



FORAGE

ORBIT  **GARANT**
DRILLING

*Interim condensed
consolidated financial statements
Unaudited*



*Second quarter ended
December 31, 2011*

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statements of earnings

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

| | Notes | December 31 2011 (3 months) \$ | December 31 2010 (3 months) \$ (note 19) | December 31 2011 (6 months) \$ | December 31 2010 (6 months) \$ (note 19) |
|--|-------|---|--|---|--|
| Contract revenue | 18 | 32,449 | 25,880 | 69,540 | 53,265 |
| Cost of contract revenue | 6 | 25,393 | 19,947 | 53,566 | 41,728 |
| Gross profit | | <u>7,056</u> | <u>5,933</u> | <u>15,974</u> | <u>11,537</u> |
| Expenses | | | | | |
| General and administrative expenses | 6 | 3,824 | 2,468 | 7,401 | 4,891 |
| Other expenses (revenues) | 6 | 108 | (7) | 10 | 26 |
| Finance costs | 6 | 356 | 117 | 567 | 177 |
| | | <u>4,288</u> | <u>2,578</u> | <u>7,978</u> | <u>5,094</u> |
| Earnings before the following items | | 2,768 | 3,355 | 7,996 | 6,443 |
| Share in net earnings of associate | | - | 52 | - | 153 |
| Earnings before income taxes | | <u>2,768</u> | <u>3,407</u> | <u>7,996</u> | <u>6,596</u> |
| Income taxes | | | | | |
| Current | 14 | 804 | 1,160 | 2,519 | 2,219 |
| Deferred | | 97 | (52) | (66) | (141) |
| | | <u>901</u> | <u>1,108</u> | <u>2,453</u> | <u>2,078</u> |
| Net earnings attributable to shareholders | | <u>1,867</u> | <u>2,299</u> | <u>5,543</u> | <u>4,518</u> |
| Earnings per share attributable to shareholders | | | | | |
| Basic | 13 | 0.06 | 0.07 | 0.17 | 0.14 |
| Diluted | | 0.05 | 0.07 | 0.16 | 0.13 |

ORBIT GARANT DRILLING INC.**Interim condensed consolidated statements of comprehensive earnings**

For the 3 and 6 month periods ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

| | December 31 2011 (3 months) \$ | December 31 2010 (3 months) \$ (note 19) | December 31 2011 (6 months) \$ | December 31 2010 (6 months) \$ (note 19) |
|--|---|--|---|--|
| Net earnings | 1,867 | 2,299 | 5,543 | 4,518 |
| Other comprehensive earnings | | | | |
| Unrealized losses on foreign currency translation | (14) | - | (43) | - |
| Comprehensive earnings attributable to shareholders | <u>1,853</u> | <u>2,299</u> | <u>5,500</u> | <u>4,518</u> |

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statements of changes in equity

For the 6 month periods ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

| | Share capital | Contributed surplus | Retained Earnings | Accumulated other comprehensive earnings | Total Shareholders' Equity |
|---|-----------------|------------------------|----------------------|---|----------------------------------|
| | \$ (note 13) | \$ | \$ | \$ | \$ (note 19) |
| Balance as of July 1, 2010 | 51,898 | 1,703 | 35,991 | - | 89,592 |
| Net earnings | - | - | 4,518 | - | 4,518 |
| Issuance of shares | 1,482 | - | - | - | 1,482 |
| Stock-based compensation | - | 341 | - | - | 341 |
| Balance as of December 31, 2010 | 53,380 | 2,044 | 40,509 | - | 95,933 |
| Net earnings | - | - | 6,928 | - | 6,928 |
| Issuance of shares | 6 | - | - | - | 6 |
| Stock-based compensation | - | 478 | - | - | 478 |
| Fair value of stock option exercised | - | (2) | - | - | (2) |
| Balance as of June 30, 2011 | 53,386 | 2,520 | 47,437 | - | 103,343 |
| Net earnings | - | - | 5,543 | - | 5,543 |
| Issuance of shares | 1,005 | - | - | - | 1,005 |
| Stock-based compensation | - | 498 | - | - | 498 |
| Fair value of stock option exercised | - | (5) | - | - | (5) |
| Unrealized losses on foreign currency translation | - | - | - | (43) | (43) |
| Balance as of December 31, 2011 | 54,391 | 3,013 | 52,980 | (43) | 110,341 |

