



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FIRST QUARTER FISCAL 2016**

**(Three-month period ended September 30, 2015)**

**November 11, 2015**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is a review of the results of operations, the liquidity and the capital resources of Orbit Garant Drilling Inc. This discussion contains forward-looking statements. Please see "Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to these statements.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three-month period ended September 30, 2015; as compared with the corresponding period of the previous year and also with the audited consolidated financial statements and MD&A contained in the Company's annual report for the fiscal year ended June 30, 2015.

The Company's first quarter of Fiscal 2016 unaudited interim condensed consolidated financial statements and the accompanying notes were prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars, except when otherwise noted.

In this MD&A, references to the "Company" or to "Orbit Garant" shall mean, as the context may require, either Orbit Garant Drilling Inc. or Orbit Garant Drilling Inc. together with its wholly owned subsidiaries.

This MD&A is dated November 11, 2015. Disclosure contained in this document is current to that date unless otherwise stated.

Percentage calculations are based on numbers in the Financial Statements and may not correspond to rounded figures presented in this MD&A.

Additional information relating to the Company, including the Company's Annual Information Form for the most recently completed fiscal year, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information in order for investors to have a better understanding of a company's future prospects and make informed investment decisions.

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates and assumptions about: the markets in which the Company operates; the world economic climate as it relates to the mining industry; the Canadian economic environment; and the Company's ability to attract and retain customers and to manage its assets and operating costs.

Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are discussed in this MD&A. For a more complete discussion of the risk factors that could cause the Company's actual results to materially differ from its current expectations, please refer to the Company's Annual Information Form dated September 22, 2015, accessible via [www.sedar.com](http://www.sedar.com).

## **FISCAL 2016 FIRST QUARTER SUMMARY**

- Revenue was \$24.3 million in the first quarter of Fiscal 2016 ("Q1 FY2016"), compared to \$20.7 million in the first quarter of Fiscal 2015 ("Q1 FY2015")
- Gross margin was 13.7% compared to 9.5 % in Q1 FY2015
- Adjusted gross margin (excluding depreciation expense) was 22.2%, compared to 20.6% in Q1 FY2015
- EBITDA increased to \$2.6 million from \$2.1 million in Q1 FY2015
- Net loss of \$0.2 million compared to \$0.6 million in Q1 FY2015
- 259,462 metres drilled in Q1 FY2016, up from 230,922 metres in Q1 FY2015
- Debt reduction of \$1.9 million during Q1 FY2016

During Q1 FY2016, Orbit Garant's drilling volumes increased 12.4% compared to the same period last year. This constitutes the fifth consecutive quarter of year-over-year growth in our domestic drilling revenue. However, the Company's drilling volumes remain low when compared with the peak levels recorded in fiscal 2012, due to prolonged difficult market conditions in the mineral drilling industry. Many senior and intermediate mining companies have scaled back their drilling programs over the past three years, and junior mining companies have significantly cut their exploration activities due to a lack of capital. This decreased demand for drilling services has led to pricing pressure from customers. Orbit Garant's financial results in Q1 FY2016 reflect these market trends. Orbit Garant continues to carefully control costs, monitor its workforce and manage its capital expenditures in accordance with current market conditions.

## **CORPORATE OVERVIEW**

From its head office in Val-d'Or, Québec, Orbit Garant, with more than 600 employees and a fleet of 209 drill rigs, provides surface and underground drilling services to the mining and exploration industry in Canada and internationally. The Company also provides geotechnical drilling services to mining or mineral exploration companies, engineering and environmental consultant firms and government agencies. The majority of Orbit Garant's business activity is currently conducted in Canada. The Company has worked on international projects in the United States, Mexico, Guyana, Chile and West Africa. In Fiscal 2015, Orbit Garant established new operating subsidiaries in Chile and Ghana, and a branch in Kazakhstan, to pursue international business opportunities.

