FORAGE ORBIT GARANT DRILLING

Interim condensed

consolidated financial statements

Unaudited

First quarter ended

September 30, 2011

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statement of earnings

For the 3 month period ended September 30, 2011 and 2010

(in thousands of Canadian dollars, except for earnings per share)

(Unaudited)

	Notes	September 30 2011 (3 months)	September 30 2010 (3 months)
		$	$
		(note 19)	(note 19)
Contract revenue	18	37,091	27,385
Cost of contract revenue	6	28,173	21,781
Gross profit		8,918	5,604
Expenses			
General and administrative expenses	6	3,576	2,423
Other expenses (revenues)	6	(98)	33
Finance costs	6	212	60
		3,690	2,516
Earnings before the following items		5,228	3,088
Share in net earnings of associate		-	101
Earnings before income taxes		5,228	3,189
Income taxes	14		
Current		1,714	1,059
Deferred		(163)	(88)
		1,551	971
Net earnings attribuable to shareholders		3,677	2,218
Earnings per share attributable to shareholders	13		
Basic		0.11	0.07
Diluted		0.11	0.07

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statement of comprehensive earnings

For the 3 month period ended September 30, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

	September 30 2011 (3 months)	September 30 2010 (3 months)
	$	$
	(note 19)	(note 19)
Net earnings	3,677	2,218
Other comprehensive earnings		
Unrealized losses on foreign currency translation	(29)	-
Comprehensive earnings attributable to shareholders	3,648	2,218

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statement of changes in equity

For the 3 month period ended September 30, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

	Share capital	Contributed surplus	Retained Earnings	Accumulated other comprehensive earnings	Total Shareholders' Equity
	$	$	$	$	$
	(Note 13)				(note 19)
Balance as of July 1, 2010	51,898	1,703	35,991	-	89,592
Net earnings	-	-	2,218	-	2,218
Stock-based compensation	-	154	-	-	154
Balance as of September 30, 2010	51,898	1,857	38,209	-	91,964
Net earnings	-	-	9,228	-	9,228
Issuance of shares	1,488	-	-	-	1,488
Stock-based compensation	-	665	-	-	665
Fair value of stock option exercised	-	(2)	-	-	(2)
Balance as of June 30, 2011	53,386	2,520	47,437	-	103,343
Net earnings	-	-	3,677		3,677
Issuance of shares	16	-	-	-	16
Stock-based compensation	-	224	-	-	224
Fair value of stock option exercised	-	(5)	-	-	(5)
Other comprehensive earnings	-	-	-	(29)	(29)
Balance as of September 30, 2011	53,402	2,739	51,114	(29)	107,226

ORBIT GARANT DRILLING INC.

Interim condensed consolidated balance sheets

As of September 30, 2011, June 30, 2011 and July 1, 2010
(in thousands of Canadian dollars)
(Unaudited)

	Notes	September 30 2011	June 30 2011	July 1 2010
		$	$	$
ASSETS			(note 19)	(note 19)
Current assets				
Cash		-	-	8,114
Accounts receivable		33,684	33,081	21,188
Accounts receivable related to disposal of investments in associate		-	784	-
Inventories	7	38,001	33,646	22,708
Income taxes receivable		2,562	2,412	2,351
Prepaid expenses		436	689	460
		74,683	70,612	54,821
Non-current assets				
Investments in associate		-	-	886
Property, plant and equipment	8	47,297	43,223	31,681
Goodwill	9	22,715	22,715	19,698
Intangible assets	10	5,474	6,086	1,374
Total assets		150,169	142,636	108,460
LIABILITIES				
Current liabilities				
Bank overdraft		887	698	-
Accounts payable and accrued liabilities		16,601	19,009	17,158
Contingent consideration	2	792	774	-
Current portion of long-term debt	11	440	168	203
		18,720	20,649	17,361
Non-current liabilities				
Contingent consideration	2	1,387	1,356	-
Long-term debt	11	20,384	14,673	172
Defered tax liabilities	14	2,452	2,615	1,335
		42,943	39,293	18,868
EQUITY				
Share capital	13	53,402	53,386	51,898
Contributed surplus		2,739	2,520	1,703
Retained earnings		51,114	47,437	35,991
Accumulated other comprehensive earnings		(29)	-	-
Equity attributable to shareholders		107,226	103,343	89,592
Total liabilities and equity		150,169	142,636	108,460

APPROVED BY THE BOARD

(signed) Eric Alexandre, Director

(signed) Jean-Yves Laliberté, Director

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statement of cash flows

For the 3 month period ended September 30, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

	Notes	September 30 2011 (3 months)	September 30 2010 (3 months)
		$	$
		(note 19)	(note 19)
OPERATING ACTIVITIES			
Earnings before income taxes		5,228	3,189
Items not affecting cash:			
Amortization of property, plant and equipment		2,240	1,624
Amortization of intangible assets		612	357
Loss (gain) on disposal of property, plant and equipment	8	(163)	57
Stock-based compensation		224	154
Financing costs		212	60
Change in fair value of contingent consideration		49	-
Share in net earnings of associates		-	(101)
		8,402	5,340
Changes in non-cash operating working capital items	15	(7,114)	(5,428)
Income taxes paid		(1,864)	(2,029)
Finance costs paid		(191)	(42)
		(767)	(2,159)
INVESTING ACTIVITIES			
Proceeds from investment		784	-
Acquisition of property, plant and equipment		(6,651)	(2,671)
Proceeds from disposal of property, plant and equipment		485	100
		(5,382)	(2,571)
FINANCING ACTIVITIES			
Proceeds from issuance of shares		11	-
Proceeds from long-term debt		8,225	70
Repayment of long-term debt		(2,263)	(68)
		5,973	2
Effect of exchange rate changes		(13)	-
Decreased in cash		(189)	(4,728)
Cash (bank overdraft), beginning of the period		(698)	8,114
Cash (bank overdraft), end of the period		(887)	3,386
Additional information	15		

See accompanying notes to interim condensed consolidated financial statements.

(in thousands of Canadian dollars, except for earnings per share and option data)

1. DESCRIPTION OF BUSINESS

Orbit Garant Drilling Inc. (the "Company"), amalgamated under the Canada Business Company Act, operates mainly surface and underground diamond drilling business. The Company has operations in Canada, United States and Central and South America.

The head office of the Company is located at 3200 boul. Jean-Jacques Cossette, Val-d'Or (Québec), Canada. The Company holds interests in several entities including the percentage of voting rights in its principal subsidiaries are:

	% of voting rights
Services de forage Orbit Garant inc.	100%
9116-9300 Québec inc.	100%
Orbit Garant Ontario inc.	100%
Drift Exploration Drilling inc.	100%
Drift de Mexico SA de CV	100%
Forage Orbit inc.	100%
9129-5642 Québec inc.	100%

2. BUSINESS ACQUISITIONS

Acquisition of 1085820 Ontario Limited (Advantage Control Technologies):

On November 8, 2010, the Company acquired all issued and outstanding shares of 1085820 Ontario Limited (which specialized in the development of new technologies for mineral drilling in Canada) for a total net consideration of $3,585 payable for a cash consideration of $2,935 and $650 through the issuance of 132,743 common shares of the company and a contingent consideration of $2,014. Furthermore, the Company will pay a cash consideration of $521 as compensation of the net working capital of the company on the acquisition date. The account payable as compensation of the net working capital does not bear interest and will be paid ten days after the deliverance of the financial statements of 1085820 Ontario Limited. An amount of $4,322 has been accounted for as intangible assets and $1,846 as goodwill. The amount of goodwill will not be deductible for income tax purposes.