ORBIT GARANT DRILLING INC.**Interim condensed consolidated balance sheets**

As of December 31, 2011, June 30, 2011 and July 1, 2010

(in thousands of Canadian dollars)

(Unaudited)

| | Notes | December 31 2011 \$ | June 30 2011 \$ (note 19) | July 1 2010 \$ (note 19) |
|---|-------|---------------------------|------------------------------------|-----------------------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash | | 797 | - | 8,114 |
| Accounts receivable | | 31,928 | 33,081 | 21,188 |
| Accounts receivable related to disposal of investments in associate | | - | 784 | - |
| Inventories | 7 | 44,899 | 33,646 | 22,708 |
| Income taxes receivable | 14 | 2,762 | 2,412 | 2,351 |
| Prepaid expenses | | 748 | 689 | 460 |
| | | <u>81,134</u> | <u>70,612</u> | <u>54,821</u> |
| Non-current assets | | | | |
| Investments in associate | | - | - | 886 |
| Property, plant and equipment | 8 | 54,974 | 43,223 | 31,681 |
| Goodwill | 9 | 27,452 | 22,715 | 19,698 |
| Intangible assets | 10 | 4,970 | 6,086 | 1,374 |
| Total assets | | <u><u>168,530</u></u> | <u><u>142,636</u></u> | <u><u>108,460</u></u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Bank overdraft | | - | 698 | - |
| Accounts payable and accrued liabilities | | 20,325 | 19,009 | 17,158 |
| Contingent consideration | 2 | 2,285 | 774 | - |
| Current portion of long-term debt | 11 | 542 | 168 | 203 |
| | | <u>23,152</u> | <u>20,649</u> | <u>17,361</u> |
| Non-current liabilities | | | | |
| Contingent consideration | 2 | 2,041 | 1,356 | - |
| Long-term debt | 11 | 29,914 | 14,673 | 172 |
| Deferred tax liabilities | 14 | 3,082 | 2,615 | 1,335 |
| | | <u>58,189</u> | <u>39,293</u> | <u>18,868</u> |
| EQUITY | | | | |
| Share capital | 13 | 54,391 | 53,386 | 51,898 |
| Contributed surplus | | 3,013 | 2,520 | 1,703 |
| Retained earnings | | 52,980 | 47,437 | 35,991 |
| Accumulated other comprehensive earnings | | (43) | - | - |
| Equity attributable to shareholders | | <u>110,341</u> | <u>103,343</u> | <u>89,592</u> |
| Total liabilities and equity | | <u><u>168,530</u></u> | <u><u>142,636</u></u> | <u><u>108,460</u></u> |

APPROVED BY THE BOARD

 (signed) Eric Alexandre, Director

 (signed) Jean-Yves Laliberté, Director

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statements of cash flows

For the 3 and 6 month periods ended December 31, 2011 and 2010

(in thousands of Canadian dollars)

(Unaudited)

| | Notes | December 31 2011 (3 months) \$ | December 31 2010 (3 months) \$ (note 19) | December 31 2011 (6 months) \$ | December 31 2010 (6 months) \$ (note 19) |
|--|-------|---|--|---|--|
| OPERATING ACTIVITIES | | | | | |
| Earnings before income taxes | | 2,768 | 3,407 | 7,996 | 6,596 |
| Items not affecting cash: | | | | | |
| Amortization of property, plant and equipment | 8 | 2,136 | 1,692 | 4,376 | 3,315 |
| Amortization of intangible assets | 10 | 506 | 224 | 1,116 | 582 |
| Loss (gain) on disposal of property, plant and equipment | 8 | (159) | 29 | (321) | 86 |
| Stock-based compensation | | 274 | 187 | 498 | 341 |
| Financing costs | | 329 | 92 | 491 | 152 |
| Change in fair value of contingent consideration | | 28 | 25 | 77 | 25 |
| Share in net earnings of associates | | - | (52) | - | (153) |
| | | 5,882 | 5,604 | 14,233 | 10,944 |
| Changes in non-cash operating working capital items | 15 | 308 | (2,491) | (6,805) | (7,918) |
| Income taxes paid | | (983) | (2,481) | (2,846) | (4,511) |
| Finance costs paid | | (307) | (75) | (448) | (117) |
| | | 4,900 | 557 | 4,134 | (1,602) |
| INVESTING ACTIVITIES | | | | | |
| Business acquisitions | 2 | (5,445) | (5,905) | (5,445) | (5,905) |
| Proceeds from disposal of investment in associate | | - | - | 784 | - |
| Acquisition of property, plant and equipment | | (4,989) | (4,091) | (11,640) | (6,762) |
| Proceeds from disposal of property, plant and equipment | | 562 | 398 | 1,047 | 498 |
| | | (9,872) | (9,598) | (15,254) | (12,169) |
| FINANCING ACTIVITIES | | | | | |
| Bank loan | | - | 1,400 | - | 1,400 |
| Proceeds from issuance of shares | | - | - | 11 | - |
| Proceeds from long-term debt | | 32,700 | 6,100 | 40,925 | 6,170 |
| Repayment of long-term debt | | (26,025) | (76) | (28,288) | (144) |
| | | 6,675 | 7,424 | 12,648 | 7,426 |
| Effect of exchange rate changes | | (19) | - | (33) | - |
| Increase (decreased) in cash | | 1,684 | (1,617) | 1,495 | (6,345) |
| Cash (bank overdraft), beginning of the period | | (887) | 3,386 | (698) | 8,114 |
| Cash, end of the period | | 797 | 1,769 | 797 | 1,769 |