Orbit Garant has a comprehensive infrastructure that is vertically integrated with its subsidiary, Soudure Royale, which manufactures drill rigs for the Company and third parties. Soudure Royale provides the Company with a competitive advantage in the provision of drilling services and equipment. Orbit Garant focuses on "specialized drilling" which refers to those drilling projects that are in remote locations or, in the opinion of Management, because of the scope, complexity or technical nature of the work, cannot be undertaken by smaller conventional drilling companies.

The Company has two operating segments: Canada (including surface drilling, underground drilling and manufacturing Canada), and International.

For the three-month period ended September 30, 2015:

- Specialized drilling services, which typically generate a higher gross margin than conventional drilling services, accounted for approximately 52% of the Company's total revenue, compared to 41% for Q1 FY2015.
- Approximately 80% of the Company's revenues were generated by gold related operations, and approximately 20% were generated by base metal related and other operations.
- Surface and underground drilling services accounted for approximately 61% and 36%, respectively, of the Company's revenue. Orbit Garant's manufacturing activities accounted for the remaining 3% of revenue.

- Approximately 83% of Orbit Garant's revenue was generated from major and intermediate mining company projects, compared to 78% in Q1 FY2015. Orbit Garant's drilling contracts with major and intermediate customers are typically from one to five years in length.

## **BUSINESS STRATEGY**

Orbit Garant's goal is to be the leading Canadian-based mineral drilling company. This will be achieved through the pursuit of both domestic and international market opportunities and through the provision of best-in-class underground and surface drilling services, equipment and personnel for all stages of the mining and minerals business, including exploration, development and production. The Company employs the following business strategies:

- Focus primarily on major and well-financed intermediate mining and exploration companies operating in stable jurisdictions;
- Provide conventional, specialized and geotechnical drilling services;
- Manufacture customized drills and equipment to fit the needs of customers;
- Maintain a commitment to Research and Development ("R&D") and advanced drilling technologies, such as the Company's current implementation of computerized monitoring and control technologies;
- Provide training for the Company's personnel to continuously improve labour efficiency and the availability of a skilled labour force;
- Maintain a high level of health and safety standards in the workplace and promote protection of the environment;
- Establish and maintain long-term relationships with customers;
- Cross-sell drilling services to existing customers;
- Expand the Company's base of operations in strategic regions;
- Maintain a sound balance sheet and a judicious deployment of capital; and
- Evaluate strategic acquisition opportunities to enhance value for the Company's stakeholders.

## **INDUSTRY OVERVIEW**

Orbit Garant provides drilling services, in Canada and abroad, to the minerals industry through all stages of mine development, from exploration through production. Client mining companies consist of major (or senior), intermediate, and junior companies (which generally focus on exploration only). Mining companies' budgets for external drilling services, such as those offered by Orbit Garant, are typically determined by ferrous (iron) and non-ferrous (precious and base) metals prices and the availability of capital to finance exploration (particularly in the case of juniors) and development programs, and/or ongoing mining operations.

### **Gold**

Gold prices are determined by the balance between supply (primarily mine production) and the many sources of demand including global investment demand, global demand for gold jewelry, and to a much lesser extent, demand from industrial applications. Following a prolonged rally in the price of gold that started in 2001 and resulted in a peak price for gold of more than US\$1,900 per ounce in September 2011, the price of gold entered a period of overall decline starting in January 2013, when it was at approximately US\$1,700 per ounce. The spot price of gold reached a trailing four-year price low of approximately US\$1,140 per ounce in November 2014. At the time of this report, the spot price of gold was approximately US\$1,084 per ounce.

### **Base Metals**

Base metals' price performance generally reflects global economic conditions, as these metals are used primarily in infrastructure, industrial and manufacturing applications. Demand from emerging markets, particularly China and India, has a major influence on base metals markets. As emerging markets advance their economic development, their

infrastructure and industrial bases expand. Further, residents typically become more affluent, driving increased demand for manufactured goods.

Aluminum, copper, lead, nickel and zinc are the primary base metals. At the time of this report, the respective spot prices for all of the primary base metals were lower than 12 months ago. The spot price for copper, the metal widely considered to be the most sensitive to macroeconomic activity, was just over US\$3.00 per pound a year ago and at the time of this report was approximately US\$2.22 per pound. Current spot prices for each of the primary base metals are currently at the low end of their trailing five-year price ranges.