Further to this transaction, the Company has also acquired some equipment related to this business for an amount of $375 payable in cash.

The purchase price of 1085820 Ontario Limited is subject to an adjustment of an amount up to $2,400 calculated on the achievement of specified earnings levels over the periods ended November 8, 2011, 2012 and 2013. This contingent consideration has been evaluated at fair value at the acquisition date.

Acquisition of Morris Drilling Inc.:

On December 13, 2010, the Company acquired all issued and outstanding shares of Morris Drilling Inc. (a surface diamond drilling business in Canada) for a total net consideration of $3,427 payable for a cash consideration of $2,595 and $832 through the issuance of 173,010 common shares of the company. Furthermore, the Company will receive a cash consideration of $100 as compensation of the net working capital of the company on the acquisition date. The account receivable as compensation of the net working capital does not bear interest and will be received ten days after the deliverance of the financial statements of Morris Drilling Inc. An amount of $1,900 has been accounted for as intangible assets and $1,171 as goodwill. The amount of goodwill will not be deductible for income tax purposes.

(in thousands of Canadian dollars, except for earnings per share and option data)

2. BUSINESS ACQUISITIONS (continued)

The results of operations of 1085820 Ontario Limited and Morris Drilling Inc. are included in the interim condensed consolidated financial statements from November 8, 2010 and December 13, 2010, respectively.

On January 1, 2011, Morris Drilling merged with 1085820 Ontario Inc. and on February 8, 2011, the legal corporate name of 1085820 Ontario Limited was changed to Orbit Garant Ontario Inc.

The purchase price of these above transactions were allocated to the net assets acquired on the basis of their estimated fair values as follows:

	1085820 Ontario Limited	Morris Drilling Inc.	Total
	$	$	$
Cash	70	17	87
Accounts receivable	632	667	1,299
Other current assets	626	262	888
Property, plan and equipment	524	738	1,262
Goodwill	1,846	1,171	3,017
Intangible assets	4,322	1,900	6,222
Current liabilities	(407)	(922)	(1,329)
Deferred income taxes	(1,116)	(508)	(1,624)
Purchase price	6,497	3,325	9,822
Consideration			
Cash	3,310	2,595	5,905
Issuance of common shares	650	832	1,482
Account payable (receivable) related to net working capital adjustment	521	(100)	421
Contingent consideration	2,014	-	2,014
	6,495	3,327	9,822

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements reflect the first-time adoption of International Financial Reporting Standards ("IFRS"), which replaced Canadian Generally Accepted Accounting Principles ("GAAP") as of January 1, 2011. All disclosures and explanations related to the first-time adoption of IFRS are presented in note 19, which provides information that is considered material to the understanding of the Company's first IFRS financial statements. It also presents a reconciliation of the 2010 financial figures prepared under Canadian GAAP to the 2010 financial figures prepared under IFRS, including a reconciliation of the consolidated statements of earnings, comprehensive earnings and cash flows for the three-month period ended September 30, 2010 and for the year ended June 30, 2010, as well as a reconciliation of the consolidated balance sheets and equity as of July 1, 2010, September 30, 2010 and as of June 30, 2011.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The IFRS interim condensed consolidated financial statements have been prepared based on the following accounting policies:

Basis of presentation

The interim condensed consolidated financial statements have been prepared with IFRS as issued by the International Accounting Standards Board ("IASB"). In particular, they were prepared in accordance with IAS 34, Interim Financial Reporting, and with IFRS 1, First-time Adoption of IFRS. These interim condensed consolidated financial statements should be read in conjunction with IFRS transition disclosures included in note 19.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of Orbit Garant Drilling Inc. on December 8, 2011.

These interim condensed consolidated financial statements has been prepared on a historical cost basis, except for the contingent liability, which have been measured at fair value and are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company and its subsidiaries operate ("functional currency"). These interim condensed consolidated financial statements have been presented in Canadian dollars.

Principles of consolidation

The interim condensed consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of earnings from the effective date of acquisition and up to the effective date of disposal, as appropriate. Intercompany transactions and balances are eliminated on consolidation.

Business combinations

Business combinations are accounted for by the acquisition method. The cost of an acquisition is measured at the fair value of the consideration given in exchange for control of the business acquired at the acquisition date. This consideration can be comprised of cash, assets transferred, financial instruments issued, or future contingent payments. The identifiable assets and liabilities of the business acquired, are recognized at their fair values at the acquisition date.

Results of operations of a business acquired, are included in the Corporation's consolidated financial statements from the date of the business acquisition. Business acquisition and integration costs are expensed as incurred. Non-controlling interests in an entity acquired are presented in the consolidated balance sheet within equity, separately from the equity attributable to shareholders in the "Equity" section in the consolidated balance sheet.

Foreign currency translation

Financial statements of foreign operations are translated using the rate in effect at the balance sheet date for assets and liabilities, and using the average exchange rates during the period for revenues and expenses. Adjustments arising from foreign currency translation are recorded in other comprehensive earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions are transactions in a currency other than the Company's functional currency. Foreign currency transactions are translated to the functional currency by applying the exchange rate prevailing at the date of the transactions. Translation gains and losses on assets and liabilities denominated in a foreign currency are included in the statement of comprehensive earnings.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Asset/Liability	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Bank overdraft	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Contingent consideration	Other liabilities	Fair value
Long-term debt	Other liabilities	Amortized cost

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash and bank overdraft of which the balance often fluctuates between the available cash amount and the indebtedness.

Inventories

The Company maintains an inventory of operating supplies, drill rods and drill bits. Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price less the estimated cost necessary to make the sale. Cost is determined on the first-in, first-out basis. Used inventories are valued at 50% of cost. The amount of the depreciation of inventories can be reversed when the circumstances that led to the impairment charge in the past no longer exists.

Investments in associates

Investments in associates are accounted for using the equity method. Under this method, the Company's share in net earnings of these companies is presented in the statement of earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost. Cost represents the acquisition costs, net of government grants and investment tax credits, or manufacturing costs, including preparation, installation and testing costs. The manufacturing costs for drilling equipment include the material, direct labour and indirect specific costs.

Borrowing costs are also included in the cost of self-constructed property, plant and equipment. Future expenditures, such as maintenance and repairs, are expensed as incurred.

Cost of repairs and maintenance are charged to operations as incurred. Significant improvements are capitalized and amortized over the useful life of the asset.