Additional information

15

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

1. DESCRIPTION OF BUSINESS

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

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

| | <u>% of voting rights</u> |
|--|---------------------------|
| Services de forage Orbit Garant Inc. | 100% |
| 9116-9300 Québec Inc. | 100% |
| Orbit Garant Ontario Inc. | 100% |
| Drift Exploration Drilling Inc. | 100% |
| Drift de Mexico SA de CV | 100% |
| Forage Orbit Inc. | 100% |
| 9129-5642 Québec Inc. | 100% |
| Lantech Drilling Services Inc. (since December 16, 2011) | 100% |

2. BUSINESS ACQUISITIONS

Acquisition of Lantech Drilling Services Inc.:

On December 16, 2011, the Company acquired all issued and outstanding shares of Lantech Drilling Services Inc. (which specializes in exploration and geotechnical services to mining or mineral exploration companies, engineering and environmental consultant firms) for a total net consideration of \$6,615 payable for a cash consideration of \$3,507 (calculated using the gross cash consideration of \$8,380 less bank overdraft and long term-debt of an estimated amount of \$4,873) and \$989 through the issuance of 217,082 common shares of the company and an estimated contingent consideration of \$2,119. Furthermore, the Company will pay an estimated cash consideration of \$2,959 as compensation of the net working capital of the company on the acquisition date. The account payable as compensation of the net working capital does not bear interest and will be paid five days after the deliverance of the financial statements of Lantech Drilling Services Inc. An estimated amount of \$4,737 has been accounted for as goodwill and Management will finalize the purchase price allocation in order to determine the amount to be accounted for as goodwill, intangible assets and property plant and equipment. The amount of goodwill will not be deductible for income tax purposes.

Acquisition of 1085820 Ontario Limited (Advantage Control Technologies):

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

2. BUSINESS ACQUISITIONS (continued)

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

Acquisition of Morris Drilling Inc.:

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

The results of operations of 1085820 Ontario Limited, Morris Drilling Inc. and Lantech Drilling Services Inc. are included in the interim condensed consolidated financial statements from November 8, 2010, December 13, 2010 and December 16, 2011 respectively.

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

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

| | Lantech Drilling Services Inc. | 1085820 Ontario Limited | Morris Drilling Inc. |
|--|-----------------------------------|----------------------------|-------------------------|
| | \$ | \$ | \$ |
| Cash (bank overdraft) | (1,938) | 70 | 17 |
| Accounts receivable | 4,625 | 632 | 667 |
| Other current assets | 4,198 | 626 | 262 |
| Property, plan and equipment | 5,246 | 524 | 738 |
| Goodwill | 4,737 | 1,846 | 1,171 |
| Intangible assets | - | 4,322 | 1,900 |
| Current liabilities | (3,826) | (407) | (922) |
| Long-term debt | (2,935) | - | - |
| Deferred income taxes | (533) | (1,118) | (506) |
| Purchase price | <u>9,574</u> | <u>6,495</u> | <u>3,327</u> |
| Consideration | | | |
| Cash | 3,507 | 3,310 | 2,595 |
| Issuance of common shares | 989 | 650 | 832 |
| Account payable (receivable) related to net working capital adjustment | 2,959 | 521 | (100) |
| Contingent consideration | 2,119 | 2,014 | - |
| | <u>9,574</u> | <u>6,495</u> | <u>3,327</u> |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements reflect the first-time adoption of International Financial Reporting Standards ("IFRS"), which replaced Canadian Generally Accepted Accounting Principles ("GAAP") as of January 1, 2011. All disclosures and explanations related to the first-time adoption of IFRS are presented in note 19, which provides information that is considered material to the understanding of the Company's first IFRS financial statements. It also presents a reconciliation of the 2010 financial figures prepared under Canadian GAAP to the 2010 financial figures prepared under IFRS, including a reconciliation of the consolidated statements of earnings, comprehensive earnings and cash flows for the three and six-month period ended December 31, 2010 and for the year ended June 30, 2010, as well as a reconciliation of the consolidated balance sheets and equity as of July 1, 2010, December 31, 2010 and as of June 30, 2011.

