



# ANNUAL REPORT

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

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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FISCAL YEAR ENDED JANUARY 31, 2018

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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, 2018.

## MESSAGE TO SHAREHOLDERS

### Highlights of the Fiscal Year

The 2018 fiscal year sums up in a 75% increase in revenues, a sustained pressure on sales prices and a decline in net income from the previous fiscal year. In addition to the impact of the price pressure on margins, the decline in net income is also attributable to the recognition of an additional one-time, non-monetary expense related to the write-off of deferred income tax assets, thereby bringing down as a result the 2018 fiscal net income by \$8.7 million, compared with fiscal 2017. Had it not been for this item, the net income for the 2018 fiscal year would have recorded a gain compared with the previous year. We invite you to consult our Management's Discussion and Analysis Report for the fiscal year ended January 31, 2018, for more details on the financial position and operating results.

These results nonetheless show that the efforts and the various actions undertaken in past years to further improve the overall efficiency and control operating costs, are paying off and encourage us to pursue our efforts. More specifically, during the 2018 fiscal year, we optimized our communication platform to improve its interactivity and to simplify the management and the collection of technical and financial data, enabling us to enhance our service offering to our clients.

The projects that currently make up our order book and those for which we are competing at the time of writing these lines, do no longer generate the level of margins as in the past, being still penalized by a sustained pressure on prices, and a persistently challenging economic environment in our target markets. To that effect, we have been seeing in recent years a wave of consolidation among several actors of our industry, which drives competition and keeps sales prices low. This is an undeniable reality, but at the same time we see it as an opportunity to define a sustainable and coherent development strategy, to continue innovating, firstly to differentiate us from the competition by providing our clients added-value in terms of expertise and capacity, and secondly, to increase productivity and improve operational efficiency across the company.

### Fiscal 2019

As previously mentioned, the Corporation is qualified for major projects in North American and we are actively working to grow the order backlogs for all our facilities.

At the beginning of the current fiscal year we had to temporarily adjust the staff number downward at our Terrebonne plant as a result of three unsuccessful bids for major projects in the United States. More specifically, these bid openings coincided with the announcement of the U.S. government's intention to impose new tariffs on steel imports on U.S. soil. Our clients rendered their final decisions before the U.S. government officially confirmed that Canada is exempted from such tariffs. The adjustment in staff number was planned on the basis of the current business level, but also in the event of an increase in volume at our Terrebonne plant. Because there is usually a delay between the signing of a new contract and the start of production in the plant, the recall to work of employees who were temporary laid off will be done progressively.

It is not the first time we have been faced with difficult situations and changes in our markets. When the need arises, we review and adjust our action plan to the new elements. We stay the course and remain focused on our objectives of sustainable growth.

In conclusion, we would like to thank our Board members for their support and advice, as well as ADF's employees, who, through their dedication, allow us to maintain our high quality standards. We also thank our business partners and our clients for their renewed confidence towards ADF Group, and you, our shareholders, for your support during the past years.

Jean Paschini

Pierre Paschini, P.Eng.

Marise Paschini

/ Signed /

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

/ Signed /

President and Chief Operating Officer

/ Signed /

Executive Vice-President, Treasurer and  
Corporate Secretary

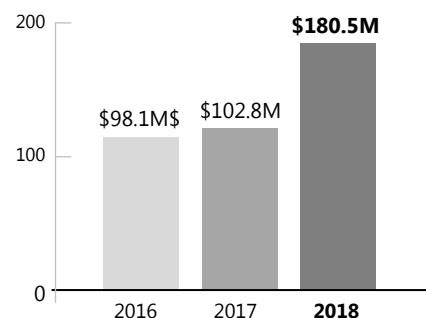
Terrebonne, April 11, 2018

## FINANCIAL HIGHLIGHTS

(All selected financial figures are in Canadian dollars, unless otherwise indicated.)

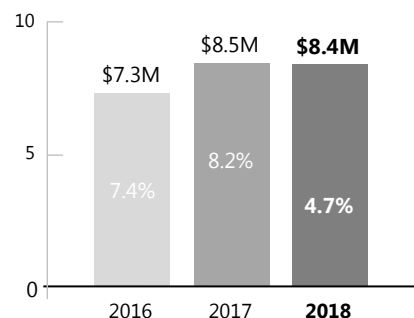
### REVENUES

(In millions \$)



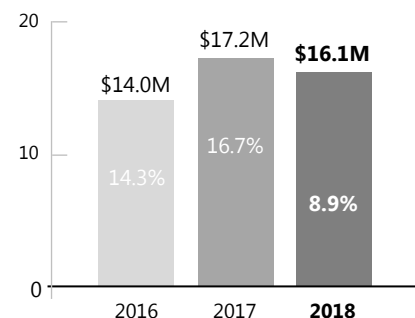
### EBITDA

(In millions \$ and as a % of revenues)



### GROSS MARGIN

(In millions \$ and as a % of revenues)



Fiscal Years Ended January 31,	2018	2017	2016	2015	2014
(In thousands of dollars)	\$	\$	\$	\$	\$
<b>OPERATING RESULTS</b>					
Revenues	<b>180,474</b>	102,846	98,089	76,058	92,997
Earnings before interest, taxes, depreciation and amortization (EBITDA) <sup>(1) (2)</sup>	<b>8,436</b>	8,462	7,244	1,594	14,234
Income before income taxes expense (recovery)	<b>2,172</b>	2,513	2,787	(2,777)	10,610
Net income	<b>(7,213)</b>	1,499	1,699	(1,570)	7,682
<b>FINANCIAL POSITION</b>					
Total assets	<b>175,258</b>	158,684	146,471	137,815	127,984
Shareholders' equity	<b>95,782</b>	105,650	107,533	103,958	101,833
Total debt, net of liquidities (total liquidities net of debt) <sup>(2)</sup>	<b>35,353</b>	31,716	12,842	1,402	(13,452)
Working capital	<b>34,768</b>	24,769	20,961	19,476	29,615
<b>OTHER CONSOLIDATED FINANCIAL DATA</b>					
Liquidities <sup>(3)</sup>	<b>2,998</b>	334	2,377	8,735	19,473
Cash flows from operating activities	<b>3,662</b>	(10,635)	(1,157)	1,420	13,744
Net acquisition of property, plant and equipment	<b>4,831</b>	6,809	8,591	13,860	22,683
<b>RATIOS</b>					
Working capital	<b>1.74:1</b>	1.77:1	1.96 :1	1.88 :1	2.53 :1
Long-term debt to shareholders' equity	<b>0.40:1</b>	0.30:1	0.14 :1	0.10 :1	0.06 :1
<b>PER SHARE INFORMATION</b> (In dollars per share)					
Basic earnings per share	<b>(0.22)</b>	0.05	0.05	(0.05)	0.24
Diluted earnings per share	<b>(0.22)</b>	0.05	0.05	(0.05)	0.23
Book value per share <sup>(2)</sup>	<b>2.93</b>	3.24	3.30	3.20	3.13

(1) Excluding foreign exchange variations.

(2) EBITDA, total debt, net of liquidities (total liquidities net of debt) and book value per share are not a performance measures recognized by IFRS standards, and are not likely to be comparable to similar measures presented by other issuers. Management, as well as investors, consider these to be useful information to assist them in assessing the Corporation's profitability and ability to generate funds to finance its operations (refer to Section "Non-GAAP Measures" of the Management's Discussion and Analysis for the fiscal year ended January 31, 2018 for the definition of these metrics and reconciliation to the most comparable IFRS measures).

(3) Including cash, cash equivalents and short-term investment, net of the bank overdraft.

## BOARD OF DIRECTORS AND COMMITTEES

<b>Jean Paschini</b>	Co-Chair of the Board of Directors and Chief Executive Officer, ADF Group Inc.
<b>Antonio P. Meti</b> , B. Comm. <sup>(1)</sup> <sup>(2)</sup>	Co-Chair of the Board of Directors and Independent Board Leader of ADF Group Inc. President, G.D.N.P. Consulting Services Inc.
<b>Pierre Paschini</b> , P.Eng.	President and Chief Operating Officer, ADF Group Inc.
<b>Marise Paschini</b>	Executive Vice President, Treasurer and Corporate Secretary, ADF Group Inc.
<b>Marc L. Belcourt</b> , Eng. (ret) <sup>(1)</sup> <sup>(2)</sup>	Construction Consultant
<b>Michèle Desjardins</b> , MBA, F.Adm.A, C.M.C., ICD.D <sup>(1)</sup> <sup>(2)</sup>	President and Founder, Koby Consulting Inc. Senior Partner, Lansberg Gersick & Associates, LLC
<b>Frank Di Tomaso</b> , FCPA, FCA, ICD.D <sup>(1)</sup> <sup>(2)</sup>	Corporate Director
<b>Robert Paré</b> <sup>(2)</sup>	Strategic Advisor, Fasken Martineau DuMoulin, LLP

(1) Member of the Audit Committee, chaired by Mr. Di Tomaso.

(2) Member of the Compensation, Nominating and Governance Committee, chaired by Ms. Desjardins.

