FORAGE ORBIT GARANT DRILLING




Financial statements Second quarter ended December 31, 2009

ORBIT GARANT DRILLING INC.

Consolidated statement of earnings and comprehensive income

(Unaudited)

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
CONTRACT REVENUE	23,655,170	26,106,480	48,058,921	49,222,009
COST OF CONTRACT REVENUE	16,087,814	17,458,220	32,487,567	33,051,206
GROSS PROFIT	7,567,356	8,648,260	15,571,354	16,170,803
EXPENSES				
General and administrative	1,604,339	1,887,503	3,388,751	3,519,473
Amortization of property, plant and equipment	1,269,100	984,798	2,524,447	1,855,715
Amortization of intangible assets	1,124,137	1,005,501	2,248,274	2,011,002
Loss on sale of capital assets	13,329	19,644	13,329	11,019
Foreign exchange losses (gain)	11,090	(111,353)	49,041	(97,618)
Interest on long-term debt	48,989	77,632	138,231	173,433
Interest and bank charges	17,708	74,182	28,943	95,195
	4,088,692	3,937,907	8,391,016	7,568,219
EARNINGS BEFORE THE FOLLOWING ITEMS	3,478,664	4,710,353	7,180,338	8,602,584
INTEREST REVENUE	-	-	11,254	-
SHARE IN NET EARNINGS OF A COMPANY SUBJECT TO SIGNIFICANT INFLUENCE	79,108	23,421	107,769	113,785
EARNINGS BEFORE INCOME TAXES	3,557,772	4,733,774	7,299,361	8,716,369
INCOME TAXES				
Current	1,488,844	1,721,242	3,050,553	3,571,100
Future	(334,440)	(201,047)	(659,909)	(717,220)
	1,154,404	1,520,195	2,390,644	2,853,880
NET EARNINGS AND COMPREHENSIVE INCOME	2,403,368	3,213,579	4,908,717	5,862,489
Earnings per share (Note 7)				
Basic	0.07	0.10	0.15	0.18
Diluted	0.07	0.10	0.15	0.18

ORBIT GARANT DRILLING INC.

Consolidated statement of retained earnings, accumulated other comprehensive loss and contributed surplus

(Unaudited)

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
STATEMENT OF RETAINED EARNINGS				
BALANCE, BEGINNING OF THE PERIOD	26,242,805	13,796,600	23,737,456	11,147,690
NET EARNINGS	2,403,368	3,213,579	4,908,717	5,862,489
BALANCE, END OF THE PERIOD	28,646,173	17,010,179	28,646,173	17,010,179
STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE LOSS				
BALANCE, BEGINNING OF THE PERIOD	-	(34,524)	-	(34,524)
OTHER COMPREHENSIVE INCOME (LOSS)	-	-	-	-
BALANCE, END OF THE PERIOD	-	(34,524)	-	(34,524)
STATEMENT OF CONTRIBUTED SURPLUS				
BALANCE, BEGINNING OF THE PERIOD	979,771	604,727	899,336	450,177
STOCK-BASED COMPENSATION TO EMPLOYEES AND DIRECTORS (Note 7)	117,345	98,322	197,780	252,872
BALANCE, END OF THE PERIOD	1,097,116	703,049	1,097,116	703,049

ORBIT GARANT DRILLING INC.

Consolidated balance sheet

(Unaudited)

	December 31 2009	June 30 2009
	$	$
ASSETS		
CURRENT ASSETS		
Cash	13,582,679	10,557,766
Accounts receivable	12,796,989	22,682,833
Inventories	20,225,216	19,670,210
Income taxes receivable	1,696,654	-
Prepaid expenses	319,897	324,531
	48,621,435	53,235,340
LONG-TERM INVESTMENTS	629,725	521,956
PROPERTY, PLANT AND EQUIPMENT	25,606,878	24,106,307
GOODWILL	19,697,965	19,697,965
INTANGIBLE ASSETS	3,060,068	5,308,342
	97,616,071	102,869,910
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	9,786,665	10,641,645
Client deposits	494,610	348,250
Income taxes payable	-	1,910,453
Current portion of long-term debt (Note 5)	203,836	88,800
	10,485,111	12,989,148
LONG-TERM DEBT (Note 5)	3,464,792	10,661,182
FUTURE INCOME TAXES	2,024,718	2,684,627
	15,974,621	26,334,957
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	51,898,161	51,898,161
Contributed surplus	1,097,116	899,336
	52,995,277	52,797,497
Retained earnings	28,646,173	23,737,456
	81,641,450	76,534,953
	97,616,071	102,869,910