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

Basis of presentation

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

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of Orbit Garant Drilling Inc. on February 9, 2012.

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

Principles of consolidation

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

Foreign currency translation

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

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

Financial instruments

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

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

Amortized cost and effective interest method

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Inventories

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

Investments in associates

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

Property, plant and equipment

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

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

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

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

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Intangible assets

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

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

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

Impairment of long-lived assets

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

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

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

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

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

Financing fees

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

Trade receivables

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

Leases

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

Earnings per share

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

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

Stock options

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

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

Inventories

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

Useful lives of depreciable assets

Amortization methods, residual values and useful lives of property, plant and equipment are reviewed at each reporting date by the management. Any changes is accounted for prospectively as a change in accounting estimate. As at December 31, 2011, management assesses that the useful lives represent the expected utility of the assets to the Company.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

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

Business combinations

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

Estimated impairment of Goodwill

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

Current income taxes

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

Deferred income taxes

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

Provisions

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

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

Contingent consideration

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

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

Stock options

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

5. RECENT ACCOUNTING PRONOUNCEMENT

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

IFRS 9 – Financial instruments

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

IFRS 10 – Consolidated Financial Statements

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

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

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

IFRS 13 – Fair value measurements

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

6. EXPENSES BY NATURE

Detail of the amortization expense

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

| | December 31 2011 (3 months) | December 31 2010 (3 months) | December 31 2011 (6 months) | December 31 2010 (6 months) |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ | \$ | \$ |
| Cost of contract revenue | 2,113 | 1,608 | 4,135 | 3,148 |
| General and administrative expenses | 529 | 308 | 1,357 | 749 |
| Total amortization | <u>2,642</u> | <u>1,916</u> | <u>5,492</u> | <u>3,897</u> |

Principal expenses by nature

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

| | December 31 2011 (3 months) | December 31 2010 (3 months) | December 31 2011 (6 months) | December 31 2010 (6 months) |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ | \$ | \$ |
| Amortization | 2,642 | 1,916 | 5,492 | 3,897 |
| Employee benefits expense | 14,527 | 10,924 | 30,689 | 23,056 |
| Cost of inventory | 6,371 | 4,585 | 13,282 | 10,253 |
| Other expenses | 6,141 | 5,048 | 12,081 | 9,463 |
| Total operating and general and administrative expenses | <u>29,681</u> | <u>22,473</u> | <u>61,544</u> | <u>46,669</u> |

7. INVENTORY

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

| | December 31 2011 (3 months) | December 31 2010 (3 months) | December 31 2011 (6 months) | December 31 2010 (6 months) |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ | \$ | \$ |
| | 6,371 | 4,585 | 13,282 | 10,253 |

During the period, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

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

FORAGE ORBIT GARANT INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

8. PROPERTY, PLANT AND EQUIPMENT

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

| Cost | Land | Buildings and components | Drilling equipment | Vehicles | Other | Total |
|--|------|-----------------------------|-----------------------|----------|-------|---------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at July 1, 2010 | 761 | 3,146 | 33,037 | 8,519 | 1,191 | 46,654 |
| Additions | 37 | 6,047 | 9,156 | 2,715 | 692 | 18,647 |
| Disposals | (69) | (526) | (1,016) | (426) | - | (2,037) |
| Business acquisitions (note 2) | - | - | 1,053 | 177 | 32 | 1,262 |
| Balance as at June 30, 2011 | 729 | 8,667 | 42,230 | 10,985 | 1,915 | 64,526 |
| Additions | 1 | 547 | 8,129 | 2,723 | 240 | 11,640 |
| Disposals | - | (75) | (1,000) | (34) | (3) | (1,112) |
| Business acquisitions (note 2) | 75 | 557 | 4,296 | 235 | 83 | 5,246 |
| Effect of movements in exchange rates | - | - | 45 | 9 | - | 54 |
| Balance as at December 31, 2011 | 805 | 9,696 | 53,700 | 13,918 | 2,235 | 80,354 |