## ADF Group Management Team

Jean Paschini	Chief Executive Officer
Pierre Paschini, P.Eng.	President and Chief Operating Officer
Marise Paschini	Executive Vice-President, Treasurer and Corporate Secretary
Jean-François Boursier, CPA, CA	Chief Financial Officer
Carolyn Carboneau-Hanson, P.Eng., M.Eng.	Vice-President, Engineering and Operations

## INFORMATION TO SHAREHOLDERS

The Annual Meeting of Shareholders will take place on Wednesday, June 13, 2018 at 11:00 a.m. at the Imperia Hotel & Suites, located at 2935 de la Pinière Boulevard, Terrebonne, Quebec, Canada J6X 0A3.

The Annual Information Form for the fiscal year ended January 31, 2018 is available at the Corporation's headquarters, as well as on the websites of ADF Group Inc. at [www.adfgroup.com](http://www.adfgroup.com), and of SEDAR at [www.sedar.com](http://www.sedar.com).

## Investor Relations

ADF Group Inc.	Computershare
Public Relations Department	Investor Services
300 Henry-Bessemer	1500 Robert-Bourassa, S. 700
Terrebonne, Quebec J6Y 1T3	Montreal, Quebec H3A 3S8
T. (450) 965-1911	T. (514) 982-7888
F. (450) 965-8558	F. (514) 982-7974
<a href="mailto:infos@adfgroup.com">infos@adfgroup.com</a>	

## Stock Information

The Corporation's securities are listed on the Toronto Stock Exchange under the ticker symbol TSX:DRX. On April 11, 2018, there were 18,292,099 subordinate voting shares issued and outstanding.

## GENERAL INFORMATION

Head Office	<b>ADF Group Inc.</b> 300 Henry-Bessemer Terrebonne, Quebec, Canada J6Y 1T3	Transfer Agent and Registrar	<b>Computershare Trust Company of Canada</b> 1500 Robert-Bourassa Boulevard, Suite 700 Montreal, Quebec, Canada H3A 3S8
Main Subsidiary	<b>ADF International Inc.</b> Great Falls, Montana, USA Pompano Beach, Florida, USA	Independent Auditor	<b>PricewaterhouseCoopers LLP</b> 1250 René-Lévesque Boulevard West, Suite 2500 Montreal, Quebec, Canada H3B 4Y1
		Financial Institution	<b>National Bank of Canada</b> 600 De la Gauchetière Boulevard West Montreal, Quebec, Canada H3B 4L2
		Law Firm	<b>Fasken Martineau DuMoulin, LLP</b> Exchange Tower, 800 Square Victoria, Suite 3400 Montreal, Quebec, Canada H4Z 1E9

1. **GENERAL**

The purpose of this management's discussion and analysis of the financial position and operating results ("MD&A") is to provide the reader with an overview of the changes in the financial position of ADF Group Inc. ("ADF", "ADF Group" or "the Corporation") between January 31, 2017 and January 31, 2018. It also compares the operating results and cash flows for the fiscal year ended January 31, 2018 to those of the previous year. This MD&A covers all major events that occurred during the 2018 fiscal year and between February 1, 2018 and April 11, 2018, on which date ADF Group Inc.'s Board of Directors approved the consolidated financial statements, as well as the MD&A for the fiscal year ended January 31, 2018.

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

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

2. **FORWARD-LOOKING STATEMENTS**

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

Such factors include, but are not limited to the impact of economic conditions in Canada and the United States; industry conditions including amendments in laws and regulations; increased competition; potential shortfall of qualified personnel or managers; availability and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, U.S. and international standard setters. Some of these factors are further discussed under Section 25 "External Factors to Which the Corporation's Performance is Exposed" in this MD&A. It should be noted that the list of factors that may affect future growth, results and performance, provided in this MD&A, is not exhaustive. The reader should not place undue reliance on forward-looking statements.

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

3. **GENERAL OVERVIEW**

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

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

4. **COMMERCIAL POSITIONING**

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

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

## 5. MARKET TRENDS

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

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

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

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

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

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

## 6. SIGNIFICANT EVENTS OF THE FISCAL YEAR

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

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

### 6.2 Deferred Income Tax Assets Write-Off

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

### 6.3 Other Significant Events During The Fiscal Year

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

- On April 12, 2017, the Corporation's Board of Directors approved a semi-annual dividend of \$0.01 per share to be paid on May 16, 2017 to shareholders of record as at April 28, 2017.
- On May 19, 2017, a subsidiary of the Corporation contracted a new loan to finance the purchase of equipment for its fabrication plant in Great Falls, Montana. This US\$520,000 loan from a U.S. bank has a 5-year term and bears a fixed annual interest rate of 3.84%. On that same date, pursuant to the closing of the new long-term debt mentioned above, the U.S. revolving credit was reduced to US\$440,360. All other conditions thereof remain unchanged. Both the new long-term debt and the U.S. revolving credit are secured by a US\$3.4 million letter of credit.
- On May 30, 2017, the Corporation announced having concluded a series of commercial agreements, totalling \$51.0 million. These new orders were obtained in the U.S. East Coast and West Coast markets and are for the fabrication and the erection of complex steel structures and heavy steel components that are part of new commercial building projects. These new contracts will extend over a 16-month period.

- On June 27, 2017 and January 9, 2018, the Corporation has drawn the third and fourth tranches of \$5.0 million totaling \$10.0 million from a loan obtained during the third quarter of the 2016 fiscal year. The Corporation obtained this long-term loan with progressive disbursement, for a total value of \$20.0 million, from a government corporation, to finance, among others, its working capital. The initial \$5.0 million tranche was received at the issuance of the loan in August 2015, whereas the second \$5.0 million tranche was received in February 2016.
- On July 27, 2017, the Corporation obtained a temporary increase of its credit facility. Effective on that date, the Corporation's Canadian operating credit facility increased from \$20.0 million to \$24.4 million. This increase was in effect until September 30, 2017, on which date the credit facility was reduced back to \$20.0 million. This temporary increase will allow the Corporation to better manage the pressure exerted by the new projects on its working capital. Other than the loan's amount, all other terms and conditions remained unchanged.
- On August 17, 2017, the Corporation rebalanced its foreign exchange contracts on hand at that date. In order to adjust the net currency exchange risk, the Corporation cashed out all of its foreign exchange contracts on that date and immediately entered into new foreign exchange contracts expiring over the next 18 months. Pursuant to this transaction, the Corporation cashed \$2.4 million from the difference between the exchange rate at the time of the transaction and the average rate of the foreign exchange contracts the Corporation had on that date.
- On September 13, 2017, the Corporation's Board of Directors approved a semi-annual dividend of \$0.01 per subordinate and multiple voting share, that was paid on October 17, 2017, to shareholders of record as at September 29, 2017.

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

- On March 27, 2018, the Corporation announced that it had to proceed to the temporary layoff of fifty employees at its Terrebonne facilities. This temporary measure, which does not result in additional costs, occurred as a result of three unsuccessful bids submitted by the Corporation for major projects in the United States. The recall to work of employees targeted by this temporary layoff will be done progressively as new contracts are signed, and taking into account the usual delay between the signing of a contract and the start of production in the plant.
- On April 11, 2018, the Corporation's Board of Directors approved a semi-annual dividend of \$0.01 per share to be paid on May 16, 2018 to shareholders of record as at April 30, 2018.

## 8. EXCHANGE RATE

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

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

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

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

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

## 9. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

### 9.1 Revenue and Cost Recognition

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



situations having an impact on costs. These estimates depend on Management's judgment with respect to these factors at a specific date, and certain of these estimates are difficult to determine before the project is sufficiently advanced.

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

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

## 9.2 Measurement Uncertainty

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

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

## 10. NON-GAAP MEASURES

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

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

### 10.1 Working Capital

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

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

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

### 10.2 Long-Term Debt to Shareholders' Equity Ratio

This ratio indicates the extent to which the Corporation depends on long-term financing as it measures the relationship between the Corporation's indebtedness and the capital invested by shareholders. It represents the Corporation's total long-term debt, including the current portion and credit facilities, over shareholders' equity.

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

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

### 10.3 Total Debt, Net of Liquidities

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

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

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

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

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

### 10.5 Liabilities to Shareholders' Equity Ratio

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

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

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

### 10.6 EBITDA and EBITDA Margin

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

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

Net income is reconciled with EBITDA in the table below:

Fiscal Years Ended January 31,	2018	2017
(In thousands of dollars)	\$	\$
Net income	(7,213)	1,499
Income tax expense	9,385	1,014
Financial revenues	(30)	(49)
Financial expenses	1,638	1,057
Amortization	4,423	4,687
Foreign exchange loss	233	254
<b>EBITDA</b>	<b>8,436</b>	<b>8,462</b>
— As a % of revenues	4.7%	8.2%

### 10.7 Book Value

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

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

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

## 10.8 Return on Shareholders' Equity

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

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

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

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

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

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

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

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

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

## 12. SELECTED ANNUAL FINANCIAL INFORMATION

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

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

As further explained below, the increase in revenues stems from the higher level of activity recorded during the fiscal year ended January 31, 2018. As previously explained (Section 6 "Significant Events of the Fiscal Year"), the write-off of deferred income tax assets combined with the change

to the U.S. federal tax rate, reduced the net income for the fiscal year ended January 31, 2018, by \$9.2 million. Moreover, the current pressure on prices on markets served by the Corporation also explain the level of net income, especially when compared to the growth in revenues.

