



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

**FIRST QUARTER FISCAL 2018**

**(Three-month period ended September 30, 2017)**

**November 8, 2017**

## 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, 2017; 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, 2017.

The Company's first quarter of Fiscal 2018 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 8, 2017. 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 6, 2017, accessible via [www.sedar.com](http://www.sedar.com).

## **FISCAL 2018 FIRST QUARTER SUMMARY**

- Revenue increased 39.2% to \$42.5 million in the first quarter of Fiscal 2018 ("Q1 FY2018"), from \$30.5 million in the first quarter of Fiscal 2017 ("Q1 FY2017")
- Gross margin was 15.9% compared to 9.4% in Q1 FY2017
- Adjusted gross margin (excluding depreciation expense) was 20.5%, up from 17.8% in Q1 FY2017
- EBITDA was \$5.1 million, up from \$2.4 million in Q1 FY2017
- Net earnings were \$1.7 million, compared to a net loss of \$0.2 million in Q1 FY2017
- Metres drilled in Q1 FY2018 totalled 404,262, an increase of 27.0% compared to 318,382 metres drilled in Q1 FY2017

Orbit Garant has now achieved eleven consecutive quarters of year-over-year growth in revenue. Management is encouraged by this positive business momentum, following a prolonged period during which many senior and intermediate mining companies had scaled back their drilling programs, and junior mining companies significantly reduced their exploration activities due to a lack of capital. During this period of weakened market conditions, there was an oversupply of drilling services capacity across the industry and significant pricing pressure from customers. Orbit Garant's growth in revenue over the past eleven fiscal quarters reflects: i) increasing customer demand and drilling volumes in Canada; and ii) increased international business activity resulting from the Company's strategy to expand its international operations in strategic markets. With the current increased customer demand for drilling services and solid revenue growth momentum, Orbit Garant expects its profitability to improve in Fiscal 2018 relative to Fiscal 2017, due to higher drill utilization rates, improving productivity and price increases on new contracts. Orbit Garant has also made significant investments in expanding its international operations in strategic markets and is now well positioned to drive future growth in international markets.

## **CORPORATE OVERVIEW**

From its head office in Val-d'Or, Québec, Orbit Garant, with approximately 1,300 employees and a fleet of 220 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 consulting firms and government agencies. The majority of Orbit Garant's business activity is currently conducted in Canada. Orbit Garant has regional offices and facilities in Sudbury, Ontario and Moncton, New Brunswick to support its Canadian business activities. The Company has worked on international projects in the United States, Mexico, Guyana, Chile, Kazakhstan and West Africa. The Company currently has international operating subsidiaries in: Santiago, Chile; Lima, Peru; Georgetown, Guyana; Ouagadougou, Burkina Faso; and Takoradi, Ghana.

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 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, 2017:

- Specialized drilling services, which typically generate a higher gross margin than conventional drilling services, accounted for approximately 59% of the Company's total revenue, compared to 62% in Q1 FY2017.
- Approximately 70% of the Company's revenues were generated by gold related operations, and approximately 30% were generated by base metal related and other operations.
- Surface and underground drilling services accounted for approximately 78% and 22%, respectively, of the Company's revenue.
- Approximately 80% of Orbit Garant's revenue was generated from major and intermediate mining company projects, in line with Q1 FY2017. Orbit Garant's drilling contracts with major and intermediate customers are typically from one to five years in length.
- Approximately 75% of Orbit Garant's revenue was generated from domestic drilling projects, and approximately 25% was generated from international drilling contracts.

