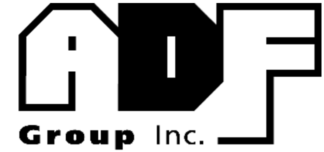

FISCAL YEAR

ENDED JANUARY 31, 2019

CONSOLIDATED FINANCIAL STATEMENTS

AUDITED

ADF GROUP INC.
300 Henry-Bessemer Street | Terrebonne, Quebec, Canada | J6Y 1T3
(450) 965-1911 | infos@adfgroup.com | www.adfgroup.com

Toronto Stock Exchange | TSX : DRX

TABLE OF CONTENTS

MANAGEMENT'S REPORT 1

INDEPENDENT AUDITOR'S REPORT 2

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION 4

CONSOLIDATED STATEMENTS OF INCOME (LOSS) 5

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) 5

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY 6

CONSOLIDATED STATEMENTS OF CASH FLOWS 7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 8

MANAGEMENT'S REPORT

TO OUR SHAREHOLDERS

The consolidated financial statements and Management Discussion and Analysis ("MD&A") report of ADF Group Inc. (the "Corporation") and all other information included in the Annual Report, are the responsibility of the Corporation's Management and have been approved by its Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and the MD&A include items that are based on management's best estimates and judgments. Financial information presented elsewhere in the Annual Report is consistent with the consolidated financial statements.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that financial information is reliable and assets are safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for the financial reporting and ultimately responsible for reviewing and approving the consolidated financial statements and the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee, composed of independent directors. The Audit Committee reviews the Corporation's consolidated financial statements and MD&A and makes the appropriate recommendations to the Board of Directors. The independent auditor appointed by the shareholders has full access to the Audit Committee, with or without Management being present.

The consolidated financial statements have been audited on behalf of the shareholders by PricewaterhouseCoopers LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The independent auditor's report, hereafter, outlines the scope of its audits and set forth its opinion on the consolidated financial statements.

Co-Chairman of the Board of Directors and Chief Executive Officer

/ Signed /

Mr. Jean Paschini

Chief Financial Officer

/ Signed /

Mr. Jean-François Boursier, CPA, CA

INDEPENDENT AUDITOR’S REPORT

TO THE SHAREHOLDERS OF ADF GROUP INC.

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ADF Group Inc. and its subsidiaries (together, the Corporation) as at January 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

— the consolidated statements of financial position as at January 31, 2019 and 2018;
— the consolidated statements of income (loss) for the years then ended;
— the consolidated statements of comprehensive income (loss) for the years then ended;
— the consolidated statements of changes in shareholders' equity for the years then ended;
— the consolidated statements of cash flows for the years then ended; and
— the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or whether it otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mario Longpré.

/ Signed /

PricewaterhouseCoopers LLP [(1)]

Montréal, Quebec, April 15, 2019

[1] CPA auditor, CA, public accountancy permit No. A123498

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at January 31,	**2019**	2018
(In thousands of Canadian dollars)	**$**	$
ASSETS		
Current assets		
Cash and cash equivalents	**4,164**	4,905
Accounts receivable	**29,919**	33,099
Holdbacks on contracts (Note 15)	**6,227**	4,933
Current income tax assets	**859**	927
Contract assets (Note 15)	**17,952**	—
Work in progress (Note 15)	**—**	30,314
Inventories (Note 6)	**8,349**	5,150
Derivative financial instruments (Note 26)	**—**	300
Prepaid expenses and other current assets	**1,638**	2,428
Total current assets	**69,108**	82,056
Non-current assets		
Property, plant and equipment (Note 7)	**89,375**	88,378
Intangible assets (Note 8)	**3,312**	3,197
Other non-current assets (Note 9)	**1,417**	1,627
Total assets	**163,212**	175,258
LIABILITIES		
Current liabilities		
Bank overdraft	**—**	1,907
Credit facilities (Note 10)	**6,605**	10,150
Accounts payable and other current liabilities (Note 11)	**16,857**	29,308
Current income tax liabilities	**422**	422
Contract liabilities (Note 15)	**10,920**	—
Deferred revenues (Note 15)	**—**	3,435
Derivative financial instruments (Note 26)	**184**	—
Current portion of long-term debt (Note 12)	**2,272**	2,066
Total current liabilities	**37,260**	47,288
Non-current liabilities		
Long-term debt (Note 12)	**24,939**	26,135
Deferred income tax liabilities (Note 19)	**3,921**	6,053
Other non-current liabilities	**197**	—
Total liabilities	**66,317**	79,476
SHAREHOLDERS' EQUITY		
Capital stock (Note 13)	**68,120**	68,120
Contributed surplus	**6,432**	6,423
Accumulated other comprehensive income (loss) (Note 14)	**6,648**	4,706
Retained income	**15,695**	16,533
Total shareholders' equity	**96,895**	95,782
Total liabilities and shareholders' equity	**163,212**	175,258

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

ON BEHALF OF THE BOARD OF DIRECTORS,

Director

/ Signed /

Mr. Jean Paschini

Director

/ Signed /

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of Canadian dollars and in dollars per share)	**$**	$
Revenues (Note 15)	**135,073**	180,474
Cost of goods sold (Note 16)	**125,520**	164,352
Gross Margin	**9,553**	16,122
Selling and administrative expenses (Note 16)	**12,181**	12,109
Net financial expenses (Note 12)	**1,784**	1,608
Foreign exchange (gain) loss	**(2,019)**	233
	11,946	13,950
Income (loss) before income tax (recovery) expense	**(2,393)**	2,172
Income tax (recovery) expense (Note 19)	**(2,019)**	9,385
Net loss for the year	**(374)**	(7,213)
Earnings per share		
Basic and diluted per share (Note 20)	**(0.01)**	(0.22)
Average number of outstanding shares (in thousands) (Note 20)	**32,635**	32,633
Average number of outstanding diluted shares (in thousands) (Note 20)	**32,635**	32,633

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of Canadian dollars)	**$**	$
Net loss for the year	**(374)**	(7,213)
Other comprehensive income (loss) (Note 14) [a] :		
Exchange differences on translation of foreign operations	**2,131**	(2,035)
Comprehensive income (loss) for the year	**1,757**	(9,248)

a) Will subsequently be reclassified to net income (loss).

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)	Capital Stock (Note 13) $	Contributed Surplus $	Accumulated Other Comprehensive Income (Loss) (Note 14) $	Retained Income $	Total $
Balance, February 1, 2017	68,088	6,422	6,741	24,399	105,650
Net loss for the year	—	—	—	(7,213)	(7,213)
Other comprehensive income (loss)	—	—	(2,035)	—	(2,035)
Comprehensive income (loss) for the year	—	—	(2,035)	(7,213)	(9,248)
Share-based compensation	—	16	—	—	16
Options exercised	32	(15)	—	—	17
Dividends (Note 13)	—	—	—	(653)	(653)
Balance, January 31, 2018	68,120	6,423	4,706	16,533	95,782

(In thousands of Canadian dollars)	**Capital Stock (Note 13) $**	**Contributed Surplus $**	**Accumulated Other Comprehensive Income (Loss) (Note 14) $**	**Retained Income $**	**Total $**
Balance, February 1, 2018	**68,120**	**6,423**	**4,706**	**16,533**	**95,782**
Net loss for the year	**—**	**—**	**—**	**(374)**	**(374)**
Other comprehensive income (loss)	**—**	**—**	**2,131**	**—**	**2,131**
Comprehensive income (loss) for the year	**—**	**—**	**2,131**	**(374)**	**1,757**
New IFRS 9 adoption (Note 3)	**—**	**—**	**(189)**	**189**	**—**
Share-based compensation	**—**	**9**	**—**	**—**	**9**
Dividends (Note 13)	**—**	**—**	**—**	**(653)**	**(653)**
Balance, January 31, 2019	**68,120**	**6,432**	**6,648**	**15,695**	**96,895**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of Canadian dollars)	**$**	$
OPERATING ACTIVITIES		
Net loss for the year	**(374)**	(7,213)
Non-cash items:		
Amortization of property, plant and equipment (Note 7)	**4,206**	4,029
Amortization of intangible assets (Note 8)	**367**	394
Unrealized loss on derivative financial instruments	**484**	396
Non-cash exchange (gain) loss	**(2,781)**	1,744
Share-based compensation (Note 13)	**(533)**	—
Income tax (recovery) expense	**(2,019)**	9,385
Inventories depreciation allowance	**352**	(55)
Net financial expenses	**1,784**	1,608
Others	**7**	(39)
Net income adjusted for non-cash items	**1,493**	10,249
Change in non-cash working capital items (Note 21)	**10,182**	(7,243)
Income tax recovery	—	656
Cash flows from operating activities	**11,675**	3,662
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment (Note 7)	**(3,273)**	(4,831)
Acquisition of intangible assets (Note 8)	**(482)**	(671)
Revenues from disposals of property, plant and equipment	**35**	175
Disposal of equity investments	**217**	—
Government grants (Note 7)	**210**	—
Others	**13**	9
Cash flows used in investing activities	**(3,280)**	(5,318)
FINANCING ACTIVITIES		
Variation in credit facilities (Note 10)	**(3,545)**	(3,159)
Issuance of long-term debt (Notes 12 and 21)	**—**	10,702
Repayment of long-term debt (Note 21)	**(1,544)**	(945)
Issuance of subordinate voting shares	**—**	17
Dividends paid (Note 13)	**(653)**	(653)
Interest paid	**(1,774)**	(1,603)
Cash flows (used in) from financing activities	**(7,516)**	4,359
Impact of fluctuations in foreign exchange rate on cash flow	**287**	(39)
Net change in cash and cash equivalents during the year	**1,166**	2,664
Cash, and cash equivalents, beginning of year (Note 21)	**2,998**	334
Cash and cash equivalents, end of year (Note 21)	**4,164**	2,998

Supplemental information on cash flows is provided in Note 21.

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 industrial coating, and the installation of complex steel superstructures, heavy steel built-ups, as well as miscellaneous and architectural metalwork. The Corporation's products and services are intended for the following five principal segments of the non-residential construction industry: office towers and high-rises, commercial and recreational buildings, airport facilities, industrial complexes, and transport infrastructure.

The consolidated financial statements were approved by the Corporation's Board of Directors on April 10, 2019 and were signed on its behalf.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarized below. These policies have been consistently applied to all the periods presented, except as otherwise stated.

2.1 **Basis of Assessment**

The consolidated financial statements are established in accordance with the International Financial Reporting Standards ("IFRS"), issued by the *International Accounting Standards Board* ("IASB"), and have been prepared under the historical cost convention, except for the evaluation of certain financial instruments which are measured at their fair value, as described in the accounting policies hereinafter. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.2 **Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries are entities which the Corporation controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are de-consolidated from the date that control ceases. Inter-company transactions and balances have been eliminated.

