FISCAL 2019 SECOND QUARTERLY REPORT

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE-MONTH AND SIX-MONTH PERIODS ENDED JULY 31, 2018

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE TO THE READERS

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

As at	**July 31, 2018**	January 31, 2018
(In thousands of Canadian dollars)	**$**	$
ASSETS		
Current assets		
Cash and cash equivalents	**5,151**	4,905
Accounts receivable	**40,630**	33,099
Holdbacks on contracts (Note 11)	**4,300**	4,933
Income tax assets	**979**	927
Contracts assets (Note 11)	**19,244**	—
Work in progress (Note 11)	**—**	30,314
Inventories	**8,894**	5,150
Derivative financial instruments (Note 18)	**—**	300
Prepaid expenses and other current assets	**1,935**	2,428
Total current assets	**81,133**	82,056
Non-current assets		
Property, plant and equipment (Note 5)	**91,425**	88,378
Intangible assets (Note 6)	**3,297**	3,197
Other non-current assets	**1,419**	1,627
Total assets	**177,274**	175,258
LIABILITIES		
Current liabilities		
Bank overdraft	**—**	1,907
Credit facilities (Note 7)	**16,855**	10,150
Accounts payable and other current liabilities	**25,089**	29,308
Income tax liability	**636**	422
Contract liabilities (Note 11)	**5,849**	—
Deferred revenues (Note 11)	**—**	3,435
Derivative financial instruments (Note 18)	**253**	—
Current portion of long-term debt	**1,846**	2,066
Total current liabilities	**50,528**	47,288
Non-current liabilities		
Long-term debt	**26,013**	26,135
Deferred income tax liabilities	**4,939**	6,053
Total liabilities	**81,480**	79,476
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	**68,120**	68,120
Contributed surplus	**6,429**	6,423
Accumulated other comprehensive income (loss) (Note 10)	**6,291**	4,706
Retained income	**14,954**	16,533
Total shareholders' equity	**95,794**	95,782
Total liabilities and shareholders' equity	**177,274**	175,258

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

ON BEHALF OF THE BOARD OF DIRECTORS,

Mr. Jean Paschini

/ Signed /

Director

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

/ Signed /

Director

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of Canadian dollars and in dollars per share)	**$**	$	**$**	$
Revenues (Note 11)	**32,220**	45,278	**60,697**	93,916
Cost of goods sold (Note 12)	**30,151**	40,989	**57,842**	84,401
Gross Margin	**2,069**	4,289	**2,855**	9,515
Selling and administrative expenses (Note 12)	**3,108**	3,307	**6,195**	6,546
Financial revenues	**(6)**	(9)	**(19)**	(26)
Financial expenses (Note 15)	**630**	391	**1,001**	778
Foreign exchange (gain) loss	**(955)**	(1,715)	**(1,959)**	(721)
	2,777	1,974	**5,218**	6,577
Income before income tax expense	**(708)**	2,315	**(2,363)**	2,938
Income tax (recovery) expense	**(176)**	388	**(921)**	657
Net income (loss) for the period	**(532)**	1,927	**(1,442)**	2,281
Earnings per share (Note 16)				
— Basic per share	**(0.02)**	0.06	**(0.04)**	0.07
— Diluted per share	**(0.02)**	0.06	**(0.04)**	0.07
Average number of outstanding shares (in thousands) (Note 16)	**32,635**	32,635	**32,635**	32,631
Average number of outstanding diluted shares (in thousands) (Note 16)	**32,635**	32,671	**32,635**	32,666

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of Canadian dollars)	**$**	$	**$**	$
Net income (loss) for the period	**(532)**	1,927	**(1,442)**	2,281
Other comprehensive income (loss) (Note 10):				
Exchange differences on translation of foreign operations [a]	**422**	(3,439)	**1,774**	(1,520)
Comprehensive income (loss) for the period	**(110)**	(1,512)	**332**	761

(a) Will subsequently be reclassified to net income.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

(In thousands of Canadian dollars)	Capital Stock $	Contributed Surplus $	Accumulated Other Comprehensive Income (Loss) (Note 10) $	Retained Income $	Total $
Balance, February 1, 2017	68,088	6,422	6,741	24,399	105,650
Net income (loss) for the period	—	—	—	2,281	2,281
Other comprehensive income (loss)	—	—	(1,520)	—	(1,520)
Comprehensive income (loss) for the period	—	—	(1,520)	2,281	761
Share-based compensation	—	10	—	—	10
Option Exercised	32	(15)	—	—	17
Dividends (Note 9)	—	—	—	(326)	(326)
Balance, July 31, 2017	68,120	6,417	5,221	26,354	106,112

