QUARTERLY REPORT

THREE-MONTH AND SIX-MONTH PERIODS ENDED JULY 31 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF THE FINANCIAL POSITION AND OPERATING RESULTS

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

Toronto Stock Exchange | TSX: DRX

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FORWARD-LOOKING STATEMENTS

Management of ADF Group Inc. wishes to inform the reader that this document contains forward-looking statements within the meaning of applicable securities laws, in which Management's expectations regarding ADF Group Inc.'s future performance may be discussed. These forward-looking statements include information concerning ADF Group's probable or foreseeable future operating results and financial position, and involve certain risks and uncertainties with regard to their future realization. These forward-looking statements are based on currently available data in regard to competition, financial position, economic conditions and operating plans. The principal risks and uncertainties that could affect ADF Group Inc.'s results, such that those results could differ materially from those expressed in any forward-looking statements, are presented in Sections "Current Economic Environment" and "External Factors to Which the Corporation's Performance is Exposed" of the MD&A Report for the fiscal year ended January 31, 2019.

1. GENERAL

The purpose of this management's discussion and analysis of the financial position and operating results ("MD&A") is to provide the reader with an overview of the changes in the financial position of ADF Group Inc. ("ADF", "ADF Group" or "the Corporation") between February 1, 2019 and July 31, 2019. It also compares the operating results and cash flows for the three-month and six-month periods ended July 31, 2019 to those of the same periods of the previous fiscal year. This MD&A covers all major events that occurred between February 1, 2019 and September 11, 2019, on which date ADF Group Inc.'s Board of Directors approved the unaudited interim condensed consolidated financial statements, as well as the MD&A for the three-month and six-month periods ended July 31, 2019.

This MD&A should be read in conjunction with the Corporation's Unaudited Interim Condensed Consolidated Financial Statements and the notes thereto for the three-month and six-month periods ended July 31, 2019, as well with the Audited Consolidated Financial Statement and Management's Discussion and Analysis of the Financial Position and Operating Results Report for the fiscal year ended January 31, 2019.

The unaudited interim condensed consolidated financial statements and the comparative information for the three-month and six-month periods ended July 31, 2019, have been prepared in accordance with the International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable to interim financial reports, including International Accounting Standard 34 "Interim Financial Reporting". The summary of significant accounting policies applied by the Corporation in accordance with IFRS is presented in Section 23 "Accounting Policies".

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

2. FORWARD-LOOKING STATEMENTS

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

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

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

3. GENERAL OVERVIEW

From a blacksmith shop founded in 1956, ADF Group has become over the years a North American leader in the design and engineering of connections, fabrication, including industrial coating, and installation of complex steel structures, heavy steel built-ups, as well as miscellaneous and architectural metalwork. The Corporation's products and services are intended for the following five principal segments of the non-residential construction industry: office towers and high-rises, commercial and recreational buildings, airport facilities, industrial complexes and transport infrastructure. The Corporation uses the latest technologies in its industry and operates two state-of-the-art fabrication plants and two cutting-edge paint shops. ADF Group's complex located in Canada houses the Corporation's head office, the 58,530-square-metre (630,000-square-foot) fabrication plant, which includes the 3,900 square-meter (42,000 square feet) paint shop. ADF's complex in the United-States is home to the 9,290-square-metre (100,000 square feet) fabrication plant, the 60-acre pre-assembly yard and the 4,460-square-meter (48,000 square feet) dual-purpose building, adjacent to the fabrication plant, housing a 2,323-square-meter (25,000 square feet) paint and blast zone, and a 2,137-square-meter (23,000 square feet) area for preparation and detailing work.

A pioneer in the development and implementation of innovative solutions, the Corporation is recognized for its engineering expertise, its project management, its important fabrication capacity and its skills in two specialized market niches: the fabrication of steel superstructures with a high level of architectural and geometric complexity, and projects subject to fast-track schedules. ADF Group's commitment to deliver every project in accordance with the industry's highest quality standards constitutes a core aspect of the Corporation's mission.

4. COMMERCIAL POSITIONING

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

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

5. MARKET TRENDS

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

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

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

During the last quarter, the status quo has prevailed over the markets. Despite some global economic uncertainty, the markets served by ADF remain relatively active and promising. The upcoming elections in Canada next October, and in the United States just over a year later, will most likely bring their share of economic promises, but public budget realities may make these promises difficult to fulfill. Regardless of this, the pipeline of projects that are in preparation remains very interesting and the geographical diversity of our Corporation allows us to be active across North America, where these projects will be announced.

6. SIGNIFICANT EVENTS OF THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JULY 31, 2019

— On February 12, 2019, the Corporation announced a series of new contracts worth a total of $73.0 million, in the recreational and commercial market sectors in Western USA. The contracts consist in the design and engineering of connections, fabrication, including the procurement of raw material (steel) and industrial coating, as well as the installation of complex steel structures and heavy steel components. These contracts will be carried out at ADF's fabrication plant, in Great Falls, Montana, U.S.A. Fabrication work is scheduled to start soon, and will extend until the end of the fiscal year 2020.

— In March 2019, the Corporation renewed the agreement of its Canadian operating credit facility. Under this new agreement, the available amount remains at $20.0 million, but is now subject to a monthly calculation of accounts receivable and inventories, which may limit the amount available under of the credit facility. This calculation is therefore no longer subject to a minimum limit of $100.0 million of the order backlog, as it was under the agreement that was in effect prior to this renewal. Other terms and conditions remained unchanged.

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

— On June 12, 2019, the Corporation announced the signing of a series of new commercial agreements in the commercial building sector in the United States, worth a total of $165.0 million. The scope of the largest order, in terms of value, among this series of new commercial agreements, involves erecting the entire steel structure of a new multi-story building in Southeastern U.S.A., and includes design-assist services, the design and engineering of connections, as well as the fabrication and industrial coating. The fabrication and steel erecting work are scheduled to begin next year. The other largest order, in terms of value, consists in the design and engineering of connections, the supply of the material (steel), the fabrication work, which includes the application of industrial coating, as well as construction engineering services and the installation of the steel structure of a new commercial building on the U.S. West Coast. The fabrication portion of this new project will begin in the coming weeks.