| Accumulated Amortization | Land | Buildings and components | Drilling equipment | Vehicles | Other | Total |
|--|------|-----------------------------|-----------------------|----------|-------|--------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at July 1, 2010 | - | 234 | 11,405 | 2,751 | 583 | 14,973 |
| Amortization | - | 130 | 5,190 | 1,568 | 271 | 7,159 |
| Disposals | - | (140) | (437) | (252) | - | (829) |
| Balance as at June 30, 2011 | - | 224 | 16,158 | 4,067 | 854 | 21,303 |
| Amortization | - | 265 | 2,997 | 947 | 167 | 4,376 |
| Disposals | - | (21) | (341) | (24) | - | (386) |
| Effect of movements in exchange rates | - | - | 4 | 3 | - | 7 |
| Balance as at December 31, 2011 | - | 468 | 18,818 | 4,993 | 1,021 | 25,300 |

| Net book value | Land | Buildings and components | Drilling equipment | Vehicles | Other | Total |
|--------------------------|------|-----------------------------|-----------------------|----------|-------|--------|
| July 1, 2010 | 761 | 2,912 | 21,632 | 5,768 | 608 | 31,681 |
| June 30, 2011 | 729 | 8,443 | 26,072 | 6,918 | 1,061 | 43,223 |
| December 31, 2011 | 805 | 9,228 | 34,882 | 8,925 | 1,214 | 55,054 |

The gain on disposal of property, plant and equipment totalling \$159 for the three month period ended December 31, 2011 and \$321 for the six month period ended December 31, 2011 (a loss of \$29 for the three month period ended December 31, 2010; a loss of \$86 for the six month period ended December 31, 2010) is included in cost of contract revenue.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

9. GOODWILL

Changes in the goodwill balance were as follows:

| | \$ |
|--|---------------|
| Balance as at July 1, 2010 | 19,698 |
| Business acquisitions (note 2) | 3,017 |
| Balance as at June 30, 2011 | 22,715 |
| Business acquisitions (note 2) | 4,737 |
| Balance as at December 31, 2011 | 27,452 |

10. INTANGIBLE ASSETS

Changes in the intangible assets balance were as follows:

| | Customer relationship | Drilling technology (a) | Non-compete agreement | Total |
|--|--------------------------|----------------------------|--------------------------|---------------|
| Cost | \$ | \$ | \$ | \$ |
| Balance as at July 1, 2010 | 14,024 | - | 2,110 | 16,134 |
| Business acquisitions (note 2) | 2,940 | 2,912 | 370 | 6,222 |
| Balance as at June 30, 2011 | 16,964 | 2,912 | 2,480 | 22,356 |
| Balance as at December 31, 2011 | 16,964 | 2,912 | 2,480 | 22,356 |
| | | | | |
| Accumulated amortization | \$ | \$ | \$ | \$ |
| Balance as at July 1, 2010 | 13,257 | - | 1,503 | 14,760 |
| Amortization | 1,026 | - | 484 | 1,510 |
| Balance as at June 30, 2011 | 14,283 | - | 1,987 | 16,270 |
| Amortization | 579 | 292 | 245 | 1,116 |
| Balance as at December 31, 2011 | 14,862 | 292 | 2,232 | 17,386 |
| | | | | |
| Net book value | | | | |
| July 1, 2010 | 767 | - | 607 | 1,374 |
| June 30, 2011 | 2,681 | 2,912 | 493 | 6,086 |
| December 31, 2011 | 2,102 | 2,620 | 248 | 4,970 |

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

11. LONG-TERM DEBT

| | December 31 2011 \$ | June 30 2011 \$ | July 1 2010 \$ |
|--|---------------------------|-----------------------|----------------------|
| Loan authorized for a maximum amount of \$40 million, bearing interest at prime rate plus 0.5%, maturing May 2015, secured by first rank hypothec on the universality of all present and future assets (a) (b) | 29,367 | 14,618 | - |
| Loans, bearing interest at rates ranging from 0% to 1.5%, payable in monthly instalments of \$39, maturing in September 2014, secured by certain vehicles of a net book value of \$1,260 | 1,089 | 223 | 375 |
| | <u>30,456</u> | <u>14,841</u> | <u>375</u> |
| Current portion | (542) | (168) | (203) |
| | <u>29,914</u> | <u>14,673</u> | <u>172</u> |

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

(b) An unamortized amount of \$233, representing financing fees has been presented in deduction of the long-term debt. This amount is being amortized to earnings over the term of the debt, using the effective interest method.

