



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

First Quarter Ended April 30, 2024

Toronto Stock Exchange: TSX/DRX

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Forward-Looking Statements

Management of ADF Group Inc. wishes to inform the reader that this document contains forward-looking statements within the meaning of applicable securities laws, in which Management's expectations regarding ADF Group Inc.'s future performance may be discussed. These forward-looking statements include information concerning ADF Group's probable or foreseeable future operating results and financial position and involve certain risks and uncertainties with regard to their future realization. These forward-looking statements are based on currently available data in regard to competition, financial position, economic conditions and operating plans.

The principal risks and uncertainties that could affect ADF Group Inc.'s results, such that those results could differ materially from those expressed in any forward-looking statements, are presented in Sections "Current Economic Environment" and "External Factors to Which the Corporation's Performance is Exposed" of the Management's Discussion and Analysis of the Financial Position and Operating Results (hereinafter "MD&A Report") for the fiscal year ended January 31, 2024.

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

1. GENERAL

The purpose of this management's discussion and analysis of the financial position and operating results (hereinafter "MD&A Report") is to provide the reader with an overview of the changes in the financial position of ADF Group Inc. ("ADF", "ADF Group" or "the Corporation") between February 1, 2024 and April 30, 2024. It also compares the operating results and cash flows for the 3-month period ended April 30, 2024, to those of the same period of the previous fiscal year. This MD&A Report covers all major events that occurred between February 1, 2024 and June 10, 2024, on which date ADF Group Inc.'s Board of Directors approved the unaudited interim condensed consolidated financial statements, as well as the MD&A Report for the Three-Month Period Ended April 30, 2024.

This MD&A Report should be read in conjunction with the Corporation's Unaudited Interim Condensed Consolidated Financial Statements and the notes thereto for the three-month period ended April 30, 2024, as well with the Audited Consolidated Financial Statement and Management's Discussion and Analysis of the Financial Position and Operating Results Report for the Fiscal Year Ended January 31, 2024.

The unaudited interim condensed consolidated financial statements and the comparative information for the 3-month period ended April 30, 2024, have been prepared in accordance with the International Financial Reporting Standard issued by the International Accounting Standards Board ("IFRS Accounting Standards") and applicable to interim financial reports, including International Accounting Standard 34 *Interim Financial Reporting*. The material accounting policies applied by the Corporation in accordance with IFRS are presented in Note 2 to the Unaudited Interim Condensed Consolidated Financial Statements for the Three-Month Period Ended April 30, 2024.

The Corporation reports its results in Canadian dollars. All amounts in this MD&A Report 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 Report 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 18 "External Factors to Which the Corporation's Performance is Exposed" in this MD&A Report. It should be noted that the list of factors that may affect future growth, results and performance, provided in this MD&A Report, 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, including 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 infrastructure 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.

Although the *Architectural Billing Index* ("ABI") has been declining for the past few months, we continue to see several projects in the markets served by ADF. The many budgetary envelopes for infrastructure rehabilitation, mainly in the United States, as well as the return of manufacturing capacity from our neighbors to the south, which was overseas, continue to fill the pipeline of new projects to bid on. So, notwithstanding some geopolitical uncertainties, we continue to see our market trends positively.

6. SIGNIFICANT EVENT OF THE THREE-MONTH PERIOD ENDED APRIL 30, 2024

Dividend

On April 10, 2024, the Corporation's Board of Directors approved a semi-annual dividend of \$0.01 per share, which was paid on May 15, 2024, to shareholders of record as at April 26, 2024.

7. SIGNIFICANT EVENTS THAT OCCURRED SINCE APRIL 30, 2024

7.1. Cash Utilization Strategy

On June 10, 2024, the Corporation's Board of Directors announced the cash utilization strategy, including the intention to repurchase up to 3,000,000 shares and the increase of the semi-annual dividend from \$0.01 per share to \$0.02 per share (see Section 12 "Cash Flow and Financial Condition").

7.2. New Contracts

On May 28, 2024, the Corporation announced the award of a series of new orders in Quebec, in Western Canada and the U.S. Midwest totaling \$90.0 million. A portion of these contracts comes from additional work relating to the second phase of a contract previously announced in December 2023, which consists of the design and engineering of connections, fabrication including industrial coating, the supply of the steel, as well as erecting of steel structure and heavy steel components of a very large-surface industrial building. Fabrication work began in February 2024. This project will extend over a period of approximately 12 months. These contracts also included a project in the industrial sector in Quebec as well as a contract awarded in Western Canada in the public infrastructure sector.