7. SIGNIFICANT EVENT THAT OCCURRED AFTER JULY 31, 2019

On September 11, 2019, ADF Group's Board of Directors approved the payment of a semi-annual dividend of $0.01 per share, which will be paid on October 16, 2019 to shareholders of record as at September 30, 2019.

8. EXCHANGE RATE

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

During the three-month and six-month periods ended July 31, 2019, and during each of the four last quarters, the Corporation used the following exchange rates between the Canadian and U.S. dollars:

(CA$/US$)	Consolidated Statements of Income and Comprehensive Income (Loss) – *Quarterly*	Consolidated Statements of Income and Comprehensive Income (Loss) – *Cumulative*	Consolidated Statements of Financial Position
Second quarter (July 31, 2018)	1.3041	1.2912	1.3017
Third quarter (October 31, 2018)	1.3029	1.2952	1.3142
Fourth quarter (January 31, 2019)	1.3315	1.3028	1.3144
First quarter (April 30, 2019)	1.3322	1.3322	1.3423
Second quarter (July 31, 2019)	**1.3282**	**1.3302**	**1.3148**

Although the Canadian dollar has recently stabilized, it has however lost value against the U.S. dollar over the periods analyzed. Although the Corporation enters, from time to time and according to its internal policy, into foreign exchange contracts in order to cover the foreign exchange risk, these exchange rate variations have resulted in a $0.2 million foreign exchange loss in the Consolidated Statement of Income (Loss) during each of the three-month and six-month periods ended July 31, 2019.

9. NON-GAAP MEASURES

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

	6-Month Periods Ended July 31,		12-Month Periods Ended January 31,	
	2019	2018	2019	2018
Working capital (in thousands of dollars)	**$34,166**	$30,605	$31,848	$34,768
Current ratio	**1.57 : 1**	1.61:1	1.85:1	1.74:1
Long-term debt to shareholders' equity ratio (1)	**0.37 : 1**	0.47:1	0.35:1	0.40:1
Total debt, net of liquidities (in thousands of dollars) (1)	**$31,602**	$39,563	$29,652	$35,353
Total bank overdraft, credit facilities and long-term debt, net of cash and cash equivalents, to shareholders' equity ratio (1)	**0.32 : 1**	0.41:1	0.31:1	0.37:1
Liabilities to shareholders' equity ratio	**0.90 : 1**	0.85:1	0.68:1	0.83:1
Earnings before interest, tax, depreciation and amortization (EBITDA) (in thousands of dollars)	**$6,031**	$(1,077)	$1,945	$8,436
EBITDA margin (as a percentage of revenues)	**6.6%**	(1.8)%	1.4%	4.7%
Book value per share (in dollars)	**$3.02**	$2.94	$2.97	$2.93
Return on shareholders' equity	**3.1%**	(11.4)%	(0.4)%	(7.5)%

(1) Includes current and non-current portions of the lease obligations as at July 31, 2019, pursuant to the adoption of IFRS 16 "Leases" on February 1, 2019 without restatement of comparative figures (see Section 24 "Change in Accounting Policies").

Refer to Section 9 "Non-GAAP Measures" of the Management's Discussion and Analysis of the Financial Position and Operating Results for the Fiscal Year Ended January 31, 2019, for the definition of the financial indicators in the above table, except for article 9.1 below.

9.1. EBITDA and EBITDA Margin

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

- Net financial expenses;
- Income tax (recovery) expense;
- Foreign exchange (gains) losses, and
- Depreciation and amortization of property, plant and equipment, intangible assets and right-of-use assets

The EBITDA during three-month and six-month periods ended July 31, 2019, was positively impacted by $0.1 million respectively by the adoption of the new accounting policy IFRS 16 "Leases" (see Section 24 "Change in Accounting Policies").

Net income (loss) is reconciled with EBITDA in the table below:

Periods Ended July 31,	3 Months 2019	3 Months 2018	6 Months 2019	6 Months 2018
(In thousands of dollars)	**$**	$	**$**	$
Net income (loss)	**419**	(532)	**2,037**	(1,442)
Income tax expense (recovery)	**757**	(176)	**439**	(921)
Net financial expenses	**487**	624	**974**	982
Amortization	**1,180**	1,148	**2,345**	2,263
Foreign exchange loss (gain)	**169**	(955)	**236**	(1,959)
EBITDA	**3,012**	109	**6,031**	(1,077)
— As a % of revenues	**5.6%**	0.3%	**6.6%**	(1.8)%

10. ANALYSIS OF OPERATING RESULTS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JULY 31, 2019

10.1. Revenues and Gross Margin

Three-Month Periods Ended July 31,	2019	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Revenues	**54,119**	32,220	21,899	68.0
Cost of goods sold	**48,366**	30,151	18,215	60.4
Gross margin	**5,753**	2,069	3,684	178.1
— As a % of revenues	**10.6%**	6.4%		4.2

Six-Month Periods Ended July 31,	2019	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Revenues	**91,265**	60,697	30,568	50.4
Cost of goods sold	**79,742**	57,842	21,900	37.9
Gross margin	**11,523**	2,855	8,668	303.6
— As a % of revenues	**12.6%**	4.7%		7.9

a) **Revenues**

Revenues during the three-month period ended July 31 2019, totalled $54.1 million, up by $21.9 million compared with the same period ended July 31, 2018. Revenues for the six-month period ended July 31, 2019, totalled $91.3 million, compared with $60.7 million for the same period ended July 31, 2018.

Revenues are recognized progressively based on costs incurred to date relative to the total estimated costs at completion on the various projects executed during the year.