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

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

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

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

#### 13.1 Revenues and Gross Margin

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

##### a) Revenues

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

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

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

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

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

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

##### b) Gross Margin

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

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

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

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

### 13.2 Selling and Administrative Expenses

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

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

### 13.3 Amortization

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

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

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

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

### 13.4 Financial Revenues and Financial Expenses

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

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

### 13.5 Foreign Exchange Loss

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

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

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

The Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollars, since a significant portion of its revenues is generally recorded in U.S. dollars. For the fiscal year ended January 31, 2018, 91% of the Corporation's revenues were recorded in U.S. dollars (72% during the fiscal year ended January 31, 2017). Considering the improvement in U.S. markets and its new plant in Great Falls, Montana, the Corporation expects that the percentage of its revenues in U.S. dollars will continue to be significant during the fiscal year 2019.

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

Based on the balance as at January 31, 2018, of the Corporation's financial instruments denominated in foreign currencies, a 10% fluctuation in the exchange rate between the Canadian and U.S. dollars (all other variables remaining constant), would have had an insignificant effect on net income before tax and in comprehensive income (loss) before tax (\$0.4 million in fiscal 2017). However, this information only applies to financial instruments based on year-end balances and does not take into account the impact of foreign exchange fluctuations on revenues and other miscellaneous expenses for a complete fiscal year.

### 13.6 Income Tax Expense

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

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

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

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

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

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

## 14. COMMENTS ON QUARTERLY RESULTS

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

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

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

## 14.1 Results for the Last Eight Quarters

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

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

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

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

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

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

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

## 15. CASH FLOWS AND FINANCIAL POSITION

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

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

Management believes that these available funds are sufficient to support the execution of its order backlog in hand on January 31, 2018, and to meet its financial commitments for the 2019 fiscal year.

Furthermore, the Corporation continually appraises the opportunities to use part of its liquidities to finance certain projects that could provide additional long-term competitive advantages (see Section 33 "Outlook"). It also looks at opportunities for accelerated payments discounts negotiated with suppliers.

## 15.1 Operating Activities

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

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

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

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

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

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

## 15.2 Investing Activities

The Corporation's investing activities are summarized as follows:

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

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

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

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



### 15.3 Financing Activities

The Corporation's financing activities were as follows:

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

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

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

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

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

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

### 15.5 Debt Covenants

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

### 15.6 Contractual Obligations

#### a) Long-Term Debt

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

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

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

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

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

(1) Includes operating leases for rental space, as well as for rental vehicles and office equipment.

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

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

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

## 16. CAPITAL STOCK

Information on the outstanding shares, including stock options:

(In thousands of dollars, and in number of shares and options)	Subordinate Voting Shares		Multiple Voting Shares <sup>(1)</sup>		Total Outstanding Shares		Stock Options <sup>(2)</sup>
	Number	\$	Number	\$	Number	\$	Number
As at January 31, 2016	18,278,435	52,076	14,343,107	16,001	32,621,542	68,077	461,664
Issued on exercise of stock options	6,000	11	—	—	6,000	11	(6,000)
Granted (forfeited)	—	—	—	—	—	—	(72,000)
As at January 31, 2017	18,284,435	52,087	14,343,107	16,001	32,627,542	68,088	383,664
Issued on exercise of stock options	<b>7,664</b>	<b>32</b>	—	—	<b>7,664</b>	<b>32</b>	<b>(7,664)</b>
Granted (forfeited)	—	—	—	—	—	—	<b>(5,000)</b>
<b>As at January 31, 2018</b>	<b>18,292,099</b>	<b>52,119</b>	<b>14,343,107</b>	<b>16,001</b>	<b>32,635,206</b>	<b>68,120</b>	<b>371,000</b>

(1) These shares carry 10 votes per share.

(2) The weighted average exercise price of the current stock options is \$2.94 per unit.

## 17. STOCK OPTION PLAN

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

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

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

## 18. DEFERRED SHARE UNITS PLAN

### 18.1 External Directors

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

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

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

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

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

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

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

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

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

## 18.2 Executive Officers and Key Employees

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

The DSU are recognized progressively over the vesting period and their costs is determined using a valuation model based on the market price of the Corporation's subordinate voting shares. The based compensation expenses for executive officers and key employees, amounted to \$0.1 million for the fiscal year ended January 31, 2018 (\$0.4 million for the fiscal year ended January 31, 2017) including the impact of the change in the market price of the Corporation's share of an immaterial amount during each of the fiscal years ended January 31, 2018 and 2017.

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

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

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

## 19. DIVIDEND

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

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

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

## 20. ORDER BACKLOG

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

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

## 21. FINANCIAL POSITION

As at January 31, 2018, the Corporation had a sound financial position. The Corporation's solid consolidated statement of financial position allowed it to obtain, when required, the necessary bonding for the award of large-scale contracts. This represents a major advantage for ADF within its markets.

The following table provides details on the major changes in the Consolidated Statement of Financial Position between January 31, 2018 and January 31, 2017.

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

## 22. CURRENT ECONOMIC ENVIRONMENT

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

- Its business segment is strongly dependent on project owners' capacity to finance their projects. For lack of financing, certain projects can be delayed or simply abandoned. Although the Corporation strives to mitigate this risk by focusing its marketing efforts on projects whose financing is most likely to materialize, it has no control over financial market trends, and
- Certain project owners who secured financing on the start-up of projects could be forced to cease the work pursuant to the withdrawal of financing, due to a lack of capital of either the project lender or the owner. The Corporation mitigates this risk by ensuring that amounts due are diligently collected and, insofar as possible, maintaining at all times a positive cash flow for every project. Moreover, the Corporation does business with owners who are financially solid. At the date hereof, no project of the Corporation is subject to such constraints.

From a financing point of view, the Corporation has a sound financial position and currently respects all its financial covenants. It expects it will continue to do so during the next 12 months. Capital expenditures are subject to very close monitoring by Management. The Corporation does not anticipate any liquidity problems, in particular since its principal credit facility is issued by a Canadian chartered bank with a solid credit rating, and the Corporation's major clients are leaders in their respective fields. Based on the foregoing, the Corporation maintains its short-term prospects (see Section 33 "Outlook") and does not currently foresee any short-term elements that could compromise its course of business.

That being said, and in light of the fact that the Corporation does not enjoy all the visibility from which it normally benefits in its markets, the Corporation will continue to use caution and will closely monitor the situation (see Sections 25 "External Factors to Which the Corporation's Performance is Exposed" and 33 "Outlook").

## 23. RELATED PARTY TRANSACTIONS

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

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

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

## 24. EXECUTIVE OFFICERS' AND DIRECTORS' COMPENSATION

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

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

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

### 25.1 Exchange Rate

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

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

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

### 25.2 Operating Risks and Uncertainties

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

#### a) Indemnity Agreement

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

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

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

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

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

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

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

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

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

## 26. **FINANCIAL INSTRUMENTS**

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

As at January 31, 2018, the carrying amount of these financial instruments did not significantly differ from the fair market value, either because of their forthcoming maturity date (in the case of cash, cash equivalents, accounts receivable, holdbacks on contracts receivable, the bank overdraft, credit facilities and accounts payable and other current liabilities), or because the Corporation believed it could obtain similar conditions and schedules (in the case of the long-term debt) or since they are re-evaluated at their fair value at the end of every period (in the case of equity investments and derivative financial instruments) (see Note 27 "Financial Instruments" in the Notes to the Consolidated Financial Statements for the fiscal year ended January 31, 2018).

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

The Corporation is mostly exposed to credit, liquidity and market risks, including exchange rate and interest rate risks, when using financial instruments. A description of how the Corporation manages these risks is included hereinabove in this MD&A, as well as in Note 26 "Financial Risk Management" in the Notes to the Consolidated Financial Statements for the fiscal year ended January 31, 2018.

## 27. **ASSESSMENT OF THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of Corporation's disclosure controls and procedures as of January 31, 2018, as well as the effectiveness of Corporation's internal control over financial reporting as of the same date using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 Framework) and have concluded that they are effective.

During the quarter and the year ended January 31, 2018, no changes were made to internal control over financial reporting or disclosure controls and procedures that have materially affected, or are reasonably likely to materially affect, internal controls and procedures.

## 28. **DISCLOSURE AND INSIDER TRADING POLICIES**

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

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

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

### 29.1 **Change in Accounting Policies**

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

### 29.2 **Recent IFRS Pronouncements Not Yet Adopted**

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

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

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

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

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

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

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

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

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

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

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

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

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

i. **Transition Considerations**

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

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

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

ii. **Quantification of Impact**

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

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

— **Change Orders Notifications and Claims**

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

— **Presentation and Disclosures**

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

— **Procedures and Controls**

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

c) **IFRS 16 "Leases"**

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

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

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



30. **ENVIRONNEMENT**

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

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

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

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

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

31. **HUMAN RESOURCES**

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

32. **SUBSEQUENT EVENT**

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

33. **OUTLOOK**

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

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

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

34. **ADDITIONAL INFORMATION**

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

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

Ms. Marise Paschini

Mr. Jean-François Boursier, CPA, CA

/ Signed /

**Executive Vice-President, Treasurer and Corporate Secretary**

Terrebonne, Quebec, Canada, April 11, 2018

/ Signed /

**Chief Financial Officer**

## MANAGEMENT'S REPORT

### TO OUR SHAREHOLDERS

The consolidated financial statements and the Management Discussion and Analysis ("MD&A") of ADF Group Inc. (or 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 MD&A include items that are based on Management's best estimates and judgments. Financial information provided in the Annual Report is consistent with that shown in 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 is 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, made up 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 may at any time meet with the Audit Committee, with or without the presence of Management.