## **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, such as the Company's acquisition of Captagua Ingeniería S.A. ("Captagua"), based in Santiago, Chile, in December 2015. On August 16, 2016, the name of Captagua was changed to Orbit Garant Chile S.A. ("OG Chile");
- 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 internationally, 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 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 five-year price low of approximately US\$1,049 per ounce in December 2015. The price of gold has strengthened since then, reaching a high of approximately US\$1,375 per ounce in 2016, and ending the year at a spot price of approximately US\$1,151 per ounce. To date in 2017, the spot price of gold has rallied to a high of approximately US\$1,358 an ounce in September. At the time of this report, the spot price of gold was approximately US\$1,281 an ounce, an increase of 20.9% from its trailing five-year price low in December 2015, and an increase of 11.3% since the start of 2017.

## Base Metals

Base metals' prices generally reflect 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 these primary base metals were higher than 12 months ago. The spot price for copper, the metal widely considered to be the most sensitive to macroeconomic activity, was approximately US\$2.18 per pound a year ago and at the time of this report was approximately US\$3.10 per pound, an increase of 42.2%. The spot price for nickel is currently near the lower end of its five-year price range, the spot price for copper is near the upper end of its trailing five-year price range, and the spot prices for aluminum, lead and zinc are at or near their trailing five-year highs.

## 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. The price of iron ore fell sharply in 2014 and 2015, but rebounded in 2016 and early 2017. The price has declined since mid-March 2017. At the time of this report, the spot price of iron ore was approximately US\$61 per tonne, compared to approximately US\$58 per tonne one year ago. Iron ore remains well below its trailing five-year high of approximately US\$150 per tonne.

## Market Participants

There were a number of positive developments in the mining sector in the first nine months of 2017, as the industry continued to build on a market recovery that began in early 2016. Metal prices increased, and mining companies raised significant amounts of capital. According to TMX Group, mining companies listed on the TSX and TSX-Venture exchanges completed a total of 1,046 financings in the first nine months of 2017, and 1,194 in the first nine months of 2016. That compares to 807 in the comparable period in 2015. Notably, junior mining companies on the TSX-Venture Exchange raised \$2.6 billion of equity capital in the first nine months of 2017, compared to \$1.8 billion in the same period in 2016 and just \$796 million in the first nine months of 2015. In total, mining companies on the two exchanges raised more than \$15 billion of equity capital between the start of 2016 and September 30, 2017, TMX data shows. With a greater number of mining companies now armed with more cash and stronger balance sheets, spending on mineral exploration and mine development has been increasing. As a result, drill utilization rates have increased and

the global oversupply of mineral drilling services capacity is declining. The Company expects these factors to drive improved pricing on customer contracts in fiscal 2018.

## OVERALL PERFORMANCE

### Results of operations for the first quarter ended September 30, 2017

FIRST QUARTER ENDED SEPTEMBER 30 * (\$millions)	Fiscal 2018 1st Quarter	Fiscal 2017 1st Quarter	2018 vs. 2017 Variance
Revenue *	42.5	30.5	12.0
Gross profit *	6.7	2.9	3.8
Gross margin (%)	15.9	9.4	6.5
Adjusted gross margin (%) <sup>(1)</sup>	20.5	17.8	2.7
Net earnings (loss) *	1.7	(0.2)	1.9
Net earnings (loss) per common share	- Basic (\$)	(0.01)	0.6
	- Diluted (\$)	(0.01)	0.6
EBITDA * <sup>(2)</sup>	5.1	2.4	2.7
Metres drilled	404,262	318,382	85,880