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

On December 31, 2011, the prime rate was 3% (June 30, 2011, 3% and 2.5 % as at July 1, 2010).

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

| | \$ |
|------|--------|
| 2012 | 542 |
| 2013 | 325 |
| 2014 | 222 |
| 2015 | 29,600 |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

12. CAPITAL MANAGEMENT

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

Total managed capital was as follows:

| | December 31 2011 | June 30 2011 | July 1 2010 |
|---------------------|---------------------|-----------------|----------------|
| | \$ | \$ | \$ |
| Bank overdraft | - | 698 | - |
| Long-term debt | 30,456 | 14,841 | 375 |
| Share capital | 54,391 | 53,386 | 51,898 |
| Contributed surplus | 3,013 | 2,520 | 1,703 |
| Retained earnings | 52,980 | 47,437 | 35,991 |
| Cash | (797) | - | (8,114) |
| | <u>140,043</u> | <u>118,882</u> | <u>81,853</u> |

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.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

13. SHARE CAPITAL

Authorized, an unlimited number of common and preferred shares:

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

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

Common shares issued:

| | Six month period ended December 31, 2011 | | Year ended June 30, 2011 | |
|----------------------------------|---|---------------|-----------------------------|---------------|
| | Number of shares | \$ | Number of shares | \$ |
| Balance, beginning of the period | 33,048,937 | 53,406 | 32,738,684 | 51,918 |
| Shares issued: | | | | |
| For business acquisitions (a) | 217,082 | 989 | 305,753 | 1,482 |
| Stock option exercised | 10,500 | 16 | 4,500 | 6 |
| | <u>33,276,519</u> | <u>54,411</u> | <u>33,048,937</u> | <u>53,406</u> |
| Share purchase financing (b) | - | (20) | - | (20) |
| Balance, end of the period | <u>33,276,519</u> | <u>54,391</u> | <u>33,048,937</u> | <u>53,386</u> |

(a) Issuance of common shares:

As at December 16, 2011, the Company issued a total of 217,082 common shares for a total amount of \$989 as part of the consideration for the acquisition of Lantech Drilling Services Inc. (see Note 2).

During the year ended in June 30, 2011, the Company issued a total of 305,753 common shares in November and December 2010 for a total amount of \$1,482 as part of the consideration for the acquisitions of 1085820 Ontario Limited and Morris Drilling Inc. (see Note 2).

(b) Share purchase financing:

On August 20, 2007, 13,333 common shares were issued to an employee of the Company at \$1.50 per common share under the Company's share purchase plan. The Company granted a five-year loan in the amount of \$20 to this employee pursuant to the terms and conditions set out in a promissory note secured by 13,333 common shares. The loan is repayable at the earlier of (i) the date the shares were sold or, (ii) at the maturity date of the loan. Interest on the principal of the loan is calculated and compounded annually at a rate of 8%. As at December 31, 2011, the fair value of the securities is \$69.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

13. SHARE CAPITAL (continued)

Earnings per share

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

| | December 31 2011 (3 months) | December 31 2010 (3 months) | December 31 2011 (6 months) | December 31 2010 (6 months) |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Earnings per share - basic | | | | |
| Net earnings available to common shareholders | 1,867 \$ | 2,299 \$ | 5,543 \$ | 4,518 \$ |
| Weighted average basic number of common shares outstanding | 33,095,617 | 32,849,005 | 33,074,509 | 32,793,845 |
| Earnings per share - basic | <u>0.06 \$</u> | <u>0.07 \$</u> | <u>0.17 \$</u> | <u>0.14 \$</u> |
| Earnings per share - diluted | | | | |
| Net earnings available to common shareholders | 1,867 \$ | 2,299 \$ | 5,543 \$ | 4,518 \$ |
| Weighted average basic number of common shares outstanding | 33,095,617 | 32,849,005 | 33,074,509 | 32,793,845 |
| Adjustment to average number of common shares - stock options | <u>1,010,499</u> | <u>897,298</u> | <u>998,518</u> | <u>816,454</u> |
| Weighted average diluted number of common shares outstanding | <u>34,106,116</u> | <u>33,746,303</u> | <u>34,073,027</u> | <u>33,610,299</u> |
| Earnings per share - diluted | <u>0.05 \$</u> | <u>0.07 \$</u> | <u>0.16 \$</u> | <u>0.13 \$</u> |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