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.

Mr. Jean Paschini

Mr. Jean-François Boursier, CPA, CA

/ Signed /

/ Signed /

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

**Chief Financial Officer**

Terrebonne, Quebec, Canada, April 11, 2018

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF ADF GROUP INC.

We have audited the accompanying consolidated financial statements of ADF Group Inc., which comprise the consolidated statements of financial position as at January 31, 2018 and 2017 and the consolidated statements of income, comprehensive income (loss), change in shareholders' equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (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.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ADF Group Inc. as at January 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with IFRS.

/ Signed / <sup>(1)</sup>

Montréal, Quebec Canada, April 11, 2018

(1) CPA auditor, CA, public accountancy Permit No. A123498

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at January 31,	2018	2017
(In thousands of Canadian dollars)	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	4,905	334
Accounts receivable	33,099	22,326
Holdbacks on contracts (Note 15)	4,933	3,613
Income tax assets	927	842
Work in progress (Note 15)	30,314	21,077
Inventories (Note 6)	5,150	6,957
Derivative financial instruments (Note 26)	300	696
Prepaid expenses and other current assets	2,428	1,137
Total current assets	82,056	56,982
Non-current assets		
Property, plant and equipment (Note 7)	88,378	90,060
Intangible assets (Note 8)	3,197	2,920
Other non-current assets (Note 9)	1,627	3,406
Deferred income tax assets (Note 19)	—	5,316
Total assets	175,258	158,684
<b>LIABILITIES</b>		
Current liabilities		
Bank overdraft	1,907	—
Credit facilities (Note 10)	10,150	13,336
Accounts payable and other current liabilities (Note 11)	29,308	16,585
Income tax liability	422	184
Deferred revenues (Note 15)	3,435	1,264
Current portion of long-term debt (Note 12)	2,066	844
Total current liabilities	47,288	32,213
Non-current liabilities		
Long-term debt (Note 12)	26,135	17,870
Deferred income tax liabilities (Note 19)	6,053	2,951
Total liabilities	79,476	53,034
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 13)	68,120	68,088
Contributed surplus	6,423	6,422
Accumulated other comprehensive income (loss) (Note 14)	4,706	6,741
Retained income	16,533	24,399
Total shareholders' equity	95,782	105,650
Total liabilities and shareholders' equity	175,258	158,684

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

ON BEHALF OF THE BOARD OF DIRECTORS,

Director

Director

/ Signed /

/ Signed /

Mr. Jean Paschini

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

CONSOLIDATED STATEMENTS OF INCOME

Fiscal Years Ended January 31,	2018	2017
(In thousands of Canadian dollars and in dollars per share)	\$	\$
Revenues (Note 15)	<b>180,474</b>	102,846
Cost of goods sold (Note 16)	<b>164,352</b>	85,635
Gross Margin	<b>16,122</b>	17,211
Selling and administrative expenses (Note 16)	<b>12,109</b>	13,436
Financial revenues	<b>(30)</b>	(49)
Financial expenses (Note 12)	<b>1,638</b>	1,057
Foreign exchange loss	<b>233</b>	254
	<b>13,950</b>	14,698
Income before income tax expense	<b>2,172</b>	2,513
Income tax expense (Note 19)	<b>9,385</b>	1,014
Net income for the year	<b>(7,213)</b>	1,499
Earnings per share		
Basic and diluted per share (Note 20)	<b>(0.22)</b>	0.05
Average number of outstanding shares (in thousands) (Note 20)	<b>32,633</b>	32,624
Average number of outstanding diluted shares (in thousands) (Note 20)	<b>32,633</b>	32,686

#### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Fiscal Years Ended January 31,	2018	2017
(In thousands of Canadian dollars)	\$	\$
Net income for the year	<b>(7,213)</b>	1,499
Other comprehensive income (loss) (Note 14) <sup>(a)</sup> :		
Exchange differences on translation of foreign operations	<b>(2,035)</b>	(2,816)
Change in value of available-for-sale financial assets <sup>(b)</sup>	<b>—</b>	50
	<b>(2,035)</b>	(2,766)
Comprehensive income (loss) for the year	<b>(9,248)</b>	(1,267)

a) Will subsequently be reclassified to net income.

b) Net of an immaterial amount related income tax expense for the fiscal year ended January 31, 2017.

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

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital Stock (Note 13)	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) (Note 14)	Retained Income	Total
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$
Balance, February 1, 2016	68,077	6,397	9,507	23,552	107,533
Net income for the year	—	—	—	1,499	1,499
Other comprehensive income (loss)	—	—	(2,766)	—	(2,766)
Comprehensive income (loss) for the year	—	—	(2,766)	1,499	(1,267)
Share-based compensation (Note 13)	—	30	—	—	30
Options exercised	11	(5)	—	—	6
Dividends (Note 13)	—	—	—	(652)	(652)
Balance, January 31, 2017	68,088	6,422	6,741	24,399	105,650

	Capital Stock (Note 13)	Contributed Surplus	Accumulated Other Comprehensive Income (Loss) (Note 14)	Retained Income	Total
(In thousands of Canadian dollars)	\$	\$	\$	\$	\$
Balance, February 1, 2017	68,088	6,422	6,741	24,399	105,650
Net income 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 (Note 13)	—	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

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended January 31,	2018	2017
(In thousands of Canadian dollars)	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income for the year	(7,213)	1,499
Non-cash items:		
Amortization of property, plant and equipment (Note 7)	4,029	4,326
Amortization of intangible assets (Note 8)	394	361
Gain on disposal of property, plant and equipment (Note 7)	(39)	—
Unrealized loss (gain) on derivative financial instruments	396	(1,099)
Non-cash exchange loss	1,744	683
Share-based compensation (Note 13)	—	951
Income tax expense	9,385	1,014
Inventories depreciation allowance	(55)	209
Financial revenues	(30)	(49)
Financial expenses	1,638	1,057
Net income adjusted for non-cash items	10,249	8,952
Change in non-cash working capital items (Note 21)	(7,243)	(18,686)
Income tax recovery (paid)	656	(901)
Cash flows from (used in) operating activities	3,662	(10,635)
<b>INVESTING ACTIVITIES</b>		
Net acquisition of property, plant and equipment (Note 7)	(4,831)	(6,809)
Revenues from disposals of property, plant and equipment (Note 7)	175	—
Acquisition of intangible assets (Note 8)	(671)	(410)
Increase in other non-current assets	(21)	(12)
Interest received	30	49
Cash flows used in investing activities	(5,318)	(7,182)
<b>FINANCING ACTIVITIES</b>		
Variation in credit facilities (Note 10)	(3,159)	13,329
Issuance of long-term debt (Notes 12 and 21)	10,702	5,000
Repayment of long-term debt (Note 21)	(945)	(816)
Issuance of subordinate voting shares (Note 13)	17	6
Dividends paid (Note 13)	(653)	(652)
Interest paid	(1,603)	(1,040)
Cash flows from financing activities	4,359	15,827
Impact of fluctuations in foreign exchange rate on cash flow	(39)	(53)
Net change in cash and cash equivalents during the year	2,664	(2,043)
Cash, and cash equivalents, beginning of year (Note 21)	334	2,377
Cash and cash equivalents, end of year (Note 21)	2,998	334

Supplemental information on cash flows is provided in Note 21.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Years Ended January 31, 2018 and 2017

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.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board, and were approved by the Corporation's Board of Directors on April 11, 2018 and were signed on its behalf.

#### 2.2 Basis of Assessment

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

The principal accounting policies are summarized below.

##### a) Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Subsidiaries are those 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, 2018 and 2017, 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 <sup>(1)</sup>	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

(1) All of these interests are consolidated in the Corporation's consolidated financial statements.

##### b) Foreign Currency Translation

###### i. 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. When an entity disposes of part of an interest in a foreign operation, which remains its subsidiary, the proportionate amount of the cumulative translation differences recognized in other comprehensive income (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

ii. **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 Loss" in the Consolidated Statement of Income.

c) **Revenue and Cost Recognition**

The Corporation recognizes revenues and costs recorded for each contract and for each given financial period in accordance with IAS 11 "Construction Contracts".

A construction contract ("contract"), as defined by IAS 11, 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, contract revenue is recognized only to the extent of contract costs incurred 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 in the period in which the contract is realized. When it is probable that total contract costs will exceed total contract revenues, the expected loss is recognized as an expense immediately.

The Corporation uses the percentage-of-completion method to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are disclosed as inventories, prepaid expenses or other assets, depending on their nature.

