at the end of year | **74,243** | 63,111 |

The carrying amount of the liabilities related to executive officers and key employees' DSU, amounting to $0.4 million as at January 31, 2018 and 2017, is recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statements of Financial Position, and of which an amount of $0.2 million corresponds to the intrinsic value of vested units as at January 31, 2018 and 2017.

## 19. DIVIDEND

During the fiscal year ended January 31, 2012, the Corporation's Board of Directors approved a dividend policy, payable semi-annually, which was extended since.

Consequently, during the fiscal year ended January 31, 2018, two semi-annual dividends of $326,000 and $327,000 (or $0.01 per share), were recognized as distribution to its shareholders of record as at April 28, 2017 and September 29, 2017 respectively, totalling $653,000, of which $367,000 for subordinate voting shares and $286,000 for multiple voting shares. These sums were paid on May 16, 2017 and October 17, 2017, respectively.

During the fiscal year ended January 31, 2017, two semi-annual dividends of $326,000 each (or $0.01 per share) were recognized as distribution to its shareholders of record as at April 29, 2016 and September 30, 2016, respectively, totalling $652,000, of which $366,000 for subordinate voting shares and $286,000 for multiple voting shares. These sums were paid on May 16, 2016 and October 17, 2016, respectively.

## 20. ORDER BACKLOG

ADF Group's order backlog totalled $85.5 million on January 31, 2018, compared with $194.5 million on the same date a year earlier. This variation is attributable to new contracts and contract modifications, net of contracts execution.

As at January 31, 2018, 72% of the order backlog consisted of fabrication hours – the Corporation's core business and most value-added activity – compared with 40% on January 31, 2017. Most of the contracts in hand as at January 31, 2018, will progressively be executed between now and the beginning of the 2020 fiscal year.

## 21. FINANCIAL POSITION

As at January 31, 2018, 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, 2018 and January 31, 2017.

| Sections | Changes | Explanatory Notes |
|---|---|---|
| | (In millions of dollars) | |
| Cash and cash equivalents, net of the variation in credit facilities and bank overdraft | **5.8** | See Section 15 "Cash Flow and Financial Position" hereinabove. |
| Accounts receivable | **10.8** | Increase in line with the activity level and the work schedules. |
| Holdbacks on contracts | **1.3** | In accordance with the activity level and billing schedules of contracts on hand. |
| Work in progress/Deferred revenues (net) | **7.1** | Net difference between work progress and revenue billing. |
| Inventories | **(1.8)** | Decrease representing the use of inventories on projects since the beginning of the fiscal year. |
| Property, plant and equipment and intangible assets | **(1.4)** | Difference resulting from amortization expense ($4.4 million), and the impact of the exchange rate ($2.6 million), net of acquisition of property, plant and equipment and intangible assets ($5.6 million). |
| Accounts payable and other current liabilities | **12.7** | In line with the level of activity as at January 31, 2018, and more specifically the higher purchasing activity level during the last quarters. |
| Deferred income tax assets/Deferred income tax liabilities (net) | **(8.4)** | Difference resulting for the most part from the change to U.S. federal tax rate and the write-off of deferred income tax assets related to U.S. tax losses, as previously explained in Sections 6.1 and 6.2. |
| Long-term debt (including current portion) | **9.5** | Variation resulting from the issuance of new debts ($10.9 million), and the impact of the exchange rate on U.S.-denominated debts ($0.5 million), net of the debt reimbursement ($0.9 million). |
| Accumulated other comprehensive income (loss) | **(2.0)** | Impact of the variation in the foreign exchange rates on the translation of foreign operations. |

## 22. 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 sound 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 33 "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 25 " External Factors to Which the Corporation's Performance is Exposed" and 33 "Outlook").

## 23. RELATED PARTY TRANSACTIONS

During the fiscal year ended January 31, 2018, certain advances were granted to executive-shareholders. These advances were fully reimbursed at the date hereof and no outstanding balances remained as at January 31, 2018.

Moreover, in the normal course of business, management agreements have been reached with companies held by a group of majority shareholders. These transactions are measured at the exchange value, which is the consideration established and accepted by the related parties:

| Company | Type | Transactions with ADF Group Inc. | Fiscal Years Ended January 31, | |
|---|---|---|---|---|
| | | | **2018** | 2017 |
| | | | **(In $)** | (In $) |
| Groupe JPMP Inc. | Executives | Three executives of ADF Group are compensated through this company for their work within the Corporation, as stipulated in their contracts of employment (see Section 10 "Executive Compensation" of the Management Information Circular for the 2018 fiscal year). | **1,333,830** | 1,331,335 |
| ADF Group Inc. | Executives | Other compensation paid directly to Executives. | **199,371** | 364,706 |

## 24. EXECUTIVE OFFICERS' AND DIRECTORS' COMPENSATION

Base salaries of the Corporation's executive officers are competitive and are generally placed either between the 50th and 75th percentile or around the 75th percentile of a reference group made up of 14 publicly-traded Canadian companies similar to the Corporation in terms of size and operating in the same business segment as the Corporation, that is, construction, design and/or fabrication.