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 3-month period ended April 30, 2024, and during each of the four quarters of the previous fiscal year, the Corporation used the following exchange rates between the Canadian and U.S. dollars:

(CA\$/ US\$)	Consolidated Statements of Income and Comprehensive Income	Consolidated Statements of Financial Position
First quarter (April 30, 2023)	1.3549	1.3578
Second quarter (July 31, 2023)	1.3345	1.3177
Third quarter (October 31, 2023)	1.3576	1.3871
Fourth quarter (January 31, 2024)	1.3523	1.3397
First quarter (April 30, 2024)	1.3575	1.3746

The Canadian dollar has slightly loss value against the U.S. dollar over the periods analyzed, mainly when comparing the closing rates of the first quarters ended April 30, 2024, and 2023.

Although the Corporation enters into foreign exchange contracts from time to time and according to its internal policy in order to hedge the foreign exchange risk, these exchange rate variations have had a favorable impact of \$0.1 million on the gross margin for the 3-month period ended April 30, 2024, and generated a small foreign exchange gain of \$46,000 on the Consolidated Statement of Income for the same period.

9. NON-GAAP FINANCIAL MEASURES AND OTHER FINANCIAL MEASURES

This MD&A Report is based on results prepared in accordance with IFRS Accounting Standards and includes non-GAAP financial measures and other financial measures. Non-GAAP financial measures provide useful additional information, but do not have standardized meanings established in accordance with GAAP. Readers should be careful not to confuse or substitute them with performance measures prepared in accordance with GAAP. In addition, readers should avoid comparing these non-GAAP financial measures to similarly titled measures provided or used by other issuers. When such indicators are presented, they are defined, and the reader is notified.

The Corporation uses the following indicators to measure its operating performance and the achievement of objectives:

Three-Month Periods Ended April 30,	2024	2023
Non-GAAP financial measures		
Adjusted earnings before interest, tax, depreciation and amortization (Adjusted EBITDA) (in thousands of dollars)	\$23,099	\$10,031
Adjusted EBITDA margin (as a percentage of revenues)	21.5%	12.5%
Supplementary financial measures		
Gross margin (as a percentage of revenues)	29.2%	16.8%

As at	April 30, 2024	January 31, 2024
Supplementary financial measures		
Working capital (in thousands of dollars)	\$127,494	\$110,100
Working capital ratio	2:37:1	2.04 :1
Order backlog (in thousands of dollars)	\$427,533	\$510,892

9.1. Adjusted EBITDA and Adjusted EBITDA Margin

The adjusted EBITDA and the adjusted EBITDA margin show the extent to which the Corporation generates profits from operations, without considering the following items:

- Net financial expenses;
- Income tax expense;
- Foreign exchange gain, and
- Depreciation and amortization of property, plant and equipment, intangible assets and right-of-use assets.

Net income is reconciled with adjusted EBITDA in the table below:

Three-Month Periods Ended April 30,	2024	2023
(In thousands of dollars)	\$	\$
Net income	15,265	5,371
Income tax expense	5,993	2,554
Net financial expenses	398	839
Amortization	1,489	1,444
Foreign exchange gain	(46)	(177)
Adjusted EBITDA	23,099	10,031
— As a % of revenues ⁽¹⁾	21.5%	12.5%

(1) The adjusted EBITDA margin results from dividing adjusted EBITDA by revenues.

When compared to the same period ended a year earlier, adjusted EBITDA for the 3-month period ended April 30, 2024, went up by \$13.1 million. This increase is mainly attributable to the increase in gross margin, net of the increase in selling and administrative expenses. These variations will be explained in more detail in the next sections.

9.2. Gross Margin as a Percentage of Revenues

The gross margin as a percentage of revenue indicator is used by the Corporation to assess the level of profitability for a given period based on the project mix for that same period. This indicator is subject to fluctuations in project prices and also in the operational efficiency of the Corporation. The indicator of gross margin as a percentage of revenues results from dividing gross margin by revenues.

In general, the Corporation aims to improve this indicator but recognizes that its fluctuation depends on the type of project signed and several other factors, including the economic context.

9.3. Working Capital and Working Capital Ratio

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 working capital ratio is calculated by dividing current assets by current liabilities.

Generally, Management's goal is to achieve a working capital ratio of at least 2.0:1. As at April 30, 2024 and January 31, 2024, this ratio has exceeded this goal. 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.

However, the Corporation also recognizes that the growth of its order backlog adds some pressure on working capital, thus explaining the level of this ratio in relation to the Corporation's long-term objective. 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.