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

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

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

Claims are included in the total estimated contract revenues when negotiations have reached an advanced stage, such that it is probable that the client will accept the claim, and that the probable amount that will be accepted by the client can be measured reliably.

d) **Contracts Receivable**

Contracts with clients generally provide that billing must be done periodically in accordance with the extent of work carried out under the contracts. Contracts receivable arise principally from the invoicing of the work in accordance with the contractual terms. Holdbacks on contracts receivable represent the amounts retained by the project owner as per milestones established in the contract.

e) **Work in Progress and Deferred Revenues**

Work in progress represents revenues earned under the percentage-of-completion method, which has not been billed. Deferred revenues represent amounts billed on contracts in excess of the revenues allowed to be recognized under the percentage-of-completion method on those contracts.

f) **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.

g) **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.

h) **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 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 if required.

i) **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 statement of income in the period in which they are incurred.

j) **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.

k) **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.

The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

l) **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 on a straight-line basis over the lease term.

m) **Income Tax Expense**

Income tax expense includes current and deferred income tax. Income tax expense is recognized in the Consolidated Statement of Income 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.

**n) Tax Credits and Government Grants**

In the course of its business, the Corporation may receive government grants, which are accounted for in accordance with Standard 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.

**o) 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 granted 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.

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

The Deferred Share Units Plan allows every external director, who elects to participate, to defer in whole or in part his director's compensation (including fees 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 Deferred Share Units 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.

**q) 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 by the weighted average number of outstanding shares during the period. Diluted earnings per share are obtained by dividing basic net income 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.

**r) Financial Instruments**

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are offset with the net balance recorded in the Consolidated Statement of Financial Position when there is legal 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.

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

i. **Financial Assets and Liabilities at Fair Value Through Net Income**

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 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 Loss" in the Consolidated Statement of Income for the period in which they arise.

ii. **Available-for-Sale Financial Assets**

Available-for-sale financial assets are non-derivatives 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. Available-for-sale financial assets 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 as dividend income when the Corporation's right to receive payment is established.

iii. **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 comprise cash and cash equivalents, accounts receivable, holdbacks on contracts and other current assets, 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.

iv. **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 recognized initially 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.

v. **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.

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

s) **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 under "Foreign Exchange Loss" as defined under Note 2 r) 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 Corporations' 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, and
- The gains or losses accumulated in shareholders' equity are included in the consolidated statement of income when the foreign operation is partially divested or sold.

**t) Impairment of Financial Assets**

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). If such evidence exists, the Corporation recognizes impairment as follows:

**i. 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.

**ii. 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. This amount represents the cumulative loss in accumulated other comprehensive income (loss) that is reclassified to net income.

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.

**u) 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 under "Cost of goods sold" and "Selling and administrative expenses", when they are payable.

**v) 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).

**w) 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**

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

**NOTE 4 RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED**

**4.1 IFRS 9 "Financial Instruments"**

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

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

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability designated at fair value through net income, will be presented in Other Comprehensive Income (Loss) rather than in the Consolidated Statement of Income.

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

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

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

#### 4.2 IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

##### iii. Transition Considerations

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

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

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

##### iv. Quantification of Impact

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

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

##### — Change Orders Notifications and Claims

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

##### — Presentation and Disclosures

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

## — Procedures and Controls

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

### 4.3 IFRS 16 "Leases"

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

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

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

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

The following sections provide details on the significant accounting judgements and estimates used by the Corporation to prepare the financial statements.

#### 5.1 Percentage of Completion of Work and Revenues from Contracts

Revenues from contract are determined using the percentage-of-completion method and reflect Management's best assessment by taking into account all information available, at the reporting date, of the result on each contract and its estimated costs. The Corporation has a complete project management procedures in place whereby the profitability of contracts in progress and the order backlog are evaluated at least monthly. As part of this process, Management makes important judgements regarding milestones reached, actual work performed, revenues and costs expected. Actual results could differ because of these unforeseen changes.

Calculation of projected costs to complete 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, the productivity and possible claims from subcontractors.

Calculation of anticipated revenues includes contractually agreed revenues and may also involve estimates of future revenues, notably from estimated volume of work, claims and unapproved change orders, if such additional revenues can be reliably estimated and it is considered likely that they will be recovered.

A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. An example of such contract variation could be a change in the specifications or design of the project, whereby the costs related to such variations might be incurred prior to the client's formal contract amendment signature. A claim represents an amount expected to be collected from the client or a third-party as reimbursement for costs incurred that are not part of the original contract. In both cases, Management's judgments are required in determining the probability that additional revenues will be recovered from these changes and in determining the amount to be recovered.

#### 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, 2018, 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 year. Actual results could however differ because of technical obsolescence, particularly with regard to hardware and software.

#### 5.3 Income Taxes

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, 2018, 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 as at 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 fair value based on an EBITDA (Earnings Before Interest Depreciation and Amortization) multiple approach. The significant assumptions, which affect the financial analysis include revenues, operating costs and margins, control premium, foreign exchange rates and comparable company 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 determinations. 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, 2018.

#### NOTE 6 INVENTORIES

As at January 31, (In thousands of CA\$)	2018	2017
Inventories	\$ 5,838	\$ 7,700
Inventories allowance	(688)	(743)
	<b>5,150</b>	6,957

During the fiscal year ended January 31, 2018, the amount of inventories recognized as cost of goods sold totalled \$42,507,000 and \$21,852,000 during the fiscal year ended January 31, 2017.

#### NOTE 7 PROPERTY, PLANT AND EQUIPMENT

	Lands	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, 2016					
Cost	7,586	79,636	38,377	7,585	133,184
Accumulated amortization	—	(17,778)	(18,553)	(5,786)	(42,117)
Net book value	7,586	61,858	19,824	1,799	91,067
Acquisitions	—	3,368	2,923	550	6,841
Exchange difference	(236)	(2,387)	(822)	(77)	(3,522)
Amortization expenses	—	(1,764)	(2,228)	(334)	(4,326)
Balance at January 31, 2017	7,350	61,075	19,697	1,938	90,060
As at January 31, 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)
<b>Balance at January 31, 2018</b>	<b>7,178</b>	<b>60,664</b>	<b>18,313</b>	<b>2,223</b>	<b>88,378</b>
<b>As at January 31, 2018</b>					
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



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

As at January 31,	2018	2017
(In thousands of CA\$)	\$	\$
Land	1,532	1,622
Building and improvement to land	19,555	21,283
Office furniture, rolling stock, and computer hardware	236	77
	21,323	22,982

For the fiscal year ended January 31, 2018, the amortization of property, plant and equipment totalled \$4,029,000 (\$4,326,000 for the fiscal year ended January 31, 2017) of which \$3,267,000 is included in the cost of goods sold, and \$762,000 is included in the selling and administrative expenses (respectively \$3,488,000 and \$838,000 for the fiscal year ended January 31, 2017).

The book value of the property, plant and equipment under construction and not amortized stood at \$1,839,000 as at January 31, 2018 (\$357,000 as at January 31, 2017). These amounts were mainly related to additions made to ADF's Terrebonne and Great Falls facilities.

#### NOTE 8 INTANGIBLE ASSETS

	In-house Software	Software	Total
(In thousands of CA\$)	\$	\$	\$
As at February 1, 2016			
Cost	6,630	2,907	9,537
Accumulated amortization	(3,939)	(2,727)	(6,666)
Net book value	2,691	180	2,871
Acquisitions	391	19	410
Amortization expenses	(326)	(35)	(361)
Balance at January 31, 2017	2,756	164	2,920
As at January 31, 2017			
Cost	7,020	2,469	9,489
Accumulated amortization	(4,264)	(2,305)	(6,569)
Net book value	2,756	164	2,920
Acquisitions	630	41	671
Amortization expenses	(357)	(37)	(394)
<b>Balance at January 31, 2018</b>	<b>3,029</b>	<b>168</b>	<b>3,197</b>
<b>As at January 31, 2018</b>			
Cost	7,651	2,508	10,159
Accumulated amortization	(4,622)	(2,340)	(6,962)
Net book value	3,029	168	3,197

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

For the fiscal year ended January 31, 2018, amortization of intangible assets totalled \$394,000 (\$361,000 for the fiscal year ended January 31, 2017) of which \$136,000 is included in the cost of goods sold and \$258,000 is included in the selling and administrative expenses (respectively \$143,000 and \$218,000 for the fiscal year ended January 31, 2017).

#### NOTE 9 OTHER NON-CURRENT ASSETS

As at January 31,	2018	2017
(In thousands of CA\$)	\$	\$
Investment tax credits	1,314	3,112
Equity investments	215	215
Other	98	79
	1,627	3,406

**NOTE 10 CREDIT FACILITIES****10.1 Canadian Operating Credit Facility**

On July 2017, the Corporation renewed its Canadian operating credit facility. In accordance with the revised credit facility agreement, which is renewable annually, the Corporation had access to a temporary operating credit facility of \$24,400,000 until September 30, 2017, 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 contracts 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, 2018 and 2017, the order backlog exceeded the threshold of \$70,000,000 and therefore the available amount of the credit facility was \$20,000,000 on both dates.