## Iron Ore

Iron ore prices are determined by the global demand for steel, as more than 95% of mined iron ore is used to make steel. As both the world's largest consumer and producer of steel, China is widely regarded as having the most influence on global iron ore market prices. Continuing urbanization of the world's population, particularly in China and India, the world's most populous countries, is fueling global steel consumption, and long-term demand is expected to continue to trend higher. In the short term, the spot price of iron ore is principally affected by seasonal effects, short term mismatches between supply and demand and other factors. Since the beginning of 2014, the price of iron ore has dropped significantly. At the time of this report, the spot price of iron ore was approximately US\$49 per tonne, a decrease of more than 64% compared to the average price of US\$135 per tonne in 2013. The recent decline in iron ore prices has resulted from industry oversupply and a slowdown of economic growth in China.

## Market Participants

The past two to three years have been challenging for intermediate and junior mining companies needing to raise capital, resulting in budget restraints and reduced exploration and development programs. Further, the rising costs of mineral production, caused by higher operating and construction costs, combined with lower metals prices, have also forced some senior and intermediate mining companies to delay or scale back their drilling programs. These conditions have resulted in an oversupply of mineral drilling services capacity in the market; a trend that has continued in 2015.

## OVERALL PERFORMANCE

### Results of operations for the first quarter ended September 30, 2015

FIRST QUARTER ENDED SEPTEMBER 30 * (\$millions)	Fiscal 2016 1 <sup>st</sup> Quarter	Fiscal 2015 1 <sup>st</sup> Quarter	2016 vs. 2015 Variation
Revenue *	24.3	20.7	3.6
Gross profit *	3.3	2.0	1.3
Gross margin (%)	13.7	9.5	4.2
Adjusted gross margin (%) <sup>(1)</sup>	22.2	20.6	1.6
EBITDA * <sup>(2)</sup>	2.6	2.1	0.5
Metres drilled	259,462	230,922	28,540
Net (loss) earnings *	(0.2)	(0.6)	0.4
Net (loss) earnings per common share - Basic (\$)	(0.01)	(0.02)	0.01
- Diluted (\$)	(0.01)	(0.02)	0.01

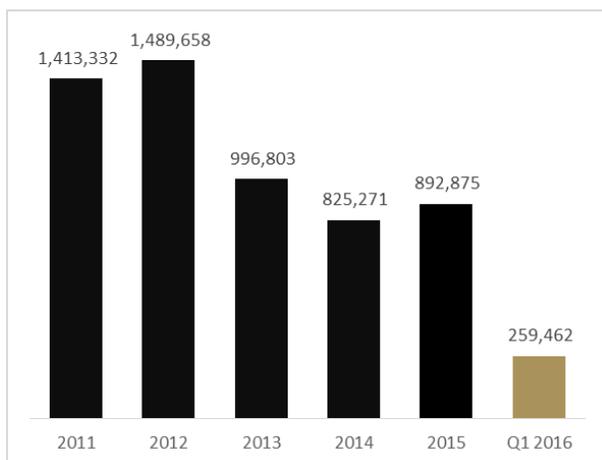
<sup>(1)</sup> Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"

<sup>(2)</sup> EBITDA = Earnings before interest, taxes, depreciation and amortization. See "Reconciliation of non-IFRS financial measures"