13. SHARE CAPITAL (continued)

2007 stock option plan:

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

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

2008 stock option plan

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

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

13. SHARE CAPITAL (continued)

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

| | Number of options | Weighted average exercise price \$ |
|-------------------------------------|----------------------|--|
| Outstanding as at July 1, 2010 | 1,973,000 | 2.42 |
| Granted during the year | 365,000 | 5.73 |
| Exercised during the year | (4,500) | 1.00 |
| Outstanding as at June 30, 2011 | 2,333,500 | 2.94 |
| Granted during the period | 300,000 | 5.60 |
| Exercised during the period | (10,500) | 1.00 |
| Outstanding as at December 31, 2011 | 2,623,000 | 3.25 |
| Exercisable as at December 31, 2011 | 1,586,000 | 2.12 |

The following table summarized information on stock options outstanding at December 31, 2011:

| Range of exercise prices \$ | Outstanding at December 31, 2011 | Weighted average remaining life (years) | Weighted average exercise price \$ | Exercisable at December 31, 2011 | Weighted average exercise price \$ |
|-----------------------------------|-------------------------------------|---|--|-------------------------------------|--|
| 1.00 - 1.50 | 1,033,000 | 5.12 | 1.02 | 1,033,000 | 1.02 |
| 4.00 | 925,000 | 6.94 | 4.00 | 495,000 | 4.00 |
| 5.60 - 6.02 | 665,000 | 6.34 | 5.67 | 58,000 | 5.65 |
| | <u>2,623,000</u> | | | <u>1,586,000</u> | |

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

| | Granted in November 2011 | Granted in February 2011 | Granted in November 2010 |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Risk-free interest rate | 2.07% | 2.31% | 1.84% |
| Expected life (years) | 5 | 5 | 5 |
| Expected volatility | 70.06% | 67.96% | 68.88% |
| Expected dividend yield | 0% | 0% | 0% |
| Fair value of options granted | \$3.76 | \$3.45 | \$3.17 |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

13. SHARE CAPITAL (continued)

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 2011 (3 months) | December 31 2010 (3 months) | December 31 2011 (6 months) | December 31 2010 (6 months) |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| \$ | \$ | \$ | \$ |
| 274 | 187 | 498 | 341 |

On November 17, 2011, 300,000 stock options has been granted to employees and directors giving the option to purchase a common share for an exercise price of \$5.60 per share which represents the fair value of a common share at the date of the grant. These options have a life of 7 years and will vest at a rate of 20% per annum commencing 12 months after the date of the grant.

14. INCOME TAXES

Income tax expense comprises the following:

| | December 31 2011 (3 months) | December 31 2010 (3 months) | December 31 2011 (6 months) | December 31 2010 (6 months) |
|----------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ | \$ | \$ |
| Current | 804 | 1,160 | 2,519 | 2,219 |
| Deferred | 97 | (52) | (66) | (141) |
| | <u>901</u> | <u>1,108</u> | <u>2,453</u> | <u>2,078</u> |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

14. INCOME TAXES (continued)

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

| | December 31 2011 (3 months) \$ | December 31 2010 (3 months) \$ | December 31 2011 (6 months) \$ | December 31 2010 (6 months) \$ |
|--|---|---|---|---|
| Earnings before income taxes | 2,768 | 3,407 | 7,996 | 6,596 |
| Income taxes based on statutory rates | 759 | 991 | 2,194 | 1,919 |
| Increase (decrease) of income taxes to the following: | | | | |
| Non-deductible expenses | 95 | 63 | 149 | 81 |
| Non-deductible stock-based compensation expense | 75 | 54 | 137 | 99 |
| Non-taxable share in net earnings of a company subject to significant influence | - | (15) | - | (45) |
| Effect of corporate tax rate modification and prior year adjustments | (34) | 8 | (47) | 17 |
| Change in fair value of contingent consideration | 6 | 7 | 20 | 7 |
| Total income taxes | <u>901</u> | <u>1,108</u> | <u>2,453</u> | <u>2,078</u> |