(In thousands of Canadian dollars)	Capital Stock $	Contributed Surplus $	Accumulated Other Comprehensive Income (Loss) (Note 10) $	Retained Income $	Total $
Balance, February 1, 2018	**68,120**	**6,423**	**4,706**	**16,533**	**95,782**
Net income (loss) for the period	**—**	**—**	**—**	**(1,442)**	**(1,442)**
Other comprehensive income (loss)	**—**	**—**	**1,774**	**—**	**1,774**
Comprehensive income (loss) for the period	**—**	**—**	**1,774**	**(1,442)**	**332**
New IFRS adoption (Note 3)	**—**	**—**	**(189)**	**189**	**—**
Share-based compensation	**—**	**6**	**—**	**—**	**6**
Dividends (Note 9)	**—**	**—**	**—**	**(326)**	**(326)**
Balance, July 31, 2018	**68,120**	**6,429**	**6,291**	**14,954**	**95,794**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of Canadian dollars)	**$**	$	**$**	$
OPERATING ACTIVITIES				
Net income (loss) for the period	**(532)**	1,927	**(1,442)**	2,281
Non-cash items:				
Amortization of property, plant and equipment (Note 5)	**1,057**	1,020	**2,084**	2,017
Amortization of intangible assets (Note 6)	**91**	100	**179**	197
Gain on disposal of property, plant and equipment	**—**	(24)	**—**	(35)
Unrealized loss (gain) on derivative financial instruments	**138**	(5,313)	**553**	(2,768)
Non-cash exchange (gain) loss	**(642)**	2,144	**(2,774)**	950
Share-based compensation (Note 9)	**(89)**	222	**(279)**	198
Income tax (recovery) expense	**(176)**	388	**(921)**	657
Financial revenues	**(6)**	(9)	**(19)**	(26)
Financial expenses	**630**	391	**1,001**	778
Net income adjusted for non-cash items	**471**	846	**(1,618)**	4,249
Changes in non-cash working capital items (Note 17)	**3,716**	7,574	**1,594**	1,982
Cash flows from (used in) operating activities	**4,187**	8,420	**(24)**	6,231
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment (Note 5)	**(1,561)**	(1,818)	**(2,575)**	(2,146)
Acquisition of intangible assets	**(112)**	(279)	**(279)**	(393)
Revenues from disposals of property, plant and equipment	**—**	99	**8**	125
Disposal of equity investments	**—**	—	**217**	—
Decrease (increase) in other non-current assets	**9**	(20)	**(8)**	(36)
Interest received	**—**	9	**—**	26
Cash flows from (used in) investing activities	**(1,664)**	(2,009)	**(2,637)**	(2,424)
FINANCING ACTIVITIES				
Variation in credit facilities	**1,855**	(716)	**6,705**	2,321
Issuance of long-term debt	**—**	5,702	**—**	5,702
Repayment of long-term debt (Note 17)	**(359)**	(233)	**(812)**	(448)
Issuance of subordinate voting shares	**—**	—	**—**	17
Dividends paid (Note 9)	**(326)**	(326)	**(326)**	(326)
Interest paid	**(552)**	(390)	**(979)**	(777)
Cash flows from (used in) financing activities	**618**	4,037	**4,588**	6,489
Impact of fluctuations in foreign exchange rate on cash flows	**17**	(38)	**226**	(29)
Net change in cash and cash equivalents during the period	**3,158**	10,410	**2,153**	10,267
Cash and cash equivalents, beginning of the period (Note 17)	**1,993**	191	**2,998**	334
Cash and cash equivalents, end of the period (Note 17)	**5,151**	10,601	**5,151**	10,601

Supplemental information on cash flows is provided in Note 17.

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

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

NOTE 1 NATURE OF BUSINESS

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

NOTE 2 BASIS OF PREPARATION

2.1. **Statement of Compliance**

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), applicable to interim financial reports, including International Accounting Standard 34, "Interim Financial Reporting". These unaudited interim condensed consolidated financial statements are intended to provide an update on the January 31, 2018 annual audited consolidated financial statements. Accordingly, they do not include all of the information required for annual financial statements and must be read in conjunction with the Corporation's annual audited consolidated financial statements as at January 31, 2018.