Property, plant and equipment are recorded at cost and amortization is calculated using the straight-line method based on their estimated useful life using the following periods:

Buildings and components	5 to 40 years
Drilling equipment	5 to 10 years
Vehicles	5 years
Other	3 to 10 years

Leasehold improvements are amortized over the shorter of the term of the lease and economic life. The amortization begin when the property, plant and equipment are ready for their intended use.

Goodwill

For all business acquisitions, goodwill initially arising from a business acquisition is measured and recognized as the excess of the fair value of the consideration paid over the fair value of the recognized identifiable assets acquired and liabilities assumed. When the Company acquires less than 100% of the equity interests in the business acquired at the acquisition date, goodwill attributable to the non-controlling interest is also recognized at fair value.

Intangible assets

Intangible assets are accounted for at cost. Amortization is based on their estimated useful life using the straight-line method and the following periods:

Customer relationship	36 and 42 months
Drilling technology	60 months
Non-compete agreement	36 and 60 months

Amortization methods, residual values and the useful lives of significant intangible assets are reviewed at each financial year-end. Any change is accounted for prospectively as a change in accounting estimate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

For the purposes of assessing impairment, assets are grouped in cash-generating units (“CGUs”), which represent the lowest levels for which there are separately identifiable cash inflows generated by those assets. The Company reviews, at each balance sheet date, whether events or circumstances have occurred to indicate that the carrying amounts of its long-lived assets with finite useful lives may be less than their recoverable amounts.

Goodwill, other intangible assets having an indefinite useful life, and intangible assets not yet available for use are tested for impairment on June 30 of each financial year, as well as, whenever there is an indication that the carrying amount of the asset, or the CGU to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value, less costs to sell and the value in use of the asset or the CGU. Fair value, less costs to sell, represents the amount an entity could obtain at the valuation date from the asset’s disposal in an arm’s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use represents the present value of the future cash flows expected to be derived from the asset or the CGU.

An impairment loss is recognized in the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. When the recoverable amount of a CGU to which goodwill has been allocated is lower than the CGU’s carrying amount, the related goodwill is first impaired. Any excess amount of impairment is recognized and attributed to assets in the CGU, pro rated to the carrying amount of each asset in the CGU.

An impairment loss recognized in prior periods for long-lived assets with finite useful lives and intangible assets having an indefinite useful life, other than goodwill, can be reversed through the statement of earnings up to the excess of the recoverable amount of the asset or the CGU over its carrying value.

Income taxes

Current income taxes are recognized with respect to amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in earnings in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to an amount that is more likely than not to be realized. A deferred tax expense or benefit is recognized in other comprehensive earnings or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive earnings or directly in equity in the same or a different period.

In the course of the Company’s operations, there are a number of uncertain tax positions due to the complexity of certain transactions and due to the fact that related tax interpretations and legislation are continually changing. When a tax position is uncertain, the Company recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing fees

Financing fees related to long-term debt are capitalized in reduction of long-term debt and amortized using the effective interest rate.

Trade receivables

Trade receivables are initially stated at their fair value, less an allowance for doubtful accounts and an allowance for sales returns. The Company establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. Individual trade receivables are written off when management deems them not collectible.

Leases

Assets under leasing agreements are classified at the inception of the lease as (i) finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee, or as (ii) operating leases for all other leases. All of the Company's current leases are classified as operating leases.

Operating lease rentals are recognized in the consolidated statement of earnings on a straight-line basis over the period of the lease. Any lessee incentives are deferred and then recognized evenly over the lease term.

Revenue recognition

Revenue from drilling contracts is recognized on the basis of actual meters drilled for each contact. Revenue from ancillary services is recorded when the service is rendered and revenue from the sale of drilling rigs is recorded at shipping. The Company recognizes revenue when persuasive evidence of an arrangement exists, service has been rendered, merchandise has been shipped, the price to the buyer is fixed or determinable and collection is reasonably assured.

Earnings per share

Earnings per share are calculated using the weighted daily average number of shares outstanding during the year.

Diluted earnings per share are determined as net earnings, divided by the weighted average number of diluted common shares for the period. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury stock method.

Stock options

The Company uses the fair value method to account for stock options. In accordance with this method, compensation cost is measured at the fair value of the option at the grant date using the Black-Scholes option pricing model and is amortized to earnings over the vesting period. When unexercised stock options are forfeited or expired, the amounts are transfered to retained earnings.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated by the Company and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates, assumptions and judgments concerning the future. Actual results could differ from these estimates. The estimates, assumptions and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are addressed below.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

Inventories

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. Net realizable value is the estimated selling price less the estimated cost necessary to make the sale. Used inventories are valued at 50% of cost. The amount of the depreciation of inventories can be reversed when the circumstances that led to the impairment charge in the past no longer exists.

Useful lives of depreciable assets

Amortization methods, residual values and useful lives of property, plant and equipment are reviewed at each reporting date by the management. Any changes is accounted for prospectively as a change in accounting estimate. As at September 30, 2011, management assesses that the useful lives represent the expected utility of the assets to the Company.

Business combinations

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated balance sheet of the Company at their fair values. In measuring fair value, management uses estimates about future cash flows and discount rates, however, the actual results may vary. Any measurement changes upon initial recognition would affect the measurement of Goodwill.

Estimated impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in summary of significant accounting policies. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Current income taxes

The Company is subject to income taxes in various jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due in the future. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxes

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Company operates are also carefully taken into consideration. If a forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by Management based on the specific facts and circumstances.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

Provisions

Provisions are recognized when (i) the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and when (ii) the amount of the obligation can be reliably estimated.

Provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statement of earnings in the reporting period in which changes occur.

Contingent consideration

The fair value recognized for contingent consideration has been estimated by management based on the subsidiaries results and budget. However, the actual contingent consideration may vary due to unexpected changes in the subsidiaries activities.

Stock options

The Company uses the fair value method to account for stock options. In accordance with this method, compensation cost is measured at the fair value of the option at the grant date using the Black-Scholes option pricing model which is based on significant assumptions such as volatility, dividend yield and expected term.

5. RECENT ACCOUNTING PRONOUNCEMENT

The Company has not early adopted the following new standards and adoption impacts on the consolidated financial statements have not yet been determined:

IFRS 9 – Financial instruments

IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial instruments and its related classification and measurement. IFRS 9 is effective from periods beginning January 1, 2013 with early adoption permitted.

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and provides additional guidance regarding the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective from periods beginning January 1, 2013 with early adoption permitted.

IFRS 11 – Joint Arrangements

IFRS 11 replaces IAS 31, Interests in Joint Ventures, with guidance that focuses on the rights and obligations of the arrangement, rather than its legal form. It also withdraws the option to proportionately consolidate an entity's interests in joint ventures. The new standard requires that such interests be recognized using the equity method. IFRS 11 is effective from periods beginning January 1, 2013 with early adoption permitted.