The credit facility used as at January 31, 2018, was \$10,150,000 (\$12,650,000 as at January 31, 2017). In addition, this credit agreement also provides the Corporation access to an amount of \$10,000,000 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 contracts 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, 2018.

**10.2 U.S. Revolving Credit**

In May 2017, in order to contract a new long-term loan of US\$520,000 (see Note 12), the available revolving credit of US\$800,000 as at January 31, 2017, was reduced to an available amount of US\$440,360.

In November 2017, the Corporation renewed the revolving credit agreement with a U.S. bank. This renewal raises the limit available to US\$669,508 compared to US\$440,360 prior to November 2017. This credit is renewable annually and may also be used for the issuance of letters of credit. As at January 31, 2018, this revolving credit was unused (US\$527,000, representing \$686,000 used as at January 31, 2017).

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 b).

**NOTE 11 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

As at January 31, (In thousands of CA\$)	2018	2017
Accounts payable	\$ 19,507	\$ 9,046
Salaries and fringe benefits payable	3,787	4,026
Accrued liabilities	2,551	1,801
Share-based compensation	1,270	1,295
Indirect taxes	21	118
Advances on contracts (Note 15)	2,172	299
	<b>29,308</b>	16,585

**NOTE 12 LONG-TERM DEBT**

As at January 31, (In thousands of CA\$)	2018	2017
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. <sup>(1) (a)</sup>	\$ 19,906	\$ 9,901
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). This U.S.-denominated loan amounted to US\$2,114,900 as at January 31, 2018 (US\$2,427,100 as at January 31, 2017). <sup>(2) (b)</sup>	2,600	3,158
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\$589,600 as at January 31, 2018 (US\$680,600 as at January 31, 2017). <sup>(2) (c)</sup>	725	886
Obligations under a financial lease agreement. This U.S.-denominated loan amounted to US\$3,402,300 as at January 31, 2018 (US\$3,627,700 as at January 31, 2017). <sup>(3) (d)</sup>	4,182	4,719
Bank loan secured by a US\$3,419,000 letter of credit (Note 22). This U.S.-denominated loan amounted to US\$465,100 as at January 31, 2018 (no amount as at January 31, 2017). <sup>(e)</sup>	572	—
Others obligations under a financial leases <sup>(3)</sup>	216	50
	<b>28,201</b>	18,714
Current portion	2,066	844
	<b>26,135</b>	17,870

- (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 \$4,654,000 as at January 31, 2018 and \$5,256,000 as at January 31, 2017, 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 \$21,322,000 as at January 31, 2018 (\$22,982,000 as at January 31, 2017).
- (a) During the fiscal year ended January 31, 2016, the Corporation obtained from the Development Bank of Canada, a \$20,000,000 long-term loan with progressive disbursements. This loan bears interest at the annual floating interest rate of the Development Bank of Canada, and is payable monthly. The first principal repayment, in the amount of \$96,000, will be made on March 1, 2018, followed by equal monthly installments of \$98,000, beginning March 1, 2018 and ending February 1, 2035, being the loan's maturity date.

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, 2018, the balance of the financing cost was \$94,000 (\$99,000 as at January 31, 2017).

- (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%. 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%. 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 debt 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.

This debt is repayable in equal monthly installments of US\$32,000 beginning in May 2014 and ending in May 2029, with a bargain purchase option for of \$10. This debt is also subject to certain covenants, including covenants related to job creation.

This debt 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, 2018 and 2017.

- (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 beginning in July 2017 and ending in May 2022.

During the fiscal year ended January 31, 2018, the Corporation respected all covenants of its long-term loans and bonding agreements (see Note 23.1).

The long-term debt matures as follows:

(In thousands of CA\$)	Obligation Under a Financial Lease			Other Debts	Total
	Minimum Payments	Interest	Principal	Principal	Required Principal Payments
	\$	\$	\$	\$	\$
2019	556	190	366	1,700	2,066
2020	556	174	382	1,825	2,207
2021	521	157	364	1,848	2,212
2022	485	140	345	1,873	2,218
2023	472	125	347	1,814	2,161
2024 thereafter	2,984	390	2,594	14,743	17,337
	5,574	1,176	4,398	23,803	28,201

During the fiscal years ended January 31, 2018 and 2017, financial expenses were as follows:

Fiscal Year Ended January 31,	2018	2017
(In thousands of CA\$)	\$	\$
Interest on long-term debt	990	798
Interest on credit facilities	579	141
Financial expenses	55	104
Others	14	14
	1,638	1,057

**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.

(In thousands of CA\$ and in number of shares)	Subordinate Voting Shares		Multiple Voting Shares		Total	
	Number	\$	Number	\$	Number	\$
As at February 1, 2016	18,278,435	52,076	14,343,107	16,001	32,621,542	68,077
Issued on exercise of stock options	6,000	11	—	—	6,000	11
As at January 31, 2017	18,284,435	52,087	14,343,107	16,001	32,627,542	68,088
Issued on exercise of stock options	<b>7,664</b>	<b>32</b>	—	—	<b>7,664</b>	<b>32</b>
<b>As at January 31, 2018</b>	<b>18,292,099</b>	<b>52,119</b>	<b>14,343,107</b>	<b>16,001</b>	<b>32,635,206</b>	<b>68,120</b>

**13.2 Dividend**

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.

During the fiscal year ended January 31, 2017, the Corporation recognized, as distribution to its shareholders of record as at April 29, 2016 and September 30, 2016, semi-annual dividends each totaling \$326,000, or \$0.01 per share, and representing a total of \$652,000 or \$0.02 per share, of which \$366,000 for subordinate voting shares and \$286,000 for multiple voting shares. These sums were paid on May 16, 2016 and October 17, 2016, respectively.

**13.3 Stock Option Plan**

At January 31, 2018, a total of 3,263,521 subordinate voting shares (3,262,754 as at January 31, 2017) were reserved for the Stock Option Plan, of which 1,198,921 at January 31, 2018 (1,193,154 as at January 31, 2017), had not yet been granted.

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

As at January 31,	2018		2017	
	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	<b>383,664</b>	<b>2.97</b>	461,664	2.68
Exercised	<b>(7,664)</b>	<b>2.14</b>	(6,000)	1.05
Forfeited	<b>(5,000)</b>	<b>6.48</b>	(72,000)	1.28
Outstanding, at the end	<b>371,000</b>	<b>2.94</b>	383,664	2.97
Exercisable, at the end	<b>331,000</b>	<b>2.98</b>	322,664	3.04

At January 31, 2018, the weighted average exercise price and the weighted average remaining contractual life of the options were as follows:

(In dollars per option and in number of options)	Options Outstanding			Options Exercisable	
	Outstanding	Weighted Average Remaining Life	Exercise Price	Outstanding	Weighted Average Remaining Life
Exercise Price	Number	Year	\$	Number	\$
\$					
5.65	60,000	0.20	5.65	60,000	5.65
2.66	100,000	6.45	2.66	60,000	2.66
2.52	60,000	1.86	2.52	60,000	2.52
2.45	96,000	1.45	2.45	96,000	2.45
1.88	50,000	2.62	1.88	50,000	1.88
1.21	5,000	4.37	1.21	5,000	1.21
	<b>371,000</b>	<b>2.86</b>	<b>2.94</b>	<b>331,000</b>	<b>2.98</b>

An immaterial expense for share-based compensation was recorded in the Consolidated Statement of Income for the fiscal year ended January 31, 2018, and a corresponding amount was recognized in contributed surplus (\$30,000 for the fiscal year ended January 31, 2017).

No options were granted during the fiscal years ended January 31, 2018 and 2017.

### 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, 2018 and 2017, DSU compensation to External Directors recorded in the Consolidated Statement of Income amounted to a \$82,000 recovery and an expense of \$588,000 respectively, including the impact of the change in the market price of the Corporation's share, which amounted to a \$297,000 recovery during the fiscal year ended January 31, 2018 (a recovery of \$59,000 during the fiscal year ended January 31, 2017).

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

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

The carrying amount and the intrinsic value of the liabilities related to the external directors' vested DSU amounted to \$823,000 as at January 31, 2018 (\$905,000 as at January 31, 2017), 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 (see Note 2.2 p), 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 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 share-based compensation expenses for executive officers and key employees, amounted to \$65,000 for the fiscal year ended January 31, 2018 (\$377,000 for the fiscal year ended January 31, 2017), and includes the impact of the change in the market price of the Corporation's share of an immaterial amount during each of the fiscal years ended January 31, 2018 and 2017.

The fluctuation in DSU for the executive officers and key employees as at January 31, 2018 was as follows:

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

As at January 31, 2018, the carrying amount of the liabilities related the executive officers and key employees' DSU, totalling to \$447,000 (\$390,000 as at January 31, 2017) is recorded in "Accounts Payable and Other Current Liabilities" in the Consolidated Statements of Financial Position, and of which \$156,000 corresponds to the intrinsic value of the vested DSU as at January 31, 2018 (\$183,000 as at January 31, 2017).