The Board of Directors approved these unaudited interim condensed consolidated financial statements on September 12, 2018. The financial statements have been prepared using the same accounting policies as outlined in Note 2 to the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2018, except for the adoption of new accounting policies described in Note 3, below.

2.2. **Basis of Measurement**

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

2.3. **Functional and Reporting Currency**

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

2.4. **Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. Areas involving a greater degree of judgment or complexity, or areas where assumptions and estimates have a significant impact on the consolidated financial statements, are disclosed in Note 5 to the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2018, and remained unchanged for the three-month and six-month periods ended July 31, 2018.

NOTE 3 CHANGE IN ACCOUNTING POLICIES

3.1 **IFRS 9 "Financial Instruments"**

On February 1, 2018, the Corporation adopted IFRS 9 which establishes the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 was adopted on a retrospective basis without restatement of comparative information.

i. **Classification**

IFRS 9 largely retains most of the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

On initial recognition, the Corporation determines the financial instruments classification as per the following categories:

— instruments measured at amortized cost ;

— instruments measured at fair value through other comprehensive income (loss) (FVOCI) or through net income (loss) (FVTPL).

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.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments are classified as FVTPL. However unless they are held for trading, the Corporation, on initial recognition, may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as instruments held for trading or derivatives) or if the Corporation elects to measure them at FVTPL.

The following table presents the initial IAS 39 classification and the new IFRS 9 classification for all financial instruments held by the Corporation as at February 1, 2018.

Financial Assets and Liabilities	Classification According to IAS 39	Classification According to IFRS 9
Cash and cash equivalents	Loans and receivables (amortized cost)	Amortized cost
Accounts receivable	Loans and receivables (amortized cost)	Amortized cost
Contract assets/Work in progress	Loans and receivables (amortized cost)	Amortized cost
Holdbacks on contracts	Loans and receivables (amortized cost)	Amortized cost
Investments in shares	Available for sale (FVOCI)	FVTPL
Other current assets	Loans and receivables (amortized cost)	Amortized cost
Bank overdraft	Other financial liabilities (amortized cost)	Amortized cost
Credit facilities	Other financial liabilities (amortized cost)	Amortized cost
Accounts payable and other current liabilities	Other financial liabilities (amortized cost)	Amortized cost
Contract liabilities/Deferred revenues	Other financial liabilities (amortized cost)	Amortized cost
Derivative financial instruments	FVTPL	FVTPL

ii. **Evaluation**

— **Financial Instruments at Amortized Cost**

Financial instruments at amortized cost are initially measured at fair value and subsequently at amortized cost, using the effective interest method, less any impairment loss. Interest income, foreign exchange gains and losses and impairment are recognized in the Consolidated Statement of Income (Loss).

— **Financial Instruments at Fair Value**

Financial instruments are initially and subsequently measured at fair value. Changes in fair value and transaction costs are accounted for in the Consolidated Statement of Income (Loss). When the Corporation elects to measure a financial liability at FVTPL, changes in the Corporation's own credit risk are accounted for in Other Comprehensive Income (Loss).

iii. **Impairment**

Since February 1, 2018, the Corporation prospectively estimates the expected credit losses associated with the debt instruments accounted for at amortized cost. The impairment methodology used depends on whether there is a significant increase in the credit risk or not. For account receivables and contract assets, the Corporation measures expected credit losses at an amount equal to lifetime expected credit loss as allowed by IFRS 9 under the simplified method.

iv. **Impact of Adoption**

The Corporation has concluded that the application of this new standard does not have a material impact on its consolidated financial statements. However, the changes in the fair value of the equity investments owned by the Corporation as at February 1, 2018, can no longer be recognized through other comprehensive income (loss). As described above, equity investments must now be classified as FVTPL. Consequently, the balance of $189,000 previously recorded in accumulated other comprehensive income (loss) was reclassified to retained income as at February 1, 2018.

3.2 **IFRS 15 "Revenue from Contracts with Customers"**

Published by the IASB in May 2014, the IFRS 15 is 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.

Under IFRS 15, the Corporation recognizes income when the benefit obligations are satisfied, that is, when the control over the good or service is transferred to the customer, which, in the case of the majority of the Corporation's contracts, is according to the progress.