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

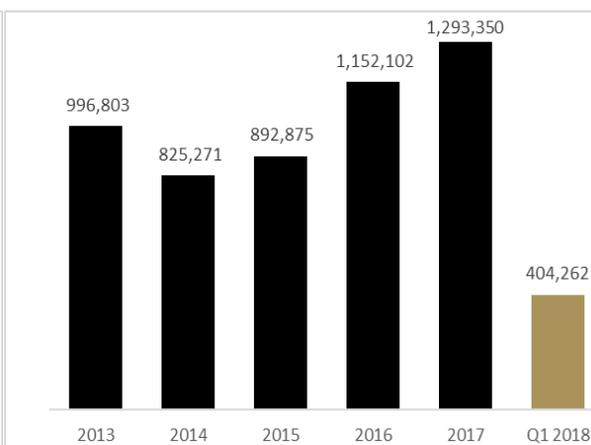
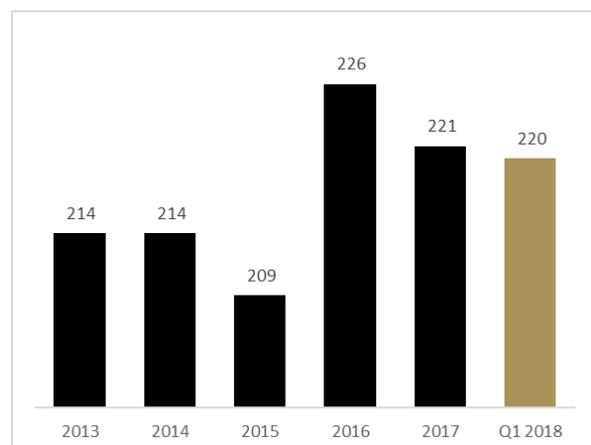
<sup>(2)</sup> EBITDA = Earnings before interest, taxes, depreciation and amortization. See "Reconciliation of non-IFRS financial measures"

During Q1 FY2018, Orbit Garant drilled 404,262 metres, an increase of 27.0% compared to 318,382 metres drilled in Q1 FY2017. The Company's average revenue per metre drilled in Q1 FY2018 was \$104.78, up 9.6% from \$95.58 in Q1 FY2017. The increase in average revenue per metre drilled is primarily attributable to the Company's specialized drilling activity in Chile, which is priced at a higher rate than conventional drilling.

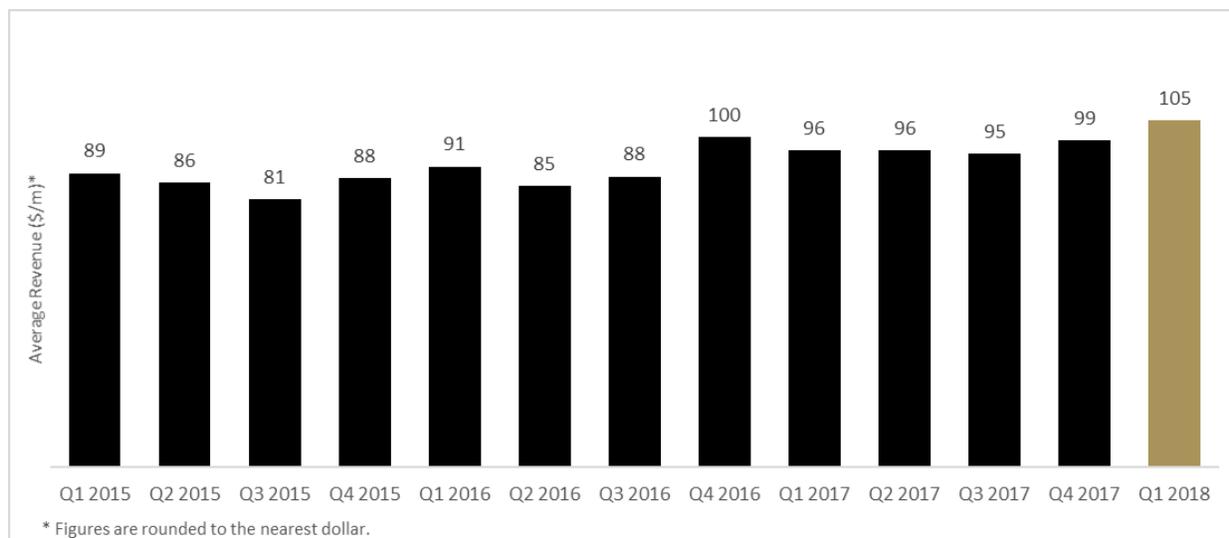
The size of the Company's drill fleet was at 220 drill rigs (90 underground drill rigs and 130 surface drill rigs) at the end of Q1 FY2018, reflecting the sale of one surface drill rig to a third party during the quarter. Orbit Garant currently has 32 drill underground drill rigs outfitted with its computerized monitoring and control technology.