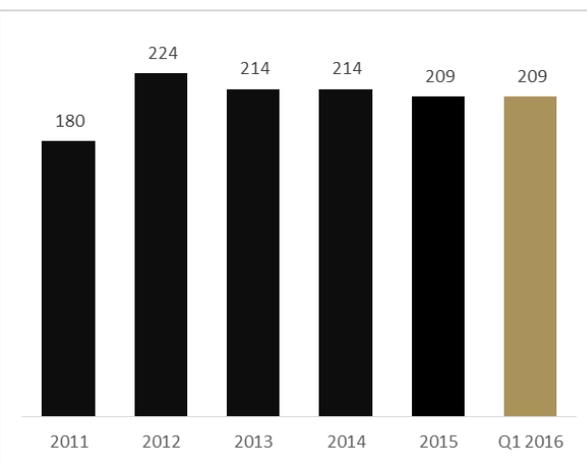
During Q1 FY2016, Orbit Garant drilled 259,462 metres, a 12.4% increase from 230,922 metres drilled during Q1 FY2015. The growth in metres drilled reflects an increase in demand from customers. The Company's average revenue per metre drilled in Q1 FY2016 was \$91.04 compared to \$89.12 in Q1 FY2015. Average revenue per metre drilled remains at the low end of the Company's trailing three-year range, primarily due to current conditions in the mineral industry, which has resulted in pricing pressure from customers.

The size of the Company's drill fleet remains stable at 209 drill rigs in Q1 FY2016. Orbit Garant currently has 24 drill rigs outfitted with its computerized monitoring and control technology.

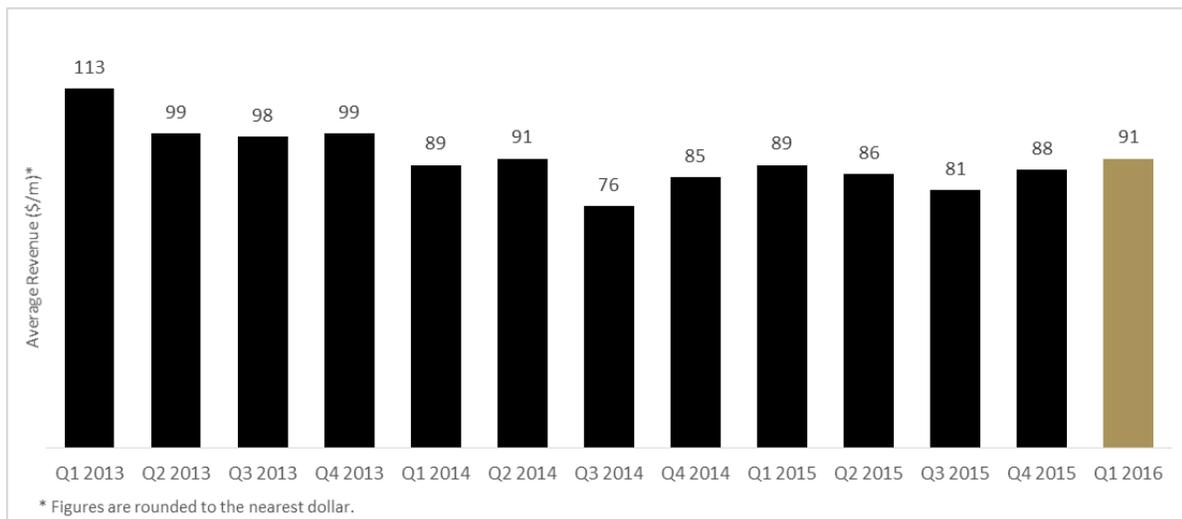
**Metres drilled**



**Number of Drills**



**Average Revenue per Metre Drilled**



## ANALYSIS OF THE FIRST QUARTER OF FISCAL 2016 COMPARED TO FIRST QUARTER OF FISCAL 2015

### Contract Revenue

Revenue in Q1 FY2016 totalled \$24.3 million, an increase of \$3.6 million, or 17.1%, from \$20.7 million in Q1 FY2015. Revenue growth was primarily attributable to an increase in metres drilled in Canada.

Domestic contract drilling revenue was \$23.8 million in Q1 FY2016, compared to \$20.5 million in Q1 FY2015, representing an increase of \$3.3 million, or 16.0%. The increase was attributable mainly to increased metres drilled.

International contract drilling revenue was \$0.5 million in Q1 FY2016, compared to \$0.2 million in Q1 FY2015, representing an increase of \$0.3 million.