9.4. Order Backlog

The order backlog is a measure used by the Corporation to assess future revenue levels. The order backlog includes firm orders obtained by the Corporation, either through a firm contract or a formal notice to proceed confirmed by the client. The order backlog disclosed by the Corporation therefore includes the portion of confirmed contracts that have not been put into production.

In general, the Corporation aims to improve this indicator but recognizes that its fluctuation is dependent on several factors, including the economic context.

10. ANALYSIS OF OPERATING RESULTS FOR THE THREE-MONTH PERIOD ENDED APRIL 30, 2024

10.1. Revenues and Gross Margin

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Revenues	107,400	80,271	27,129	33.8
Cost of goods sold	76,088	66,821	9,267	13.9
Gross margin	31,312	13,450	17,862	132.8
— As a % of revenues ⁽¹⁾	29.2%	16.8%		12.4

(1) Gross margin as a percentage of revenues is a supplementary financial measure. Refer to the Section 9 "Non-GAAP Financial Measures and Other Financial Measures" of this MD&A Report, for definition of this metric.

a) Revenues

Revenues during the 3-month period ended April 30, 2024, totalled \$107.4 million, up by \$27.1 million or 33.8% compared with the same period ended April 30, 2023.

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

The variation in revenues is mainly due to the execution of projects in the order backlog. In addition, the change in the exchange rate during the 3-month period ended April 30, 2024, had a limited positive impact of \$0.2 million on the level of the revenues.

In terms of economic dependency, 94% of the Corporation's revenues during the 3-month period ended April 30, 2024, were realized with four (4) clients (63% of the Corporation's revenues, were realized with two (2) clients for the quarter ended April 30, 2023), each having represented 10% or more of the Corporation's revenues.

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

Three-Month Periods Ended April 30,	2024	2023
(In thousands of dollars)	\$	\$
Client A ⁽²⁾	—	41,348
Client B ⁽²⁾	—	8,990
Client C ⁽²⁾	42,259	—
Client D ⁽²⁾	27,843	—
Client E ⁽²⁾	18,897	—
Client F ⁽¹⁾	12,196	—
	101,195	50,338

(1) From Canada (2) From United States

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

b) Gross Margin

The gross margin, in dollar value, went up by \$17.9 million during the 3-month period ended April 30, 2024, compared with the same period of the previous fiscal year. Gross margin as a percentage of revenues ⁽¹⁾ went from 16.8% during the 3-month period ended April 30, 2023, to 29.2% during the same period ended April 30, 2024.

The improvement in margins is in line with the increase observed in recent quarters and is largely attributable to a better absorption of fixed costs, in line with the increase in the fabrication volume, the continued favorable impact of the investments in automation at ADF's plant in Terrebonne, Quebec, and a favorable mix of projects.

As described in Section 15 "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 3-month period ended April 30, 2024, were comprised of 28% of fabrication hours, compared with 30% of revenues for the three-month period ended April 30, 2023.

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.

(1) Gross margin as a percentage of revenues is a supplementary financial measure. Refer to the Section 9 "Non-GAAP Financial Measures and Other Financial Measures" of this MD&A Report, for definition of this metric.

10.2. Selling and Administrative Expenses

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Selling and administrative expenses	9,702	4,863	4,839	99.5
— As a % of revenues	9.0%	6.1%		2.9

During the 3-month period ended April 30, 2024, selling and administrative expenses amounted to \$9.7 million, posting an increase of \$4.8 million compared with the same period ended April 30, 2023. This variation is mostly explained by the adjustment in the market value of Differed Share Units (DSU) and in Performance Share Units (PSU) which totals \$5.4 million, in line with the increase in the Corporation's share price.

Selling and administrative expenses as a percentage of revenues for the 3-month period ended April 30, 2024, are 9.0%, compared to 6.1% a year earlier.

10.3. Amortization

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

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Amortization	1,489	1,444	45	3.1
— As a % of revenues	1.4%	1.8%		(0.4)

The amortization expense for the 3-month period ended April 30, 2024, was \$1.5 million compared with \$1.4 million for the 3-month period ended April 30, 2023. This slight variation is in line with the limited level in capital investment over the past year.