### Number of Drills

### Metres Drilled



## Average Revenue per Metre Drilled



## ANALYSIS OF THE FIRST QUARTER OF FISCAL 2018 COMPARED TO THE FIRST QUARTER OF FISCAL 2017

### Contract Revenue

Revenue in Q1 FY2018 totalled \$42.5 million, an increase of \$12.0 million, or 39.2%, from \$30.5 million in Q1 FY2017. Revenue growth was primarily attributable to increased drilling activity in Canada, Chile, and Ghana, as well as new project revenue Burkina Faso.

Canada revenue was \$31.9 million in Q1 FY2018, an increase of \$6.5 million from \$25.4 million in Q1 FY2017. The increase was primarily attributable to a higher number of metres drilled.

International revenue was \$10.6 million in Q1 FY2018, compared to \$5.1 million in Q1 FY2017, representing an increase of \$5.5 million. International includes revenues from operations in Chile of \$8.0 million in Q1 FY2018, compared to \$3.8 million in Q1 FY2017. The remaining increase in International revenue was primarily attributable to increased drilling activity in Ghana and new project revenue from Burkina Faso.

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

Gross profit for Q1 FY2018 was \$6.7 million, compared to \$2.9 million in Q1 FY2017. Gross margin increased to 15.9% in Q1 FY2018, from 9.4% in Q1 FY2017. Depreciation expenses totalling \$2.0 million are included in cost of contract revenue for Q1 FY2018, compared to \$2.6 million in Q1 FY2017. Adjusted gross margin, excluding depreciation expenses, was 20.5% in Q1 FY2018, up from 17.8% in Q1 FY2017. The increase in gross profit, gross margin and adjusted gross margin was primarily attributable to higher drilling volumes in Canada and increased specialized drilling in international markets.

### General and Administrative Expenses

General and administrative (G&A) expenses were \$3.7 million (representing 8.8% of revenue) in Q1 FY2018, compared to \$3.4 million (representing 11.1% of revenue) in Q1 FY2017. Increased G&A expenses reflect the Company's recent growth in Canada and internationally.

## Operating Results

Earnings from operations for Q1 FY2018 were \$3.9 million, compared to nominal loss from operations in Q1 FY2017.

Drilling Canada's operating earnings totalled \$3.6 million, compared to operating earnings of \$0.9 million in Q1 FY2017, reflecting increased business activity.

Drilling International's operating earnings totalled \$0.3 million, compared to an operating loss of \$0.9 million in Q1 FY2017, reflecting increased business activity.

## Foreign Exchange (Gain) Loss

Foreign exchange loss was \$0.1 million in Q1 FY2018, compared to a gain of \$0.1 million in Q1 FY2017.

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

Earnings before interest, taxes, depreciation and amortization ("EBITDA") totalled \$5.1 million in Q1 FY2018, compared to \$2.4 million in Q1 FY2017.

## Financial Expenses

Interest costs related to long-term debt and bank charges were \$0.3 million in Q1 FY2018, compared to \$0.2 million in Q1 FY2017.

## Income Tax (Recovery)

Income tax expense was \$0.9 million for Q1 FY2018, compared to income tax recovery of \$0.3 million in Q1 FY2017.

## Net Earnings (Loss)

The Company's net earnings for Q1 FY2018 were \$1.7 million, or \$0.05 per share, compared to a net loss of \$0.2 million, or \$0.01 per share, in Q1 FY2017. Higher gross profit and margins, as discussed above, contributed to the Company's net earnings for Q1 FY2018.