### Gross Profit and Margins (see Reconciliation of non-IFRS measures)

Gross profit for Q1 FY2016 increased to \$3.3 million, compared to \$2.0 million in Q1 FY2015. Gross margin for Q1 FY2016 increased to 13.7% from 9.5% in Q1 FY2015. In accordance with IFRS, depreciation expenses totalling \$2.0 million are included in cost of contract revenue for Q1 FY2016, compared to \$2.3 million in Q1 FY2015. Adjusted gross margin, excluding depreciation expenses, was 22.2% in Q1 FY2016, compared to 20.6% in Q1 FY2015. The increases in gross profit, gross margin and adjusted gross margin are primarily attributable to the increased metres drilled in Canada during the quarter.

### General and Administrative Expenses

General and administrative (G&A) expenses were \$3.1 million (12.9% of revenue) in Q1 FY2016, compared to \$2.7 million (13.0% of revenue) in Q1 FY2015. The increase in G&A expenses is primarily attributable to the Company incurring additional administrative costs in support of business development initiatives.

In accordance with IFRS, depreciation and amortization expenses of \$0.4 million are included in G&A expenses for Q1 FY2016, in line with Q1 FY2015. Adjusted G&A expenses, excluding depreciation and amortization expenses, totalled \$2.7 million (11.3% of revenue) in Q1 FY2016, compared to \$2.3 million (11.0% of revenue) in Q1 FY2015.

The Company continues to maintain discipline in managing its expenses in accordance with current market conditions.

### Operating Result

Earnings from operations for Q1 FY2016 increased to \$1.1 million, compared to \$0.1 million in Q1 FY2015, primarily attributable to the increase in metres drilled in Canada.

Drilling Canada's operating earnings totalled \$2.8 million, an increase of \$1.6 million, from \$1.2 million in Q1 FY2015, primarily attributable to increased metres drilled.

Drilling International's operating loss totalled \$1.7 million, compared to \$1.1 million in Q1 FY2015. The increase of the operating loss is primarily attributable to the Company absorbing additional costs on new drilling projects, project start-up costs for a new drilling project in Kazakhstan and investments in business development activities.

### EBITDA (see Reconciliation of non-IFRS measures)

Earnings before interest, taxes, depreciation and amortization ("EBITDA") totalled \$2.6 million (10.8% of revenue) in Q1 FY2016, compared to \$2.1 million (10.2% of revenue) in Q1 FY2015, an increase of \$0.4 million, or 16.2%.

## Financial Expenses

Interest costs related to long-term debt and bank charges were \$0.1 million in Q1 FY2016, compared to \$0.2 million in Q1 FY2015. The decline reflects the year-over-year reduction in the Company's debt.

## Income Tax Expenses (Recovery)

Income tax expense was \$0.3 million for Q1 FY2016, compared to \$0.2 million of income tax recovery in Q1 FY2015.

## Net Loss

The Company's net loss for Q1 FY2016 was \$0.2 million (\$0.01 per share), compared to \$0.6 million (\$0.02 per share) in Q1 FY2015. The decreased net loss is primarily attributable to increased domestic drilling revenue and higher gross margins.

## SUMMARY OF QUARTERLY RESULTS

* (\$millions)		Fiscal 2016	Fiscal 2015				Fiscal 2014		
		Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Contract revenue *		24.3	22.8	18.7	16.8	20.7	20.2	16.0	16.8
Gross profit *		3.3	1.6	0.0	(0.4)	2.0	1.8	(1.1)	1.1
Gross margin %		13.7	7.1	0.2	(2.4)	9.5	8.4	(6.7)	6.8
Adjusted gross margin % <sup>(1)</sup>		22.2	16.4	11.8	10.9	20.6	20.5	7.9	20.5
Net earnings (loss) *		(0.2)	(2.0)	(2.0)	(2.8)	(0.6)	(0.8)	(2.9)	(1.5)
Net earnings (loss) per common share (\$)	- Basic	(0.01)	(0.06)	(0.06)	(0.08)	(0.02)	(0.02)	(0.09)	(0.05)
	- Diluted	(0.01)	(0.06)	(0.06)	(0.08)	(0.02)	(0.02)	(0.09)	(0.05)

<sup>(1)</sup> Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Cash flow from operations, before non-cash operating working capital items, was \$2.7 million in Q1 FY2016, compared to \$2.2 million in Q1 FY2015.