Contract amendment notices and claims, also known as contract amendments, were previously accounted for in accordance with IAS 11, "Construction Contracts" Under these provisions, revenue from contract amendments can be recognized only when certain conditions are met, including when it is likely that the customer will approve the changes and the amount of revenue resulting from these changes. IFRS 15 also provides guidance on the recognition of revenue arising from contract amendments, however, these guidelines are based, among other things, on the fact that this contract amendment is approved and it is highly probable that the subsequent settlement of the uncertainty will not result in a significant downward adjustment to the cumulative amount of revenue recognized in relation to the contract amendments. Given the higher level of probability to be applied under IFRS 15, certain revenue recognized in accordance with IAS 11 could be adjusted downward under IFRS 15. Revenue from these contract amendments will now be recognized when the guidance in IFRS 15 is met.

The Corporation has adopted IFRS 15 in its consolidated financial statements for the fiscal year beginning February 1, 2018, in accordance with the modified retrospective method, by accounting for transitional adjustments in retained income at the date of first application (February 1, 2018), without restatement of the comparative figures. IFRS 15 provides for certain optional simplification measures, including at the time of the initial adoption of the standard. The Corporation applied the following simplification measures when adopting IFRS 15 on February 1, 2018:

Practical Expedient	**Description**
Completed contract	The Corporation has applied IFRS 15 retrospectively only to contracts that were not completed contracts as at February 1, 2018.
Contract modifications	The Corporation did not apply IFRS 15 retrospectively to contract modifications that occurred before February 1, 2018.

The adoption of this standard did not result in any change in revenue recognition in relation to the corresponding periods, and therefore no comparative information has been restated.

NOTE 4 RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

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 for the lessee. 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.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

For the three-month period and six-month periods ended July 31, 2018, the amortization of property, plant and equipment totalled $1,057,000 and $2,084,000 respectively ($1,020,000 and $2,017,000 respectively for the three-month and six-month periods ended July 31, 2017), and was distributed as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Cost of goods sold	**866**	833	**1,703**	1,638
Selling and administrative expenses	**191**	187	**381**	379
	1,057	1,020	**2,084**	2,017

As at July 31, 2018 and 2017, all property, plant and equipment were subject to amortization.

During the six-month periods ended July 31, 2018 and 2017, the Corporation acquired property, plant and equipment totalling $2,574,000 and $2,378,000 respectively, and was distributed as follows:

Six-Month Periods Ended July 31,	**2018**	2017
(In thousands of CA$)	**$**	$
Building and improvement to land	**2,193**	688
Equipment and overhead cranes	**271**	1,140
Others (1)	**111**	550
	2,575	2,378

(1) Include acquisitions of $232,000 under finance lease contracts with no impact on cash and cash equivalents for the six-month period ended July 31, 2017.

NOTE 6 INTANGIBLE ASSETS

As at July 31, 2018 and 2017, all intangible assets were subject to amortization.

For three-month and six-month periods ended July 31, 2018, amortization of intangible assets totalled $91,000 and $179,000 respectively ($100,000 and $197,000 respectively for the three-month and six-month periods ended July 31, 2017), and was distributed as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Cost of goods sold	**26**	35	**52**	71
Selling and administrative expenses	**65**	65	**127**	126
	91	100	**179**	197

NOTE 7 CREDIT FACILITIES

On June 11, 2018, the Corporation obtained a temporary increase of its Canadian operating credit facility. On that date, the credit facility's availability increased from $20,000,000 to $22,500,000, until August 31, 2018. The amount used under this Canadian credit facility as at July 31, 2018 was $16,855,000 ($10,150,000 as at January 31, 2018).

NOTE 8 LONG-TERM DEBT

In April 2018, as set forth in the credit agreement with the Development Bank of Canada, the Corporation used its right to obtain an extension of the payment of the principal on its long-term debt, for a period of six months starting on June 1, 2018. Consequently, monthly principal repayments of $98,050 will resume on December 1, 2018, and will end on August 1, 2035. As at July 31, 2018, the balance of the debt was $19,708,000 ($20,000,000 as at January 31, 2018).

NOTE 9 CAPITAL STOCK

9.1. **Capital Stocks**

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

	Subordinate Voting Shares		**Multiple Voting Shares**		**Total**	
(In thousands of CA$ and in number of shares)	Number	$	Number	$	Number	$
As at February 1, 2017	18,284,435	52,087	14,343,107	16,001	32,627,542	68,088
Issued on exercise of stock options	7,664	32	—	—	7,664	32
As at January 31, 2018 and July 31, 2018	**18,292,099**	**52,119**	**14,343,107**	**16,001**	**32,635,206**	**68,120**

9.2. **Dividend**

During the three-month period ended July 31, 2018 and 2017, the Corporation did not declare dividends.