(in thousands of Canadian dollars, except for earnings per share and option data)

5. RECENT ACCOUNTING PRONOUNCEMENT (continued)

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet vehicles. IFRS 12 is effective from periods beginning January 1, 2013 with early adoption permitted.

IFRS 13 – Fair value measurements

IFRS 13 defines fair value, requires the disclosure of estimates at fair value and provides guidance on measuring fair value when required or permitted to do so according to the IFRS standards. IFRS 13 is effective from periods beginning January 1, 2013 with early adoption permitted.

6. EXPENSES BY NATURE

Detail of the amortization expense

The amortization expense of property, plant and equipment and the amorization expense of intangible assets has been charged to the statement of earnings as follows:

	September 30 2011 (3 months)	September 30 2010 (3 months)
	$	$
Cost of contract revenue	2,023	1,540
General and administrative expenses	829	441
Total amortization	2,852	1,981

Principal expenses by nature

Operating and general and administrative expenses, net by nature are as follows:

	September 30 2011 (3 months)	September 30 2010 (3 months)
	$	$
Amortization	2,852	1,981
Employee benefits expense	16,162	12,132
Cost of inventory	6,922	5,668
Other expenses	5,927	4,415
Total operating and general and administrative expenses	31,863	24,196

7. INVENTORY

The cost of inventory recognized as an expense and included in cost of contract revenue for the three month period ended September 30, 2011 was $6,922 (three months ended September 30, 2010, $5,668). During the period, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

The Company's credit facilities are in part secured by a general assignment of the Company's inventory.

(in thousands of Canadian dollars, except per share information and option data)

8. PROPERTY, PLANT AND EQUIPMENT

Changes in the property, plant and equipment balance were as follows for the periods:

Cost	Land	Buildings and components	Drilling equipment	Vehicles	Other	Total
	$	$	$	$	$	$
Balance as at July 1, 2010	761	3,146	33,037	8,519	1,191	46,654
Additions	37	6,047	9,156	2,715	692	18,647
Disposals	(69)	(526)	(1,016)	(426)	-	(2,037)
Business acquisitions (note 2)	-	-	1,053	177	32	1,262
Balance as at June 30, 2011	729	8,667	42,230	10,985	1,915	64,526
Additions	-	246	4,645	1,668	92	6,651
Disposals	-	-	(523)	(34)	(3)	(560)
Effect of movements in exchange rates	-	-	25	9	-	34
Balance as at September 30, 2011	729	8,913	46,377	12,628	2,004	70,651

Accumulated Amortization	Land	Buildings and components	Drilling equipment	Vehicles	Other	Total
	$	$	$	$	$	$
Balance as at July 1, 2010	-	234	11,405	2,751	583	14,973
Amortization	-	130	5,190	1,568	271	7,159
Disposals	-	(140)	(437)	(252)	-	(829)
Balance as at June 30, 2011	-	224	16,158	4,067	854	21,303
Amortization	-	134	1,556	463	87	2,240
Disposals	-	-	(172)	(24)	-	(196)
Effect of movements in exchange rates	-	-	4	3	-	7
Balance as at September 30, 2011	-	358	17,546	4,509	941	23,354
Net book value July 1, 2010	761	2,912	21,632	5,768	608	31,681
Net book value June 30, 2011	729	8,443	26,072	6,918	1,061	43,223
Net book value September, 2011	729	8,555	28,831	8,119	1,063	47,297

The gain on disposal of property, plant and equipment totalling $163 (a loss of $57 for the three month period ended September 30, 2010) is included in cost of contract revenue.

(in thousands of Canadian dollars, except for earnings per share and option data)

9. GOODWILL

Changes in the goodwill balance were as follows:

	$
Balance as at July 1, 2010	19,698
Business acquisitions (note 2)	3,017
Balance as at June 30, 2011	22,715
Balance as at September 30, 2011	22,715

10. INTANGIBLE ASSETS

Changes in the intangible assets balance were as follows:

Cost	Customer relationship $	Drilling technology (a) $	Non-compete agreement $	Total $
Balance as at July 1, 2010	14,024	-	2,110	16,134
Business acquisitions (note 2)	2,940	2,912	370	6,222
Balance as at June 30, 2011	16,964	2,912	2,480	22,356
Balance as at September 30, 2011	16,964	2,912	2,480	22,356

Accumulated amortization	Customer relationship $	Drilling technology (a) $	Non-compete agreement $	Total $
Balance as at July 1, 2010	13,257	-	1,503	14,760
Amortization	1,026	-	484	1,510
Balance as at June 30, 2011	14,283	-	1,987	16,270
Amortization	330	146	136	612
Balance as at September 30, 2011	14,613	146	2,123	16,882
Net book value July 1, 2010	767	-	607	1,374
Net book value June 30, 2011	2,681	2,912	493	6,086
Net book value September 30, 2011	2,351	2,766	357	5,474

(a) The drilling technology has not been amortized during the year ended June 30, 2011, because it was still in development.

(in thousands of Canadian dollars, except for earnings per share and option data)

11. LONG-TERM DEBT

	September 30 2011	June 30 2011	July 1 2010
	$	$	$
Loan authorized for a maximum amount of $40 million, bearing interest at prime rate plus 0,5%, maturing May 2015, secured by first rank hypothec on the universality of all present and future assets (a) (b)	19,745	14,618	-
Loans, bearing interest at rates ranging from 0% to 1,5%, payable in monthly instalments of $39, maturing in September 2014, secured by certain vehicles of a net book value of $1,295	1,079	223	375
	20,824	14,841	375
Current portion	(440)	(168)	(203)
	20,384	14,673	172

(a) The rate is variable based on the quarterly calculation of a financial ratio and can vary from prime rate plus 0.5% to 1.50%. As per certain conditions, the credit facility can be increased by an amount of $20 million up to a maximum authorized amount of $60 million.

(b) An unamortized amount of $255, representing financing fees has been presented in deduction of the long-term debt. This amount is being amortized to earnings over the term of the debt, using the effective interest method.

Under the terms of the long-term debt agreement, the Company must satisfy certain restrictive covenants as to minimum financial ratios (note 12).

On September 30, 2011, the prime rate was 3% (June 30, 2011, 3% and 2.5 % as at July 1, 2010).

Principal payments required in each of the next four years are as follows:

	$
2012	440
2013	339
2014	300
2015	20,000

(in thousands of Canadian dollars, except for earnings per share and option data)

12. CAPITAL MANAGEMENT

The Company includes shareholders' equity, long-term debt and bank overdraft net of cash in the definition of capital.

Total managed capital was as follows:

	September 30 2011	June 30 2011	July 1 2010
	$	$	$
Bank overdraft	887	698	-
Long-term debt	20,824	14,841	375
Share capital	53,402	53,386	51,898
Contributed surplus	2,739	2,520	1,703
Retained earnings	51,114	47,437	35,991
Cash	-	-	(8,114)
	128,966	118,882	81,853

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: i) preserve access to capital markets; ii) meet financial obligations and iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants, such as Senior debt to earnings before income taxes, interest, depreciation and amortization ratio, Senior debt to capitalization ratio and fixed charge coverage ratio. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the period, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from the prior period.