As at January 31, 2019 and 2018, the percentage of ownership held directly or indirectly by the Corporation in its subsidiaries was 100%. These subsidiaries are all incorporated in the United States, and are summarized as follows:

Subsidiaries	Activity Sectors
ADF Group USA Inc.	Holding
ADF Industrial Coating Inc.	Sales and surface treatment
ADF International Inc.	Sales, fabrication and steel erecting services
ADF Steel Corp.	Sales and other services
ADF Structural Steel Inc.	Sales, fabrication, steel erecting and engineering services

2.3 **Foreign Currency Translation**

a) **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 consolidated financial statements are presented in Canadian dollars, which is the Corporation's reporting currency.

The financial statements of entities whose functional currency differs from that of the Corporation (foreign operations) are translated into Canadian dollars as follows:

— Assets and liabilities – at the closing rate at the date of the statement of financial position, and

— Revenues and expenses – at the average rate of the monthly period (considered a reasonable approximation to the actual rates in effect at the date of transactions).

All resulting changes are recognized in other comprehensive income (loss) as exchange differences on translation of foreign operations.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated exchange differences in other comprehensive income (loss) related to the foreign operation are recognized in net income (loss).

b) **Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Translation differences resulting from the settlement of foreign currency transactions and from the translation at the exchange rates effective at the reporting date of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in "Foreign Exchange (Gain) Loss" in the Consolidated Statement of Income (Loss).

2.4 **Revenue Recognition**

a) **Policy Applicable Starting February 1, 2018**

Revenue from contracts with customers is recognized, for each performance obligation, either over a period of time or at a specific point in time, depending on which method reflects the transfer of control of the goods or services underlying the performance obligation to the customer.

In most cases, for performance obligations satisfied over time, the Corporation recognizes revenue over time using an input method, based on costs incurred to date relative to total estimated costs at completion, to measure progress toward satisfying such performance obligations. Under this method, costs that do not contribute to the performance of the Corporation in transferring control of goods or services to the customer are excluded from the measurement of progress toward satisfying the performance obligation. For certain contracts, notably certain cost-plus contracts or unit-rate contracts, the Corporation recognizes revenue based on its right to consideration when such amount corresponds directly with the value to the customer of the entity's performance completed to date. In certain other situations, the Corporation might recognize revenue at a point in time, when the criteria to recognize revenue over time are not met. In any event, when the total anticipated costs exceed the total anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

The amount of revenue recognized by the Corporation is based on the transaction price allocated to each performance obligation. Such transaction price corresponds to the amount of consideration to which the Corporation expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The transaction price includes, among other things and when applicable, an estimate of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration is usually derived from incentives, performance bonuses and penalties, and could include claims and unpriced change orders. When a contract includes a significant financing component, the value of such component is excluded from the transaction price and is recognized separately as financial revenue or expense, as applicable.

The Corporation may enter into contractual arrangements with a client to deliver services on one project which span more than one performance obligation, such as particularly in the context of the Corporation's activities. When entering into such arrangements, the Corporation allocates the transaction price by reference to the stand-alone selling price of each performance obligation. Accordingly, when such arrangements exist on the same project, the value of each performance obligation is based on its stand-alone selling price and recognized according to the respective revenue recognition methods described above.

The Corporation accounts for a contract modification, which consists of a change in the scope or price (or both) of a contract, as a separate contract when the remaining goods or services to be delivered after the modification are distinct from those delivered prior to the modification and the price of the contract increases by an amount of consideration that reflects the Corporation's stand-alone selling price of the additional promised good or services. When the contract modification is not accounted for as a separate contract, the Corporation recognizes an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

The Corporation may apply its revenue recognition policy to a portfolio of contracts or performance obligations with similar characteristics if the effect on its financial statements of applying such policy to the portfolio is not reasonably expected to differ materially from applying its policy to the individual contracts or performance obligations within that portfolio.

Contract related balances include contract assets and liabilities presented separately in the consolidated statements of financial position.

— Contract assets are recognized when goods or services are transferred to customers before consideration is received or before the Corporation has an unconditional right to payment for performance completed to date. Contract assets are subsequently transferred to the accounts receivable when the right of payment becomes unconditional. Contract assets comprise cost incurred and recorded margins in excess of advances and progress billings on contracts.

— Contract liabilities are recognized when amounts are received from customers in advance of transfer of goods or services. Contract liabilities are subsequently recognized in revenue as or when the Corporation performs under contracts. Contract liabilities include advances and progress billings in excess of costs incurred and recorded margin on contracts.

A net position of contract asset or contract liability is determined for each contract. The cash flows in respect of advances and progress billings, including amounts received from third parties, are classified as cash flows from operating activities.

b) **Policy Applicable Before February 1, 2018**

A construction contract ("contract"), as defined by IAS 11, *Construction Contracts*, is a contract specifically negotiated for the construction of an asset. Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent of the costs incurred on a contract that are likely to be recoverable.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenues are recognized based on the stage of completion of the contract activity, which consist in recognizing revenue on a given contract proportionately with its stage of completion at any given time. The stage of completion is determined by dividing the cumulative costs incurred as at the closing date by the sum of incurred costs and anticipated costs for completing a contract. Costs incurred in the periods in connection with future activities on a contract are excluded from the contract costs in determining the stage of completion, and are disclosed as inventories, prepaid expenses or other assets, depending on their nature.

The cumulative effect of changes to anticipated costs and anticipated revenues for completing a contract is recognized in the period in which the revisions are identified. The Corporation has numerous contracts that are at various stages of completion. Estimates are required to determine the appropriate anticipated costs and revenues. Anticipated revenues on contracts may include future revenues from unapproved change orders, when such additional revenues can be reliably estimated and that they will likely be recovered. Also, anticipated revenues on contracts include future revenues from claims, if negotiations have reached an advanced stage such that it is probable that the customer will accept the claim, and the amount that will probably be accepted by the customer could be measured reliably. Revenues from performance incentives are recognized when specific indicators have been met and collection was reasonably assured.

In the event that the total anticipated costs exceeded the total anticipated revenues on a contract, such loss was recognized in its entirety in the period it became known.

2.5 Cash and Cash Equivalents

The cash and cash equivalents items include cash on hand, the bank overdraft and short-term investments, the case may be, with maturities at the time of acquisition generally not exceeding three (3) months or redeemable at any time at full value and for which the risk of change in value is not significant. Bank overdrafts are presented as current liabilities, where applicable.

2.6 Work in Progress - Policy Applicable Before February 1, 2018

Work in progress represents revenues earned under the percentage-of-completion method, but have not been billed.

2.7 Inventories

Inventories, predominantly raw material (steel), are valued at the lower of cost or net realizable value. The cost is determined using the specific cost method. The net realizable value is the estimated selling price less the estimated costs required to realize the sale. An impairment is recognized if the carrying amount exceeds the net recoverable value. The impairment amount may be reversed during a subsequent period when circumstances justifying that impairment no longer exist.

2.8 Property, Plant and Equipment and Amortization

Property, plant and equipment are recorded at cost, less accumulated amortization and accumulated impairment. The cost includes expenses that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, where appropriate, only when it is likely that future economic benefits associated with the item will flow to the Corporation and the cost of this asset can be measured reliably. Costs of maintenance and repair are recorded as expenses in the consolidated statement of income (loss) in the period in which they are incurred.

The main property, plant and equipment categories are amortized using the straight-line method, which allocates the costs of depreciable assets over the estimated useful life of a component, as follows:

- Buildings and improvement to lands over periods varying from 15 to 110 years ;
- Equipment and overhead cranes over periods varying from 2 to 30 years, and
- Office furniture, rolling stock and computer hardware over periods varying from 3 to 30 years.

The Corporation allocates the initially recognized amount of property, plant and equipment to its significant components and depreciates each component separately. The carrying amount of a replaced component is derecognized upon replacement. The residual value, amortization method and useful life of property, plant and equipment are reviewed every year and adjusted as required.

2.9 Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as financial expenses in the consolidated statement of income (loss) in the period in which they are incurred.

2.10 Intangible Assets and Amortization

Identifiable intangible assets, which are mainly made up of software with a determined useful life are recognized at cost and amortized at fixed rates based on their estimated useful life that is, based on the straight-line method on a 3 to 18-year period.

The amortization method and useful life of intangible assets are reviewed every year and adjusted as required.

2.11 Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, being the present value of the expected future cash flows of the relevant asset or CGU.

The impairment losses, as well as profits and losses resulting from the disposal of property, plant and equipment and intangible assets, are included in the Consolidated Statement of Income (Loss). The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

2.12 Deferred Revenues - Policy Applicable Before February 1, 2018

Deferred revenues represented amounts billed on contracts in excess of the revenues which could be recognized under the percentage-of-completion method on those contracts.

2.13 Lease Agreements

Lease agreements, in which substantially all the risks and rewards of ownership of an asset are transferred to the Corporation, are classified as financial lease agreements. On initial recognition, the leased asset is carried at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Following initial recognition, the asset is carried using the applicable accounting method for that type of asset.

All other leases are operating leases and, accordingly, the related leased asset is not included in the Corporation's Consolidated Statement of Financial Position. Lease payments under an operating lease are recognized in net income (loss) on a straight-line basis over the lease term.

2.14 Income Tax

Income tax (recovery) expense includes current and deferred income tax (recoveries) expenses. Income tax is recognized in the Consolidated Statement of Income (Loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or in shareholders' equity, in which case, the income tax is also recognized directly in other comprehensive income (loss) or in shareholders' equity.

Current tax is the expected income tax payable on the taxable income for the fiscal year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous fiscal years.

In general, deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the closing date and are expected to apply when the deferred income tax asset or liability is settled. A deferred income tax asset is recognized to the extent that it is likely that the asset can be recovered.

Deferred income tax assets and liabilities are recognized on temporary differences arising on investments in subsidiaries, unless the timing of the reversal of the temporary difference is controlled by the Corporation and it is likely that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities in the Consolidated Statement of Financial Position. They are offset only when the Corporation has a right and the intention to offset these tax assets and liabilities from the same tax authority.

2.15 Tax Credits and Government Grants

In the course of its business, the Corporation may receive government grants, which are accounted for in accordance with IAS 20, *Accounting for Government Grants,* and recorded against the expenses or in reduction of the related capital assets. The Corporation also benefits from tax credits derived from investments, jobs creation, labor force training and scientific research and experimental development ("SR&ED") activities. These tax credits are also recorded using the cost reduction method, under which the tax credits related to eligible expenditures, capitalized or expensed, as long as their realization is reasonably assured, are recognized in reduction of the related costs during the period in which they are incurred.