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

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Amortization expense included in cost of goods sold	1,178	1,141	37	3.2
Amortization expense included in selling and administrative expenses	311	303	8	2.6
Total amortization	1,489	1,444	45	3.1

10.4. Net Financial Expenses

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Net financial expenses	398	839	(441)	(52.6)
— As a % of revenues	0.4%	1.0%		(0.6)

Net financial expenses for the 3-month period ended April 30, 2024, totaling \$0.4 million, are \$0.4 million less than for the corresponding quarter a year earlier, in line with the average debt balance during the respective periods, net of the interest income from the Corporation's excess liquidity.

10.5. Foreign Exchange Gain

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Foreign exchange gain	(46)	(177)	131	Pos.
— As a % of revenues	(0.0)%	(0.2)%		0.2

The foreign exchange gain recorded during the quarter ended April 30, 2024, includes a \$1.8 million foreign exchange gain on ongoing operations and a foreign exchange loss of \$1.7 million relating to the fair value of financial derivatives. During the 3-month period ended April 30, 2024, a \$1.9 million foreign exchange gain on the translation of foreign subsidiaries was recorded in Comprehensive Income.

The foreign exchange gain recorded during the quarter ended April 30, 2023, includes a \$0.2 million foreign exchange gain on ongoing operations and an immaterial foreign exchange gain relating to the fair value of financial derivatives. During the 3-month period ended April 30, 2023, a \$0.8 million foreign exchange gain on the translation of foreign subsidiaries was recorded in Comprehensive Income.

The Corporation is exposed to exchange rate fluctuations between the Canadian and U.S. dollars since a significant portion of its revenues is generally recorded in U.S. dollars.

During the 3-month periods ended April 30, 2024 and 2023, the portion of revenues realized in U.S. dollars was 81% and 90% respectively. Considering the improvement in U.S. markets and our facilities in Great Falls, Montana, the Corporation expects that the percentage of its revenues in U.S. dollars should remain at a fairly high level in the fiscal year ending January 31, 2025.

10.6. Income Tax Expense

Three-Month Periods Ended April 30,	2024	2023	Changes 2024/2023	
(In thousands of dollars and in percentages)	\$	\$	\$	%
Income tax expense	5,993	2,554	3,439	134.7
— As a % of revenues	5.6%	3.2%		2.4

The effective tax rates for the 3-month periods ended April 30, 2024 and 2023 were 28.2% and 32.2% respectively, compared with the Corporation's Canadian effective rate, which is 27%. These effective rates come mainly from the mix of profits or losses from ADF's different subsidiaries, according to their legal and tax jurisdictions.

As at April 30, 2024, the Corporation had operating losses estimated at \$3.5 million, and given that Management now believes that the Corporation is likely to have sufficient future taxable income, the deferred tax benefits have been recognized. This will have a favourable impact on future cash outflows of the Corporation, which will not have to pay future income tax until the full amount of available tax attributes has been used in the different jurisdictions where the Corporation executes contracts.

10.7. Net Income, Basic and Diluted Earnings per Share

Three-Month Periods Ended April 30,	2024	2023
(In thousands of dollars and in dollars per share)	\$	\$
Total net income	15,265	5,371
— As a % of revenues	14.2%	6.7%
Total basic and diluted earnings per share	0.47	0.16

The change in net income during the quarter ended April 30, 2024, compared with the same period a year ago, is for the most part explained by the elements previously mentioned.

11. COMPARATIVE INFORMATION FOR THE LAST EIGHT QUARTERS

The trends observed in the analysis of quarterly results do not necessarily represent those of the future results of the Corporation. ADF's fabrication 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 quarterly fluctuations to another are mostly explained by the fabrication schedules of the different projects underway. Considering that revenues is recognized progressively based on costs incurred to date relative to the total estimated costs at completion on the various projects executed by the Corporation, revenue and operating results can differ significantly from quarter to quarter because of these execution schedules.

Fiscal Years	2025	2024				2023		
Three-Month Periods Ended	1 st Quarter (30.04.2024)	4 th Quarter (01.31.2024)	3 rd Quarter (10.31.2023)	2 nd Quarter (07.31.2023)	1 st Quarter (04.30.2023)	4 th Quarter (01.31.2023)	3 rd Quarter (10.31.2022)	2 nd Quarter (07.31.2022)
(In thousands of dollars and in dollars per share)	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	107,400	88,394	82,143	80,215	80,271	51,501	64,999	66,382
Gross margin	31,312	21,620	20,072	17,779	13,450	9,037	9,779	8,532
— As a % of revenues ⁽¹⁾	29%	24%	24%	22%	17%	18%	15%	13%
Adjusted EBITDA ⁽²⁾	23,099	15,495	17,769	12,644	10,031	5,873	7,543	7,101
— As a % of revenues ⁽²⁾	22%	18%	22%	16%	12%	11%	12%	11%
Income before income tax expense	21,258	14,255	13,277	10,949	7,925	3,918	3,300	5,746
Net income	15,265	10,511	11,198	10,542	5,371	2,343	2,910	5,426
— Basic and diluted per share	0.47	0.32	0.34	0.32	0.16	0.07	0.09	0.17

(1) Gross margin as a percentage of revenues is a supplementary financial measure. Refer to the Section 9 "Non-GAAP Financial Measures and Other Financial Measures" of this MD&A Report, for definition of this metric.