(in thousands of Canadian dollars, except for earnings per share and option data)

13. SHARE CAPITAL

Authorized, an unlimited number of common and preferred shares:

Common shares, participating and voting, without nominal or par value

Preferred shares, rights' privileges, restrictions and conditions shall be provided before their issuance by a resolution of the Board of Directors of the Company

Common shares issued:

	Three month period ended September 30, 2011		Year ended June 30, 2011	
	Number of shares	$	Number of shares	$
Balance, beginning of the period	33,048,937	53,406	32,738,684	51,918
Shares issued:				
For business acquisition (a)	-	-	305,753	1,482
Stock option exercised	10,500	16	4,500	6
	33,059,437	53,422	33,048,937	53,406
Share purchase financing (b)	-	(20)	-	(20)
Balance, end of the period	33,059,437	53,402	33,048,937	53,386

(a) Issuance during the year ended June 30, 2011:

In November and December 2010, the Company issued a total of 305,753 common shares for a total amount of $1,482 as part of the consideration for the acquisitions of 1085820 Ontario Limited and Morris Drilling Inc. (see Note 2).

(b) Share purchase financing:

On August 20, 2007, 13,333 common shares were issued to an employee of the Company at $1.50 per common share under the Company's share purchase plan. The Company granted a five-year loan in the amount of $20 to this employee pursuant to the terms and conditions set out in a promissory note secured by 13,333 common shares. The loan is repayable at the earlier of (i) the date the shares were sold or, (ii) at the maturity date of the loan. Interest on the principal of the loan is calculated and compounded annually at a rate of 8%. As at September 30, 2011, the fair value of the securities is $67 .

(in thousands of Canadian dollars, except for earnings per share and option data)

13. SHARE CAPITAL (continued)

Earnings per share

Diluted earnings per common share were calculated based on net earnings divided by the average number of common shares outstanding taking into account the dilutive effect of stock options using the treasury stock method.

	September 30 2011 (3 months)	September 30 2010 (3 months)
Earnings per share - basic		
Net earnings available to common shareholders	3,677 $	2,218 $
Weighted average basic number of common shares outstanding	33,054,304	32,738,684
Earnings per share - basic	0.11 $	0.07 $

	September 30 2011 (3 months)	September 30 2010 (3 months)
Earnings per share - diluted		
Net earnings available to common shareholders	3,677 $	2,218 $
Weighted average basic number of common shares outstanding	33,054,304	32,738,684
Adjustment to average number of common shares - stock options	987,465	758,796
Weighted average diluted number of common shares outstanding	34,041,769	33,497,480
Earnings per share - diluted	0.11 $	0.07 $

The calculation of the diluted earnings per share for the three month period ended September 30, 2011 excludes the effect of 365,000 options (625,000 for the three month period ended September 30, 2010) as they are anti-dilutive.

2007 stock option plan:

In January 2007, the Board of Directors adopted a stock option plan « 2007 Stock Option Plan ». The purpose of this plan is to retain, motivate and reward qualified directors, officers, employees and consultants of the Company.

The vesting and expiry terms of the outstanding options were modified in June 2008 and will now vest at the rate of 50% 31 days after the closing date of the IPO and 25% on each of the first and second anniversary of the closing date of the IPO and will expire 10 years after the grant date.

2008 stock option plan

Also, on June 26, 2008, the Company established the new option plan « 2008 Stock Option Plan », which is intended to aid in attracting, retaining and motivating the Company's officers, employees, directors and consultants. The new option plan has been prepared in accordance with TSX's policies on listed company security-based compensation arrangements. Persons eligible to be granted options under the new option plan are: any director, officer or employee of Orbit Garant or of any subsidiary company controlled by any such person or a family trust of which at least one trustee is any such person and all of the beneficiaries of which are such person and his or her spouse or children.

(in thousands of Canadian dollars, except for earnings per share and option data)

13. SHARE CAPITAL (continued)

The aggregate number of common shares which may be issued from treasury under the new option plan or reserved for issuance upon the exercise of options under the 2008 stock option plan shall not exceed 10% of the issued and outstanding common shares after giving effect to the June 26, 2008 offering less the number of options issued under the prior option plan. The number of common shares which may be reserved for issuance pursuant to options granted under the new option plan, together with common shares reserved for issuance from treasury under any other employee-related plan of the Company or options for services granted by the Company, to any one person shall not exceed 5% of the then aggregate issued and outstanding common shares.

The Board of Directors, through the recommendation of the Compensation and Corporate Governance Committee, will manage the 2008 Stock Option Plan and will determine, among other things, optionees, vesting periods, exercise price and other attributes of the options, in each case pursuant to the 2008 stock option plan, applicable securities legislation and the rules of the TSX. Unless otherwise determined by the Board of Directors, options will vest at a rate of 20% per annum commencing 12 months after the date of grant and will expire no later than 10 years after the grant date. Options are forfeited when the option holder ceases to be a director, officer or employee of the Company. The exercise price for any option may not be less than the fair market value (the closing price of the common shares on the TSX on the last trading day on which common shares traded prior to such day, or the average of the closing bid and ask prices over the last five trading days, if no trades accrued over that period) of the common shares at the time of the grant of the option.

All stock options outstanding are granted to directors, officers and employees. Details regarding the stock options outstanding are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding as at July 1, 2010	1,973,000	2.42
Granted during the year	365,000	5.73
Exercised during the period	(4,500)	1.00
Outstanding as at June 30, 2011	2,333,500	2.94
Exercised during the period	(10,500)	1.00
Outstanding as at September 30, 2011	2,323,000	2.94
Exercisable as at September 30, 2011	1,468,000	1.90

(in thousands of Canadian dollars, except for earnings per share and option data)

13. SHARE CAPITAL (continued)

The following table summarized information on stock options outstanding at September 30, 2011:

Range of exercise prices $	Outstanding at September 30, 2011	Weighted average remaining life (years)	Weighted average exercise price $	Exercisable at September 30, 2011	Weighted average exercise price $
1.00 - 1.50	1,033,000	5.37	1.02	1,033,000	1.02
4.00	925,000	7.19	4.00	435,000	4.00
5.65 - 6.02	365,000	6.17	5.73	-	
	2,323,000			1,468,000	

The Company's calculations of the fair value of options granted were made using the Black-Scholes option-pricing model. The following table summarizes the grant date fair value calculations with weighted average assumptions:

	Granted in February 2011	Granted in November 2010
Risk-free interest rate	2.31%	1.84%
Expected life (years)	5	5
Expected volatility	67.96%	68.88%
Expected dividend yield	0%	0%
Fair value of options granted	$3.45	$3.17

During the three month period ended September 30, 2011, the total expense related to stock-based compensation to employees and directors amounting to $224 has been recorded and presented in general and administrative expenses ($154 for the three month period ended September 30, 2010).