Tax credits and government grants receivable are discounted when the effect of the time value of money is material.

2.16 Share-Based Compensation and Other Share-Based Payments

The Corporation awards stock options to certain of its employees and external directors. These options vest equally over a period of up to five-year and all options have 10-years life from the grant date. Each tranche is considered as a separate award with its own vesting period and its own fair value at the grant date. The fair value of each tranche is measured using the Black-Scholes valuation model at the date of the grant. The compensation expense is recognized over the tranche's vesting period of the options, and increases contributed surplus. The number of options expected to vest is revised at least once a year, and changes in estimates are immediately charged to compensation expense, with a corresponding amount recognized as a contributed surplus adjustment.

2.17 **Deferred Share Units ("DSU")**

The DSU Plan allows every external director, who elects to participate, to defer in whole or in part his director's compensation (including annual and attendance fees), by choosing 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 an external director elects to participate in this plan, the Corporation credits the director's account for a number of units equal to the deferred compensation, divided by the market value of the Corporation's subordinate voting shares calculated using the average closing price of the five (5) trading days preceding the date of award. 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 DSU Plan also allows the Corporation's Board of Directors to grant, 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. In the event a condition is attached to a DSU, every unvested DSU at the date of repurchase will be cancelled without consideration. However, in the event of a change of control, unvested DSU will be considered vested, immediately prior to the occurrence of this change of control.

When the Corporation pays dividends on subordinate voting shares, the accounts of the directors, executive officers and key employees are credited for the amount in the form of additional units using the same calculation method previously described.

For each DSU awarded and changes in the fair value, the Corporation recognizes a compensation expense with the counterpart entry in "Accounts Payable and Other Current Liabilities" of the Consolidated Statement of Financial Position.

2.18 **Earnings Per Share**

Basic earnings per share are based using the weighted average number of voting shares issued and outstanding and is obtained by dividing net income (loss) by the weighted average number of outstanding shares during the period. Diluted earnings per share are obtained by dividing basic net income (loss) by the sum of the weighted average number of voting shares used to calculate basic earnings per share and the weighted average number of voting shares that would be issued if all of the potentially dilutive outstanding voting shares were converted using the treasury stock method for stock options.

2.19 **Financial Instruments**

Financial instruments are recognized in the consolidated statement of financial position when the Corporation becomes a party to the contractual obligations of the instrument.

— **Derecognition**

— Financial Assets

The Corporation derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and nearly all the associated risks and rewards of ownership to another entity. Gains and losses upon derecognition are generally recognized in the consolidated statements of comprehensive income (loss).

— Financial Liabilities

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income (loss).

Financial assets and liabilities are offset with the net balance recorded in the Consolidated Statement of Financial Position when there is an unconditional and legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

— **Transaction Costs**

The transaction costs are capitalized to the costs of financial assets and liabilities that are not classified as fair value through net income (loss). Therefore, the transaction costs applied to the long-term debt are classified against the long-term debt and amortized using the effective interest method.

a) **Policy Applicable from February 1, 2018**

i. **Classification**

The Corporation determines the classification of financial instruments at initial recognition and classifies its financial instruments in the following measurement categories:

— Those to be measured subsequently at fair value, either through net income (loss) ("FVTPL") or through other comprehensive income (loss) ("FVOCI"), or

— Those to be measured at amortized cost.

The classification of debt instruments held is driven by the Corporation's business model for managing the financial assets and their contractual cash flow characteristics. Assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Equity instruments that are held for trading and all derivative instruments are classified as FVTPL. For other equity instruments, on the day of acquisition, the Corporation may irrevocable elect (on an instrument-by-instrument basis) to classify them at FVOCI whereby subsequent gains and losses will never be reclassified to net income (loss). Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Corporation was eligible and elected to measure them at FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

ii. **Measurement**

— **Financial Instruments at Amortized Cost**

Financial instruments at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Currently, the Corporation classifies cash and cash equivalents, accounts receivable and holdback on contracts as financial assets measured at amortized cost and credit facilities, accounts payable and other current liabilities and long-term debt as financial liabilities measured at amortized cost.

— **Financial Instruments at Fair Value**

Financial instruments are initially recorded at fair value and transaction costs are expensed in the consolidated statements of income (loss). When the Corporation has elected to classify a financial liability at FVTPL, any changes associated with the Corporation's own credit risk will be recognize in other comprehensive income (loss).

Currently, the Corporation's derivative financial instruments are classified at FVTPL.

iii. **Impairment**

Since February 1, 2018, the Corporation prospectively assesses the expected credit losses associated with debt instruments and contract assets carried at amortized cost or at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Corporation assumes that there is no significant increase in the credit risk regarding low-credit risk instruments.

For accounts receivable and contract assets, the Corporation applies the simplified approach permitted by IFRS 9, which requires lifetime expected losses to be recognized from initial recognition of the receivables.

b) **Policy Applicable Before February 1, 2018**

On initial recognition, the Corporation classifies its financial instruments in the following categories:

i. **Classification and Evaluation**

— **Financial Assets and Liabilities at Fair Value Through Net Income (Loss)**

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Assets and liabilities in this category include derivatives that do not qualify as hedges.

The Corporation can use interest rate swaps as derivatives to manage the risks related to its floating-rate loans, as well as foreign exchange contracts and/or foreign currency options to mitigate its exposure to foreign exchange rate fluctuations on its foreign currency transactions, and assets and liabilities. All derivatives have been classified in the assets or liabilities as held-for-trading. They are included in "Derivative financial instruments" in the Consolidated Statement of Financial Position, and are classified as current, except for the portion expected to be realized or paid beyond 12 months of the Consolidated Statement of Financial Position date, which is classified as non-current. Financial instruments in this category are recognized initially and subsequently at fair value.

Transaction costs, as well as gains and losses resulting from a re-evaluation in the fair value of the interest rate swaps are included in the financial charges, whereas these same items, for the foreign exchange contracts and foreign currency options, are recorded as part of the "Foreign Exchange (Gain) Loss" in the Consolidated Statement of Income (Loss) for the period in which they arise.

— **Available-for-Sale Financial Assets**

Available-for-sale financial assets are non-derivatives instruments that are either designated in this category or not classified in any of the other categories. The Corporation's available-for-sale financial assets comprise investments in publicly traded companies.

Available-for-sale financial assets are recognized initially at fair value plus transaction costs and are subsequently measured at fair value. Gains or losses from revaluation are recognized in other comprehensive income (loss). When an available-for-sale financial asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to net income (loss). Available-for-sale investments asset are classified as non-current, unless an investment matures within 12 months or if Management expects to dispose of it within 12 months.

Dividends on available-for-sale equity instruments are recognized in the financial revenues in the Consolidated Statement of Income (loss) as dividend income when the Corporation's right to receive payment is established.

— **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables include cash and cash equivalents, accounts receivable, holdbacks on contracts and other current assets, and are included in current assets due to their short period to maturity, except for the portion expected to be realized or paid beyond 12 months of the consolidated statement of financial position date, which is classified as non-current. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

— **Financial Liabilities at Amortized Cost**

Financial liabilities at amortized cost include the bank overdraft, credit facilities, accounts payable and other current liabilities, as well as the long-term debt. The bank overdraft, credit facilities, accounts payable and other current liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, the bank overdraft, credit facilities, accounts payable and other current liabilities are measured at amortized cost using the effective interest method.

The long-term debt is initially recognized at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest method. The financial liabilities at amortized cost are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

— **Financial Assets Held-to-Maturity**

They represent non-derivatives financial assets recognized at amortized cost using the effective interest method. The Corporation does not hold any financial assets that are classified as held-to-maturity.

ii. **Impairment**

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired (other than a financial asset classified in financial assets at fair value through net income (loss)). If such evidence exists, the Corporation recognizes impairment as follows:

— **Financial Assets Carried at Amortized Cost**

The impairment loss is the difference between the amortized cost of the loan or receivable and the actual value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The financial asset's carrying amount is reduced by this amount.

— **Available-for-Sale Financial Assets**

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of income (loss). This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net income (loss).

Impairments on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases, and the decrease can be related objectively to an event occurring after impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

2.20 Hedging Relationships

In accordance with its foreign currency hedge policy, the Corporation can use financial derivative instruments such as foreign exchange contracts and foreign currency options to eliminate or mitigate the risk of exchange rate fluctuations on its foreign currency transactions, assets and liabilities. Management is responsible for establishing acceptable risk levels and does not use derivatives for speculation purposes. The Corporation only uses these derivatives to hedge possible future transactions. Since the Corporation did not elect to apply hedge accounting, the foreign exchange forward contracts and foreign currency options are recognized at their fair value at the end of each period. Consequently, the gains or losses from the revaluation are presented in net income (loss) under "Foreign Exchange (Gain) Loss" as defined under Note 2.19 hereinabove.

The Corporation is also exposed to a foreign exchange risk stemming from net investments in its foreign subsidiaries having a reporting currency that differs from the Corporation's functional currency. To protect itself against this risk, the Corporation can use hedge accounting by assigning certain of its U.S.-denominated debts as a hedge of net investments in foreign operations.

Hedges of net investments are as follows:

- All gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income (loss). The gains or losses relating to the ineffective portion are directly recognized in the consolidated statement of income (loss), and
- The gains or losses accumulated in shareholders' equity are included in the consolidated statement of income (loss) when the foreign operation is partially divested or sold.

2.21 **Pension Plans**

The Corporation offers its eligible employees defined contribution pension plans for which it can contribute an amount equal to the employee's contribution or an amount predetermined under the collective bargaining agreements. The contributions to the pension plans are primarily disbursed on a monthly basis. Contributions are charged to net income (loss) under "Cost of goods sold" and "Selling and administrative expenses", when they are payable.

2.22 **Segmented Information**

The Corporation operates in the non-residential construction industry, primarily in the United States and Canada. The Corporation operational areas are consistently presented with the internal reports provided to the Chief Executive Officer (the chief operating decision–maker).

2.23 **Dividends**

The dividends on shares approved by the Board of Directors are recognized in the financial statements in the period in which they are declared.

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 and Measurement**

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 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 certain conditions and is not designated at FVTPL.

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 is able and 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
Holdbacks on contracts	Loans and receivables (amortized cost)	Amortized cost
Equity investments	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
Derivative financial instruments	FVTPL	FVTPL
Long-term debt	Other financial liabilities (amortized cost)	Amortized cost

ii. **Impairment**

Since February 1, 2018, the Corporation prospectively assesses the expected credit losses on debt instruments carried at amortized cost. The impairment methodology used depends on whether or not there is a significant increase in the credit risk. 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.

iii. **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 equity investments owned by the Corporation as at February 1, 2018, can no longer be recognized as FVTPL. 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"**

On February 1, 2018, the Corporation adopted IFRS 15 which 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; and 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. 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 IFRS 15 guidance are met.