APPROVED BY THE BOARD

(signed) Eric Alexandre, Director

(signed) Jean-Yves Laliberté, Director

ORBIT GARANT DRILLING INC.
Consolidated statement of cash flows
(Unaudited)

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
OPERATING ACTIVITIES				
Net earnings	2,403,368	3,213,579	4,908,717	5,862,489
Items not affecting cash:				
Amortization of property, plant and equipment	1,269,100	984,798	2,524,447	1,855,715
Amortization of intangible assets	1,124,137	1,005,501	2,248,274	2,011,002
Loss on sale of property, plant and equipment	13,329	19,644	13,329	11,019
Stock-based compensation	117,345	98,322	197,780	252,872
Amortization of financing costs	17,487	17,487	34,974	34,974
Future income taxes	(334,440)	(201,047)	(659,909)	(717,220)
Share in net earnings of a company subject to significant influence less dividends	(79,108)	(23,421)	(107,769)	(73,785)
	4,531,218	5,114,863	9,159,843	9,237,066
Changes in non-cash operating working capital items (Note 8)	4,374,249	(4,058,074)	5,019,745	(6,975,202)
	8,905,467	1,056,789	14,179,588	2,261,864
INVESTING ACTIVITIES				
Business acquisition (including bank overdraft of $726,760)	-	(2,946,702)	-	(2,946,702)
Acquisition of property, plant and equipment	(2,335,221)	(1,077,197)	(4,038,347)	(5,023,730)
Proceeds from sale of property, plant and equipment	-	19,860	-	30,360
	(2,335,221)	(4,004,039)	(4,038,347)	(7,940,072)
FINANCING ACTIVITIES				
Change in bank loan	-	53,066	-	(3,431,402)
Proceeds from long-term debt	165,282	5,400,000	342,364	5,636,034
Repayment of long-term debt	(41,079)	(15,515)	(7,458,692)	(735,608)
	124,203	5,437,551	(7,116,328)	1,469,024
NET VARIATION OF CASH AND CASH EQUIVALENT	6,694,449	2,490,301	3,024,913	(4,209,184)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	6,888,230	(702,617)	10,557,766	5,996,868
CASH AND CASH EQUIVALENTS, END OF THE PERIOD (Note 8)	13,582,679	1,787,684	13,582,679	1,787,684

Additional information (Note 8)

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the company's audited consolidated financial statements for the year ended June 30, 2009, except for the adoption of new accounting policies as disclosed in Note 2 below. These financial statements do not contain all disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, the financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended June 30, 2009.

2. CHANGE IN ACCOUNTING POLICIES

Goodwill and intangible assets

Effective July 1, 2009, the Company adopted retroactively the new CICA Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous CICA Handbook Section 3062. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

3. INVENTORY

The cost of inventory recognized as an expense and included in cost of contract revenue has been recorded as follows:

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
	5,410,975	4,726,401	10,263,838	8,821,025

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 related to operations is in part secured by a general assignment of the company's inventory.

4. BANK OVERDRAFT AND BANK LOAN

The company has an authorized line of credit for an amount of $7,000,000 bearing interest at prime rate based on the calculation of quarterly financial ratio and can vary from prime rate plus 1.25% to 1.75% renewable on November 30, 2010. Any funds advanced pursuant to this line of credit are secured by a first rank hypothec on the universality of all present and future assets. On December 31, 2009, the prime rate was 2.25% (June 30, 2009, 2.25%).

Under the terms of the bank loan agreement, the company must satisfy certain restrictive covenants as to minimum financial ratios.

5. LONG-TERM DEBT

	December 31 2009	June 30 2009
	$	$
Loan authorized for a maximum amount of $20 million, renewable on November 30, 2010, quarterly reduced, since September 2008, by principal amount of $714,286, bearing interest at prime rate plus 0.42%, maturing June 2012, secured by first rank hypothec on the universality of all present and future assets. The company shall quarterly repay the amount in excess of the authorized amounts as so reduced on such date a) b)	-	7,242,590
Loan authorized for a maximum amount of $6 million, renewable on November 30, 2010, quarterly reduced, since September 2008, by principal amount of $300,000, bearing interest at prime rate plus 0.42%, maturing June 2012, secured by first rank hypothec on the universality of all present and future assets. The company shall quarterly repay the amount in excess of the authorized amounts as so reduced on such date a) b)	3,192,140	3,300,000
Loans, 0% to 1%, payable by aggregate monthly instalments of $16,987, maturing at different dates between September 2011 and November 2012, secured by vehicles	476,488	207,392
	3,668,628	10,749,982
Current portion	(203,836)	(88,800)
	3,464,792	10,661,182

a) The rate is variable based on the quarterly calculation of a financial ratio and can vary from prime rate plus 0.25% to 1.25%.

b) An unamortized amount of $107,860 (June 30, 2009, $142,834), 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.