During the six-month period ended July 31, 2018, the Corporation recognized as distribution to its Shareholders of Record as at April 30, 2018 and paid on May 16, 2018, semi-annual dividends totalling $326,000 or $0.01 per share, of which $183,000 for subordinate voting shares and $143,000 for multiple voting shares.

During the six-month period ended July 31, 2017, the Corporation recognized as distribution to its Shareholders of Record as at April 28, 2017 and paid on May 16, 2017, semi-annual dividends totalling $326,000 or $0.01 per share, of which $183,000 for subordinate voting shares and $143,000 for multiple voting shares.

9.3. **Stock Option Plan**

At July 31, 2018, a total of 3,263,521 subordinate voting shares (same as at January 31, 2018) were reserved for the Stock Option Plan (the "Plan"), of which 1,198,921 shares as at July 31, 2018 and as at January 31, 2018 had not yet been granted.

The Plan requires that the exercise price of the options granted must not be less than the closing market value on the day the options are granted by the Corporation's Board of Directors. These options start vesting one year after the grant date, at the rate of 20% per year for the majority of the options. All options have a 10-year life from the date of the grant.

As at	**July 31, 2018**		January 31, 2018	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
(In dollars per option and in number of options)	**Number**	**$**	Number	$
Outstanding, at the beginning	**371,000**	**2.94**	383,664	2.97
Exercised	—	—	(7,664)	2.14
Forfeited	—	—	(5,000)	6.48
Outstanding, at the end	**371,000**	**2.94**	371,000	2.94
Exercisable, at the end	**351,000**	**2.96**	331,000	2.98

As at July 31, 2018, the weighted average exercise price and the weighted average remaining contractual life of the options were as follows:

(In dollars per option and number of options)	**Outstanding Options**			**Exercisable Options**	
Exercise Price	**Outstanding**	**Weighted average Remaining Life**	**Weighted Average Exercise Price**	**Exercisable**	**Weighted Average Exercise Price**
$	Number	Year	$	Number	$
5.65	60,000	0.16	5.65	60,000	5.65
2.66	100,000	5.96	2.66	80,000	2.66
2.52	60,000	1.37	2.52	60,000	2.52
2.45	96,000	0.96	2.45	96,000	2.45
1.88	50,000	2.12	1.88	50,000	1.88
1.21	5,000	3.87	1.21	5,000	1.21
	371,000	**2.44**	**2.94**	**351,000**	**2.96**

9.4. **Deferred Share Units Plan ("DSU")**

i. **External Directors**

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 three-month and six-month periods ended July 31, 2018, the DSU compensation to external directors recorded in the Consolidated Statement of Income (Loss) amounted respectively to a recovery of $72,000 and $201,000, including the impact of the change in the market price of the Corporation's share, which amounted respectively to a recovery of $72,000 and $217,000 during the three-month and six-month periods ended July 31, 2018 (an expense of $152,000 and $116,000 respectively, including the impact of the change in the market price of the Corporation's share, which amounted respectively to a $23,000 and $73,000 recovery during the three-month and six-month periods ended July 31, 2017).

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

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In number of deferred share units)	**Number**	Number	**Number**	Number
Outstanding, at the beginning of the period	**401,022**	317,042	**391,895**	312,032
Attributed	**—**	63,955	**9,127**	68,965
Outstanding and vested, at the end of the period	**401,022**	380,997	**401,022**	380,997

The carrying amount and the intrinsic value of the liabilities related to the external directors' vested DSU amounted to $621,000 as at July 31, 2018 ($823,000 as at January 31, 2018), and is recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statements of Financial Position.

ii. **Executive Officers and Key Employees**

As set forth in the DSU Plan, the Corporation may grant DSU, on a discretionary basis, to 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 in the Consolidated Statement of Income (Loss) 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 DSU compensation for executive officers and key employees, amounted to a $20,000 and $83,000 recovery for the three-month and six-month periods ended July 31, 2018, respectively, which includes the impact of the change in the market price of the Corporation's share, which amounted respectively to a $37,000 and $124,000 recovery for the three-month and six-month periods ended July 31, 2018 (a $65,000 and $72,000 expense for the three-month and six-month periods ended July 31, 2017, respectively, including the impact of the change in the market price of the Corporation's share, which amounted respectively to a $5,000 and $17,000 recovery for the three-month and six-month periods ended July 31, 2017).