The Corporation has adopted IFRS 15 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 adjustment was recorded on February 1, 2018.

The Corporation’s contract assets and contract liabilities essentially include the balances that were presented as “Work in progress”, and “Deferred revenues” in the Corporation’s consolidated statement of financial position up to January 31, 2018.

NOTE 4 RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

4.1 **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.

This operating lease accounting model will result in the recognition of a right-to-use asset, as well as a lease liability reflecting the current value of the future lease payments. Depreciation expense on the right-to-use asset and interest expense on the lease liability will replace the operating lease expenses that were recognized under IAS 17.

IFRS 16 allows for two possible transition methods for its application: a) retrospective with restatement of prior reporting period or b) retrospectively with the cumulative effect from initial adoption of the standard recognized on the date of initial application (modified retrospective method). The Corporation intends to adopt IFRS 16 using the modified retrospective method.

The Corporation expects that the adoption and application of IFRS 16 on February 1, 2019, will result in an increase in assets and liabilities through the recognition of right-to-use assets and lease liabilities. At this stage of the IFRS 16 implementation, the Corporation is still quantifying the impact on its assets and liabilities.

While the quantification of the impact remains to be finalized, the implementation of the changes to certain processes and internal controls, as well as the implementation of a new lease and accounting management system, are substantially completed.

4.2 **IFRIC 23 "Uncertainty Over Income Tax Treatments"**

IFRIC 23 is applicable retrospectively for annual reporting periods beginning on or after January 1, 2019 (being February 1, 2019 for the Corporation). IFRIC 23 clarifies how to recognize and measure income taxes where there is uncertainty over income tax treatments, based on whether it is probable that the relevant tax authority will accept the Corporation's tax treatments. The Corporation does not expect its consolidated financial statements to be materially impacted by the adoption of IFRIC 23.

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 ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires Management to make judgements in the application of accounting policies used and to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the periods. Because financial reporting involves accounting judgements and entails the use of estimates, actual results could differ from those estimates. Underlying estimates and assumptions are periodically reviewed and the impact of any changes is immediately recognized.

The significant accounting judgements and estimates used by the Corporation to prepare the financial statements are:

5.1 **Revenues Recognition**

The identification of revenue-generating contracts with customers, the identification of performance obligations, the determination of the transaction price and its allocation between identified performance obligations, the use of the appropriate revenue recognition method (over time or at a specific point in time) for each performance obligation and the measure of progress for performance obligation satisfied over time are the main aspects of the revenue recognition process, all of which require judgment and the use of assumptions.

The transaction price corresponds to the amount of consideration to which the Corporation expects to be entitled in exchange for transferring promised goods or services to a customer. Such amount may require the Corporation to estimate an amount of a variable consideration, notably from estimated volume of work, claims and unpriced change orders, incentives or penalties, among others. Furthermore, the Corporation needs to constraint the transaction price by including only the amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The amount of variable consideration to be included in the transaction price of a given contract is determined by using various estimates and assumptions, which could be based on historical experience with the same customer or other similar contracts, third-party assessments, legal interpretation of relevant contractual clauses and probabilistic methodologies, among others. Due to the uncertain nature of the estimations, the amount of a variable consideration may vary significantly over time. Such estimated amount of a variable consideration then needs to be updated at the end of each reporting period.

The determination of anticipated costs for completing a contract is based on estimates that can be affected by a variety of factors such as potential variances in scheduling and cost of materials along with the availability and cost of qualified labour and subcontractors, productivity, and possible claims from subcontractors. A change in any of those factors could affect revenues recognition.

5.2 **Assessment and Amortization of Long-Lived Assets**

Management reviews the useful lives of its amortizable assets at each reporting date. On January 31, 2019, Management estimated that the useful lives represented the expected useful life of the Corporation's assets. The carrying amounts are analyzed at the end of each fiscal year. Actual results could however differ because of technical obsolesce, particularly with regard to hardware and software.

5.3 **Income Tax**

The Corporation calculates the income tax expense for each jurisdiction where it operates. However, the actual income tax amounts become definitive only upon the filing of income tax returns and acceptance thereof by the competent authorities, which occur after the financial statements are published.

Judgements must periodically be made to determine if deferred income tax assets must be recognized in the Consolidated Statement of Financial Position. Deferred income tax assets, including unused tax losses, require Management to assess whether the Corporation will generate taxable income in subsequent periods, in order to use deferred income tax assets. Once the assessment is done, if the Corporation believes that it is likely that a portion of its deferred income tax assets will not be realized, the deferred income tax asset is derecognized. The estimate of future taxable income is based on cash flow from operations forecasts and applicable tax laws in effect in each jurisdiction. Should future cash flows and taxable profit differ materially from these estimates, it could have an impact on the Corporation's ability to realize the net deferred income tax assets at the reporting date of the financial position.

5.4 **Impairment of Non-Financial Assets**

The Corporation's management reviews the carrying value of the Corporation's non-financial assets when there are events or circumstances that may indicate impairment.

An impairment loss is recognized for the amount by which an asset's or CGUs carrying amount exceeds its recoverable amount, which is the higher of fair value less cost of disposal and value in use. As at January 31, 2019, the carrying value of the Corporation's net assets is more than its market capitalisation. This difference represents an impairment indicator and consequently management performed an impairment test on that date.

In making an assessment of the potential impairment of the Corporation's non-financial assets, management has used the fair value less costs of disposal model to estimate the fair value based on an earnings before interest depreciation and amortization (EBITDA) multiple approach. The significant assumptions, which affect the financial analysis include revenues, operating costs and margins, foreign exchange rates and comparable companies EBITDA multiple. These estimates are subject to certain risks and uncertainties that may affect the determination of the recoverability of the Corporation's non-financial assets. Although management has made its best estimates of potential impairment, the interpretation of these factors is subjective and will not necessarily result in precise findings. Should an underlying assumption change, the resulting estimates could change by a material amount.

The recoverable amount of the long-lived assets exceeded its carrying value. As a result, no impairment was recorded as at January 31, 2019.

NOTE 6 INVENTORIES

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Inventories	**9,229**	5,838
Inventories allowance	**(880)**	(688)
	8,349	5,150

During the fiscal year ended January 31, 2019, the amount of inventories recognized as cost of goods sold totalled $27,106,000 and $42,507,000 during the fiscal year ended January 31, 2018.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

	Land	**Buildings and Improvement to Lands**	**Equipment and Overhead Cranes**	**Office Furniture, Rolling Stock, and Computer Hardware**	**Total**
(In thousands of CA$)	$	$	$	$	$
As at February 1, 2017					
Cost	7,350	80,508	40,215	7,951	136,024
Accumulated amortization	—	(19,433)	(20,518)	(6,013)	(45,964)
Net book value	7,350	61,075	19,697	1,938	90,060
Acquisitions	—	2,930	1,299	835	5,064
Disposal	—	—	—	(136)	(136)
Exchange difference	(172)	(1,713)	(627)	(69)	(2,581)
Amortization expenses	—	(1,628)	(2,056)	(345)	(4,029)
Balance at January 31, 2018	7,178	60,664	18,313	2,223	88,378
As at January 31, 2018					
Cost	7,178	81,572	40,643	8,106	137,499
Accumulated amortization	—	(20,908)	(22,330)	(5,883)	(49,121)
Net book value	7,178	60,664	18,313	2,223	88,378
Acquisitions (1)	**—**	**1,398**	**633**	**206**	**2,237**
Disposal	**—**	**—**	**(15)**	**(30)**	**(45)**
Exchange difference	**203**	**2,032**	**699**	**77**	**3,011**
Amortization expenses	**—**	**(1,820)**	**(2,033)**	**(353)**	**(4,206)**
Balance at January 31, 2019	**7,381**	**62,274**	**17,597**	**2,123**	**89,375**
As at January 31, 2019					
Cost	**7,381**	**85,196**	**42,139**	**8,314**	**143,030**
Accumulated amortization	**—**	**(22,922)**	**(24,542)**	**(6,191)**	**(53,655)**
Net book value	**7,381**	**62,274**	**17,597**	**2,123**	**89,375**

(1) Include public grants totaling $1,036,000 for the implementation of energy efficiency measures related to the ventilation and lighting systems at the Corporation's fabrication complex located in Terrebonne, Quebec, of which $826,000 is included in accounts receivable as at January 31, 2019 (Note 21.4).

The net value of property plant and equipment under financial leases, included in the previous table, are detailed as follow:

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Land	**1,638**	1,532
Building and improvement to land	**20,312**	19,555
Office furniture, rolling stock, and computer hardware	**199**	236
	22,149	21,323

For the fiscal year ended January 31, 2019, the amortization of property, plant and equipment totalled $4,206,000 ($4,029,000 for the fiscal year ended January 31, 2018) of which $3,401,000 is included in the cost of goods sold, and $805,000 is included in the selling and administrative expenses (respectively $3,267,000 and $762,000 for the fiscal year ended January 31, 2018).

The book value of the property, plant and equipment under construction and not amortized stood at $507,000 as at January 31, 2019 ($1,839,000 as at January 31, 2018). These amounts were mainly related to additions made to the Corporation's facilities in Terrebonne, Quebec and in Great Falls Montana.

NOTE 8 INTANGIBLE ASSETS

	Total
(In thousands of CA$)	$
As at February 1, 2017	
Cost	9,489
Accumulated amortization	(6,569)
Net book value	2,920
Acquisitions	671
Amortization expenses	(394)
Balance at January 31, 2018	3,197
As at January 31, 2018	
Cost	10,159
Accumulated amortization	(6,962)
Net book value	3,197
Acquisitions	**482**
Amortization expenses	**(367)**
Balance at January 31, 2019	**3,312**
As at January 31, 2019	
Cost	**10,643**
Accumulated amortization	**(7,331)**
Net book value	**3,312**

As at January 31, 2019 and 2018, all intangible assets were subject to amortization and were mostly composed of in-house software. The remaining weighted average amortization period of intangible assets was nine (9) years as at January 31, 2019.

For the fiscal year ended January 31, 2019, amortization of intangible assets totalled $367,000 ($394,000 for the fiscal year ended January 31, 2018) of which $103,000 is included in the cost of goods sold and $264,000 is included in the selling and administrative expenses (respectively $136,000 and $258,000 for the fiscal year ended January 31, 2018).