## SUMMARY OF QUARTERLY RESULTS

* (\$millions)		Fiscal 2018	Fiscal 2017				Fiscal 2016		
		Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Contract revenue *		42.5	37.4	29.9	27.4	30.5	33.4	28.1	21.7
Gross profit *		6.7	2.4	1.2	1.5	2.9	4.3	1.3	1.3
Gross margin %		15.9	6.6	3.9	5.5	9.4	12.8	4.7	5.7
Net earnings (loss) *		1.7	(1.6)	(2.2)	(1.9)	(0.2)	4.4 <sup>1</sup>	(2.6)	(1.8)
Net earnings (loss) per common share (\$)	- Basic	0.05	(0.05)	(0.06)	(0.05)	(0.01)	0.12 <sup>1</sup>	(0.07)	(0.05)
	- Diluted	0.05	(0.05)	(0.06)	(0.05)	(0.01)	0.12 <sup>1</sup>	(0.07)	(0.05)

<sup>(1)</sup> Net earnings for the quarter ended June 30, 2016 were positively affected by a \$5.0 million one-time gain related to negative goodwill.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Cash flow from operations (before changes in non-cash operating working capital items, finance costs and income taxes paid), was \$5.0 million in Q1 FY2018, compared to \$2.2 million in Q1 FY2017.

The change in non-cash operating working capital items was an outflow of \$5.2 million in Q1 FY2018, compared to an outflow of \$1.2 million in Q1 FY2017. The change in non-cash operating working capital in Q1 FY2018 was primarily attributable to:

- \$7.5 million related to an increase in accounts payable offset by,
- \$9.4 million related to an increase in accounts receivable and prepaid expenses, and
- \$3.3 million related to an increase in inventory to support level of operation.

### Investing Activities

Cash used in investing activities totalled \$1.0 million in Q1 FY2018, in line with \$1.0 million in Q1 FY2017. During Q1 FY2018, \$1.3 million was used for the acquisition of property, plant and equipment, partially offset by a cash inflow of \$0.3 million on disposal of investments, property, plant and equipment. In Q1 FY2017, \$1.4 million was used for the acquisition of property, plant and equipment, partially offset by a cash inflow of \$0.4 million on disposal of property, plant and equipment.

### Financing Activities

During Q1 FY2018, the Company generated \$1.7 million from financing activities, compared to a negligible amount in Q1 FY2017.

The Company withdrew a net amount of \$1.5 million during Q1 FY2018 on its secured, three-year revolving credit facility (the "Credit Facility") with National Bank of Canada Inc. (the "Lender"), compared to a draw of \$1.7 million in Q1 FY2017. The Company's long-term debt under the Credit Facility, including the current portion, was \$15.1 million as at September 30, 2017, compared to \$13.6 million as at June 30, 2017. The Company's debt was incurred to support working capital requirements and the acquisition of capital assets, principally property, plant and equipment. In addition to the above, the Company provided a letter of credit to a bank of one of its subsidiaries of US\$1.0 million (or approximately CAN\$1.3 million) from the Credit Facility. The purpose of the letter of credit is to provide performance bonds to secure drilling contracts with some of its customers.

In December 2016, the Company entered into a second credit facility with Export Development Canada in the amount of \$2.5 million. The purpose of the loan is to assist in financing capital expenditure requirements for the Company's international operations. Interest on the outstanding principal amount is calculated at the rate of interest equal to the sum of the prime rate plus 4.5% per annum. The loan is guaranteed by a second ranking security interest over all of the Company's present and after-acquired personal and movable property.

The Company's Chilean subsidiary enters into receivable purchase agreements (commonly referred to as "factoring agreements") with different banks as part of its normal working capital financing. The Company receives 100% of the value of the specific sales invoice less a charge of between 0.46% and 0.52%. As at September 30, 2017, trade receivables include \$1.2 million related to factored accounts, compared to \$0.7 million as at June 30, 2017.