(2) Adjusted EBITDA and adjusted EBITDA margin (as a percentage of revenues) are non-GAAP financial measures. A non-GAAP financial measure is not a standardized financial measure under the financial reporting framework used to prepare the Corporation's financial statements and might not be comparable to similar financial measures used by other issuers. Refer to the Section 9 "Non-GAAP Financial Measures and Other Financial Measures" of this MD&A Report, for definition of these metrics and the reconciliation to the most comparable IFRS Accounting Standards.

12. CASH FLOW AND FINANCIAL POSITION

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

On April 30, 2024, cash and cash equivalents totalled \$48.4 million, down by \$24.0 million compared with January 31, 2024. In addition, the Corporation did not use its credit facility during both periods analyzed, being as at April 30, 2024 and January 31, 2024. It is noted that as at the date of this MD&A Report, and in light of the collections received since April 30, 2024, the balance of cash and cash equivalents had returned to the level of the balances as at January 31, 2024, which then stood at \$72.4 million.

The Corporation believes that the available cash will significantly exceed the amounts required to support the growth and execution of its order backlog on hand as at April 30, 2024, and to meet its financial covenants planned for fiscal 2025.

Given the Corporation's favorable financial position, the size of its order backlog and its cash flow generation profile, the Board of Directors is evaluating the options available to the Corporation with respect to the use of excess cash to create value for shareholders, including dividends and share repurchases, and opportunities to finance certain projects that could provide additional long-term competitive advantages and allow the Corporation to benefit from prompt payment discounts negotiated with its suppliers.

With this in mind, the Corporation intends to enter into private agreements, within 30 days of June 12, 2024, with Jean, Pierre and Marise Paschini, members of the Board of Directors and the Corporation's management team, through Les Placements Jean and Diane Paschini Inc., Gestion P.R. Paschini Inc., Les Placements M.A.P.S. Inc. and Groupe JPMP Inc., to purchase, for cancellation, up to a maximum of 3,000,000 Subordinate Voting Shares of the Corporation (including up to 2,500,000 Multiple Voting Shares converted into Subordinate Voting Shares), at a price to be agreed upon by the parties at a discount of at least 3% to the market price of the Subordinate Voting Shares on the TSX and the price of the last independent trade of a board lot of the Subordinate Voting Shares on the TSX immediately prior to the proposed repurchase. The Corporation's Board of Directors has established a Special Committee composed of independent directors to review the terms of the proposed repurchase and to make a recommendation to the Board of Directors with respect thereto, and a favorable decision has been obtained from the Autorité des marchés financiers ("AMF") to exempt the Corporation from the requirements applicable to issuer bids under applicable legislation. If such agreements are entered into, the Corporation will issue a press release and information relating to the share repurchase, including the number of shares involved and the total purchase price, will be available on SEDAR+ www.sedarplus.ca following the completion of the proposed repurchase, if any. Jean, Pierre and Marise Paschini have informed the Corporation that the shares in question will be sold to the Corporation for asset diversification and estate planning purposes, that they are not considering any further share sales and that they remain fully committed to growing the Corporation.

Furthermore, the Corporation's Board of Directors approved the amendment to its Dividend Policy to increase its semi-annual dividend from \$0.01 per share to \$0.02 per share. The amendment will apply to the next dividend payment scheduled for October 2024. We note, however, that the declaration and payment of dividends remains at the discretion of the Corporation's Board of Directors.

12.1. Operating Activities

The Corporation's operating activities are summarized as follows:

Three-Month Periods Ended April 30,	2024	2023
(In thousands of dollars)	\$	\$
Net income adjusted for non-cash items	29,038	9,654
Changes in non-cash operating working capital items:		
Accounts receivable	(41,799)	32,515
Contract assets	15,350	2,325
Inventories	(1,866)	(557)
Prepaid expenses and other current assets	150	(2,151)
Accounts payable and other current liabilities	7,446	(1,151)
Contract liabilities	(30,637)	(203)
Others	(3)	(3)
	(51,359)	30,775
Income tax recovery	—	797
Cash flows (used in) from operating activities	(22,321)	41,226

Net income adjusted for non-cash items totalled \$29.0 million during the 3-month period ended April 30, 2024, which is \$19.4 million more than for the 3-month period ended April 30, 2023. This variance is for the most part explained by the change in net income, in the share-base compensation and income tax expense.