The change in non-cash operating working capital items was an outflow of \$0.1 million in Q1 FY2016, compared to a negligible amount in Q1 FY2015. The change in non-cash operating working capital in Q1 FY2016 was primarily impacted by:

- \$2.7 million related to an increase in inventory; offset by
- \$2.6 million related to a decrease in accounts payable as compared to the same period last year.

## Investing Activities

Cash used in investing activities totalled \$0.9 million in Q1 FY2016, compared to \$0.5 million in Q1 FY2015. During Q1 FY2016, \$0.9 million was used for the acquisition of property, plant and equipment, compared to \$0.5 million for the acquisition of property, plant and equipment and \$0.1 million for the payment for short term investments, partially offset by cash inflow of \$0.1 million on disposition of property, plant and equipment in Q1 FY2015.

## Financing Activities

During Q1 FY2016, the Company repaid a net amount of \$1.9 million on its \$25.0 million revolving Credit Facility. In Q1 FY2015, the amount repaid was \$1.4 million. As at September 30, 2015, the Company's long-term debt was \$5.6 million, compared to \$7.4 million as at June 30, 2015. The debt was used to support the acquisition of capital assets, including property, plant and equipment.

As at September 30, 2015, the Company's working capital was \$43.4 million, compared to \$43.5 million as at June 30, 2015. The Company's working capital requirements are primarily funding inventory acquisition and financing accounts receivable.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital expenditures and debt obligations. The Company's principal capital expenditures are related to the acquisition of drill rigs and property, plant and equipment.

## Source of Financing

Orbit Garant's primary sources of liquidity are from operations and borrowings under a credit agreement between the Company and National Bank of Canada Inc. (the "Credit Agreement"). On December 19, 2014, Orbit Garant obtained a new \$25.0 million secured, three-year revolving credit facility (the "Credit Facility") with National Bank (the "Lender"), replacing the Company's prior \$40.0 million four-year revolving credit facility held with the same institution.

The Credit Facility is used to fund working capital requirements and provide further flexibility to the Company's long-term acquisition program. The Credit Facility matures no later than December 19, 2017. As at September 30, 2015, the Company had drawn \$5.6 million (\$7.4 million as at June 30, 2015).

Availability under the Credit Agreement is subject to a borrowing base that is determined by the value of the Company's inventory, accounts receivable and real estate. All of Orbit Garant's assets are pledged as security for the Company's obligations under the Credit Agreement.

The Credit Agreement contains covenants that limit the Company's ability to undertake certain actions, without prior approval of the Lender, including: i) mergers, liquidations, dissolutions and changes of ownership; ii) the incurrence of additional indebtedness; iii) encumbering the Company's assets; iv) guarantees, loans, investments and acquisitions that may be made by the Company; v) investing in or entering into derivative instruments, paying dividends and/or making other capital distributions to related parties; vi) capital expenditures exceeding mutually agreed upon limits; and vii) certain asset sales. The Credit Agreement also contains a number of financial covenants that the Company must comply with if more than \$12.5 million is drawn from the Credit Facility.

**As at the end of September 2015, the Company complied with all covenants in the Credit Agreement.**

## OUTSTANDING SECURITIES AS AT NOVEMBER 11, 2015

<b>Number of common shares</b>	<b>33,276,519</b>
<b>Number of options</b>	<b>2,205,500</b>
<b>Fully diluted</b>	<b>35,482,019</b>

In Q1 FY2016, the Company cancelled 21,000 options.

## SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The Company's unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* («IAS 34»). The IFRS accounting policies that are set out in Note 5 to the Company's annual audited consolidated statements for the year ended June 30, 2015, were consistently applied to all periods presented, except for accounting policies affected by standards and interpretations adopted on July 1, 2015, as described below. These interim condensed consolidated financial statements have not been subject to a review engagement by the Company's external auditors.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 6 in the Company's annual audited consolidated financial statements for the year ended June 30, 2015. They remained unchanged for the three-month period ended September 30, 2015.

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the contingent liabilities and investments, 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 operates ("functional currency"). All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These unaudited interim condensed consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's 2015 annual audited consolidated financial statements.

These unaudited interim condensed consolidated financial statements were approved for issue by the Board of Directors of Orbit Garant Drilling Inc. on November 11, 2015.

### Principles of Consolidation

The Company's unaudited 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. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, independently of its percentage of participation. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when the Company controls another entity.

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

## RECONCILIATION OF NON - IFRS FINANCIAL MEASURES

Financial data has been prepared in conformity with IFRS. However, certain measures used in this discussion and analysis do not have any standardized meaning under IFRS and could be calculated differently by other companies. The Company believes that certain non-IFRS financial measures, when presented in conjunction with comparable IFRS financial measures, are useful to investors and other readers because the information is an appropriate measure to evaluate the Company's operating performance. Internally, the Company uses this non-IFRS financial information as an indicator of business performance. These measures are provided for information purposes, in addition to, and not as a substitute for, measures of financial performance prepared in accordance with IFRS.

EBITDA: Earnings (loss) before interest, taxes, depreciation and amortization.

Adjusted gross margin: Contract revenue less operating costs. Operating expenses comprise material and service expenses, personnel expenses, other operating expenses, excluding depreciation.

## EBITDA

### Reconciliation of EBITDA

(unaudited) (in millions of dollars)	3 months ended September 30, 2015	3 months ended September 30, 2014
Net earnings (loss) for the period	(0.2)	(0.6)
Finance costs	0.1	0.2
Income tax expense (recovery)	0.3	(0.2)
Depreciation and amortization	2.4	2.7
EBITDA	2.6	2.1

### Adjusted Gross Margin

Although adjusted gross margin is not a recognized financial measure defined by IFRS, it is a widely recognized measure used in the mineral drilling industry. As a result, Management believes it provides a useful and comparable benchmark for evaluating the Company's performance.

(unaudited) (in millions of dollars)	3 months ended September 30, 2015	3 months ended September 30, 2014
Contract revenue	24.3	20.7
Cost of contract revenue (including depreciation)	20.9	18.7
Less depreciation	(2.0)	(2.3)
Direct costs	18.9	16.4
Adjusted gross profit	5.4	4.3
Adjusted gross margin (%) <sup>(1)</sup>	22.2	20.6

<sup>(1)</sup> Adjusted gross profit, divided by Contract revenue X 100

## **RISK FACTORS**

The following are certain factors relating to the Company's business and the industry within which it operates. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and should be read in conjunction with, the detailed information appearing elsewhere in this report and in the Company's Annual Information Form dated September 22, 2015. These risks and uncertainties are not the only ones relevant to the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company, could be affected materially and adversely.

### **Risk Related to Structure and Common Shares**

#### **Equity Market Risks**

There is a risk associated with any investment in shares. The market price of securities such as the Common Shares of the Company are affected by numerous factors including, but not limited to, general market conditions, actual or anticipated fluctuations in the Company's results of operations, changes in estimates of future results of operations by the Company or securities analysts, risks identified in this section and other factors. In addition, the financial markets have experienced significant price and volume fluctuations that have sometimes been unrelated to the operating performance of the issuers or the industries in which they operate. Consequently, the trading price of the Common Shares may fluctuate.

#### **Influence of Existing Shareholders**

As of November 11, 2015, Pierre Alexandre, Vice Chairman and Vice President of Corporate Development of the Company, holds or controls, directly or indirectly, approximately 28% of Orbit Garant's outstanding Common Shares. As a result, this shareholder has the ability to influence Orbit Garant's strategic direction and policies, including any merger, consolidation or sale of all or substantially all of its assets, and the election and composition of Orbit Garant's Board of Directors. The foregoing ability to affect the control and direction of Orbit Garant could reduce its attractiveness as a target for potential takeover bids and business combinations, and correspondingly affect its share price.