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

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In number of deferred share units)	**Number**	Number	**Number**	Number
Outstanding, at the beginning of the period	**304,435**	273,162	**303,733**	273,162
Attributed	**—**	30,000	**702**	30,000
Outstanding, at the end of the period	**304,435**	303,162	**304,435**	303,162
Vested, at the end of the period	**132,176**	63,396	**132,176**	63,396

As at July 31, 2018, the carrying amount of the liabilities related the executive officers and key employees' DSU, totalling $375,000 ($447,000 as at January 31, 2018) was recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statement of Financial Position, and of which $205,000 corresponded to the intrinsic value of the vested DSU as at July 31, 2018 ($156,000 as at January 31, 2018).

NOTE 10 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Exchange differences on translation of foreign operations less hedging operations, net of related income tax (1)				
Opening balance	**5,869**	8,471	**4,517**	6,552
Changes during the period	**422**	(3,439)	**1,774**	(1,520)
Closing balance	**6,291**	5,032	**6,291**	5,032
Change in value of available-for-sale financial assets (2)				
Opening balance	**—**	189	**189**	189
New IFRS adoption	**—**	—	**(189)**	—
Closing balance	**—**	189	**—**	189
	6,291	5,221	**6,291**	5,221

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

(2) Reclassification of equity investments in retained earnings as of February 1, 2018, following the adoption of the new IFRS 9 (Note 3).

NOTE 11 INFORMATION RELATED TO CONTRACTS WITH CUSTOMERS

All revenues recognized during the three-month and six-month periods ended July 31, 2018 and 2017, derived from contracts with customers and have been included in revenues of the reporting periods The amounts recorded in the Consolidated Statement of Financial Position relate to current contracts at the end of the reporting period.

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

As at	**July 31, 2018**	January 31, 2018
(In thousands of CA$)	**$**	$
Total amount of cost incurred and profits and losses recorded on all ongoing contracts	**332,836**	296,663
Less progress billings	**(319,441)**	(269,784)
	13,395	26,879

Recognized as follows:

As at	**July 31, 2018**	January 31, 2018
(In thousands of CA$)	**$**	$
Amount owed by clients for work performed on contracts, recorded in contract assets/work in progress	**19,244**	30,314
Amount owed to clients for work performed on contracts, recorded in contract liabilities/deferred revenues	**(5,849)**	(3,435)
	13,395	26,879

Advances received from clients on contracts for work not yet realized are recognized in accounts payable and other current liabilities. These advances amounted to $5,197,000 as at July 31, 2018 ($2,172,000 as at January 31, 2018).

Holdbacks on contracts will be received at the time of the client's approval of the work performed and amounts to $4,300,000 as at July 31, 2018 ($4,933,000 as at January 31, 2018) and are included in current assets in the Consolidated Statement of Financial Position.

NOTE 12 CLASSIFICATION OF EXPENSES PER NATURE

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Raw material, consumables and subcontracting	**16,644**	18,500	**28,048**	40,476
Salaries and employees' benefit expenses (1) (Note 13)	**9,207**	16,314	**19,949**	33,014
Transport	**1,096**	2,112	**3,023**	3,367
Drafting and engineering	**1,492**	1,780	**3,392**	3,000
Travelling expenses and representation	**693**	1,050	**1,427**	2,341
Amortization expenses (Notes 5 and 6)	**1,148**	1,120	**2,263**	2,214
Professional fees	**997**	717	**1,691**	1,471
Rental equipment	**192**	806	**300**	1,131
Maintenance and repairs	**325**	546	**834**	1,041
Electricity and heating	**361**	373	**793**	788
Management fees with related companies (Note 14)	**316**	309	**674**	667
Insurance	**323**	277	**624**	534
Taxes and permits	**264**	162	**542**	438
Office expenses	**153**	185	**335**	338
Other	**48**	45	**142**	127
	33,259	44,296	**64,037**	90,947

Distributed as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Cost of goods sold	**30,151**	40,989	**57,842**	84,401
Selling and administrative expenses	**3,108**	3,307	**6,195**	6,546
	33,259	44,296	**64,037**	90,947

(1) For the six-month period ended July 31, 2017, salaries and employees' benefit expenses were decreased by a government grant of $297,000 mostly for jobs creation (no amount for the three-month period ended July 31, 2017) and no amount for the three-month and six-month periods ended July 31, 2018.