The Company made capital lease payments (net of proceeds from finance lease) of \$0.2 million, compared to \$0.3 million in Q1 FY2017.

As at September 30, 2017, the Company's working capital was \$33.5 million, compared to \$30.8 million as at June 30, 2017. The Company's working capital requirements are primarily related to the funding of inventory and the financing of 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.

### Sources of Financing

Orbit Garant's primary sources of liquidity are cash flow from operations and borrowings under the Credit Facility. As at September 30, 2017, the Company had drawn \$15.1 million (\$13.6 million as at June 30, 2017) under the Credit Facility and complied with all covenants in the Credit Facility.

On November 2, 2017, the Company and the Lender entered into a new credit agreement that replaces the Credit Facility with a new three-year credit facility (the "New Credit Facility") consisting of a \$30 million revolving credit facility, a US\$3 million letter of credit facility and a US\$3 million revolving credit facility. The New Credit Facility will be used to fund working capital and capital expenditure requirements and the Company's long-term acquisition program as well performance bonds required to secure drilling contracts.

Availability under the main revolving facility under the New Credit Facility 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 New Credit Facility. In addition, the Company's obligations under the US\$3 million letter of credit facility and US\$3 million revolving credit facility are guaranteed by Export Development Canada.

The New Credit Facility 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 New Credit Facility also contains a number of financial covenants that the Company must comply with if more than \$12.5 million is drawn under the New Credit Facility.

The Company believes that cash flow from operations and availability under the New Credit Facility will be sufficient to fund its working capital and capital asset acquisition requirements over the remained of FY2018.

### OUTSTANDING SECURITIES AS AT NOVEMBER 8, 2017

Number of common shares	36,096,119
Number of options	2,231,500
Fully diluted	38,327,619

During Q1 FY2018, 1,200 options were exercised and 103,800 options were cancelled.

## RELATED PARTY TRANSACTIONS

### Transactions with related parties

The Company is related to Dynamitage Castonguay Ltd., company owned by directors.

On February 28, 2017, the Company granted a loan maturing not later than February 28, 2019 for the amount of \$1,2 million to the President and Chief Executive Officer in connexion with the exercise of his option to purchase 942,000 shares. The loan bears interest at a rate of 4% annually and is secured by a pledge of shares and guarantee from 670550 Canada Inc.

During the three-month period ended September 30, 2017 the Company entered into the following transactions with its related company and with persons related to directors:

*(\$thousands)	September 30, 2017 (3 months)	September 30, 2016 (3 months)
Revenue*	124	6
Purchases*	53	38

As at September 30, 2017, an amount of \$0,1 million was receivable resulting from these transactions (\$nil as at June 30, 2017).

All of these related party transactions made in the normal course of business measured at the exchange amount, which is the amount established and agreed to by the parties.

### Key management personnel and directors' transactions

The definition of key management includes the close members of the family of key personnel and any entity over which key management exercises control. The key management personnel have been identified as directors of the Company and key management staff. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Company.

Compensation paid to key management personnel and directors for the three-month period ended September 30, 2017 amounted to \$0,3 million (\$0,3 million for the period ended September 30, 2016)

## 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 set out in Note 4 to the Company's annual audited consolidated statements for the year ended June 30, 2017 were consistently applied to all periods presented other than noted in Note 3. 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 assumptions and judgements. 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 5 of the Company's annual audited consolidated

financial statements for the year ended June 30, 2017. They remained unchanged for the three-month period ended September 30, 2017.

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the investments, which have been presented at fair value and 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 2017 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 8, 2017.

### **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 are considered when the Company controls another entity.

Income and expenses of subsidiaries acquired or disposed of during a period are included in the unaudited interim condensed consolidated statement of earnings (loss) 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: Net 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**

The Corporation believes that EBITDA is an important measure when analyzing its operating profitability without being influenced by financing decisions, non-cash items and income taxes strategies. Comparison with peers is also easier as companies rarely have the same capital and financing structure.