#### **Future Sales of Common Shares by the Company's Existing Shareholders**

Certain shareholders, including Pierre Alexandre, hold or control significant blocks of shares of the Company. The decision of any of these shareholders to sell a substantial number of Common Shares in the public market could result in a material imbalance in demand for the Company's shares and therefore a decline in the market price of the Common Shares. In addition, the perception among the public that such sales may occur could also result in a reduction in the market price of the Common Shares.

#### **Dilution**

Orbit Garant may raise additional funds in the future by issuing equity securities. Holders of Common Shares will have no pre-emptive rights in connection with such further issuances. Additional Common Shares may be issued by Orbit Garant in connection with the exercise of options granted. Such additional equity issuances could, depending on the price at which such securities are issued, substantially dilute the interests of the holders of Common Shares.

## **OUTLOOK**

The mining industry continues to exercise cost restraint with regard to mineral exploration and development programs. Senior and intermediate mining companies began scaling back their drilling programs in 2013 and this trend has continued into 2015. At the same time, junior mining companies have significantly cut their exploration activities due to a lack of capital. These adverse market conditions have resulted in a current oversupply of drilling services capacity in the market, which in turn has created downward pricing pressure. An important contributor to this downturn has been the recent economic slowdown in China which has had a negative impact on metal prices. Management expects that these market conditions will continue to impact the contract drilling industry and Orbit Garant's utilization rates and gross margins in the near term.

Despite these current market challenges, Management believes the longer-term outlook for the mining industry is positive. Global demand for ferrous and non-ferrous metals, combined with depleting reserves and resources, will eventually lead to increased exploration and development activities by mining companies. Increased demand for minerals from developing countries, such as Brazil, Russia, India and China, will provide the greatest impetus for growth. One positive factor for mining companies operating in Canada is the recent decline in the value of the Canadian dollar relative to the US dollar, as their expenses are in Canadian dollars and their revenues are typically in US dollars. At the time of this report, the value of the Canadian dollar was approximately 0.75 US dollars, compared to 0.88 US dollars as at November 11, 2014.

Management remains focused on maximizing stakeholder value principally by controlling costs, optimizing drill rig utilization, increasing productivity rates, continuing to focus on technology innovation, retaining key personnel maintaining strong health and safety standards, and evaluating opportunities to expand Orbit Garant's market presence both in Canada and abroad. Management believes the Company's proprietary computerized monitoring and control drilling technology will increasingly be an important contributor in reducing both labour and consumable drilling costs, enhancing driller productivity rates and improving safety. Orbit Garant currently has 24 drill rigs featuring its computerized monitoring and control technology, all of which are currently deployed on customer projects. To date, these next generation rigs have achieved a significant increase in productivity compared to that achieved using conventional drill rigs. Orbit Garant's customers have responded positively to the improved performance and potential of the new drill rigs, which has led to renewals of underground drilling contracts for longer terms.

Orbit Garant recently expanded its international market presence with new offices in Chile and Ghana, and is now better positioned to seize international market opportunities and further strengthen customer relationships. The Company commenced work on its first drilling contract in Chile during the second quarter of Fiscal 2015, and is scheduled to commence work on its first drilling contract in Kazakhstan in the second quarter of fiscal 2016. Orbit Garant will continue to monitor market conditions closely and manage its staff and inventory levels, capital expenditures and balance sheet accordingly. With its sound balance sheet, the Company remains committed to pursuing value enhancing growth opportunities in Canada and internationally.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting ("ICFR") or causing them to be designed under their supervision. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company, have been detected. Therefore, no matter how well designed, ICFR have inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

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For the three months ended September 30, 2015, there have been no significant changes to the ICFR and no change in the assessment of the effectiveness of the Company's ICFR. Accordingly, the CEO and CFO have concluded that the design and operation were effective at a reasonable assurance level as at the end of the period covered by this report.