Regarding the compensation of external directors (other than the Co-Chair of the Board of Directors and Independent Board Leader) is deemed competitive, considering that the annual fees are placed at the median of the reference group and the attendance fees are placed between the median and the 75th percentile. As for the single flat fee of the Co-Chair of the Board of Directors and Independent Board Leader, it is deemed competitive when taking into account the size of the company and responsibilities delegated or shared by the Chief Executive Officer (See Sections 10 "Executive Compensation" and 11 "Compensation of Directors" of the 2018 Management Information Circular, for more details).

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

### 25.1 Exchange Rate

The exchange rate fluctuation between the Canadian and U.S. dollars has an impact on the Corporation's results. Thus, a $0.2 million foreign exchange loss was recorded for the fiscal year ended January 31, 2018, compared with a $0.3 million foreign exchange loss for the 2017 fiscal year.

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

— Issuance of new debts in U.S. dollars;

— When advantageous, the raw material (steel) and welding products required for fabrication are purchased in U.S. dollars, 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. dollars.

### 25.2 Operating Risks and Uncertainties

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

a) **Indemnity Agreement**

The Corporation entered into an indemnity agreement when it sold a subsidiary in 2004. This former subsidiary was involved in legal proceedings. During fiscal 2014, this lawsuit's main dispute was settled out of court. At the date hereof, certain smaller disputes of secondary importance relating to this same lawsuit, are still pending, and in this context, the Corporation does not expect incurring significant disbursements.

b) **Uncertainties Relating to the World Economy**

The uncertainty related to the global economy could have a negative impact on the Corporation's business segment, i.e. the non-residential construction industry, particularly in North America, its primary market. At the date hereof, although the Corporation's order backlog will provide work for the next quarters, the uncertainty relating to the global economy could adversely affect the Corporation's revenues and profitability beyond that period.

c) **Bonding Capacity and Irrevocable Letters of Credit**

During the fiscal year ended January 31, 2018, the Corporation maintained the necessary bid bonds and/or letters of credit to its business partners, required for bids, as well as in the scope of contractual commitments, or other financial instruments, such as performance, payment and supply bonds or an irrevocable letter of credit.

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

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

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

- Economic conditions could exert pressure on the profit margins on new projects to be negotiated with clients and have an impact on the order backlog and the award of new contracts;
- Contractual changes overlapping two periods, that is, for which costs would have been recognized but no revenues recorded during a given period and no final settlement concluded with the client at the end of that period, could have an impact on the Corporation's results and cash flows in the following period, subsequent to the signing of this agreement;
- An increase in the price of steel might be a risk, although it would be mitigated by the sale price adjustment clauses concluded with clients and included in contracts;
- The risk associated with the fluctuations in interest rates is also mitigated by having a good mix between fixed-rate and variable-rate debts, as well as available liquidities, when appropriate, that can generate financial revenues;
- Competition in the Corporation's business segment;
- Economic dependency related to the concentration of its client base; the Corporation strives to mitigate this risk through its development strategy of broadening its geographical and market sectors;
- The assessment of custom duties or other protectionist measures by the United States, ADF's main market, on fabricated steel imports;
- Fluctuations in the exchange rate between the Canadian and U.S. dollars. However, this risk is mitigated in part by the foreign currency hedge policy adopted by the Corporation's Executive Officers, and
- The nature of contracts in hand, depending on the type of client, can influence the delay of collection. When these contracts are funded by government agencies, it is possible that the collection period of contract receivables is not impacted upward. However, the risk related to the collection is minimal given that these sums are actually guaranteed by government agencies. When these same contracts are funded by non-governmental organizations, Management believes that the vast majority of these accounts are not doubtful accounts since that they are with well-established companies.

## 26. FINANCIAL INSTRUMENTS

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

As at January 31, 2018, 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, accounts receivable, holdbacks on contracts receivable, the bank overdraft, credit facilities 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) (see Note 27 "Financial Instruments" in the Notes to the Consolidated Financial Statements for the fiscal year ended January 31, 2018).

Derivative financial instruments are typically used to manage the Corporation's foreign exchange and interest rate risk exposure. They are generally comprised of foreign exchange forward contracts and an interest rate swap.

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 26 "Financial Risk Management" in the Notes to the Consolidated Financial Statements for the fiscal year ended January 31, 2018.

## 27. 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 January 31, 2018, 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 and the year ended January 31, 2018, 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.

## 28. DISCLOSURE AND INSIDER TRADING POLICIES

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

In addition, in the context of a normal course issuer bid (NCIB), the brokerage firm retained for the buyback is subject to the same rules with regard to the blackout period.