The increase in revenues is for the most part attributable to the continuation of projects started at the end of the last fiscal year. The six-month period ended July 31, 2018, was impacted by the loss of contracts as a result of the uncertainty surrounding the introduction of import tariffs on steel and aluminum.

The variation in the foreign exchange rate during the three-month and six-month periods ended July 31, 2019, resulted respectively in a $0.8 million and a $2.3 million increase in revenues.

In terms of economic dependency, 69% of the Corporation's revenues during the six-month period ended July 31, 2019, were realized with four (4) clients, who each accounted for more than 10% of the Corporation's revenues, for respective amounts of $25.2 million, $14.3 million, $11.8 million and $11.4 million, all from the United States (85% of the revenues were realized with two (2) clients during the six-month period ended July 31, 2018, who each accounted for more than 10% of the Corporation's revenues, for respective amounts of $45.7 million, $6.0 million, all from the United States).

Although the Corporation attempts to limit the concentration of its revenues, given the nature of its activities and market, its revenues are likely to remain concentrated among a restricted number of clients in upcoming quarters.

b) **Gross Margin**

The gross margin, in dollar value, increased by $3.7 million during the three-month period ended July 31, 2019, compared with the same period of the previous fiscal year. As a percentage of revenues, the gross margin went from 6.4% during the three-month period ended July 31, 2018, to 10.6% during the same period ended July 31 2019. During the six-month periods ended July 31, 2019, the gross margin totalled at $11.5 million or 12.6% of revenues, compared with $2.9 million or 4.7% of revenues for the same period a year ago.

These increases as a percentage of revenues are for the most part explained by the increase in revenues previously mentioned, as well as by a better absorption of fixed costs, in line with this increase in the fabrication volume.

As explained in the Corporation interim MD&A report for the three-month and six-month periods ended July 31, 2018, ADF Group lost, at the beginning of the 2019 fiscal year, three major projects it was about to conclude in the U.S., as a result of the uncertainties related to the new U.S. tariffs. Although the impact on the business volume and on the absorption of costs was felt during the first semester ended July 31, 2018, the unfavorable impact was reduced by measures taken by the Corporation, such as the temporary layoff of 50 employees at the end of March 2018 and the introduction of a work-sharing program in June 2018. Both measures targeted ADF's Terrebonne plant employees.

As described in Section 17 "Order Backlog", the fabrication hours are not only the Corporation's core activity, but are also its most value-added activity. To that effect, the revenues during the three-month and six-month periods ended July 31, 2019, were both comprised of 29% of fabrication hours, compared with 39% and 37% of revenues respectively for the three-month and six-month periods ended July 31, 2018, thus adding some pressure on the gross margin for the periods ended July 31, 2019.

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

10.2. Selling and Administrative Expenses

Three-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Selling and administrative expenses	**3,921**	3,108	813	26.2
— As a % of revenues	**7.2%**	9.6%		(2.4)

Six-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Selling and administrative expenses	**7,837**	6,195	1,642	26.5
— As a % of revenues	**8.6%**	10.2%		(1.6)

During the three-month period ended July 31, 2019, selling and administrative expenses amounted to $3.9 million, posting a $0.8 million increase compared with the same period ended July 31, 2018. For the six-month period ended July 31, 2019, the selling and administrative expenses amounted to $7.8 million, posting a $1.6 million increase compared with the same period a year ago.

This increase results from the increase in bid expenses and professional fees, in line with the increase in activities.

Given the increase in revenues during the three-month and six-month periods ended July 31, 2019, selling and administrative expenses, as a percentage of revenues, stand at 7.2% and 8.6% respectively, compared with 9.6% and 10.2% respectively during the same quarters a year ago.

10.3. Amortization

In accordance with IFRS standards, amortization expense is included in cost of goods sold and selling and administrative expenses. However, Management considers it appropriate to continue separately commenting on the trend in amortization expense since it is considered a significant, although non-cash, component in the analysis of the Corporation's profit margins.

Three-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Amortization	**1,180**	1,148	32	2.8
— As a % of revenues	**2.2%**	3.6%		(1.4)

Six-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Amortization	**2,345**	2,263	82	3.6
— As a % of revenues	**2.6%**	3.7%		(1.1)

The amortization expense during the three-month and six-month periods ended July 31, 2019, was similar to that of the three-month and six-month periods ended July 31, 2018. The amortization expense was however affected upward by the adoption of the new accounting standard IFRS 16 "Leases" (see Section 24 "Change in Accounting Policies").

The amortization expense for the analyzed periods was distributed as follows:

Three-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Amortization expense included in cost of goods sold	**886**	892	(6)	(0.7)
Amortization expense included in selling and administrative expenses	**294**	256	38	14.8
Total amortization	**1,180**	1,148	32	2.8

Six-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Amortization expense included in cost of goods sold	**1,764**	1,755	9	0.5
Amortization expense included in selling and administrative expenses	**581**	508	73	14.4
Total amortization	**2,345**	2,263	82	3.6

10.4. Net Financial Expenses

Three-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Net financial expenses	**487**	624	(137)	(22.0)
— As a % of revenues	**0.9%**	1.9%		(1.0)

Six-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Net financial expenses	**974**	982	(8)	(0.8)
— As a % of revenues	**1.1%**	1.6%		(0.5)

The decrease in net financial expenses during the three-month and six-month periods ended July 31, 2019, is explained by the variation in the average balance of debts of the Corporation, including the use of the credit facilities (See Section 12 "Cash Flows and Financial Position").

10.5. Foreign Exchange Loss (Gain)

Three-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Foreign exchange loss (gain)	**169**	(955)	1,124	117.7
— As a % of revenues	**0.3%**	(3.0)%		3.3

Six-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Foreign exchange loss (gain)	**236**	(1,959)	2,195	112.0
— As a % of revenues	**0.3%**	(3.2)%		3.5

The foreign exchange loss recorded during the quarter ended July 31, 2019, includes a $1.0 million foreign exchange loss on ongoing operations and a $0.8 million realized and unrealized foreign exchange gain relating to the fair value of financial derivatives. During the three-month period ended July 31, 2019, a $0.7 million foreign exchange loss on the translation of foreign subsidiaries was recorded in comprehensive income (loss).