NOTE 9 OTHER NON-CURRENT ASSETS

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Investment tax credits	**1,332**	1,314
Equity investments	**—**	215
Other	**85**	98
	1,417	1,627

NOTE 10 CREDIT FACILITIES

10.1 **Canadian Operating Credit Facility**

On June 11, 2018, the Corporation obtained a temporary increase of its Canadian operating credit facility. On that date, the available credit facility increased from $20,000,000 to $22,500,000, until August 31, 2018, at which date this credit facility was brought back to $20,000,000. This credit facility is not based on margination of the lending value when the order backlog reaches more than $70,000,000. However, if the order backlog is below $70,000,000, a monthly calculation based on accounts receivable and inventories is applied, which may limit the amount available under of the credit facility. This limit increased to $100,000,000 starting February 1, 2018. As at January 31, 2019 and 2018, the Corporation's borrowing availability on it credit facility was $20,000,000 on both dates, whereas, the credit facility used as at January 31, 2019, was $6,605,000 ($10,150,000 as at January 31, 2018). In addition, this credit agreement also provides the Corporation access to an amount of $1,000,000 that can be used for the issuance of letters of credit.

This credit facility bears interest at the bank's prime Canadian rate plus 1%. This credit facility is secured by inventories and accounts receivable, excluding holdbacks receivable.

This credit agreement contains covenants that, among other things, require the Corporation to maintain certain financial ratios, which were all respected as at January 31, 2019.

10.2 **U.S. Revolving Credit**

In November 2018, the Corporation renewed the revolving credit agreement with a U.S. bank. This renewal raises the limit available to US$1,099,500 compared to US$669,508 as at January 31, 2018. This credit is renewable annually and may also be used for the issuance of letters of credit. As at January 31, 2019 and 2018, this revolving credit was unused.

This revolving credit facility bears LIBOR (US$) one-month interest rate, plus 2.0%, and is subject to the same guarantees as the long-term bank loan (see Note 12).

NOTE 11 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Accounts payable	**8,477**	19,507
Salaries and fringe benefits payable	**3,375**	3,787
Accrued liabilities	**2,691**	2,551
Share-based compensation	**740**	1,270
Indirect taxes	**1,574**	21
Advances on contracts [(1)] (Note 15)	**—**	2,172
	16,857	29,308

(1) Presentation according to IAS 11, Construction contract, applicable before February 1, 2018.

NOTE 12 LONG-TERM DEBT

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Bank loan, secured by an hypothec on the universality of all assets, movable and immovable, tangible and intangible, present and future of ADF Group Inc., the parent company. [(1) (a)]	**19,424**	19,906
Bank loan secured by a first rank movable security interest on certain property, plant, and equipment of a subsidiary of the Corporation and by a US$3,419,000 letter of credit (Note 22.1). This U.S.-denominated loan amounted to US$1,791,700 as at January 31, 2019 (US$2,114,900 as at January 31, 2018). [(2) (b)]	**2,355**	2,600
Secured term loan by a second rank movable security interest on certain property, plant, and equipment of a subsidiary of the Corporation. This loan denominated in U.S. dollars amounted to US$495,900 as at January 31, 2019 (US$589,600 as at January 31, 2018). [(2) (c)]	**651**	725
Obligations under a financial lease agreement. This U.S.-denominated obligation amounted to US$3,166,400 as at January 31, 2019 (US$3,402,300 as at January 31, 2018). [(3) (d)]	**4,162**	4,182
Bank loan secured by a US$3,419,000 letter of credit (Note 22.1). This U.S.-denominated loan amounted to US$366,700 as at January 31, 2019 (US$465,100 as at January 31, 2018). [(e)]	**482**	572
Others obligations under a financial leases [(3)]	**137**	216
	27,211	28,201
Current portion	**2,272**	2,066
	24,939	26,135

(1) The property plant and equipment and intangible assets of the parent company, ADF Group Inc., with a book value of $24,000,000, are given as security for this bank loan.

(2) Certain property, plant and equipment having a carrying value of $4,648,000 as at January 31, 2019 and $4,654,000 as at January 31, 2018, are pledged as collateral for the long-term debt.

(3) The net book value of assets held by the Corporation under the financial leases amounted to $22,149,000 as at January 31, 2019 ($21,322,000 as at January 31, 2018).

(a) During the fiscal year ended January 31, 2016, the Corporation obtained from the Development Bank of Canada ("DBC"), a $20,000,000 long-term loan with progressive disbursements, of which $10,000,000 was disbursed during the fiscal year ended January 31, 2018. This loan bears interest at the annual floating interest rate of the DBC, and is payable monthly. The principal was repaid with a first installment $96,000 on March 1, 2018, followed by two installments of $98,050 on April 1, 2018 and May 1, 2018. In April 2018, as set forth in DBC's credit agreement, 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. As result, the capital repayments of $98,050 per month, resumed on December 1, 2018, and will end in August 1, 2035. The balance of the debt was $19,512,000 as at January 31, 2019 ($20,000,000 as at January 31, 2018).

The $107,000 financing costs are recorded against the debt and amortized over the debt's expected life using the effective interest rate method. As at January 31, 2019, the balance of the financing cost was $88,000 ($94,000 as at January 31, 2018).

(b) Debt contracted by a subsidiary of the Corporation to the initial amount of US$3,419,000 with a U.S. bank. This debt bears a below-market rate of interest of 2.721%, and was measured at fair value based on the prevailing market interest rate. Therefore, monthly interest is calculated using the annual implicit rate of 3.42%. The capital of this debt is repayable in monthly installments estimated at US$28,000 which began in February 2014 and will end in January 2024.

(c) A subsidiary of the Corporation contracted a US$990,000 debt with the U.S. government agency. This debt bears a below-market interest rate of 2.785%, and was measured at fair value based on the prevailing market interest rate. Consequently, monthly interest is calculated using the annual implicit rate of 3.5%. The capital of this debt is repayable in monthly installments estimated at US$8,000 which began in November 2013 and will end in October 2023.

(d) On April 18, 2014, a subsidiary of the Corporation contracted a debt from a U.S. government agency, which is structured according to a sale and leaseback contract, resulting in a financial lease agreement in the amount of US$4,999,800. This lease obligation bears a below-market interest rate of 1.98%, and was measured at fair value based on the prevailing market interest rate. Therefore, monthly interest is calculated using the annual implicit rate of 4.48%. The US$794,000 difference between the fair value of US$4,206,000 and the cash received, in the amount of US$4,999,800, was recorded as a grant against the related property, plant and equipment.

The capital of this lease obligation is repayable in equal monthly installments estimated at US$28,000 began in May 2014 and ending in May 2029, with a bargain purchase option for of $10. This lease is also subject to certain covenants, including covenants related to job creation.

This lease will be eligible for a maximum tax credit of up to US$5,783,000, corresponding to payments of principal and interest, the use of which is dependent on future taxable profits in Montana, U.S.A. Based on the level of historical taxable income and uncertainty on projected taxable income in that state, At the date hereof Management believes there is no reasonable assurance that this asset will be realized, and consequently no asset related to these investment tax credits was recorded as at January 31, 2019 and 2018.

(e) In May 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 an annual 3.84% fixed interest rate. The principal will be repaid by monthly installments of approximately US$8,000 began in July 2017 and ending in May 2022.

During the fiscal year ended January 31, 2019, the Corporation respected all covenants of its long-term loans and bonding agreements (see Note 23).

The long-term debt matures as follows:

	Obligations Under a Financial Lease			**Other Debts**	**Total**
	Minimum Payments	Interest	Principal	Principal	Required Principal Payments
(In thousands of CA$)	$	$	$	$	$
2020	586	187	399	1,873	2,272
2021	553	168	385	1,896	2,281
2022	520	151	369	1,922	2,291
2023	504	133	371	1,858	2,229
2024	504	116	388	1,780	2,168
2025 thereafter	2,688	301	2,387	13,583	15,970
	5,355	1,056	4,299	22,912	27,211

During the fiscal years ended January 31, 2019 and 2018, net financial expenses were as follows:

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Interest on long-term debt	**1,252**	990
Interest on credit facilities	**508**	579
Others	**24**	39
	1,784	1,608

NOTE 13 CAPITAL STOCK

13.1 Capital Stock

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 [(1)]	7,664	32	—	—	7,664	32
As at January 31, 2018 and 2019	**18,292,099**	**52,119**	**14,343,107**	**16,001**	**32,635,206**	**68,120**

(1) Issued during the fiscal year ended January 31, 2018.

13.2 Dividend

During the fiscal year ended January 31, 2019, the Corporation recognized, as distribution to its shareholders of record as at April 30, 2018 and September 28, 2018, semi-annual dividends totaling $326,000 and $327,000 respectively, each representing $0.01 per share, for a total of $653,000 or $0.02 per share, of which $367,000 for subordinate voting shares and $286,000 for multiple voting shares. These sums were paid on May 16, 2018 and October 16, 2018, respectively.

During the fiscal year ended January 31, 2018, the Corporation recognized, as distribution to its shareholders of record as at April 28, 2017 and September 29, 2017, semi-annual dividends totaling $326,000, and $327,000 respectively, each representing $0.01 per share, for a total of $653,000 or $0.02 per share, 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.

13.3 Stock Option Plan

At January 31, 2019 and 2018, a total of 3,263,521 subordinate voting shares were reserved for the Stock Option Plan, of which 1,198,921 at January 31, 2019 and 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. For the majority of these options, the right to exercise is acquired one year after the grant date, at the rate of 20% per year. All options have a 10-year life from the grant date.

As at January 31,	**2019**		2018	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
(In number of options and in dollars per option)	**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

At January 31, 2019, the weighted average exercise price and the weighted average remaining contractual life of the options were as follows:

(In dollars per option and in number of options)	**Options Outstanding**			**Options Exercisable**	
Weighted Average Exercise Price	**Outstanding**	**Weighted Average Remaining Life**	**Weighted Average Exercise Price**	**Exercisable**	**Weighted Average Exercise Price**
$	Number	Year	$	Number	$
5.65	60,000	0.25	5.65	60,000	5.65
2.66	100,000	5.45	2.66	80,000	2.66
2.52	60,000	0.86	2.52	60,000	2.52
2.45	96,000	0.45	2.45	96,000	2.45
1.88	50,000	1.62	1.88	50,000	1.88
1.21	5,000	3.37	1.21	5,000	1.21
	371,000	**2.03**	**2.94**	**351,000**	**2.96**

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

a) **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 fiscal years ended January 31, 2019 and 2018, DSU compensation to External Directors recorded in the Consolidated Statement of Income (Loss) amounted to recoveries of $363,000 and $82,000 respectively, including the impact of the change in the market price of the Corporation's share, which amounted to recoveries of $382,000 and $297,000 respectively, during the fiscal years ended January 31, 2019 and 2018.