## 29. CHANGE IN ACCOUNTING POLICIES AND RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

### 29.1 Change in Accounting Policies

On February 2, 2016, the IASB issued narrow-scope amendments to IAS 7 "Statement of Cash Flows" to require entities to provide information on changes in their financing liabilities. These presentation amendments apply to fiscal years beginning on or after January 1, 2017. The Corporation adopted this new standard on February 1, 2017 and this impacted presentation at the end of the fiscal year ended January 31, 2018, by adding additional information in the consolidated financial statements of the Corporation.

### 29.2 Recent IFRS Pronouncements Not Yet Adopted

a) **IFRS 9 "Financial Instruments"**

In July 2014, the IASB completed the three-part project to replace IAS 39 "Financial Instruments: Recognition and Measurement" by issuing IFRS 9 applicable to fiscal years beginning on or after January 1, 2018 and should be applied retrospectively, except for certain exceptions.

IFRS 9 includes classification and measurement of financial assets and financial liabilities, and introduces a forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability designated at fair value through net income, will be presented in Other Comprehensive Income (Loss) rather than in the Consolidated Statement of Income.

IFRS 9 also introduced a new expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Lastly, IFRS 9 introduced a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

IFRS 9 will be effective for the Corporation's fiscal year beginning on February 1, 2018. The Corporation is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

b) **IFRS 15 "Revenue from Contracts with Customers"**

Published by the IASB in May 2014, the IFRS 15 will be effective for fiscal years beginning on or after January 1, 2018 and supersedes IAS 11 "Construction Contracts", IAS 18 "Revenue" and a number of revenue related interpretations (IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers", and SIC-31 "Revenue - Barter Transactions Involving Advertising Service").

IFRS 15 introduces a unique single five-step global model for the revenue recognition on contracts with customers. Such model requires to: 1) identify the contract with a customer; 2) identify the performance obligations related to that contract; 3) determine the transaction price of the contract; 4) allocate such transaction price between the performance obligations; 5) determine under which method revenue will be recognized.

The Corporation has developed and initiated an implementation plan to assess the impact of IFRS 15 and ensure the Corporation's compliance with IFRS 15. As part of this plan, the Corporation has collected a sample of significant contracts signed with customers and identified preliminary accounting topics that may impact the Corporation's results.

The Corporation continues to execute its implementation plan and is currently reviewing all of its customer contracts to determine the impact of this new standard on its consolidated financial statements. In addition to a change in the accounting for revenue recognition, IFRS 15 is also expected to have an impact on presentation and disclosures, which may impact the Corporation's financial systems and internal controls and policies, which are currently being analyzed by the Corporation. As a result, the Corporation continues to assess the impact of this standard on the consolidated financial statements and it is not yet in a position to make a reliable estimate of its impact.

i. **Transition Considerations**

The Corporation will adopt IFRS 15 in its consolidated financial statements for the fiscal year beginning on February 1, 2018, and can be applied using one of the following two methods: retrospectively to each prior reporting period for which financial information is presented, in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" or retrospectively (the "modified retrospective method") by recognizing the cumulative effect the initial application of IFRS 15 at the date of the first application in the opening balance of retained earnings (being February 1, 2018 for the Corporation).

The Corporation decided to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in retained earnings on the date of initial application (February 1, 2018), without restatement of comparative figures. IFRS 15 provides for certain optional practical expedients, including upon the initial adoption of the standard. The Corporation intends to apply the following practical expedients upon adoption of IFRS 15 on February 1, 2018:

| Practical Expedient | Description |
|---|---|
| Completed contract | The Corporation will apply IFRS 15 retrospectively only to contracts that are not completed contracts as at February 1, 2018. |
| Contract modifications | The Corporation will not apply IFRS 15 retrospectively to contract modifications that occurred before February 1, 2018. |

ii. **Quantification of Impact**

The Corporation is currently finalizing the quantification of the impact of IFRS 15 on its consolidated financial statements. Although the Corporation has made progress on the application of IFRS 15 to its consolidated financial statements, the valuation is still in progress.

The following items represent the significant impact areas for the Corporation on transition to IFRS 15:

— **Change Orders Notifications and Claims**

Change orders notifications and claims, referred to as contract modifications, are currently recognized as per guidance provided in IAS 11, Construction Contracts ("IAS 11"). Under such guidance, revenue can be recognized on contract modifications only when certain conditions are met, including the fact that it is probable the customer will approve the modification and the amount of revenue arising from such contract modifications. IFRS 15 also provides guidance on the recognition of revenue from contract modifications, but such guidance is based, among other factors, on the fact that the contract modification is approved and it is highly probable that a significant reversal in the amount of cumulative revenue recognized on such contract modification will not occur when the uncertainty is subsequently resolved. Given the higher level of probability to be applied under IFRS 15, some revenue recognized under IAS 11 could be reversed as at February 1, 2018. Revenue from these contract modifications would be recognized when, and if, IFRS 15 guidance is met.