14. INCOME TAXES

Income tax expense comprises the following:

	September 30 2011 (3 months) $	September 30 2010 (3 months) $
Current	1,714	1,059
Deferred	(163)	(88)
	1,551	971

(in thousands of Canadian dollars, except for earnings per share and option data)

14. INCOME TAXES (continued)

Income tax expense differs from the amounts calculated by applying Canadian statutory rates (federal and provincial) of 27.44% (2010, 29.09%) to the earnings before income taxes as follows:

	September 30 2011 (3 months)	September 30 2010 (3 months)
	$	$
Earnings before income taxes	5,228	3,189
Income taxes based on statutory rates	1,436	928
Increase (decrease) of income taxes due to the following:		
Non-deductible expenses	54	12
Non-deductible stock-based compensation expense	61	45
Non-taxable share in net earnings of a company subject to significant influence	-	(29)
Effect of corporate tax rate modification and prior year adjustments	(13)	15
Change in fair value of contingent consideration	13	-
Total income taxes	1,551	971

Deferred income taxes are based on differences between the accounting and tax values of assets and liabilities and consist of the following as at the dates presented:

	September 30 2011	June 30 2011	July 1 2010
	$	$	$
Deferred income tax assets:			
Share issue costs	162	216	444
Long-term investments	13	13	13
Total deferred income tax assets	175	229	457
Deferred income tax liabilities:			
Property, plant and equipment	1,061	1,121	1,313
Intangible assets	1,566	1,723	479
Total deferred income tax liabilities	2,627	2,844	1,792
Net deferred income tax liabilities	2,452	2,615	1,335

(in thousands of Canadian dollars, except for earnings per share and option data)

15. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

Changes in non-cash operating working capital items

	September 30 2011 (3 months)	September 30 2010 (3 months)
	$	$
Accounts receivable	(603)	(941)
Inventories	(4,355)	(1,353)
Prepaid expenses	253	90
Accounts payable and accrued liabilities	(2,409)	(3,224)
	(7,114)	(5,428)

16. COMMITMENTS

The Company has entered into lease agreements expiring in 2014 which call for lease payments of $63 for the rental of vehicles. The Company has also entered into lease agreements expiring in 2021 for minimum lease payments of $1,617. The minimum lease payments under lease agreements for the next five years are detailed as follows:

	$
2012	214
2013	203
2014	180
2015	178
2016	178

Furthermore, the Company has entered into an agreement to purchase from a supplier, a total of $2.5 million in products or drilling services, no later than January 31, 2013.

17. FINANCIAL INSTRUMENTS

The Company is exposed to various risks related to its financial assets and liabilities. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them, from previous periods, unless otherwise stated in this note.

Currency risk

The Company realizes a part of its activities in US dollars and is thus exposed to foreign exchange fluctuations. The Company does not actively manage this risk. As at September 30, 2011, the Company has cash in US dollars for an amount of $370 (June 30, 2011, $296; July 1, 2010, $228) and accounts receivable in US dollars for an amount of $312 (June 30, 2011, $388; July 1, 2010, $516).

As at September 30, 2011, the Company has estimated that a ten percent increase or decrease of the US exchange rate would have caused a corresponding annual increase or decrease in net earnings and comprehensive earnings of approximately $14 (September 30, 2010, $13).

Credit risk

The Company provides credit to its customers in the normal course of its operations. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. Demand for the Company's drilling services depends upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold, nickel and copper.

In order to reduce the credit risk, the Company is using insurance coverage from Export Development Canada (''EDC'') on certain accounts receivable from its customers. The insurance program provides under certain terms and conditions an insurance coverage amount of up to 90% of unpaid accounts. As at September 30, 2011, the amount of the insurance coverage from EDC represents approximately 29.7% of the accounts receivable (32.7% in June 30, 2011; 53% in July 1, 2010).

The carrying amounts for accounts receivable are net of allowances for doubtful accounts, which are estimated based on aging analysis of receivables, past experience, specific risks associated with the customer and other relevant information. The maximum exposure to credit risk is the carrying value of the financial assets.

As at September 30, 2011, 35% (43% in June 30, 2011: 54.9% July 1, 2010) of the trade accounts receivable are aged as current and 2% (2% in June 30, 2011; 5% July 1, 2010) of receivables are impaired.

Two major customers represent 15% and 11 % of the trade accounts receivable as at September 30, 2011 (June 30, 2011, one major customer represents 13% and on July 1, 2010, one customer represented 10% of these accounts).

(in thousands of Canadian dollars, except for earnings per share and option data)

17. FINANCIAL INSTRUMENTS (continued)

Two major customers represent more than 13% and 10% of the contract revenue for the three month period ended September 30, 2011 (three month period ended September 30, 2010, one major customer represents 11%).

Credit risk also arises from cash and cash equivalents with banks and financial institutions. This risk is limited because the counterparties are mainly Canadian banks with high credit ratings.

The Company does not enter into derivatives to manage credit risk.

Interest rate risk

The Company is subject to interest rate risk since a significant part of the long-term debt bears interest at variable rates.

As at September 30, 2011, the Company has estimated that a one percentage point increase or decrease in interest rates would have caused a corresponding annual increase or decrease in net earnings of approximately $149 (June 30, 2011, $105: no significant impact on July 1, 2010).

Fair value

The fair value of cash, accounts receivable, accounts receivable related from disposal of long-term investments, bank overdraft and accounts payable and accrued liabilities is approximately equal to their carrying values due to their short-term maturity.

The fair value of long-term debt approximates its carrying value as it bears interest at a variable rate and has financing conditions similar to those currently available to the Company. The fair value on the contingent consideration has been evaluated as of a discounted rate value.

Liquidity risk

Liquidity risk arises from the Company's management of working capital, the finance charges and principal repayments on its debt instruments. It is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In Note 12 are details of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

	Total	0 -1 year	2 - 3 years	4 - 5 years
	$	$	$	$
Bank overdraft	887	887		
Accounts payable and accrued charges	16,601	16,601	-	-
Contingent consideration	2,400	800	1,600	-
Long-term debt (capital only)	21,079	440	639	20,000
	40,967	18,728	2,239	20,000

(in thousands of Canadian dollars, except for earnings per share and option data)

18. SEGMENTED INFORMATION

The Company operates in three geographic segments, Drilling Canada, Drilling International (US, Central and South America) and Manufacturing Canada. The services provided in each of the reportable drilling segments are essentially the same. Management evaluates performance based on gross profit in these three geographic segments before interest, general corporate expenses and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

	September 30 2011 (3 months)	September 30 2010 (3 months)
	$	$
Contract revenue		
Drilling Canada	30,353	24,751
Drilling International	6,195	2,470
Manufacturing Canada	3,348	1,808
Elimination - Manufacturing Canada	(2,805)	(1,644)
	37,091	27,385
Gross profit		
Drilling Canada	4,937	4,375
Drilling International	3,949	1,135
Manufacturing Canada	32	94
	8,918	5,604
Finance costs	212	60
General corporate expenses	3,478	2,355
Income taxes	1,551	971
	5,241	3,386
Net earnings	3,677	2,218
Amortization		
Drilling Canada	1,759	1,299
Drilling International	230	228
Manufacturing Canada	34	13
Administrative	829	441
	2,852	1,981