The fluctuation to External Directors DSU was as follows:

Fiscal Years Ended January 31,	**2019**	2018
(In number of deferred share units)	**Number**	Number
Outstanding, at the beginning of year	**391,895**	312,032
Awarded	**11,932**	79,863
Outstanding and vested, at the end of year	**403,827**	391,895

The carrying amount and the intrinsic value of the liabilities related to the external directors' vested DSU amounted to $460,000 as at January 31, 2019 ($823,000 as at January 31, 2018), and is recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statements of Financial Position.

b) **Executive Officers and Key Employees**

As set forth in the DSU Plan described in Note 2.17, 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 recovery of $179,000 for the fiscal year ended January 31, 2019 (expense of $65,000 for the fiscal year ended January 31, 2018), and include the impact of the change in the market price of the Corporation's share, which amounted to a recovery of $214,000 during the fiscal year ended January 31, 2019 (an immaterial amount of the fiscal year ended January 31, 2018).

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

Fiscal Years Ended January 31,	**2019**	2018
(In number of deferred share units)	**Number**	Number
Outstanding, at the beginning of year	**303,733**	273,162
Awarded	**1,700**	30,571
Forfeited	**(32,989)**	—
Outstanding, at the end of year	**272,444**	303,733
Vested, at the end of year	**143,734**	74,243

As at January 31, 2019, the carrying amount of the liabilities related the executive officers and key employees' DSU, totalling to $280,000 ($447,000 as at January 31, 2018) is recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statements of Financial Position, including $164,000 which corresponds to the intrinsic value of the vested DSU as at January 31, 2019 ($156,000 as at January 31, 2018).

NOTE 14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Exchange differences on translation of foreign operations, less hedging operations, net of related income taxes (1)		
Opening balance	**4,517**	6,552
Changes during the period	**2,131**	(2,035)
Closing balance	**6,648**	4,517
Change in value of equity investments (2)		
Opening balance	**189**	189
New IFRS 9 adoption	**(189)**	—
Closing balance	**—**	189
	6,648	4,706

(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 at February 1, 2018, following the adoption of the new IFRS 9 (Note 3.1).

NOTE 15 INFORMATION RELATED TO CONTRACTS WITH CUSTOMERS

All revenues recognized during the fiscal years ended January 31, 2019 and 2018, derived from contracts with customers and have been included in revenues of the reporting period. The amounts recorded in the Consolidated Statement of Financial Position relate to current contracts at the end of the reporting period.

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

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Total amount of costs incurred and margins recorded on all ongoing contracts	**401,610**	296,663
Less advances and progress billings [1]	**(394,578)**	(269,784)
	7,032	26,879

Recognized as follows:

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Amount owed by clients for work performed on contracts, recorded in contract assets/work in progress	**17,952**	30,314
Amount owed to clients for work performed on contracts, recorded in contract liabilities/deferred revenues [1]	**(10,920)**	(3,435)
	7,032	26,879

(1) In accordance with the new IFRS 15 applicable from February 1, 2018, advances received from customers for contracts related to work that has not yet been performed as at January 31, 2019, in the amount of $1,059,000, have been recorded in contract liabilities. Advances received from customers for contracts related to work that had not yet been completed as at January 31, 2018, in the amount of $2,172,000, have been recorded in accounts payable and other current liabilities (see Note 11) as per the policy in effect prior to February 1, 2018.

Holdbacks on contracts, amounting to $6,227,000 as at January 31, 2019, will be received at the time of the client's approval of the work performed during the next 12 months ($4,933,000 as at January 31, 2018) and are included in current assets in the Consolidated Statement of Financial Position.

In addition to the foreign exchange fluctuations, the variation in contract assets and liabilities is mainly attributable to additional revenues recognized within the Corporation's normal course of business, and the billing of these activities to customers. The Corporation also receive advances and deposits from its customers before revenues were recognized. These normal transactions could have also been impacted by foreign exchange fluctuations.

The adoption of IFRS 15 on February 1, 2018, resulted in additional disclosures of financial information regarding revenue breakdown from contracts with customers. As such, the Corporation provided, in Note 28, additional information regarding revenues earned per geographic area during the fiscal year ended January 31, 2019.

Under the new IFRS 15 disclosure requirements, the Corporation determined that less than 5% of its total revenues from performance obligations, recorded during the fiscal year ended January 31, 2019, were earned during previous periods. These revenues are primarily attributable to price adjustments approved by customers during the fiscal year ended January 31, 2019, for services earned in prior fiscal years as per the Corporation's normal course of business. In addition, revenues recorded during the fiscal year ended January 31, 2019, included $3,435,000 as part of the opening balance of contract liabilities.

The amount of the transaction price related to performance obligations that were not fulfilled (or partially fulfilled) as at January 31, 2019, on all contracts with customers, is expected to be recognized in revenues as follows: 2020: $120,755,000 and thereafter: $98,728,000. It should be noted that these amounts exclude any estimated amounts of variable considerations that are excluded from the transaction price.

NOTE 16 CLASSIFICATION OF EXPENSES BY NATURE

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Raw material, consumables and subcontracting	**67,059**	83,549
Salaries and employees' benefit expenses (Note 17) (1)	**41,521**	57,779
Transport	**4,505**	9,014
Drafting and engineering	**5,324**	5,533
Amortization expenses	**4,573**	4,423
Travelling expenses and representation	**2,863**	3,858
Professional fees	**3,245**	2,520
Maintenance and repairs	**1,456**	2,000
Rental equipment	**1,079**	1,775
Electricity and heating	**1,552**	1,647
Management fees with related companies (Note 18)	**1,357**	1,334
Insurance	**1,302**	1,080
Taxes and permits	**924**	985
Office expenses	**672**	660
Other	**269**	304
	137,701	176,461

Distributed as follows:

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Cost of goods sold	**125,520**	164,352
Selling and administrative expenses	**12,181**	12,109
	137,701	176,461

(1) For the fiscal year ended January 31, 2018, salaries and employees benefit expenses were decreased by a government grant of $297,000 for the training of skilled labor (no amount for the fiscal year ended January 31, 2019).

Cost of goods sold is as follows:

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Cost of goods sold excluding amortization	**122,016**	160,949
Amortization of property, plant and equipment and intangible assets	**3,504**	3,403
	125,520	164,352

NOTE 17 SALARIES AND EXPENSES RELATED TO EMPLOYEES BENEFITS

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Salaries and other short-term benefits	**31,935**	44,056
Social security costs	**8,250**	11,692
Pension plan contributions	**1,502**	1,748
Share-based compensation (Note 13)	**(533)**	—
Others	**367**	283
	41,521	57,779

NOTE 18 EXECUTIVE OFFICERS' COMPENSATION

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

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Salaries and other short-term benefits	**1,843**	1,775
Social security costs	**174**	199
Management fees [(1)]	**1,357**	1,334
Pension plan contributions	**150**	138
Share-based compensation	**(525)**	(23)
Attendance fees	**367**	278
	3,366	3,701

(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 19 INCOME TAX

19.1 **Income Tax (Recovery) Expense**

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Current		
Income tax expense during the fiscal year	**131**	—
Income tax expense related to prior fiscal years	**—**	1,440
	131	1,440
Deferred		
Deferred tax expense related to changes in income tax rates	**—**	1,700
Recognition of deferred income tax assets not previously recognized	**(1,475)**	—
Non-recognition of deferred income tax assets from the United States	**—**	7,009
Adjustments for prior fiscal years	**(95)**	(939)
Recognition and reversal of temporary differences	**(580)**	175
	(2,150)	7,945
Income tax (recovery) expense	**(2,019)**	9,385

The next table reconciles the Corporation's income tax (recovery) expense and the amount which would be obtained by multiplying income (loss) before income tax (recovery) expense and the combined Canadian federal and provincial tax rates:

Fiscal Years Ended January 31,	**2019**		2018	
(In thousands of CA$ and in percentage)	**$**	**%**	$	%
Allowance using basic income tax rates [(1)]	**(639)**	**(26.7)**	582	26.8
Increase (decrease) resulting from:				
Difference in rates for foreign subsidiaries	**83**	**3.4**	(522)	(24.0)
Recognition of deferred income tax assets not previously recognized	**(1,475)**	**(61.6)**	—	—
Non-recognition of deferred income tax assets from the United States [(2)]	**—**	**—**	7,009	322.7
Impact of changes in income tax rates [(3)]	**—**	**—**	1,700	78.2
Adjustments for prior fiscal years[(2)]	**(95)**	**(4)**	501	23.1
Non-deductible expenditures and non-deductible portion of capital losses	**52**	**2.2**	55	2.5
Temporary differences for which no deferred income tax asset has been recorded	**55**	**2.3**	60	2.8
Income tax (recovery) expense	**(2,019)**	**(84.4)**	9,385	432.1

(1) The Corporation's applicable tax rate in Canada combines both the federal and the provincial applicable tax rates.

(2) During the quarter ended January 31, 2018, the Corporation's management decided to write-off certain deferred income tax assets, which are mainly the result of tax losses from the Corporation'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 was to add a one-time, non-monetary expense of $7,500,000 to the results for the fiscal year ended January 31, 2018.

(3) 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) into law. As a result, effective January 1, 2018, the enacted U.S. federal corporate income tax rate was reduced from 35% to 21%, and resulted in a reassessment of existing deferred income tax assets and liabilities of the Corporation's U.S. subsidiaries to reflect the new lower income tax rate as at January 31, 2018. For the Corporation's U.S. subsidiaries, the 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 $1,700,000.