The change in non-cash working capital items required liquidities of \$51.4 million during the 3-month period ended April 30, 2024. This cash outflow is mainly explained the increase in accounts receivable (\$41.8 million), the decrease in contract liabilities (\$30.6 million), net of the decrease in contract assets (\$15.4 million). These variations reflect the level of activity at the close of the analyzed periods. As previously mentioned, and since April 30, 2024, the Corporation has collected a total of \$90.1 million in accounts receivable.

The change in non-cash working capital items generated \$30.8 million during the three-month period ended April 30, 2023. This cash inflow is mainly explained by the collection of accounts receivable (\$32.5 million) during this quarter.

12.2. Investing Activities

The Corporation's investing activities are summarized as follows:

Three-Month Periods Ended April 30,	2024	2023
(In thousands of dollars)	\$	\$
Acquisition of property, plant and equipment	(1,155)	(563)
Acquisition of intangible assets	(215)	(149)
Others	239	6
Cash flows used in investing activities	(1,131)	(706)

During the 3-month period ended April 30, 2024, liquidities of \$1.1 million were required primarily for the addition of property, plant and equipment and intangible assets.

During the 3-month period ended April 30, 2023, liquidities of \$0.7 million were required primarily for the addition of property, plant and equipment and intangible assets.

The Corporation estimates total capital expenditures to reach approximately \$5.0 million for the 2025 fiscal year, which will be committed primarily to maintaining production equipment current at ADF's fabrication facilities in Terrebonne, Quebec, and Great Falls, Montana, USA.

12.3. Financing Activities

The Corporation's financing activities were as follows:

Three-Month Periods Ended April 30,	2024	2023
(In thousands of dollars)	\$	\$
Repayment of long-term debt	(673)	(582)
Payment of lease liabilities	(171)	(176)
Interest paid	(758)	(743)
Cash flow used in financing activities	(1,602)	(1,501)

During the quarter ended April 30, 2024, financing activities required liquidities of \$1.6 million, compared with an outflow of \$1.5 million during the same period the previous fiscal year.

During and for each of the 3-month periods ended April 30, 2024 and 2023, the Corporation reimbursed a total of \$0.8 million on its long-term debt and on its lease liabilities.

12.4. Debt Covenants

As at April 30, 2024, the Corporation met all of the covenants with its lenders, and still did at the date hereof. Management expects it will continue to respect its commitments during the fiscal year 2025.

12.5. Contractual Obligations

No significant change has occurred in contractual obligations since the publication of the tables summarizing the information relating to contractual obligations in Section 13.6 of the annual MD&A Report for the fiscal year ended January 31, 2024.

13. CAPITAL STOCK

Information on the outstanding shares:

	Subordinate Voting Shares		Multiple Voting Shares ⁽¹⁾		Total Outstanding Shares	
(In thousands of dollars and in number of shares)	Number	\$	Number	\$	Number	\$
As at January 31, 2024 and April 30, 2024	18,297,099	52,126	14,343,107	16,001	32,640,206	68,127

(1) These shares carry 10 votes per share.

At the date hereof, the number of shares outstanding remained unchanged.

14. DIVIDEND

On April 10, 2024, the Corporation's Board of Directors approved the payment of a semi-annual dividend of \$0.01 per share that was paid on May 15, 2024, to shareholders of record as at April 26, 2024.

15. ORDER BACKLOG

ADF Group's order backlog ⁽¹⁾ totalled \$427.5 million on April 30, 2024, compared with \$312.4 million on the same date a year earlier and \$510.9 million on January 31, 2024. The variation is mainly attributable to the execution of contracts, net of contractual changes and the foreign exchange impact. The balance of the order backlog as at April 30, 2024, excludes contracts announced after the close of the quarter (see section 7 "Significant events that occurred since April 30, 2024").

As at April 30, 2024, 45% of the order backlog consisted of fabrication hours – the Corporation's core business and most value-added activity – compared with 48% as at January 31, 2024. Most of the contracts on hand as at April 30, 2024, will be progressively executed between now and the end of the fiscal year ending January 31, 2026.