On December 31, 2009, the prime rate was 2.25% (June 30, 2009, 2.25%).

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

	$
2010	203,836
2011	184,166
2012	3,388,486

6. CAPITAL MANAGEMENT

The company includes shareholders' equity (excluding accumulated other comprehensive loss), long-term debt, bank loan and bank overdraft net of cash in the definition of capital.

Total managed capital was as follows:

	December 31 2009	June 30 2009
	$	$
Long-term debt	3,668,628	10,749,982
Share capital	51,898,161	51,898,161
Contributed surplus	1,097,116	899,336
Retained earnings	28,646,173	23,737,456
Cash	(13,582,679)	(10,557,766)
	71,727,399	76,727,169

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.

7. SHARE CAPITAL

Authorized, an unlimited number of common and preferred shares:

Common shares, participating and voting

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:

	Six month period ended December 31, 2009		Year ended June 30, 2009	
	Number of shares	$	Number of shares	$
Balance, beginning of the period	32,738,684	51,918,161	32,281,542	50,942,617
Shares issued:				
For business acquisition a)	-	-	457,142	975,544
	32,738,684	51,918,161	32,738,684	51,918,161
Share purchase financing b)	-	(20,000)	-	(20,000)
Balance, end of the period	32,738,684	51,898,161	32,738,684	51,898,161

a) Issuance during the year ended June 30, 2009:

On October 10, 2008, the company issued 457,142 common shares for an amount of $975,544 as part of the consideration for the acquisition of 9129-5642 Québec inc.

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 $20,000 to this employee pursuant to the terms and conditions set out in a promissory note secured by a pledge of the securities. 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%.

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.

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
Earnings per share - basic				
Net earnings available to common shareholders	2,403,368	3,213,579	4,908,717	5,862,489
Average basic number of common shares outstanding	32,738,684	32,688,995	32,738,684	32,485,268
Earnings per share - basic	0.07	0.10	0.15	0.18

7. SHARE CAPITAL (continued)

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
Earnings per share - diluted				
Net earnings available to common shareholders	2,403,368	3,213,579	4,908,717	5,862,489
Average basic number of common shares outstanding	32,738,684	32,688,995	32,738,684	32,485,268
Adjustment to average number of common shares - stock options	737,743	648,613	650,050	668,546
Average diluted number of common shares outstanding	33,476,427	33,337,608	33,388,734	33,153,814
Earnings per share - diluted	0.07	0.10	0.15	0.18

The calculation of the diluted earnings per share for the 3 month and 6 month periods ended December 31, 2009 excludes the effect of 925,000 options (625,000 in 2008) as they are anti-dilutive.

The following table summarized information on stock options outstanding at December 31, 2009:

Range of exercice prices $	Outstanding at December 31, 2009	Weighted average remaining life (years)	Weighted average Exercice price $	Exercisable at December 31, 2009	Weighted average exercice price $
1.00 - 1.50	1,048,000	7.11	1.02	786,000	1.02
4.00	925,000	8.94	4.00	125,000	4.00
	1,973,000			911,000	

During the periods mentioned below, the total expense related to stock-based compensation to employees and directors has been recorded and presented in general and administrative expenses as follows:

December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
$	$	$	$
117,345	98,322	197,780	252,872

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 of June 30, 2009	1,673,000	2.13
Granted during the period	300,000	4.00
Oustanding as of December 31, 2009	1,973,000	2.42
Exercisable as at December 31, 2009	911,000	1.43

7. SHARE CAPITAL (continued)

On November 11, 2009, 300,000 stock options have been granted to employees and directors giving the option to purchase a common share for an exercise price of $4 per share which represents the fair value of a common share at the date of the grant. These options have a life of 10 years and will vest at a rate of 20% per annum commencing 12 months after the date of the grant.