19.2 Deferred Income Tax Assets and Liabilities

The tables below provide the movement in deferred income tax assets and liabilities during the fiscal year, without taking into account the offsetting of the balances within the same tax jurisdiction:

a) **Deferred Income Tax Assets**

(In thousands of CA$)	Tax Loss Carryovers	SR&ED Expenses	Financial Expenses and Other Deferred Charges	Foreign Exchange Forward Contracts	Others	Total
	$	$	$	$	$	$
As at February 1, 2017	3,656	1,493	2,200	—	99	7,448
Recognized in the Consolidated Statement of Income (Loss)	(2,617)	(603)	(1,488)	—	36	(4,672)
Exchange differences	(381)	—	(92)	—	—	(473)
As at January 31, 2018	658	890	620	—	135	2,303
Recognized in the Consolidated Statement of Income (Loss)	**(658)**	**27**	**(311)**	**49**	**66**	**(827)**
Exchange differences	**—**	**—**	**—**	**—**	**(18)**	**(18)**
As at January 31, 2019	**—**	**917**	**309**	**49**	**183**	**1,458**

b) **Deferred Income Tax Liabilities**

(In thousands of CA$)	Property, Plant and Equipment and Intangible Assets	Holdbacks on Contracts Receivable	Investment Tax Credits	Contract Assets	Foreign Exchange Forward Contracts	Total
	$	$	$	$	$	$
As at February 1, 2017	2,249	176	825	1,649	184	5,083
Recognized in the Consolidated Statement of Income (Loss)	1,851	160	(476)	1,842	(104)	3,273
As at January 31, 2018	4,100	336	349	3,491	80	8,356
Recognized in the Consolidated Statement of Income (Loss)	**(277)**	**103**	**4**	**(2,727)**	**(80)**	**(2,977)**
As at January 31, 2019	**3,823**	**439**	**353**	**764**	**—**	**5,379**

The deferred income tax assets and liabilities are presented as follows in the Consolidated Statements of Financial Position:

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Non-current deferred income tax assets	**1,458**	2,303
Compensation per fiscal jurisdiction	**(1,458)**	(2,303)
	—	—
Non-current deferred income tax liabilities	**(5,379)**	(8,356)
Compensation per fiscal jurisdiction	**1,458**	2,303
	(3,921)	(6,053)
Deferred income tax liabilities (net)	**(3,921)**	(6,053)

As at January 31 2019, the Corporation had operating tax losses of $32,033,000 available in the United States ($33,800,000 as at January 31, 2018) for carry forwards, for which no deferred tax benefit has been recorded in the accounts. These losses carry forwards expire between 2024 and 2038.

The movement in the net deferred income tax assets and liabilities is provided in the table below:

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Beginning of fiscal year	**(6,053)**	2,365
Amount recognized in the consolidated statement of income (loss)	**2,150**	(7,945)
Exchange differences	**(18)**	(473)
End of fiscal year	**(3,921)**	(6,053)

NOTE 20 EARNINGS PER SHARE

Diluted income 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.

Fiscal Years Ended January 31,	**2019**	2018
Numerator (in thousands of CA$)		
Numerator applicable to basic and diluted earnings per share	**(374)**	(7,213)
Denominator (in thousands)		
Basic weighted average number of shares	**32,635**	32,633
Effect of dilutive instruments:		
— Stock options	**—**	—
Diluted weighted average number of shares	**32,635**	32,633

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

Given the net loss recorded during the fiscal years ended January 31, 2019 and 2018, none of the stock options were included in the computation of diluted earnings per share because of their antidilutive effect.

NOTE 21 SUPPLEMENTAL CASH FLOWS INFORMATION

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

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

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Accounts receivable	**5,601**	(11,514)
Holdbacks on contracts	**(936)**	(1,516)
Contract assets/ Work in progress	**13,477**	(10,121)
Inventories	**(3,413)**	1,760
Prepaid expenses and other current assets	**851**	(1,330)
Accounts payable and other current liabilities	**(12,553)**	13,203
Contract liabilities/Deferred revenues	**6,955**	2,275
Other non-current liabilities	**200**	—
Change in non-cash working capital items	**10,182**	(7,243)

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

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

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Balance, beginning of fiscal year	**28,201**	18,714
Issuance of long term debt	**—**	10,702
Repayment of long term debt	**(1,544)**	(945)
New financial leases	**—**	233
Effect of fluctuations in exchange rates	**554**	(503)
Balance, end of fiscal year	**27,211**	28,201

21.3 **Cash and Cash Equivalents**

In the Consolidated Statements of Cash Flows, cash and cash equivalents include the following items:

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Cash	**4,164**	4,905
Bank overdraft	**—**	(1,907)
	4,164	2,998

21.4 **Non-Cash Transactions**

Transactions that had no cash impact on financing and investing activities were as follows:

— Financial leases for which property, plant and equipment and long-term debts totalling $233,000 were recorded during the fiscal year ended January 31, 2018 (no new financial lease during the fiscal year ended January 31, 2019).

— Use of an investment tax credit of $1,798,000 during the fiscal year ended January 31, 2018 (no amount utilized during the fiscal year ended January 31, 2019) included in other non-current assets (Note 9), to reduce income tax liabilities.

— Public grant receivable of $826,000 as at January 31, 2019 included in accounts receivables for implementation of energy efficiency measures (see Note 7) (no amount during the fiscal year ended January 31, 2018).

NOTE 22 COMMITMENTS

22.1 **Letters of Credit**

During the fiscal years ended January 31, 2019 and 2018, in connection with its own commercial commitments, the Corporation issued letters of credit, the balance of which stood at US$3,419,000, corresponding to $4,494,000 and $4,203,000 respectively.

22.2 **Operating Leases and Other Long-Term Contracts**

As at January 31, 2019, the Corporation's commitments totalled $542,000 under operating leases and $132,000 under other long-term contracts. The minimum annual payments due are spread over the next four (4) fiscal years and are as follows:

Fiscal Years Ended January 31,	2020	2021	2022	2023
(In thousands of CA$)	$	$	$	$
Operating leases (1)	261	194	75	12
Other long-term contracts (2)	72	60	—	—
	333	254	75	12

(1) Includes operating leases for rental vehicles and office equipment. Lease payments totalled $314,000 during the fiscal year ended January 31, 2019 ($350,000 for the fiscal year ended January 31, 2018).

(2) Include long-term commitments with suppliers for services provided.

NOTE 23 CONTINGENCIES

23.1 **Bonding Agreements**

In the normal course of business, the Corporation may be required by clients to provide performance bonds for the execution of work. In order to provide such bonds, some subsidiaries of the Corporation have entered into general indemnity agreements with bonding companies. To guarantee their obligations under the terms of these agreements, the Corporation and these subsidiaries have granted the bonding companies a movable hypothec on certain assets such as rights, titles, licences, and equipment, work in progress and accounts receivable. The bonding issued on the ongoing projects as at January 31, 2019, stood at $238,820,000.

23.2 **Litigation**

In the normal course of business, the Corporation becomes involved in various legal proceedings. While the final outcome with respect to legal proceedings pending as at January 31, 2019, cannot be predicted with certainty, Management believes that their resolution will not have a material adverse effect on the financial position or results of the Corporation.

NOTE 24 PENSION PLANS

The Corporation offers to all eligible employees defined contribution pension plans in Canada and the United-States (401k), for which the Corporation contributes an amount equal to a percentage of the employee's salary or equal to a predetermined amount. The expense related to these pension plans amounted to $758,000 during the fiscal year ended January 31, 2019 ($805,000 in 2018).

NOTE 25 CAPITAL DISCLOSURES

The Corporation's objectives when managing capital are to:

- Maintain a structure in order to optimize the cost of capital based on an acceptable risk level, while offering an adequate return to shareholders ;
- Manage capital in an optimal manner, while ensuring that the lenders' financial covenants are respected ;
- Manage capital in order to uphold a bonding capacity in line with the Corporation's growth objectives ; and
- Further increase capital in order to preserve the trust of investors, lenders, suppliers and clients.

The Corporation defines capital as the sum of shareholders' equity, long-term debt, including current portion, and short-term bank loans, where appropriate.

The Corporation has not made any changes to its capital management since the last fiscal years. Generally, the Corporation manages its capital structure and make adjustments based on the objectives previously mentioned, economic trends, as well as all underlying risks related to the contracts in hand.

In order to uphold or readjust its capital structure, the Corporation can:

- Issue new treasury shares ;
- Amend the dividend paid to shareholders ;
- Redeem subordinate voting shares ;
- Incur new debts, and
- Sell certain assets to reduce indebtedness.

In addition, the Corporation periodically monitor its capital, namely with regard to a number of financial indicators, of which the "Total of the bank overdraft, credit facilities and long-term debt, net of cash and cash equivalents, to shareholders' equity" ratio. This ratio measures the level of the bank overdraft, credit facilities and long-term financing, net of cash and cash equivalents, in relation to the capital invested by shareholders. This financial indicator does not have standardized meaning as prescribed by IFRS and therefore may not be comparable to similar measurements presented by other issuers.

As at January 31,	**2019**	2018
Total bank overdraft, credit facilities and current portion and long-term debt, net of cash and cash equivalents (In thousands of CA$)	**29,652**	35,353
Shareholders' equity (In thousands of CA$)	**96,895**	95,782
Total bank overdraft, credit facilities and current portion and long-term debt, net of cash and cash equivalents, to shareholders' equity ratio	**0.31:1**	0.37:1

The Corporation's goal is to maintain a positive ratio of 0.50:1 or less. Moreover, this goal could be revised in light of developing projects that will be considered strategic and conducive.

NOTE 26 FINANCIAL RISK MANAGEMENT

The Corporation is party to financial instruments, and thus, is particularly exposed to market risks (paragraph 26.1), credit and credit concentration risks (paragraph 26.2), and liquidity risks (paragraph 26.3).

26.1 **Market Risk**

The risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to distinct financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is particularly exposed to the following market risks:

a) Foreign exchange risk
b) Interest rate risk

The Corporation is exposed to risks of various importance that could have an impact on its capacity to reach its strategic growth objectives. The Corporation aims to control and mitigate its financial risks through management practices that require the identification and analysis of the risks related to its operations. Periodic monitoring and review of these risks are performed based on market conditions and the Corporation's level of activity.

A description of the main financial risks to which the Corporation is exposed is provided below:

a) **Foreign Exchange Risk**

The Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollar, since a significant portion of its revenues is generally recorded in U.S. dollars. For the year ended January 31, 2019, 96% of the Corporation's revenues were recorded in U.S. dollars (91% during the fiscal year ended January 31, 2018). Notwithstanding these variations and pursuant to its foreign currency hedge policy, the Corporation uses different mechanisms 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 in U.S. dollars ;
- — Using hedge 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 January 31, 2019, the Corporation was party to foreign exchange forward contracts for the sale of US$32,600,000 (US$19,737,000 as at January 31, 2018) with maturities varying between three (3) months to 12 months with rates between 1.2807 and 1.3269 (between 1.2285 and 1.2646 as at January 31, 2018). These derivative financial instruments are classified as held for trading and are measured at their fair value at the end of each period since they are not designated as part of an effective hedging relationship.