(1) The order backlog is a supplementary financial measure. Refer to the Section 9 "Non-GAAP Financial Measures and Other Financial Measures" of this MD&A Report, for the definition of this metric.

16. FINANCIAL POSITION

As at April 30, 2024, the Corporation had a more than adequate 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, 2024 and April 30, 2024.

Sections	Changes (In millions of dollars)	Explanatory Notes
Cash and cash equivalents	(24.0)	See Section 12 "Cash Flows and Financial Position" of this MD&A Report.
Accounts receivable	43.9	Variation of billing level in line with activity level and work progress schedules.
Contract assets, net of contract liabilities	15.2	Net variance between the work progress and progressive revenue billing; the difference reflecting the progress schedule. These variations do not include any adjustment, being either a change in the work progress or change in the price estimate.
Property, plant and equipment, intangible assets and right-of-use assets	0.7	Net change from acquisition of property, plant and equipment and intangible assets (\$1.1 million), and the foreign exchange impact (\$1.1 million), net of amortization (\$1.5 million).
Accounts payable and other current liabilities	13.7	Change in line with the level of activity at the respective closing dates.
Long-term debt and lease liabilities (including current portions)	(0.7)	Change from the reimbursement of long-term debts (\$0.7 million) and lease liabilities (\$0.2 million) net of foreign exchange impact and other miscellaneous items (\$0.2 million).
Deferred income tax assets net of deferred income tax liabilities	(2.3)	Variations in timing differences between tax and accounting of certain items.

17. CURRENT ECONOMIC ENVIRONMENT

Although the trends in certain markets served by the Corporation are good, certain external elements could lead to uncertainty 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 closely monitored by Management. The Corporation does not anticipate any liquidity problems, in particular since its 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 25 "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 18 "External Factors to Which the Corporation's Performance is Exposed" and 25 "Outlook").

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

18.1. Global Pandemic

A pandemic outbreak, as COVID-19 demonstrates, must now be considered in external factors that may influence ADF's performance. Although the type of pandemic or future variant is innumerable, and the impacts of these pandemics on the sector in which our Corporation operates can be multiple, the Corporation will now have to monitor this new risk. The measures taken by ADF to minimize the impacts of COVID-19 on all operations will serve as the basis for future years and will need to be adjusted, if necessary, according to the potential impacts of future pandemics.

18.2. Exchange Rate

The exchange rate fluctuation between the Canadian and U.S. dollars has an impact on the Corporation's results. Thus, a \$46,000 foreign exchange gain was recorded for the 3-month period ended April 30, 2024, compared with a \$0.2 million foreign exchange gain for 3-month period ended April 30, 2023.

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

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

18.3. Operating Risks and Uncertainties

ADF's markets are subject to several risk and uncertainty factors, which could have an impact on its business, financial position and operating results. These risks and uncertainties include, but are not limited to the following factors, which are further detailed in the Section 21 "External Factors to Which the Corporation's Performance is Exposed" in the MD&A Report for the fiscal year ended January 31, 2024:

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

19. FINANCIAL INSTRUMENTS

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

As at April 30, 2024, 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, contract assets and liabilities, credit facilities, and accounts payable and other current liabilities), or because the Corporation believed it could obtain similar conditions and schedules in the case of the long-term debt (excluding the lease liabilities) or since they are re-evaluated at their fair value at the end of every period (in the case of derivative financial instruments) (see Note 5 "Financial Instruments" in the Unaudited Interim Condensed Consolidated Financial Statements for the Three-Month Period Ended April 30, 2024).

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 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 in Note 23 "Financial Risk Management" in the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2024, and has remained unchanged for the interim period ended April 30, 2024.

20. CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, disclosure controls and procedures have been designed to provide reasonable assurance that the information that must be presented in 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 Accounting Standards.

During the quarter ended April 30, 2024, no changes were made to internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls and procedures.

21. MATERIAL ACCOUNTING POLICIES, UNCERTAINTY RELATING TO ESTIMATES AND CRITICAL ACCOUNTING JUDGMENTS

The unaudited interim condensed consolidated financial statements have been prepared using the same accounting policies as the ones used in the preparation of the Corporation's audited consolidated financial statements for the fiscal year ended January 31, 2024, except for amendments to accounting standard IAS 1 — *Presentation of Financial Statements* (for more detail, refer to Note 2.1 of the Unaudited Interim Condensed Consolidated Financial Statements for the Three-Month Period Ended April 30, 2024).