The foreign exchange gain recorded during the quarter ended July 31, 2018, includes a $1.1 million foreign exchange gain on ongoing operations and a $0.1 million realized and unrealized foreign exchange loss relating to the fair value of financial derivatives. During the three-month period ended July 31, 2018, a $0.4 million foreign exchange gain on the translation of foreign subsidiaries was recorded in comprehensive income (loss).

The foreign exchange loss recorded during the six-month period ended July 31, 2019, includes a $0.3 million foreign exchange loss on ongoing operations and an immaterial realized and unrealized foreign exchange gain relating to the fair value of financial derivatives. During the six-month period ended July 31, 2019, an immaterial foreign exchange gain on the translation of foreign subsidiaries was recorded in comprehensive income (loss).

The foreign exchange gain recorded during the six-month period ended July 31, 2018, includes a $3.0 million foreign exchange gain on ongoing operations and a $1.1 million realized and unrealized foreign exchange loss relating to the fair value of financial derivatives. During the six-month period ended July 31, 2018, a $1.8 million foreign exchange gain on the translation of foreign subsidiaries was recorded in comprehensive income (loss).

The Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollars since a significant portion of its revenues is generally recorded in U.S. dollars. During the three-month and six-month periods ended July 31, 2019, the portion of revenues realized in U.S. dollars reached 92% and 94% respectively (96% during both the three-month and six-month periods ended July 31, 2018, and during the fiscal year ended January 31, 2019). Considering the improvement in U.S. markets and our facilities in Great Falls, Montana, the Corporation expects that the percentage of its revenues in U.S. dollars should remain at a fairly high level in the fiscal year ending January 31, 2020.

10.6. Income Tax Expense (Recovery)

Three-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Income tax expense (recovery)	**757**	(176)	933	Pos.
— As a % of revenues	**1.4 %**	(0.5)%		1.9

Six-Month Periods Ended July 31,	**2019**	2018	Changes 2019/2018	
(In thousands of dollars and in percentages)	**$**	$	$	%
Income tax expense (recovery)	**439**	(921)	1,360	147.7
— As a % of revenues	**0.5%**	(1.5)%		2.0

Once again, the effective tax rates during the analyzed periods are hard to compare with both the Corporation's Canadian effective rate and between themselves. During the three-month and six-month periods ended July 31, 2019, the effective tax rates were respectively 64.4% and 17.7%, compared with the Corporation's effective tax rate of 27%.

Indeed, for the three-month and six-month periods ended July 31, 2019, the mix of profit and loss of ADF's Canadian and U.S. subsidiaries combined with the recording of latent deferred tax assets, as explained below, created a situation where the effective tax rates differ significantly from one period to the next.

During the last quarter of the fiscal year ended January 31, 2018, the Corporation's management decided to write-off certain deferred income tax assets, which resulted from tax losses from the Corporation's U.S. subsidiaries. Although these assets were written off, they remain available to the Corporation and may be used when it will be more likely than not that these assets will materialize. In light of these elements, the Corporation expects the cumulative effective tax rate to normalize by the end of its fiscal year to move towards the Canadian effective tax rate.

As at July 31, 2019, the Corporation had operating tax losses estimated at $31.7 million in the United States available for carry forwards, for which no deferred tax benefit has been recorded in the Corporation's accounts. This will have a favourable impact on future cash outflows of the Corporation, which will not have to pay future income tax until the full amount of available tax attributes has been used in the different jurisdictions where the Corporation executes contracts.

10.7. Net Income (Loss), Basic and Diluted Earnings per Share

	3 Months		6 Months	
Periods Ended July 31,	**2019**	2018	**2019**	2018
(In thousands of dollars and dollars per share)	**$**	$	**$**	$
Total net income (loss)	**419**	(532)	**2,037**	(1,442)
— As a % of revenues	**0.8%**	(1.6)%	**2.2%**	(2.4)%
Total earnings per share (basic and diluted)	**0.01**	(0.02)	**0.06**	(0.04)

The variation in net income (loss) during the three-month and six-month periods ended July 31, 2019, compared with the same periods a year ago is for the most part explained by the elements previously mentioned, but mainly by the improvement in gross margin. Moreover, had it not been for a $2.0 million foreign exchange gain (see Section 10.5) for the six-month period ended July 31, 2018, the positive difference would have been even more significant.

11. COMPARATIVE INFORMATION FOR THE LAST EIGHT QUARTERS

The trends observed in the analysis of quarterly results do not necessarily represent those of the future results of the Corporation. ADF's activities are not, as such, subject to seasonal fluctuations. However, the non-residential construction market in which the Corporation is active goes through upward and downward cycles.

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

More specifically, and in light of the results for the last eight (8) quarters presented below, the variations from one quarter to the other are mostly explained by the respective fabrication schedules of the various projects announced by the Corporation. Considering that revenues are established based on incurred costs on these different projects carried out by the Corporation, revenues and operating results can differ significantly from quarter to quarter because of these execution schedules.