## Reconciliation of EBITDA

(unaudited) (in millions of dollars)	3 months ended September 30, 2017	3 months ended September 30, 2016
Net earnings (net loss) for the period	1.7	(0.2)
Add:		
Finance costs	0.3	0.2
Income tax expense (recovery)	0.9	(0.3)
Depreciation and amortization	2.2	2.7
EBITDA	5.1	2.4

## 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, 2017	3 months ended September 30, 2016
Contract revenue	42.5	30.5
Cost of contract revenue (including depreciation)	31.8	22.5
Less depreciation	2.0	2.6
Direct costs	33.8	25.1
Adjusted gross profit	8.7	5.4
Adjusted gross margin (%) <sup>(1)</sup>	20.5	17.8

<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 6, 2017. 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 8, 2017, Pierre Alexandre, Vice Chairman and Vice President of Corporate Development of the Company, holds or controls, directly or indirectly, approximately 26% 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 gradual recovery in the mining sector that began around the beginning of calendar 2016 has continued in 2017, as metal prices and mining equity valuations have increased significantly from their recent lows. The rebound began after more than three years of highly challenging market conditions in which metal prices declined. As a result of the gradual recovery, investor interest in the sector has increased and more mining companies are accessing capital, particularly at the junior level. Miners listed on the TSX and TSX-Venture Exchanges completed 1,046 financings in the first nine months of 2017, and a total of 2,586 financings between the start of 2016 and September 30, 2017, data from TMX Group shows. This compares to just 1,123 mining financings on the TSX and TSX-Venture Exchanges in all of 2015. Accordingly, a greater number of mining companies have stronger capital positions and have increased their exploration and mine development budgets.

As a result of continued improvement in mining industry conditions, demand for drilling services has rebounded. Drill utilization rates began to increase in late 2016 and have continued to improve in 2017. This is reducing the current oversupply of mineral drilling services capacity in the market. Price increases typically occur after a rebound in utilization rates. While global drilling prices remain competitive at present, they have largely stabilized, and Orbit Garant is now seeing opportunities to increase pricing on new contracts. Management is encouraged by the recent positive developments and believes that they could continue to have a positive impact on operations in the months ahead as senior and intermediate mining companies look to replenish depleting reserves and junior exploration companies strive to identify or further delineate new mineral deposits. An additional positive factor for mining companies operating in Canada is the current lower value of the Canadian dollar relative to the US dollar, as their

expenses are typically in Canadian dollars and their revenues are denominated in US dollars. At the time of this report, the value of the Canadian dollar was approximately 0.78 US dollars.

Management believes the long-term outlook for the mining industry is positive and is encouraged by the Company's recent increase in business activity in Canada and internationally. 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 further expand Orbit Garant's market presence both in Canada and abroad. The Company expects its profitability to improve in Fiscal 2018 relative to Fiscal 2017, due to higher utilization rates, improving productivity and price increases on new contracts.

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 32 underground drill rigs featuring its computerized monitoring and control technology, all of which are currently deployed on customer projects. To date, these next generation drill 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's growth strategy is focused on capturing increased market share in Canada and expanding its international market presence. Orbit Garant's 11 consecutive quarters of year-over-year growth in revenue reflect the Company's recent success in securing new contracts and extending existing contracts in Canada, and its growth in international markets. Over the past 21 months, Orbit Garant has established operating subsidiaries in Burkina Faso, Chile, Ghana, Guyana and Peru. In South America, Orbit Garant is currently working on projects in Chile and Guyana and is actively pursuing new opportunities to grow its South American business. The Company's acquisition of OG Chile has significantly enhanced its platform for growth in Chile and throughout South America. In West Africa, the Company is currently working on projects in Burkina Faso and Ghana.

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 CEO and the 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.

For the three months ended September 30, 2017, 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.