Refer the Corporation's Audited Consolidated Financial Statements for the Fiscal Year Ended January 31, 2024, and the Unaudited Interim Condensed Consolidated Financial Statements for the Three-Month Period Ended April 30, 2024, for more information about the material accounting policies, uncertainty relating to estimates, as well as the critical accounting judgements used to prepare the financial statements.

22. ENVIRONMENT

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 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. More recently, during the fiscal year ended January 31, 2022, as part of the new financing that the Corporation obtained, the Corporation conducted phase I and phase II environmental assessments at its Terrebonne, Quebec site, which did not identify any deficiencies or contaminants requiring corrective action in accordance with applicable environmental standards.

For the 3-month periods ended April 30, 2024 and 2023, 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.

23. SUSTAINABLE DEVELOPMENT

During the fiscal year ended January 31, 2024, the Corporation began a process to adopt a Sustainable Development Policy. Established around the three ESG axes (environment, social and governance), ADF will identify in the coming months the key objectives for each of these three axes while endowing itself with targets and means to achieve these targets.

We have since implemented several initiatives that will allow us to move forward in this process, including setting up a Sustainable Transition committee. This committee, which is made up of ADF employees, will allow the Corporation to keep its employees up to date with the latest developments, while allowing ADF Management to have ongoing feedback.

The Corporation has also retained the services of an external firm to assess how ADF manages its energy, and measures its Scope 1, 2 and 3 greenhouse gas (GHG) emissions, water and residual materials for all ADF Group facilities, both in Canada and in the United States. The results of this assessment (scopes 1 and 2) were presented in the Corporation's Sustainable Development Report published with its other disclosure documents dated January 31, 2024. Management is continuing to analyze this information including finalizing the data for Scope 3, which will allow to incorporate the Corporation's targets into the sustainable development objectives that it will adopt in the coming quarters. During the fiscal year ended January 31, 2024, the Corporation also published its first Report on Forced Labor and Child Labor in Supply Chains, its Confidentiality and Protection of Personal Information Policy, as well as its Suppliers' Code of Conduct. All of these documents are available on the Corporation's website at www.adfgroup.com.

Several other initiatives, including the recycling and composting of waste generated by ADF's operation have been set in motion. The Corporation will continue to provide regular quarterly update in its MD&A Reports, including the findings of the report on energy and scope 1, 2 and 3 GHG, water and residual materials, and possible solution and objectives to improve its overall performance.

24. **HUMAN RESOURCES**

As at April 30, 2024, the Corporation employed a total of 560 people across its head office, fabrication complex and paint shop in Terrebonne, Quebec, Canada, and its office, fabrication plant and paint shop in Great Falls, Montana, U.S.A., and as well as various construction sites in United States.

25. **OUTLOOK**

We started the 2025 fiscal strong. With revenues for the 3-month period ended April 30, 2024 exceeding \$100 million, we are building on the momentum of the recent quarters. This increase in revenues also allows us to improve our margins and thus report a significant increase in net income.

Although our liquidities are down compared with January 31, 2024, this situation is only temporary. Already, at the date hereof, and in light of the cash collection since April 30, 2024, our consolidated cash balance has returned to the January 31st level. As confirmed in the Corporation's MD&A Report for the fiscal year ended January 31, 2024, we continue to expect revenues and liquidities to increase compared with the fiscal year ended January 31, 2024. We continue to view ADF's markets with optimism and the contracts totaling \$90 million announced after the close of the first quarter confirm this conclusion.

In light of these results and the current and projected liquidities, and as approved by the Corporation's Board of Directors as at the date of this Report (see Section 7 "Significant Events that Occurred Since April 30, 2024" and Section 12 "Cash Flow and Financial Position"), we are proud to announce our cash utilization strategy, including the intention to repurchase up to 3,000,000 shares and the increase of the semi-annual dividend from \$0.01 per share to \$0.02 per share.

It is therefore on solid foundations that we close this first quarter. We are maintaining our disciplined approach to continue this growth in the coming quarters.

26. **ADDITIONAL INFORMATION**

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

Mr. Jean-Francois Boursier, CPA

Ms. Marise Paschini

/ Signed /

/ Signed /

Chief Financial Officer

Executive Vice-President, Treasurer and Corporate Secretary

Terrebonne, Quebec, Canada, June 10, 2024



QUARTERLY MD&A REPORT
Three-Month Period Ended April 30, 2024

The electronic version of this document is also available at
www.adfgroup.com and at www.sedarplus.ca

Ce document est aussi disponible en français.

Toronto Stock Exchange : TSX/**DRX**