Fiscal Years	2020		2019				2018	
Three-Month Periods Ended	**2nd Quarter (07.31.2019)**	1st Quarter (04.30.2019)	4th Quarter (01.31.2019)	3rd Quarter (10.31.2018)	2nd Quarter (07.31.2018)	1st Quarter (04.30.2018)	4th Quarter (01.31.2018)	3rd Quarter (10.31.2017)
(In thousands of dollars and in dollars per share)	**$**	$	$	$	$	$	$	$
Revenues	**54,119**	37,146	28,806	45,570	32,220	28,477	49,346	37,212
Gross margin	**5,753**	5,770	2,069	4,629	2,069	787	4,188	2,419
— As a % of revenues	**11%**	16%	7%	10%	6%	3%	8%	7%
EBITDA (1)	**3,012**	3,019	428	2,594	109	(1,186)	2,785	468
— As a % of revenues	**6%**	8%	1%	6%	0%	(4)%	6%	1%
Income (loss) before income tax expense (recovery)	**1,176**	1,300	(1,026)	996	(708)	(1,655)	553	(1,319)
— As a% of revenues	**2%**	3%	(4)%	2%	(2)%	(6)%	1%	(4)%
Net income (loss)	**419**	1,618	(832)	1,900	(532)	(910)	(8,796)	(698)
— Basic per share	**0.01**	0.05	(0.03)	0.06	(0.02)	(0.03)	(0.27)	(0.02)
— Diluted per share	**0.01**	0.05	(0.03)	0.06	(0.02)	(0.03)	(0.27)	(0.02)

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

12. CASH FLOW AND FINANCIAL POSITION

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

On July 31, 2019, cash and cash equivalents totalled $5.2 million, up by $1.0 million compared with January 31, 2019. In addition, as at July 31, 2019, the Corporation used $9.1 million on its credit facilities, whereas it used $6.6 million as at January 31, 2019.

Management believes that these available funds are sufficient to support the execution of its order backlog in hand on July 31, 2019, and to meet its financial commitments for the 2020 fiscal year.

Furthermore, the Corporation continually appraises the opportunities to use part of its liquidities to finance certain projects that could provide additional long-term competitive advantages (see Section 26 "Outlook"). It also looks at opportunities for accelerated payments discounts negotiated with suppliers.

12.1. Operating Activities

During the three-month and six-month periods ended July 31, 2019, the Corporation used cash flows from its operating activities and assigned it as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2019**	2018	**2019**	2018
(In thousands of dollars)	**$**	$	**$**	$
Net income (loss) adjusted for non-cash items	**2,846**	471	**5,797**	(1,618)
Changes in non-cash operating working capital items:				
Accounts receivable	**5,430**	(9,766)	**(11,692)**	(4,706)
Holdbacks on contracts	**(788)**	1,414	**(2,499)**	820
Contract assets	**(8,343)**	11,007	**(10,468)**	11,669
Inventories	**674**	(1,899)	**364**	(3,458)
Prepaid expenses and others current assets	**1,310**	(271)	**344**	556
Accounts payable and other current liabilities	**12,208**	1,217	**14,883**	(4,787)
Contract liabilities	**(9,764)**	2,014	**4,030**	1,500
Other	**(3)**	—	**(5)**	—
	724	3,716	**(5,043)**	1,594
Cash flows from (used in) operating activities	**3,570**	4,187	**754**	(24)

The Corporation recorded a net income (loss) adjusted for non-cash items of $2.9 million during the three-month period ended July 31, 2019, which is $2.4 million more than during the same period a year ago. This variation is mainly explained by the increase in net income (loss), as well as by the changes in non-cash foreign exchange gains and losses and unrealized gains and losses on derivative financial instruments. Net income (loss) adjusted for non-cash items increase by $7.4 million during the six-month period ended July 31, 2019, compared with the same period ended July 31, 2018, for the same reasons as previously described.

During the three-month period ended July 31, 2019, the changes in non-cash operating working capital items generated $0.7 million, which is mostly explained by the decrease in account receivables ($5.4 million) and the increase in account payables and other current liabilities ($12.2 million), net of the increase in contract assets ($8.3 million) and the decrease in contract liabilities ($9.8 million).

During the six-month period ended July 31, 2019, the changes in non-cash operating working capital items used $5.0 million in liquidities, primarily from the increase in account receivables ($11.7 million), in contract assets ($10.5 million), net of the increase in account payables and other current liabilities ($14.9 million), and contract liabilities ($4.0 million). These variations result from the changes in operations during the respective analyzed periods.

During the three-month period ended July 31, 2018, the changes in non-cash operating working capital items generated cash inflows of $3.7 million, which are mostly explained by the decrease in contract assets ($11.0 million), net of the increase in accounts receivable ($9.8 million). During the six-month period ended July 31, 2018, the changes in non-cash operating working capital items generated cash inflows of $1.6 million, primarily from the decrease in contract assets ($11.7 million), net of the increase in accounts receivable ($4.7 million), inventories ($3.5 million), and the decrease in accounts payable and other current liabilities ($4.8 million).

12.2. Investing Activities

The Corporation's investing activities are summarized as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2019**	2018	**2019**	2018
(In thousands of dollars)	**$**	$	**$**	$
Acquisition of property, plant and equipment	**(94)**	(1,561)	**(320)**	(2,575)
Acquisition of intangible assets	**(118)**	(112)	**(250)**	(279)
Government grants (1)	**—**	—	**834**	—
Disposal of equity investments	**—**	—	**—**	217
Other	**(3)**	9	**12**	—
Cash flows from (used in) investing activities	**(215)**	(1,664)	**276**	(2,637)

(1) Related to the acquisition of property, plant and equipment.

During the three-month and six-month periods ended July 31, 2019, a total of $0.2 million and $0.3 million in liquidities were respectively used and generated, mostly for the acquisition of property, plant and equipment and intangible assets, net of a $0.8 million government grant received during the first quarter ended April 30, 2019, relating to the ventilation and air treatment/recovery system at ADF's complex in Terrebonne, Quebec.

During the three-month and six-month periods ended July 31, 2018, investing activities used liquidities of $1.7 million and $2.6 million respectively, mainly for the acquisition of property, plant and equipment and more specifically, for the replacement of the ventilation and air conditioning (VAC) system at ADF's fabrication complex in Terrebonne, Quebec.

The Corporation estimates capital expenditures for fiscal 2020 to be less than $5.0 million, mainly for production equipment upgrades at both of ADF's plants in Terrebonne, Quebec, and Great Falls, Montana.