Cost of goods sold is as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Cost of goods sold excluding amortization	**29,259**	40,121	**56,087**	82,692
Amortization of property, plant and equipment and intangible assets	**892**	868	**1,755**	1,709
	30,151	40,989	**57,842**	84,401

NOTE 13 SALARIES AND EXPENSES RELATED TO EMPLOYEES BENEFITS

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Salaries and other short-term benefits	**7,001**	12,447	**14,932**	24,289
Social security costs	**1,930**	3,189	**4,261**	7,433
Pension plan contributions	**285**	385	**885**	953
Share-based compensation (Note 9)	**(89)**	222	**(279)**	198
Other	**80**	71	**150**	141
	9,207	16,314	**19,949**	33,014

NOTE 14 EXECUTIVES OFFICERS' COMPENSATION

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

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Salaries and other short-term benefits	**440**	575	**856**	983
Social security costs	**48**	56	**103**	111
Management fees (1)	**316**	309	**674**	667
Pension plan contributions	**25**	27	**102**	101
Share-based compensation (Note 9)	**(90)**	213	**(276)**	180
Attendance fees	**71**	71	**150**	141
	810	1,251	**1,609**	2,183

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

NOTE 15 FINANCIAL EXPENSES

Financial expenses were as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Interest on long-term debt	**374**	220	**600**	434
Interest on credit facilities	**180**	143	**325**	280
Other interest	**76**	28	**76**	64
	630	391	**1,001**	778

NOTE 16 EARNINGS PER SHARE

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

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
Numerator (in thousands of CA$)				
Numerator applicable to basic and diluted earnings per share	**(532)**	1,927	**(1,442)**	2,281
Denominator (in thousands)				
Basic weighted average number of shares	**32,635**	32,635	**32,635**	32,631
Effect of dilutive instruments:				
— Stock options	**—**	36	**—**	35
Diluted weighted average number of shares	**32,635**	32,671	**32,635**	32,666

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

Given the negative net income recorded during the three-month and six-month periods ended July 31, 2018, no stock options were included in the computation of diluted earnings per share because of their antidilutive effect.

During the three-month and six-month periods ended July 31, 2017, only 211,000 stock options were included in the computation of diluted earnings per share since the other options were antidilutive.

NOTE 17 SUPPLEMENTAL CASH FLOWS INFORMATION

17.1 **Change in Non-Cash Working Capital Items**

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

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Accounts receivable	**(9,766)**	6,789	**(4,706)**	(6,924)
Holdbacks on contracts	**1,414**	1,602	**820**	(238)
Contract assets/Work in progress	**11,007**	1,705	**11,669**	224
Inventories	**(1,899)**	(265)	**(3,458)**	874
Prepaid expenses and other current assets	**(271)**	(1,171)	**556**	(934)
Accounts payable and other current liabilities	**1,217**	(4,701)	**(4,787)**	5,896
Contract liabilities/Deferred revenues	**2,014**	3,615	**1,500**	3,084
Changes in non-cash working capital items	**3,716**	7,574	**1,594**	1,982

17.2 **Reconciliation of the Long-Term Debt**

The following table reconciles the beginning and ending balances of the consolidated financial position for long-term debt, including the current portion of long-term debt:

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Balance, beginning of the period	**28,102**	18,971	**28,201**	18,714
Issuance of long term debt	**—**	5,702	**—**	5,702
Repayment of long term debt	**(359)**	(233)	**(812)**	(448)
Increase of financial leases	**—**	193	**—**	232
Effect of fluctuations in exchange rates	**116**	(810)	**470**	(377)
Balance, end of the period	**27,859**	23,823	**27,859**	23,823

17.3 **Cash and Cash Equivalents**

Cash and cash equivalents recorded in the Consolidated Statement of Cash Flows, consist exclusively of cash, totalling $5,151,000 as at July 31, 2018 and $10,601,000 as at July 31, 2017.

NOTE 18 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

18.1. **Financial Risk Management**

As described in Note 26 to the Audited Consolidated Financial Statements for the fiscal year ended January 31, 2018, the Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollars, since a significant portion of its revenues is generally recorded in U.S. dollars.