	As at September 30, 2011	As at June 30, 2011	As at July 1, 2010
	$	$	$
Identifiable assets			
Drilling and Manufacturing Canada	138,855	130,040	100,764
Drilling International	11,314	12,596	7,696
	150,169	142,636	108,460
Property, plant and equipment			
Drilling and Manufacturing Canada	43,247	39,415	28,210
Drilling International	4,050	3,808	3,471
	47,297	43,223	31,681

19. TRANSITION TO IFRS

These interim condensed consolidated financial statements are the first financial statements the Corporation has prepared in accordance with IFRS, as described under accounting policies (note 3). The date of the opening balance sheet under IFRS and the Company's date of transition to IFRS is July 1, 2010. The IFRS 1 requires the presentation of Comparative Financial Information and imposes to the First-time adopters to apply retrospectively, all the IFRS standards in effect for the Company, for the year ended June 30, 2012. It provides certain optional exemptions and certain mandatory exceptions for the First-time IFRS adopters.

Prior to the adoption of IFRS, for all periods up to and including the year ended June 30, 2010, the Company's consolidated financial statements were prepared in accordance with Canadian GAAP. The Company applied IFRS 1 *First-time Adoption of IFRS* to prepare its first interim condensed consolidated financial statements. The transition incidence to IFRS on equity, net earnings, comprehensive earnings and cash flows is presented and described in this note and is explained in more detail in the notes relative to the chart .

Initial choices on adoption

The Company has applied IFRS 1 in preparing these interim condensed consolidated financial statements. The Company is required to establish IFRS accounting policies as of the transition date and, in general, to apply these retrospectively to determine the IFRS opening balance sheet at July 1, 2010. This Standard provides a number of mandatory exceptions and optional exemptions to this general principle of retrospective application when the translation of Canadian GAAP to IFRS for the Company. Descriptions of applicable exemptions and exceptions are set out below, together with the Company's elections:

Mandatory exceptions

Estimates - In accordance with IFRS 1, an entity's estimates under IFRS as of the transition date to IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The estimates previously made by the Company under Canadian GAAP were not revised on the application of IFRS.

Optional choices applied by the Company

Business Combinations - IFRS 1 provides the option to apply IFRS 3R (revised), *Business Combinations*, retrospectively or prospectively from the transition date. A retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Corporation has elected not to apply IFRS 3R retrospectively to business combinations that occurred before the date of transition. These business combinations were not restated. Accordingly, IAS 27, Consolidated and Separate Financial Statements, is also applied prospectively. Any goodwill arising on acquisition differences has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

Cumulative translation adjustment - IFRS permits cumulative translation gains and losses related to net investments in foreign operations to be reset to zero as of the date of transition, rather than applying IAS 21, The Effect of Changes in Foreign Exchange Rates, retrospectively from the date a subsidiary was formed or acquired. The Company elected to reset all cumulative translation adjustments to zero in its opening retained earnings as of July 1, 2010.

(in thousands of Canadian dollars, except for earnings per share and option data)

19. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted: the equity, earnings and comprehensive earnings.

Reconciliation of Equity

As at:	Explanation	June 30, 2011	September 30, 2010	July 1, 2010
		$	$	$
Equity under Canadian GAAP		103,787	91,964	89,592
Differences with the Canadian GAAP decreasing reported equity:				
Business acquisition expenses	(c)	(328)	-	-
Contingent consideration	(b)	(116)	-	-
Total equity under IFRS		103,343	91,964	89,592

Reconciliation of earnings

For the year to date periods ended :	Explanation	June 30, 2011 (12 months)	September 30, 2010 (3 months)
		$	$
Net earnings under Canadian GAAP		12,128	2,249
Differences in GAAP decreasing reported earnings:			
Business acquisition expenses	(c)	(328)	-
Change in fair value of contingent consideration	(b)	(116)	-
Share-based compensation	(a)	(238)	(31)
Net earnings under IFRS		11,446	2,218

Reconciliation of Comprehensive Earnings

For the year to date periods ended:	Explanation	June 30, 2011 (12 months)	September 30, 2010 (3 months)
		$	$
Comprehensive earnings under Canadian GAAP		12,128	2,249
Differences in GAAP decreasing reported comprehensive earnings:			
Business acquisition expenses	(c)	(328)	-
Change in fair value of contingent consideration	(b)	(116)	-
Share-based compensation	(a)	(238)	(31)
Comprehensive earnings under IFRS		11,446	2,218

19. TRANSITION TO IFRS (continued)

Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

Share-based compensation

Under IFRS, the liability related to share-based awards that call for settlement in cash or other assets must be measured at its fair value and is to be re-measured at its fair value at the end of each reporting period. Under Canadian GAAP, the liability was measured and re-measured at each reporting date at the intrinsic values of the stock-based awards instead of at their fair values.

Under IFRS, when a share-based payment vests in instalments over a vesting period (“graded vesting”), each instalment is accounted for as a separate arrangement as compared to Canadian GAAP, which gave the choice of treating the instruments as a pool, with the measurement being determined using the average life of the awards granted.

Translation gains or losses related to net investments in foreign operations

As stated above in section “IFRS 1 : Initial choices on adoption”, the Company elected to reset all cumulative translation gains and losses related to investments in foreign operations to zero in opening retained earnings as at the transition date.

Reconciliation of Canadian GAAP to IFRS

IFRS uses a conceptual work ethic which is similar to the Canadian GAAP. But there are important differences that exist in certain standards evaluation and disclosure. Though the adoption of IFRS did not change the Company's cash flow, it did bring changes to the Company's balance sheets and the activity results. In order to allow the financial statement users to better understand these changes, to the Company's consolidated balance sheet, consolidated statement of earnings and comprehensive earnings prepared according to Canadian GAAP were restated according to the IFRS Standards at different dates and the differences in the statements are explained, as required by IFRS 1.