12.3. Financing Activities

The Corporation's financing activities were as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2019**	2018	**2019**	2018
(In thousands of dollars)	**$**	$	**$**	$
Variation in credit facilities	**(300)**	1,855	**2 450**	6,705
Repayment of long-term debt	**(485)**	(359)	**(943)**	(812)
Repayment of lease liabilities	**(184)**	—	**(350)**	—
Dividends paid	**(326)**	(326)	**(326)**	(326)
Interests paid	**(385)**	(552)	**(877)**	(979)
Cash flows from (used in) financing activities	**(1,680)**	618	**(46)**	4,588

During the three-month period ended July 31, 2019, financing activities required liquidities of $1.7 million, compared with a cash inflows of $0.6 million for the same quarter the previous year. This cash outflows are mainly attributable to the reimbursement of the long-term debt and the lease liabilities, including interest thereon, and the second dividend payment.

For the six-month period ended July 31, 2019, financing activities used liquidities of $46,000, which came from the elements previously mentioned, and net of the variation in the credit facility. During the six-month period ended July 31, 2018, the financing activities have generated liquidities of $4.6 million, as a result of the variation in credit facilities.

During the three-month and six-month periods ended July 31, 2019 and 2018, the Corporation did not issue subordinate voting shares.

12.4. Contractual Obligations

The main change from the summary contractual obligations table reported in the Corporation's annual MD&A Report for the fiscal year ended January 31, 2019, relates to the adoption of IFRS 16 "Leases" on February 1, 2019, for which the Corporation has recognized lease liabilities for leases previously classified as operating leases, whereas the lease payments under these leases were rather disclosed as commitments under the previous standard IAS 17 "Leases".

Refer to Note 3 b) "Reconciliation between Operating Lease Commitments and Lease Liabilities Recognized" of the Corporation's Unaudited Interim Condensed Consolidated Financial Statements for the Three-Month and Six-Month Periods ended July 31, 2019, for more details on the reconciliation between contractual obligations under IAS 17 and IFRS 16.

12.5. Debt Covenants

As at July 31, 2019, the Corporation respected all of the covenants with its lenders, and still did at the date hereof. Management expects it will continue to respect its commitments during the fiscal year 2020.

13. CAPITAL STOCK

As at July 31, 2019, and January 31, 2019, the Corporation had 32,635,206 shares outstanding for a total amount of $68.1 million, of which 18,292,299 for subordinate voting shares totalling $52.1 million, and 14,343,107 multiple voting shares for a total of $16.0 million. At the date hereof, the number of shares outstanding remained practically unchanged.

14. STOCK OPTION PLAN

During the six-month period ended July 31, 2019, a total of 156,000 stock options expired and 60,000 stock options were cancelled. The number of stock options issued and outstanding went from 371,000 options as at January 31, 2019, to 155,000 options as at July 31, 2019. These 155,000 options, which had a weighted average life of 3.65 years before maturity, had a weighted average exercise price of $2.36 as at July 31, 2019.

15. DEFERRED SHARE UNITS ("DSU") PLAN

15.1. External Directors

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

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

In addition and independently to DSU that can be granted to external directors for the purposes of deferring their directors' compensation, the DSU plan also allows the Corporation's Board of Directors to award, at its discretion, DSU to any external director, executive officer and key employee. If it sees fit, the Board of Directors can attach conditions related to time and/or to the Corporation's performance to the vesting of these DSU.

When the Corporation pays dividends on subordinate and multiple voting shares, the accounts of the directors, executive officers and key employees (see paragraph 15.2 below) are credited for the amount in the form of additional units using the same basis of calculation previously described.

The DSU are re-evaluated at fair value at the end of each reporting period until the vesting date, using the market price of the Corporation's subordinate voting shares.

During the three-month and six-month periods ended July 31, 2019, the DSU compensation to external directors recorded in the Consolidated Statement of Income (Loss) amounted respectively to an expense of $0.2 million and $0.4 million, including the impact of the change in the market price of the Corporation's share, which amounted to an immaterial gain during the three-month and six-month periods ended July 31, 2019 respectively (a $72,000 and $201,000 recovery for the three-month and six-month periods ended July 31, 2018 respectively, including the impact of the change in the market price of the Corporation's share, which amounted to a recovery of $72,000 and $217,000 for the three-month and six-month periods ended July 31, 2018, respectively).

The fluctuation in DSU for External Directors was as follows:

	3 Months		6 Months	
Periods Ended July 31,	**2019**	2018	**2019**	2018
(In number of deferred share units)	**Number**	Number	**Number**	Number
Outstanding, at the beginning of the period	**538,996**	401,022	**403,827**	391,895
Awarded	**126,905**	—	**262,074**	9,127
Distributed	**(205,132)**	—	**(205,132)**	—
Outstanding and vested, at the end of the period	**460,769**	401,022	**460,769**	401,022

The carrying amount and the intrinsic value of the liabilities related to the external directors' vested DSU amounted to $0.6 million as at July 31, 2019 ($0.5 million as at January 31, 2019).

15.2. Executive Officers and Key Employees

As set forth in the DSU Plan, the Corporation may grant DSU, on a discretionary basis, to executive officers and key employees. These DSU usually vest gradually over a 2 to 5-year period, at a rate of 20% to 50% per year. The vested DSU will be bought back in cash by the Corporation on the date its holder ceases to be an officer or employee of the Corporation by reason of death, retirement or loss of function as officer or employee.

The DSU are recognized progressively 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.

During the three-month and six-month periods ended July 31, 2019 and 2018, the DSU compensation for executive officers and key employees amounted to an immaterial amount, including the impact of the change in the market price of the Corporation's share.