— **Presentation and Disclosures**

As previously mentioned, the Corporation will adopt IFRS 15 using the modified retrospective method, without restatement of the comparative figures. In addition to the new disclosure requirements under IFRS 15, the Corporation will also disclose the amount by which each financial statement line item is affected in the reporting period by the application of IFRS 15 as compared with the previous standards, as well as an explanation of the reasons for significant changes identified in IFRS 15.

— **Procedures and Controls**

The Corporation has updated and is currently finalizing the implementation of revised procedures and controls in order to meet the requirements of IFRS 15, notably the recording of the transition adjustment and the change in presentation to be reported in the Corporation's unaudited consolidated financial statements for the three-month period ending April 30, 2018, as well as additional disclosures to be provided in the Corporation's 2019 fiscal year audited annual consolidated financial statements.

c) **IFRS 16 "Leases"**

In January 2016, the IASB released IFRS 16, to replace the previous leases Standard, IAS 17 "Leases", and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or financial leases and introduces a single lessee accounting model. IFRS 16 also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or financial leases, and to account for those two types of leases differently.

IFRS 16 will be effective for the fiscal year beginning on January 1, 2019 (being February 1, 2019 for the Corporation). The Corporation is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements. Where the Corporation is a lessee, the Corporation expects IFRS 16 will result in financial position recognition of most of its leases that are considered operating leases under IAS 17. This will result in the gross-up of the consolidated statement of financial position through the recognition of a right-of-use asset and a liability for the present value of the future lease payments. Amortization expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense.

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

30. **ENVIRONNEMENT**

ADF's operations are subject to various laws and regulations adopted by federal, provincial, state and local governments pertaining to environmental protection.

The Corporation's Terrebonne and Great Falls facilities were built on vacant lands. The operations that could have a potential impact on the environment are welding, which generates smoke, and equipment maintenance, which generates waste oil, and industrial coating, which generate fumes and vapours, ADF has installed appropriate pollution control equipment in order to comply with the existing laws and regulations and ensures to perform in the normal course of business, the investments required to meet the highest standards.

Waste oil is recuperated by specialized firms. The Corporation has the necessary environmental certificates of authorization for its facilities and for all expansion phases subsequently carried out.

Moreover, as part of the construction of its new paint shop in Terrebonne, the Corporation updated its environmental certificate of authorization for all its operations located in Terrebonne, including its fabrication plant. Following these investments, ADF Group's facilities in Terrebonne meet the highest environmental standards.

For the fiscal years ended January 31, 2018 and 2017, and taking into account the preceding paragraph, the requirements with regard to environmental protection did not have a significant financial or operational impact on the Corporation's capital expenditures, net income and competitive position. The Corporation does not expect to incur any costs outside the normal course of business to comply with environmental requirements.

31. **HUMAN RESOURCES**

As at January 31, 2018, the Corporation employed a total of 629 people across its head office, fabrication complex and paint shop in Terrebonne, Quebec, and its office, fabrication plant and paint shop in Great Falls, Montana, U.S.A. , and as well as the sales office and various construction sites in United States.

32. **SUBSEQUENT EVENT**

On April 11, 2018, the Corporation's Board of Directors approved a semi-annual dividend of $0.01 per share to be paid on May 16, 2018 to shareholders of record as at April 30, 2018.

33. **OUTLOOK**

Notwithstanding our comments made in Section 5 "Market Trends", the Corporation will continue the work it started in recent years to improve internal efficiency across its operations. Although ADF is dependent of the markets it served and is affected by the political decisions or other, which are beyond our control, we must stay the course and continue to build on the work accomplished to date.

Senior management will analyze the impact of the recent decisions reached with regard to tariffs on steel imports in the United States, and will make the necessary changes to its business plan in order to meet these new realities. It is in these moments that the experience ADF has gained over the past 60 years becomes paramount. This is not the first unpleasant situation we face, and we have the ability to respond to it.

As such, our short-term objective is to replenish the order backlog for each of our facilities, all the while continuing to implement new methodologies to improve operational efficiency. We will use all our assets wisely and continue to use our resources, both human and financial, in a thoughtful way in order to maximize the return and profitability.

34. **ADDITIONAL INFORMATION**

Management's discussion and analysis of changes in financial position and operating results for the fiscal year ended January 31, 2018, has been approved by the Corporation's Board of Directors as of April 11, 2018.

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 / | / Signed / |
| **Executive Vice-President, Treasurer and Corporate Secretary** | **Chief Financial Officer** |

Terrebonne, Quebec, Canada, April 11, 2018

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

*Ce document est aussi disponible en français.*


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