(in thousands of Canadian dollars, except for earnings per share and option data)

19. TRANSITION TO IFRS (continued)

Consolidated balance sheet as of July 1, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
ASSETS					
Current assets					
Cash		8,114			8,114
Accounts receivable		21,188			21,188
Inventories		22,708			22,708
Income taxes receivable		2,351			2,351
Prepaid expenses		460			460
		54,821	-	-	54,821
Non-current assets					
Investments in associate		886			886
Property, plant and equipment		31,681			31,681
Goodwill		19,698			19,698
Intangible assets		1,374			1,374
Total assets		108,460	-	-	108,460
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities		17,158			17,158
Current portion of long-term debt		203			203
		17,361	-	-	17,361
Non-current liabilities					
Long-term debt		172			172
Deferred tax liabilities		1,335			1,335
Total non-current		18,868	-	-	18,868
Equity					
Share capital		51,898			51,898
Contributed surplus	(a)	1,369	334		1,703
Retained earnings	(a)	36,325	(334)		35,991
Total equity attribuable to shareholders		89,592	-	-	89,592
Total liabilities and equity		108,460	-	-	108,460

(in thousands of Canadian dollars, except for earnings per share and option data)

19. TRANSITION TO IFRS (continued)

Consolidated statements of earnings for the three month period ended September 30, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
Contract revenue		27,385			27,385
Cost of contract revenue	(d)	20,241		1,540	21,781
Gross profit		7,144	-	(1,540)	5,604
Expenses					
General and administrative expenses	(a), (d)	1,951	31	441	2,423
Amortization of property, plant and equipment	(d)	1,624		(1,624)	-
Amortization of intangible assets	(d)	357		(357)	-
Foreign exchange losses	(d)	33		(33)	-
Interest on long-term debt	(d)	18		(18)	-
Interest and bank charges	(d)	42		(42)	-
Other operating expenses	(d)	-		33	33
Finance costs	(d)	-		60	60
		4,025	31	(1,540)	2,516
Earnings before the following items		3,119	(31)	-	3,088
Share in net earnings of associate		101			101
Income taxes		971			971
Net earnings		2,249	(31)	-	2,218

Consolidated statements of comprehensive earnings for the three month period ended September 30, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
Net earnings	(a)	2,249	(31)		2,218
Other comprehensive earnings					
Currency translation differences		-	-		-
Comprehensive earnings		2,249	(31)	-	2,218

(in thousands of Canadian dollars, except for earnings per share and option data)

19. TRANSITION TO IFRS (continued)

Consolidated balance sheet as of September 30, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
ASSETS					
Current assets					
Cash		3,386			3,386
Accounts receivable		22,130			22,130
Inventories		24,061			24,061
Income taxes receivable		3,322			3,322
Prepaid expenses		370			370
		53,269	-	-	53,269
Non-current assets					
Investments in associate		987			987
Property, plant and equipment		32,570			32,570
Goodwill		19,698			19,698
Intangible assets		1,016			1,016
Total assets		107,540	-	-	107,540
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities		13,935			13,935
Current portion of long-term debt		228			228
		14,163	-	-	14,163
Non-current liabilities					
Long-term debt		166			166
Deferred tax liabilities		1,247			1,247
Total non-current		15,576	-	-	15,576
Equity					
Share capital		51,898			51,898
Contributed surplus	(a)	1,492	365		1,857
Retained earnings	(a)	38,574	(365)	-	38,209
Total equity attribuable to shareholders		91,964	-	-	91,964
Total liabilities and equity		107,540	-	-	107,540

(in thousands of Canadian dollars, except for earnings per share and option data)

19. TRANSITION TO IFRS (continued)

Consolidated statements of earnings for the year ended June 30, 2011

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
Contract revenue		127,738			127,738
Cost of contract revenue	(d)	92,471		6,793	99,264
Gross profit		35,267	-	(6,793)	28,474
Expenses					
General and administrative expenses	(a), (c), (d)	9,247	566	1,866	11,679
Amortization of property, plant and equipment	(d)	7,159		(7,159)	-
Amortization of intangible assets	(d)	1,510		(1,510)	-
Foreign exchange losses	(d)	41		(41)	-
Gain on disposal of property, plant and equipment	(d)	(126)		126	-
Interest on long-term debt	(d)	258		(258)	-
Interest and bank charges	(b), (d)	182	116	(298)	-
Other operating expenses	(d)	-		41	41
Finance costs	(d)	-		440	440
		18,271	682	(6,793)	12,160
Earnings before the following items		16,996	(682)	-	16,314
Share in net earnings of associate		225			225
Gain on investments in associate		209			209
		434	-	-	434
Earnings before income taxes		17,430	(682)	-	16,748
Income taxes		5,302			5,302
Net earnings		12,128	(682)	-	11,446

Consolidated statements of comprehensive earnings for the year ended June 30, 2011

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
Net earnings	(a), (b), (c)	12,128	(682)		11,446
Other comprehensive earnings					
Currency translation differences		-			-
Comprehensive earnings		12,128	(682)	-	11,446

(in thousands of Canadian dollars, except for earnings per share and option data)

19. TRANSITION TO IFRS (continued)

Consolidated balance sheet as of June 30, 2011

	Explanation	Canadian GAAP	IFRS adjustments	IFRS reclass	IFRS
		$	$	$	$
ASSETS					
Current assets					
Accounts receivable		33,081			33,081
Accounts receivable related to disposal of investments in associate		784			784
Inventories		33,646			33,646
Income taxes receivable		2,412			2,412
Prepaid expenses		689			689
		70,612	-	-	70,612
Non-current assets					
Property, plant and equipment		43,223			43,223
Goodwill	(b), (c)	21,061	1,654		22,715
Intangible assets	(b)	6,044	42		6,086
Total assets		140,940	1,696	-	142,636
LIABILITES					
Current liabilities					
Bank overdraft		698			698
Accounts payable and accrued liabilities		19,009			19,009
Contingent consideration	(b)	-	774		774
Current portion of long-term debt		168			168
		19,875	774	-	20,649
Non-current liabilities					
Contingent consideration	(b)	-	1,356		1,356
Long-term debt		14,673			14,673
Deferred tax liabilities	(b)	2,605	10		2,615
Total non-current		37,153	2,140	-	39,293
EQUITY					
Share capital		53,386			53,386
Contributed surplus	(a)	1,948	572		2,520
Retained earnings	(a), (b), (c)	48,453	(1,016)	-	47,437
Total equity attribuable to shareholders		103,787	(444)	-	103,343
Total liabilities and equity		140,940	1,696	-	142,636

19. TRANSITION TO IFRS (continued)

(a) Stock-based compensation

Canadian GAAP - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition for all stock options granted.

(b) Business combinations - Contingent consideration

Canadian GAAP - Contingent consideration was recognized as part of the purchase price when they were paid.

IFRS - Contingent consideration is recognized at fair value at the date of the acquisition date. The Company has booked a contingent consideration related to the acquisition of 1085820 Ontario Limited (Advantage Control Technologies).

(c) Business combination - Acquisition costs

Canadian GAAP - The acquisition costs were accounted for as part of the purchase price.

IFRS - The acquisition costs are accounted for as an expense in the statement of earnings. The Company accounted for in the statement of earnings the acquisition costs related to the acquisitions of 1085820 Ontario Limited (Advantage Control Technologies) and Morris Drilling inc.

(d) Statement of earnings reclassification

Canadian GAAP - The income statement should present fairly the results of operations for the period and should provide some specific information, however the concept of the classification either by nature or by function is not addressed.

IFRS - An entity shall present an analysis of expenses recognized in profit and loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. The Company believes that the classification of its expenses by function is more relevant.

As a result, the amortization has been reclassified between cost of contract revenue and general and administrative expenses. Also, interest on long-term debt, interest and bank charges, foreign exchange losses and gain on disposal of property plant and equipment has been reclassified in their respective function.