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

	3 Months		6 Months	
Periods Ended July 31,	**2019**	2018	**2019**	2018
(In number of deferred share units)	**Number**	Number	**Number**	Number
Outstanding, at the beginning of the period	**273,228**	304,435	**272,444**	303,733
Awarded	**—**	—	**1,245**	702
Forfeited	**—**	—	**(461)**	—
Outstanding, at the end of the period	**273,228**	304,435	**273,228**	304,435
Vested, at the end of the period	**155,601**	132,176	**155,601**	132,176

The carrying amount of the liabilities related to executive officers and key employees' DSU, amounting to $0.3 million as at July 31, 2019 and as at January 31, 2019, and of which $0.2 million corresponds to the intrinsic value of vested DSU as at July 31, 2019 and January 31, 2019.

16. DIVIDEND

On September 11, 2019, the Corporation's Board of Directors approved the payment of a semi-annual dividend of $0.01 per share that will be paid on October 16, 2019, to shareholders of record as at September 30, 2019.

17. ORDER BACKLOG

ADF Group's order backlog totalled $345.1 million on July 31, 2019, compared with $141.1 million on the same date a year earlier and $219.5 million on January 31, 2019. This variation is attributable to the newly signed contracts and contractual changes, net of the execution of contracts.

As at July 31, 2019, 39% of the order backlog consisted of fabrication hours – the Corporation's core business and most value-added activity – compared with 44% on January 31, 2019. Most of the contracts on hand as at July 31 2019, will be progressively executed between now and the end of the fiscal year ending January 31, 2021.

18. FINANCIAL POSITION

As at July 31, 2019, the Corporation had a sound financial position. The Corporation's solid financial position allows it to obtain, when required, the necessary bonding for the award of large-scale contracts. This represents a major advantage for ADF within its markets.

The following table provides details on the major changes in the Consolidated Statement of Financial Position between January 31, 2019 and July 31 2019.

Sections	Changes	Explanatory Notes
	(In millions of dollars)	
Cash and cash equivalents, net of the variation in the credit facilities	**1.0**	See Section 12 "Cash Flow and Financial Position" hereinabove.
Accounts receivable	**11.0**	Increase in billing, in line with the activity level and work progress schedules.
Holdbacks on contracts	**2.5**	In accordance with the activity level and the billing of contracts on hand.
Contract assets, net of contract liabilities	**6.5**	Net difference between work progress and progressive revenue billing. The increase reflects the level of activity during the period.
Property, plant and equipment, intangible assets and right-of-use assets	**—**	Change coming from the acquisitions of property, plant and equipment and intangible assets ($0.6 million) as well as the acquisition of right-of-use assets ($0.7 million), and the impact of the new accounting policy IFRS 16 "Leases" ($1.1 million), net of amortization ($2.3 million).
Accounts payable and other current liabilities	**15.4**	In line with the activity level at July 31, 2019.
Long-term debt and lease liabilities (including current portions)	**0.5**	Variation stemming from the increase of lease liabilities ($0.7 million), and the impact of the new accounting policy IFRS 16 "Leases" ($1.1 million), net of reimbursements of the debt and lease liabilities ($1.3 million).

19. CURRENT ECONOMIC ENVIRONMENT

Although the trends are improving in certain markets served by the Corporation, a degree of uncertainty remains regarding the economic context. In times of economic uncertainty, the Corporation is faced with the following challenges:

— Its business segment is strongly dependent on project owners' capacity to finance their projects. For lack of financing, certain projects can be delayed or simply abandoned. Although the Corporation strives to mitigate this risk by focusing its marketing efforts on projects whose financing is most likely to materialize, it has no control over financial market trends, and

— Certain project owners who secured financing on the start-up of projects could be forced to cease the work pursuant to the withdrawal of financing, due to a lack of capital of either the project lender or the owner. The Corporation mitigates this risk by ensuring that amounts due are diligently collected and, insofar as possible, maintaining at all times a positive cash flow for every project. Moreover, the Corporation does business with owners who are financially solid. At the date hereof, no project of the Corporation is subject to such constraints.

From a financing point of view, the Corporation has a sound financial position and currently respects all its financial covenants. It expects it will continue to do so during the next 12 months. Capital expenditures are subject to very close monitoring by Management. The Corporation does not anticipate any liquidity problems, in particular since its principal credit facility is issued by a Canadian chartered bank with a solid credit rating, and the Corporation's major clients are leaders in their respective fields. Based on the foregoing, the Corporation maintains its short-term prospects (see Section 26 "Outlook") and does not currently foresee any short-term elements that could compromise its course of business.

That being said, and in light of the fact that the Corporation does not enjoy all the visibility from which it normally benefits in its markets, the Corporation will continue to use caution and will closely monitor the situation (see Sections 20 " External Factors to Which the Corporation's Performance is Exposed" and 26 "Outlook").

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

20.1. Exchange Rate

The exchange rate fluctuation between the Canadian and U.S. dollars has an impact on the Corporation's results. Thus, foreign exchange loss of $0.2 million were respectively recorded during the three-month and six-month periods ended July 31, 2019, compared with foreign exchange gains of $1.0 million and $2.0 million respectively for the three-month and six-month periods ended July 31, 2018.

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

— Issuance of new debts in U.S. dollars ;
— When advantageous, the raw material (steel) and welding products required for fabrication are purchased in U.S. dollars, and
— A foreign exchange policy to protect a portion of the net risk between the U.S-denominated cash inflows and outflows.

20.2. Operating Risks and Uncertainties

ADF's markets are subject to several risk and uncertainty factors, which could have an impact on its business, financial position and operating results. These risks and uncertainties include, but are not limited to the following factors, which are further detailed in the Section 24 "External Factors to Which the Corporation's Performance is Exposed" in the MD&A for the fiscal year ended January 31, 2019:

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

21. FINANCIAL INSTRUMENTS

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

As at July 31, 2019, the carrying amount of these financial instruments did not significantly differ from the fair market value, either because of their forthcoming maturity date (in the case of cash, cash equivalents, accounts receivable, holdbacks on contracts, contract assets and liabilities, credit facilities, and accounts payable and other current liabilities), or because the Corporation believed it could obtain similar conditions and schedules (in the case of the long-term debt and lease liabilities) or since they are re-evaluated at their fair value at the end of every period (in the case of derivative financial instruments) (see Note 11 "Financial Instruments" in the Unaudited Interim Condensed Consolidated Financial Statements for the Three-Month and Six-Month Periods Ended July 31, 2019).