For this purpose, the fair value of foreign exchange forward contracts recorded in current liabilities under "Derivative Financial Instruments" was $184,000 as at January 31, 2019, and $300,000 in current assets as at January 31, 2018. During the fiscal year ended January 31, 2019, a realized and unrealized loss of $1,266,000 (a gain of $2,426,000 for the fiscal year ended January 31, 2018) 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 January 31, 2019 and 2018, and whose foreign currency exposure is recognized in income:

As at January 31,	**2019**	2018
(In thousands of US$)	**$**	$
Financial assets		
Cash and cash equivalents	**481**	234
Accounts receivable	**8,689**	15,088
Holdbacks on contracts	**1,256**	1,025
Current advances to subsidiaries [(1)]	**22,639**	23,611
	33,065	39,958
Financial liabilities		
Accounts payable and other current liabilities	**3,119**	2,408
	3,119	2,408
Net exposure	**29,946**	37,550

(1) Although these balances are eliminated in the consolidated statement of financial position, the effects of currency fluctuations are recorded in net income (loss).

Based on the balance, as at January 31, 2019, 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 no significant effect on net income (loss) before tax and in comprehensive income (loss) before tax. During the fiscal year ended January 31, 2018, the impact would have been $2,190,000 on net income before tax and immaterial on comprehensive income (loss) before tax. 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.

b) **Interest Rate Risk**

The Corporation is exposed to interest rate fluctuations mainly because of the floating interest rate of its credit facilities and a portion of its long-term debt, where applicable (see Notes 10 and 12). In addition, the interest rate fluctuations could also affect the Corporation's financial revenues generated by the cash and cash equivalents.

The Corporation's interest rate policy generally requires that an appropriate mix between fixed interest and floating interest debts be maintained in order to reduce the net impact of interest rate fluctuations. According to this policy, if this combination is unsuitable, the Corporation can use interest-rate swaps so as to achieve a less volatile interest expense.

According to the Corporation's management, as at January 31, 2019 and 2018, the use of interest rate swap was no longer required to hedge the interest rate risk, given that the balance of the long-term debt, including the short-term credit facilities, included a reasonable combination of fixed and floating interest rates.

Based on the balance of the floating interest rate debt as at January 31, 2019 and 2018, the impact of an upward or downward 0.5% change in interest rates, assuming all other variables remain constant, would have had a immaterial impact on the Corporation's net income (loss) over a twelve-month period horizon.

26.2 **Credit and Credit Concentration Risks**

a) **Credit Risk**

Risk, that a party to a financial instrument neglecting its obligations will cause a financial loss for the other party.

b) **Credit Concentration Risk**

Risk that the business deals with a limited number of clients and financial institutions, which might increase the credit risk, as defined above.

In the normal course of business, the Corporation's exposure to credit risks results from the possibility that a client or financial institution may default, in part or in whole, on their financial obligations as they come due. Concentration of credit risk relates to cash equivalents, when applicable, accounts receivable and holdbacks on contracts.

Cash equivalents are usually risk-free or low risk investments. Where this is the case, the Corporation deposit its cash equivalents with recognized financial institutions, the most important of which are Canadian chartered banks.

In the normal course of business, the Corporation grants credit to its clients. The Corporation carries out credit checks on its clients, declares their contracts directly to the owner and when relevant, to the bonding company involved in the project. Finally, the Corporation establishes allowances for credit losses, if applicable, using the expected credit losses to estimate this allowance. This method takes into account the credit risks of its customers, the expected life of these financial assets, historical trends and economic conditions.

Credit risk with respect to accounts receivable is mitigated by the available mechanisms of protection in case of non-payment, including liens on buildings, and given that the Corporation's clients tend to be general contractors, or companies doing business with contractors governed by rigorous practices and servicing adequately funded projects.

As at January 31, 2019, 30% of accounts receivable, representing $8,880,000 (18% or $5,833,000 as at January 31, 2018) was overdue under contractual terms (over 90 days). Management believes that most of these accounts are with established corporations or were cashed since, and therefore, the Corporation does not believe that it is exposed to an unusual or significant level of risk as at January 31, 2019 and 2018.

As previously described, credit risk arising from the concentration of its clients is also mitigated through monitoring and the measures available to the Corporation. As at January 31, 2019, 81% of accounts receivable was concentrated with four (4) clients (85% of accounts receivable attributable to four (4) clients as at January 31, 2018). It should be noted that given the specialization of its market niches and the nature of the contracts that the Corporation submits bids for, such concentration regularly occurs in the Corporation's activities.

26.3 Liquidity Risk

Liquidity risk is the risk that the Corporation is unable to fulfill its obligations as they come due. The Corporation manages its liquidity risk by forecasting cash flows from operating, investing and financing activities. The senior management is also actively involved in the review and approval of contracts with clients and planned capital expenditures. To fund its liquidity requirements, the Corporation uses cash flows from its operating activities, the credit facilities, issuance of debts and shares. In addition, in order to alleviate this risk, the Corporation has a policy that essentially targets contracts that can generate positive cash flows throughout their execution.

As at January 31, 2019, the maturity analysis of financial liabilities was as follows:

(In thousands of CA$)	**Book Value as at January 31, 2019**	**Less Than 1 Year**	**From 1 to 3 Years**	**From 4 to 5 Years**	**More Than 5 Years**	**Total**
	$	$	$	$	$	$
Credit facilities	**6,605**	**6,605**	**—**	**—**	**—**	**6,605**
Accounts payable and other current liabilities	**16,857**	**16,857**	**—**	**—**	**—**	**16,857**
Long-term debt						
Principal	**22,912**	**1,879**	**3,834**	**3,658**	**13,629**	**23,000**
Interest		**1,031**	**1,815**	**1,485**	**3,856**	**8,187**
Obligations under a financial leases						
Principal	**4,299**	**399**	**754**	**759**	**2,387**	**4,299**
Interest		**187**	**319**	**249**	**301**	**1,056**
	50,673	**26,958**	**6,722**	**6,151**	**20,173**	**60,004**

As at January 31, 2018, the maturity analysis of financial liabilities was as follows:

(In thousands of CA$)	Book Value as at January 31, 2018	Less Than 1 Year	From 1 to 3 Years	From 4 to 5 Years	More Than 5 Years	Total
	$	$	$	$	$	$
Bank overdraft	1,907	1,907	—	—	—	1,907
Credit facilities	10,150	10,150	—	—	—	10,150
Accounts payable and other current liabilities	29,308	29,308	—	—	—	29,308
Long-term debt						
Principal	23,803	1,710	3,691	3,705	14,791	23,897
Interest	—	1,075	1,910	1,585	4,205	8,775
Obligations under a financial leases						
Principal	4,398	366	746	692	2,594	4,398
Interest	—	190	331	265	390	1,176
	69,566	44,706	6,678	6,247	21,980	79,611

Balances in U.S. dollars and/or subject to floating interest rates are established based on the relevant spot rates at the respective dates.

As at January 31, 2019, in addition to the unused credit facilities, the Corporation's cash and cash equivalents, net of bank overdraft, where appropriate, totalled $4,164,000 ($2,998,000 as at January 31, 2018). Considering the working capital position and the credit facilities available to meet its obligations, the Corporation's exposure to liquidity risk is nominal.

NOTE 27 FINANCIAL INSTRUMENTS

27.1 **Categories for Measurement**

The next table provides the book value per class of financial instruments as at January 31, 2019 under IFRS 9:

As at January 31,	**2019**
(In thousands of CA$)	**$**
Financial assets at amortized cost	
Cash and cash equivalents	**4,164**
Accounts receivable	**29,919**
Holdbacks on contracts	**6,227**
	40,310
Financial liabilities at fair value through net income (loss)	
Derivative financial instruments	**184**
	184
Financial liabilities to amortized cost	
Credit facilities	**6,605**
Accounts payable and other current liabilities (1)	**11,168**
Long-term debt (2)	**22,912**
	40,685

The next table provides the book value per class of financial instruments as at January 31, 2018 under IAS 39:

As at January 31,	2018
(In thousands of CA$)	$
Loans and receivables	
Cash and cash equivalents	4,905
Accounts receivable	33,099
Holdbacks on contracts	4,933
	42,937
Assets available-for-sale	
Equity investments	215
	215
Financial assets at fair value through net income (loss)	
Derivative financial instruments	300
	300
Liabilities amortized at cost	
Bank overdraft	1,907
Credit facilities	10,150
Accounts payable and other current liabilities (1)	24,230
Long-term debt (2)	23,803
	60,090

(1) Excludes amounts due for statutory liabilities, employee benefits and share-based payments.
(2) Exclude obligations under financial leases.

As at January 31, 2019 and 2018, given the upcoming maturity dates of cash and cash equivalents, accounts receivable, other current assets, holdbacks on contracts, contract assets, the bank overdraft, credit facilities, accounts payable and other current liabilities, as well as contract liabilities their fair value was approximately equal to their book value.

The fair value of the long-term debt (including the financial leases) did not differ significantly from its book value as at January 31, 2019 and 2018, as the effective interest rates on long-term debts reflect current market conditions.

27.2 **Fair Value Hierarchy of Financial Assets and Liabilities**

In accordance with IFRS, the Corporation measures its financial assets and liabilities using the following fair value hierarchies, 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).

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

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

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

NOTE 28 SEGMENTED INFORMATION

The Corporation operates 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.

Fiscal Years Ended January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Revenues		
Canada	**3,518**	16,027
United States	**131,555**	164,447
	135,073	180,474

As at January 31,	**2019**	2018
(In thousands of CA$)	**$**	$
Non-current assets (1)		
Canada	**48,750**	49,508
United States	**45,355**	43,694
	94,105	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 the project's location.

During the fiscal year ended January 31, 2019, 79% of the Corporation's revenues were realized with three (3) clients, each representing 10 % and more of its revenues (85% with three (3) clients during the fiscal year ended January 31, 2018).

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

Fiscal Years Ended January 31,	**2019**	2018
	United States	United States
(In thousands of CA$)	**$**	$
Client A	**60,503**	81,120
Client B	**—**	43,106
Client C	**32,480**	—
Client D	**—**	29,375
Client E	**13,168**	—
	106,151	153,601

NOTE 29 SUBSEQUENT EVENTS

29.1 **Dividend**

On April 10, 2019, the Corporation's Board of Directors approved a semi-annual dividend of $0.01 per share to be paid on May 15, 2019 to shareholders of record as at April 30, 2019.

29.2 Canadian Operating Credit Facility

On March 2019, the Corporation renewed its Canadian operating credit facility agreement. Under this new agreement, the available credit facility remains at $20,000,000, however it is now subject to a monthly calculation of accounts receivable and inventories, which may limit the amount available under this credit facility. This calculation is therefore no longer subject to a minimum order backlog of $100,000,000, as it was the case under the previously agreed facility agreement. All other terms and conditions remained unchanged.

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

Ce document est aussi disponible en français.

ADF GROUP INC.
300 Henry-Bessemer Street | Terrebonne, Quebec, Canada | J6Y 1T3
(450) 965-1911 | infos@adfgroup.com | www.adfgroup.com

Toronto Stock Exchange | TSX : DRX