### NOTE 14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Fiscal Years Ended January 31, (In thousands of CA\$)	2018 \$	2017 \$
Exchange differences on translation of foreign operations, less hedging operations, net of related income taxes <sup>(1)</sup>		
Opening balance	6,552	9,368
Changes during the period	(2,035)	(2,816)
Closing balance	4,517	6,552
Change in value of available-for-sale financial assets <sup>(2)</sup>		
Opening balance	189	139
Changes during the period	—	50
Closing balance	189	189
	4,706	6,741

- (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 as part of the gain or loss on disposal.
- (2) The component "Available-for-sale financial assets" arises upon the revaluation of available-for-sale financial assets. When a revaluated financial asset is sold, the portion of the component that relates to that financial asset, and is effectively realized, is recognized in the Consolidated Statement of Income. When a revaluated financial asset is impaired, the portion of the component that relates to that financial asset is recognized in Consolidated Statement of Income.

#### NOTE 15 INFORMATION RELATED TO CONTRACTS

All revenues recognized during the fiscal years ended January 31, 2018 and 2017, derived from construction contracts 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, (In thousands of CA\$)	2018	2017
Total amount of cost incurred and profits and losses recorded on all ongoing contracts	\$ 296,663	\$ 206,620
Less progress billings	(269,784)	(186,807)
	26,879	19,813

Recognized as follows:

As at January 31, (In thousands of CA\$)	2018	2017
Amount owed by clients for work performed on contracts, recorded in work in progress	\$ 30,314	\$ 21,077
Amount owed to clients for work performed on contracts, recorded in deferred revenues	(3,435)	(1,264)
	26,879	19,813

Advances received from clients on contracts for work not yet realized have been recognized in accounts payable and other current liabilities (see Note 11). These advances totalled \$2,172,000 as at January 31, 2018 (\$299,000 as at January 31, 2017).

Holdbacks on contracts, amounting to \$4,933,000 as at January 31, 2018, will be received at the time of the client's approval of the work performed (\$3,613,000 as at January 31, 2017) and are included in current assets in the Consolidated Statement of Financial Position.

#### NOTE 16 CLASSIFICATION OF EXPENSES BY NATURE

Fiscal Years Ended January 31, (In thousands of CA\$)	2018	2017
Raw material, consumables and subcontracting	\$ 83,549	\$ 27,262
Salaries and employees' benefit expenses (Note 17) <sup>(1)</sup>	57,779	46,949
Transport	9,014	1,982
Drafting and engineering	5,533	5,118
Amortization expenses	4,423	4,687
Travelling expenses and representation	3,858	2,424
Professional fees	2,520	2,756
Maintenance and repairs	2,000	955
Rental equipment	1,775	969
Electricity and heating	1,647	1,540
Management fees with related companies (Note 18)	1,334	1,331
Insurance	1,080	1,048
Taxes and permits	985	1,083
Office expenses	660	591
Other	304	376
	176,461	99,071

Distributed as follows:

Fiscal Years Ended January 31, (In thousands of CA\$)	2018	2017
Cost of goods sold	\$ 164,352	\$ 85,635
Selling and administrative expenses	12,109	13,436
	176,461	99,071

- (1) For the fiscal year ended January 31, 2018, salaries and employees benefit expenses were decreased by a government grant of \$297,000 mostly for jobs creation. For the fiscal year ended January 31, 2017, salaries and employees benefit expenses were decreased by a government grant of \$108,000 for the training of skilled labor.

Cost of goods sold is as follows:

Fiscal Years Ended January 31, (In thousands of CA\$)	2018	2017
	\$	\$
Cost of goods sold excluding amortization	160,949	82,004
Amortization of property, plant and equipment and intangible assets	3,403	3,631
	164,352	85,635

#### NOTE 17 SALARIES AND EXPENSES RELATED TO EMPLOYEES BENEFITS

Fiscal Years Ended January 31, (In thousands of CA\$)	2018	2017
	\$	\$
Salaries and other short-term benefits	44,056	36,013
Social security costs	11,692	8,083
Pension plan contributions	1,748	1,620
Share-based compensation (Note 13)	—	951
Others	283	282
	57,779	46,949

#### 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, (In thousands of CA\$)	2018	2017
	\$	\$
Salaries and other short-term benefits	1,775	2,184
Social security costs	199	209
Management fees <sup>(1)</sup>	1,334	1,331
Pension plan contributions	138	136
Share-based compensation	(23)	883
Attendance fees	278	273
	3,701	5,016

- (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 Expense

Fiscal Years Ended January 31, (In thousands of CA\$)	2018	2017
	\$	\$
Current		
Income tax expense related to prior years	1,440	188
	1,440	188
Deferred		
Deferred tax expense related to changes in income tax rates	1,700	—
Non-recognition of deferred income tax assets from the United States	7,009	—
Adjustments for prior years	(939)	—
Recognition and reversal of temporary differences	115	824
Temporary differences for which no deferred income tax asset has been recorded	60	2
	7,945	826
Income tax expense	9,385	1,014

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

Fiscal Years Ended January 31, (In thousands of CA\$ and in percentage)	2018		2017	
	\$	%	\$	%
Allowance using basic income tax rates <sup>(1)</sup>	582	26.8	676	26.9
Increase (decrease) resulting from:				
Difference in rates for foreign subsidiaries	(522)	(24.0)	252	10.0
Non-recognition of deferred income tax assets from the United States <sup>(2)</sup>	7,009	322.7	—	—
Impact of changes in income tax rates <sup>(3)</sup>	1,700	78.2	—	—
Adjustments for prior years <sup>(2)</sup>	501	23.1	—	—
Non-deductible expenditures and non-deductible portion of capital losses	55	2.5	84	3.4
Temporary differences for which no deferred income tax asset has been recorded	60	2.8	2	0.1
Income tax expense	9,385	432.1	1,014	40.4

- (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 is 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, 2016	4,553	1,488	2,057	109	114	8,321
Recognized in the Consolidated Statement of Income	(588)	5	283	(109)	(15)	(424)
Exchange differences	(309)	—	(140)	—	—	(449)
As at January 31, 2017	3,656	1,493	2,200	—	99	7,448
Recognized in the Consolidated Statement of Income	(2,617)	(603)	(1,488)	—	36	(4,672)
Exchange differences	(381)	—	(92)	—	—	(473)
<b>As at January 31, 2018</b>	<b>658</b>	<b>890</b>	<b>620</b>	<b>—</b>	<b>135</b>	<b>2,303</b>

### b) Deferred Income Tax Liabilities

(In thousands of CA\$)	Property, Plant and Equipment and Intangible Assets	Holdbacks on contracts receivable	Investment Tax Credits	Work in progress	Foreign Exchange Forward Contracts	Total
	\$	\$	\$	\$	\$	\$
As at February 1, 2016	2,290	458	837	1,088	—	4,673
Recognized in the Consolidated Statement of Income	(49)	(282)	(12)	561	184	402
Recognized in Other Comprehensive Income (Loss)	8	—	—	—	—	8
As at January 31, 2017	2,249	176	825	1,649	184	5,083
Recognized in the Consolidated Statement of Income	1,851	160	(476)	1,842	(104)	3,273
<b>As at January 31, 2018</b>	<b>4,100</b>	<b>336</b>	<b>349</b>	<b>3,491</b>	<b>80</b>	<b>8,356</b>



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

As at January 31, (In thousands of CA\$)	2018	2017
Non-current deferred income tax assets	\$ 2,303	7,448
Compensation per fiscal jurisdiction	(2,303)	(2,132)
	—	5,316
Non-current deferred income tax liabilities	(8,356)	(5,083)
Compensation per fiscal jurisdiction	2,303	2,132
	(6,053)	(2,951)
Deferred income tax liabilities (net)	(6,053)	2,365

As at January 31, 2018, the Corporation had operating tax losses of \$33,800,000 available in the United States (\$29,400,000 as at January 31, 2017) 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, (In thousands of CA\$)	2018	2017
Beginning of year	\$ 2,365	3,648
Amount recognized in the consolidated statement of income	(7,945)	(826)
Income tax expense related to components of other comprehensive income (loss)	—	(8)
Exchange differences	(473)	(449)
End of year	(6,053)	2,365

## 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,	2018	2017
<b>Numerator</b> (in thousands of CA\$)		
Numerator applicable to basic and diluted earnings per share	(7,213)	1,499
<b>Denominator</b> (in thousands)		
Basic weighted average number of shares	32,633	32,624
Effect of dilutive instruments:		
— Stock options	—	62
Diluted weighted average number of shares	32,633	32,686

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

Given the negative net income recorded during the fiscal year ended January 31, 2018, no stock options were included in the computation of diluted earnings per share because of their antidilutive effect.

During the fiscal year ended January 31, 2017, only 218,664 stock options were included in the computation of the diluted earnings per share since the other options were antidilutive.