During the three-month and six-month periods ended July 31, 2018, 96% of the Corporation's revenues were concluded in U.S. dollars (89 % and 90% respectively during the three-month and six-month periods ended July 31, 2017).

Notwithstanding these variations and as part of its foreign currency hedge policy, the Corporation uses different mechanisms, where appropriate, to mitigate the impact of these fluctuations on its results, such as:

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

In line with its hedging policy, to manage its net risk between the future U.S.-denominated cash inflows and outflows, the Corporation entered into foreign exchange forward contracts. As at July 31 2018, the Corporation was party to foreign exchange forward contracts for the sale of US$23,891,000 (US$19,737,000 as at January 31, 2018) with maturities varying between one (1) month and six (6) months with rates between 1.2613 and 1.3292 (between 1.2285 and 1.2646 as at January 31, 2018).

The fair value of foreign exchange forward contracts and/or foreign currency options recorded in current liabilities under "Derivative Financial Instruments" was $253,000 as at July 31, 2018 and $300,000 in the current assets as at January 31, 2018.

During the three-month and six-month periods ended July 31, 2018, a realized and unrealized loss of $138,000 and $1,067,000 respectively (a realized and unrealized gain of $5,625,000 and $2,924,000 respectively for the three-month and six-month periods ended July 31, 2017) was recorded in the Consolidated Statement of Income (Loss) under the item "Foreign Exchange (Gain) Loss ".

The following table summarizes significant non-derivative financial assets and liabilities that are subject to a foreign currency exposure as at July 31, 2018 and January 31, 2018, and whose foreign currency exposure is recognized in income:

As at	**July 31, 2018**	January 31, 2018
(In thousands of US$)	**$**	$
Financial assets		
Cash and cash equivalents	**657**	234
Accounts receivable	**940**	5,801
Holdbacks on contracts	**37**	37
	1,634	6,072
Financial liabilities		
Accounts payable and other current liabilities	**958**	2,236
	958	2,236
Net exposure	**676**	3,836

Based on the balance, as at July 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, while all other variables remaining constant, would have had an immaterial impact in net income before tax and comprehensive income (loss) before tax (an immaterial amount in net income before tax and in comprehensive income (loss) before tax as at July 31, 2017). However, this information only applies to financial instruments based on period-end balances and does not take into account the impact of foreign exchange fluctuations on revenues and other miscellaneous expenses for a complete fiscal year.

18.2. **Financial Instruments**

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

As at July 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 and cash equivalents, accounts receivable, contract assets, other current assets, holdbacks on contracts, the credit facilities, accounts payable and other current liabilities as well as contract liabilities), or because the effective interest rates on long-term debts (including the financial leases) reflect current market conditions.

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

— Fair value - Level 1: Quoted price (unadjusted) in active markets for identical assets or liabilities;

— Fair value - Level 2: For inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

— Fair value - Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

NOTE 19 SEGMENTED INFORMATION

The Corporation operates in one operational sector, being, the non-residential construction industry, primarily in the United States and Canada. This sector includes the following areas of expertise: 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.

	3 Months		6 Months	
Periods Ended July 31,	**2018**	2017	**2018**	2017
(In thousands of CA$)	**$**	$	**$**	$
Revenues				
Canada	**581**	4,575	**1,618**	8,903
United States	**31,639**	40,703	**59,079**	85,013
	32,220	45,278	**60,697**	93,916

As at	July 31, 2018	January 31, 2018
(In thousands of CA$)	$	$
Non-current assets (1)		
Canada	**50,536**	49,508
United States	**45,605**	43,694
	96,141	93,202

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

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

During the six-month period ended July 31, 2018, 85% of the Corporation's revenues were realized with two (2) clients, each representing more than 10% of revenues , (86% of the Corporation's revenues were realized with three (3) clients during the six-month period ended July 31, 2017).

The following table, presents the breakdown of revenues for each these clients:

Six-Month Periods Ended July 31,	2018	2017
	United States	United States
(In thousands of CA$)	$	$
Client A	**45,744**	—
Client B	**6,003**	36,360
Client C	**—**	24,431
Client D	**—**	20,086
	51,747	80,877

NOTE 20 SUBSEQUENT EVENT

On September 12, 2018, the Corporation's Board of Directors approved a semi-annual dividend of $0.01 per share to be paid on October 16, 2018 to shareholders of record as at September 28, 2018.

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

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