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

The Corporation is mostly exposed to credit, liquidity and market risks, including exchange rate and interest rate risks, when using financial instruments. A description of how the Corporation manages these risks is included in Note 26 "Financial Risk Management" in the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2019, and has remained unchanged for the interim period ended July 31, 2019.

22. CONTROLS AND PROCEDURES

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

During the three-month period ended July 31, 2019, no changes were made to the internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls and procedures.

23. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been prepared using the same accounting policies as those presented in Note 2 "Summary of Significant Accounting Policies" to the Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2019, except for the adoption of new accounting policies described in Note 3 "Changes in Accounting Policies" of the Unaudited Interim Condensed Financial Statements for the Three-Month and Six-Month Periods Ended July 31, 2019. The main change is related to the adoption of IFRS 16 "Leases", a summary of which is described in the next section.

24. CHANGE IN ACCOUNTING POLICIES

On February 1, 2019, the Corporation adopted IFRS 16 "Leases", which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is, the customer ("lessee") and the supplier ("lessor").

IFRS 16 replaces the following standards: IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases - Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 introduces a single lease accounting model for lessees whereby all lease agreements are recognized in the Consolidated Statement of Financial Position through a right-of-use asset and a lease liability. Exemptions are permitted for short-term leases and leases for which the underlying asset is of low value.

24.1. Impacts of the Adoption

For leases previously classified as operating leases, the Corporation recognized a lease liabilities for a total of $1.1 million measured at the present value of the remaining lease payments, discounted using the Corporation’s incremental estimated borrowing rate of 4.5% as at February 1, 2019, as well as a right-of-use assets for a corresponding value. In the Consolidated Statement of Income (Loss), rent expense is replaced by amortization of the right-of-use asset and by interest on the lease liability calculated using the effective interest rate method.

For leases previously classified as finance leases, the carrying amounts of the right-of-use assets and of the lease liabilities as at February 1, 2019 correspond to the carrying amounts of the property, plant and equipment held under finance leases of $22.1 million and the finance lease debt of $4.3 million as measured in accordance with IAS 17 as at January 31, 2019. In the Consolidated Statement of Income (Loss), the amortization of the right-of-use asset and the interest on the lease liability are consistent to the amortization of property, plant and equipment held under finance leases and interest on finance lease debt previously recognized in accordance with IAS 17.

The right-of-use asset is reported in the Consolidated Statement of Financial Position. It is then measured at cost less accumulated amortization and impairment losses. Amortization is calculated over either the lease term or estimated useful life, whichever is shorter, except for lease agreements that have the effect, at the end of their term, of transferring ownership to the Corporation the property of the underlying good. In these cases, the Corporation amortizes the right-of-use assets until the end of the useful life.

The lease liability is reported in the Consolidated Statement of Financial Position. It is then measured at amortized cost using the effective interest rate method.

The Corporation has adopted the standard on a retrospective basis with the cumulative effect of initially applying IFRS 16 recorded as of February 1, 2019, with any effect recorded to the retained income and no restatement of prior years. Based on the above, there was no impact on retained income as of the date of adoption.

As part of the transition to IFRS 16, the Corporation applied the following practical expedients:

— the Corporation did not reassess whether a contract is, or contains, a lease at the date of initial application. It has applied IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4 ;

— the Corporation accounted for leases with a term of 12 months or less at the date of initial application as short-term leases by recognizing the rent payments in profit or loss on a straight-line basis over the lease term, and

— the Corporation has elected to recognize the expense of low-value leases on a straight-line basis over the lease term.

The retrospective application of IFRS 16 had the following impact as at February 1, 2019:

Consolidated Statements of Financial Position	**Balance as at January 31, 2019**	**IFRS 16 Adjustments**	**Adjusted Balance as at February 1, 2019**
(In thousands of dollars)	$	$	$
Property, plant and equipment	89,375	(22,149)	67,226
Right-of-use assets	—	23,217	23,217
Current portion of leases liabilities	—	610	610
Current portion of long term debt	2,272	(399)	1,873
Long term debt	24,939	(3,900)	21,039
Lease liabilities	—	4,757	4,757

25. HUMAN RESOURCES

As at July 31, 2019, the Corporation employed a total of 529 people across its head office, fabrication complex and paint shop in Terrebonne, Quebec, and its office, fabrication plant and paint shop in Great Falls, Montana, U.S.A., and as well as the various construction sites in United States.

26. OUTLOOK

It has been a while since we had reported two consecutive quarters with positive results. We continue our efforts to grow the order backlog, which remains the cornerstone of our growth. We also make sure to maintain our tradition of operational excellence because despite the ups and downs of the economy, ADF's success depends on the quality of our services and the satisfaction of our clients.

Given our backlog and the pipeline of projects that we are currently bidding, we are confident and look forward to the coming quarters with optimism. The growth of the order book and of our results naturally adds some pressure on our liquidities, but we have the tools to carry out this growth, and to carry on this sequence of positive results.

27. ADDITIONAL INFORMATION

The Corporation regularly discloses information through press releases, quarterly and annual reports and the Annual Information Form, available on the Corporation's website at www.adfgroup.com and the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.SEDAR.com.

Ms. Marise Paschini

/ Signed /

Executive Vice-President, Treasurer and Corporate Secretary

Mr. Jean-François Boursier, CPA, CA

/ Signed /

Chief Financial Officer

Terrebonne, Quebec, Canada, September 11, 2019

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

Ce document est également disponible en français.

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