## 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, (In thousands of CA\$)	2018	2017
Accounts receivable	(11,514)	13
Holdbacks on contracts	(1,516)	(1,895)
Work in progress	(10,121)	(13,688)
Inventories	1,760	(1,057)
Prepaid expenses and other current assets	(1,330)	688
Accounts payable and other current liabilities	13,203	(1,310)
Deferred revenues	2,275	(1,437)
Change in non-cash working capital items	(7,243)	(18,686)

## 21.2 Reconciliation of the Long-Term Debt

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

As at January 31,	2018	2017
(In thousands of CA\$)	\$	\$
Balance, beginning of year	18,714	15,219
Issuance of long term debt	10,702	5,000
Repayment of long term debt	(945)	(816)
Increase of financial leases	233	32
Effect of fluctuations in exchange rates	(503)	(721)
Balance, end of year	28,201	18,714

## 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,	2018	2017
(In thousands of CA\$)	\$	\$
Cash	4,905	334
Bank overdraft	(1,907)	—
	2,998	334

## 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 totaling \$233,000 were recorded during the fiscal year ended January 31, 2018 (\$32,000 during the fiscal year ended January 31, 2017).
- Use of an investment tax credit of \$1,798,000 during the fiscal year ended January 31, 2018, included in other non-current assets (Note 9), to reduce income tax liabilities.

## NOTE 22 COMMITMENTS

### 22.1 Letters of Credit

During the fiscal years ended January 31, 2018 and 2017, in connection with its own commercial commitments, the Corporation has issued letters of credit, the balance of which stood at US\$3,419,000, corresponding to \$4,203,000 and \$4,449,000, respectively.

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

As at January 31, 2018, the Corporation's commitments totalled \$807,000 under operating leases and \$205,000 under other long-term contracts. The minimum annual payments due during the next five fiscal years are as follows:

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

(1) Includes operating leases for rental space, as well as for rental vehicles and office equipment. Lease payments totalled \$350,000 for the fiscal year ended January 31, 2018 (\$439,000 for the fiscal year ended January 31, 2017).

(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 account receivables. The bonding issued on the ongoing projects as at January 31, 2018, stood at \$169,821,000.

## 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, 2018, 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.

## 23.3 Indemnity Agreement

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

### 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 \$805,000 in the fiscal year ended January 31, 2018 (\$760,000 in 2017).

### 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,	2018	2017
Total bank overdraft, credit facilities and current portion and long-term debt, net of cash and cash equivalents (In thousands of CA\$)	<b>35,353</b>	31,716
Shareholders' equity (In thousands of CA\$)	<b>95,782</b>	105,650
Total bank overdraft, credit facilities and current portion and long-term debt, net of cash and cash equivalents, to shareholders' equity ratio	<b>0.37:1</b>	0.30:1

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, 2018, 91% of the Corporation's revenues were recorded in U.S. dollars (72% during the fiscal year ended January 31, 2017). 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, 2018, the Corporation was party to foreign exchange forward contracts for the sale of US\$19,737,000 (US\$31,400,000 as at January 31, 2017) with maturities varying between one (1) month to 12 months with rates between 1.2285 and 1.2646 (between 1.2600 and 1.3837 as at January 31, 2017). 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 and/or foreign currency options recorded in current assets under "Derivative Financial Instruments" was \$300,000 as at January 31, 2018, and \$696,000 as at January 31, 2017. During the fiscal year ended January 31, 2018, a realized and unrealized gain of \$2,426,000 (\$1,100,970 for the fiscal year ended January 31, 2017) was recorded in the Consolidated Statement of Income under the item "Foreign Exchange Loss".

The following table summarizes significant non-derivative financial assets and liabilities that are subject to a foreign currency exposure as at January 31, 2018 and 2017, and whose foreign currency exposure is recognized in income:

As at January 31,	2018	2017
(In thousands of US\$)	\$	\$
Financial assets		
Cash and cash equivalents	234	155
Accounts receivable	5,801	2,576
Holdbacks on contracts	37	62
	6,072	2,793
Financial liabilities		
Accounts payable and other current liabilities	2,236	415
	2,236	415
Net exposure	3,836	2,378

Based on the balance, as at January 31, 2018, of the Corporation's financial instruments denominated in foreign currencies, a 10% fluctuation in the exchange rate between the Canadian and U.S. dollars, while all other variables remaining constant, would have had an insignificant effect on net income before tax and in comprehensive income (loss) before tax (\$401,000 as at January 31, 2017). However, this information only applies to financial instruments based on year-end balances and does not take into account the impact of foreign exchange fluctuations on revenues and other miscellaneous expenses for a complete fiscal year.

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, 2018 and 2017, 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, 2018 and 2017, 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 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 mainly 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, and finally establishes allowances for doubtful accounts, if applicable. For other accounts receivable, the Corporation determines, on a continuing basis, the probable losses and establishes a provision for losses based on the estimated realizable value.

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 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, 2018, 85% of contracts receivable was concentrated with four (4) clients (85% of contracts receivable attributable to five (5) clients as at January 31, 2017). 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.

The book value of the contract receivables is reduced by a specific allowance for doubtful accounts when necessary. As at January 31, 2018, 18% of contracts receivable, representing \$5,833,600 was overdue under contractual terms (for more than 90 days). Management believes that most of these accounts are not considered doubtful, considering they are with established corporation or were cashed since and therefore no allowance for doubtful accounts was necessary as at January 31, 2018.

As at January 31, 2017, 5.5% of accounts receivable or \$1,235,000 was overdue under contractual terms (for more than 90 days), however, the fact that most of these amounts were financed by government agencies explained the longer delays in the collection of contracts receivable, and consequently, management believed that no allowance for doubtful accounts was necessary as at January 31, 2017.

## 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, 2018, the maturity analysis of financial liabilities was as follows:

	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
(In thousands of CA\$)	\$	\$	\$	\$	\$	\$
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
	<b>69,566</b>	<b>44,706</b>	<b>6,678</b>	<b>6,247</b>	<b>21,980</b>	<b>79,611</b>

As at January 31, 2017, the maturity analysis of financial liabilities was as follows:

	Book Value as at January 31, 2017	Less Than 1 Year	From 1 to 3 Years	From 4 to 5 Years	More Than 5 Years	Total
(In thousands of CA\$)	\$	\$	\$	\$	\$	\$
Credit facilities	13,336	13,336	—	—	—	13,336
Accounts payable and other current liabilities	16,585	16,585	—	—	—	16,585
Long-term debt						
Principal	13,945	525	2,236	2,359	8,924	14,044
Interest		616	1,125	933	2,500	5,174
Obligations under a financial leases						
Principal	4,769	319	641	697	3,112	4,769
Interest		209	375	313	545	1,442
	48,635	31,590	4,377	4,302	15,081	55,350

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, 2018, in addition to the unused credit facilities, the Corporation's cash and cash equivalents, net of the bank overdraft, totalled \$2,998,000 (\$334,000 as at January 31, 2017). 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

As explained in Note 2.2 r), financial assets and liabilities have been classified in categories specifying their basis for measurement, and in the case of items measured at fair value specifying whether changes in the fair value are recognized in the consolidated statement of income or in other comprehensive income (loss). The categories are: fair value through net income, loans and receivables, assets available-for-sale and, in the case of liabilities, amortized cost.

The next table provides the book value per class of financial instruments as at January 31, 2018 and 2017:

As at January 31,	2018	2017
(In thousands of CA\$)	\$	\$
<b>Loans and receivables</b>		
Cash and cash equivalents	4,905	334
Accounts receivable	33,099	22,326
Holdbacks on contracts	4,933	3,613
Other current assets	40	17
	42,977	26,290
<b>Assets available-for-sale</b>		
Equity investments	215	215
	215	215
<b>Financial liabilities at fair value through net income</b>		
Derivative financial instruments	300	696
	300	696
<b>Liabilities amortized at cost</b>		
Bank overdraft	1,907	—
Credit facilities	10,150	13,336
Accounts payable and other current liabilities <sup>(1)</sup>	24,230	11,146
Long-term debt <sup>(2)</sup>	23,803	13,945
	60,090	38,427

(1) Excludes amounts due for statutory liabilities, employee benefits and share-based payments.

(2) Exclude obligations under financial leases.

As at January 31, 2018 and 2017, given the upcoming maturity dates of cash and cash equivalents, accounts receivable, other current assets, holdbacks on contracts, the bank overdraft, credit facilities, accounts payable and other current 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, 2018 and 2017, 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 are based on inputs that are observable in an active market.

The Corporation classified its derivative financial instruments, foreign exchange forward contracts and foreign currency options 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 in the non-residential construction industry, primarily in the United States and Canada. Its operations include 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,	2018	2017
(In thousands of CA\$)	\$	\$
<b>Revenues</b>		
Canada	16,027	17,957
United States	164,447	84,889
	<b>180,474</b>	102,846

As at January 31,	2018	2017
(In thousands of CA\$)	\$	\$
<b>Non-current assets <sup>(1)</sup></b>		
Canada	49,508	50,110
United States	43,694	46,276
	<b>93,202</b>	96,386

(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, 2018, 85% of the Corporation's revenues were realized with three (3) clients, each representing 10 % and more of its revenues (60% with two (2) clients during the fiscal year ended January 31, 2017).

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

Fiscal Years Ended January 31,	2018			2017		
	Canada	United States	Total	Canada	United States	Total
(In thousands of CA\$)	\$	\$	\$	\$	\$	\$
Client A	—	—	—	8,412	15,892	24,304
Client B	—	29,375	29,375	—	36,825	36,825
Client C	—	81,120	81,120	—	—	—
Client D	—	43,106	43,106	—	—	—
	—	<b>153,601</b>	<b>153,601</b>	8,412	52,717	61,129

### NOTE 29 SUBSEQUENT EVENT

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

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