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 and modification date fair value calculations with weighted average assumptions:

	Granted in 2009
Risk-free interest rate	3.08%
Expected life (years)	7 years
Expected volatility	129.65%
Expected dividend yield	0%
Fair value of options granted	$3.69

8. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
Changes in non-cash operating working capital items				
Accounts receivable	5,816,011	1,313,307	9,885,844	1,648,541
Inventories	(312,779)	1,807	(555,006)	(4,954,194)
Prepaid expenses	(25,019)	60,105	4,634	103,997
Accounts payable and accrued liabilities	(858,474)	(5,056,354)	(854,980)	(1,366,112)
Client deposits	219,610	(420,986)	146,360	(749,119)
Income taxes payable	(465,100)	44,047	(3,607,107)	(1,658,315)
	4,374,249	(4,058,074)	5,019,745	(6,975,202)
Cash and cash equivalents				
Cash	13,582,679	1,976,187	13,582,679	1,976,187
Bank overdraft	-	(188,503)	-	(188,503)
	13,582,679	1,787,684	13,582,679	1,787,684
Other information				
Interest paid	66,697	151,814	167,174	268,628
Income taxes paid	1,953,953	1,347,995	6,657,660	4,900,061

9. 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.

9. FINANCIAL INSTRUMENTS (continued)

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 December 31, 2009, the company has cash in US dollars for an amount of $344,091 and accounts receivable in US dollars for an amount of $159,758.

As at December 31, 2009, the company has estimated that a ten percent increase or decrease of the US exchange rate would have caused a corresponding quarterly increase or decrease in net earnings of approximately $51,320.

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 December 31, 2009, the amount of the insurance coverage from EDC represents approximately 56% of the accounts receivable.

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 December 31, 2009, 44% of the trade accounts receivable are aged as current and 14% of receivables are impaired.

Two major customers represent 20% of the trade accounts receivable as at December 31, 2009, respectively by customer, 10% and 10% (June 30, 2009, three major customers represent 33%, respectively by customer, 12%, 11% and 10%).

One major customer represent 10% of the contract revenue for the 3-month period ended December 31, 2009. Two major customers represent 29% of the contract revenue for the 3-month period ended December 31, 2008, respectively by customer, 17% and 12%.

One major customer represent 10% of the contract revenue for the 6-month period ended December 31, 2009. Two major customers represent 22% of the contract revenue for the 6-month period ended December 31, 2008, respectively by customer, 12% and 10%.

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 rating.

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 December 31, 2009, the company has estimated that a one percentage point increase or decrease in interest rates would have caused a corresponding quarterly increase or decrease in net earnings of approximately $24,940.

9. FINANCIAL INSTRUMENTS (continued)

Fair value

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and client deposits 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 variable rate and has financing conditions similar to those currently available to the company.

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. Included in Notes 4 (Bank overdraft and bank loan) and 5 (Long-term debt), are details of undrawn facilities that the company has at its disposal to further reduce liquidity risk.

	Total	0-1 year	2-3 years
	$	$	$
Client deposits	494,610	494,610	-
Accounts payable and accrued charges	9,786,665	9,786,665	-
Long-term debt (capital only)	3,776,488	203,836	3,572,652
	14,057,763	10,485,111	3,572,652

10. 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:

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
Contract revenue				
Drilling Canada	21,208,867	24,438,533	43,834,266	46,139,504
Drilling International	2,382,663	1,237,699	4,130,638	2,435,280
Manufacturing Canada	63,640	430,248	94,017	647,225
	23,655,170	26,106,480	48,058,921	49,222,009
Gross profit				
Drilling Canada	6,969,169	8,013,168	14,253,863	15,057,033
Drilling International	544,500	468,296	1,245,040	798,696
Manufacturing Canada	53,687	166,796	72,451	315,074
	7,567,356	8,648,260	15,571,354	16,170,803
Interest	66,697	151,814	167,174	268,628
General corporate expenses	3,942,887	3,762,672	8,104,819	7,185,806
Income taxes	1,154,404	1,520,195	2,390,644	2,853,880
	5,163,988	5,434,681	10,662,637	10,308,314
Net earnings	2,403,368	3,213,579	4,908,717	5,862,489

10. SEGMENTED INFORMATION (continued)

	December 31 2009 (3 months)	December 31 2008 (3 months)	December 31 2009 (6 months)	December 31 2008 (6 months)
	$	$	$	$
Amortization				
Drilling and Manufacturing Canada	2,243,834	1,912,712	4,474,685	3,727,896
Drilling International	149,403	77,587	298,036	138,821
	2,393,237	1,990,299	4,772,721	3,866,717
Identifiable assets				
Drilling and Manufacturing Canada	91,928,573	94,424,340	91,928,573	94,424,340
Drilling International	5,687,498	5,874,939	5,687,498	5,874,939
	97,616,071	100,299,279	97,616,071	100,299,279
Property, plant and equipment				
Drilling and Manufacturing Canada	23,003,927	23,304,402	23,003,927	23,304,402
Drilling International	2,602,951	1,680,851	2,602,951	1,680,851
	25,606,878	24,985,253	25,606,878	24,985,253