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

| | December 31 2011 \$ | June 30 2011 \$ | July 1 2010 \$ |
|--|---------------------------|-----------------------|----------------------|
| Deferred income tax assets: | | | |
| Share issue costs | 108 | 216 | 444 |
| Long-term investments | 13 | 13 | 13 |
| Total deferred income tax assets | <u>121</u> | <u>229</u> | <u>457</u> |
| Deferred income tax liabilities: | | | |
| Property, plant and equipment | 1,771 | 1,121 | 1,313 |
| Intangible assets | 1,432 | 1,723 | 479 |
| Total deferred income tax liabilities | <u>3,203</u> | <u>2,844</u> | <u>1,792</u> |
| Net deferred income tax liabilities | <u>3,082</u> | <u>2,615</u> | <u>1,335</u> |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

15. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

Changes in non-cash operating working capital items:

| | December 31 2011 (3 months) \$ | December 31 2010 (3 months) \$ | December 31 2011 (6 months) \$ | December 31 2010 (6 months) \$ |
|--|---|---|---|---|
| Accounts receivable | 6,381 | 5,468 | 5,778 | 4,526 |
| Inventories | (2,909) | (3,429) | (7,264) | (4,782) |
| Prepaid expenses | (103) | (184) | 150 | (93) |
| Accounts payable and accrued liabilities | (3,061) | (4,346) | (5,469) | (7,569) |
| | <u>308</u> | <u>(2,491)</u> | <u>(6,805)</u> | <u>(7,918)</u> |

16. COMMITMENTS

The Company has entered into operating lease agreements expiring in 2014 which call for lease payments of \$53 for the rental of vehicles. The Company has also entered into lease agreements expiring in 2021 for minimum lease payments of \$1,634. The minimum lease payments under lease agreements for the next five years are detailed as follows:

| | \$ |
|------------------|-----|
| 2012 | 230 |
| 2013 | 219 |
| 2014 | 198 |
| 2015 | 180 |
| 2016 | 178 |
| Subsequent years | 682 |

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

17. FINANCIAL INSTRUMENTS

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

Currency risk

The Company realizes a part of its activities in US dollars and is thus exposed to foreign exchange fluctuations. The Company does not actively manage this risk. As at December 31, 2011, the Company has cash in US dollars for an amount of \$393 (June 30, 2011, \$296; July 1, 2010, \$228) and accounts receivable in US dollars for an amount of \$269 (June 30, 2011, \$388; July 1, 2010, \$516).

As at December 31, 2011, the Company has estimated that a ten percent increase or decrease of the US exchange rate would have caused a corresponding annual increase or decrease in net earnings and comprehensive earnings of approximately \$8 (December 31, 2010, \$36).

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

17. FINANCIAL INSTRUMENTS (continued)

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, 2011, the amount of the insurance coverage from EDC represents approximately 27.7% of the accounts receivable (32.7% in June 30, 2011; 53% in July 1, 2010).

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

As at December 31, 2011, 21.3% (43% in June 30, 2011; 54.9% July 1, 2010) of the trade accounts receivable are aged as current and 2% (2% in June 30, 2011; 5% July 1, 2010) of receivables are impaired.

One major customer represent 12% of the trade accounts receivable as at December 31, 2011 (June 30, 2011, one major customer represents 13% and on July 1, 2010, one customer represented 10% of these accounts).

No major customer represent more than 10% of the contract revenue for the three month period ended December 31, 2011 (three month period ended December 31, 2010, one major customer represents 12.6%).

No major customer represent more than 10% of the contract revenue for the six month period ended December 31, 2011 (six month period ended December 31, 2010, one major customer represents 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 ratings.

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

Interest rate risk

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

As at December 31, 2011, the Company has estimated that a one percentage point increase or decrease in interest rates would have caused a corresponding annual increase or decrease in net earnings of approximately \$216 (December 31, 2010, \$46; June 30, 2011, \$105; no significant impact on July 1, 2010).

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

17. FINANCIAL INSTRUMENTS (continued)

Fair value

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

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

Liquidity risk

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

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

| | As at December 31, 2011 | | | |
|--------------------------------------|-------------------------|---------------|--------------|---------------|
| | Total | 0 - 1 year | 2 - 3 years | 4 - 5 years |
| | \$ | \$ | \$ | \$ |
| Accounts payable and accrued charges | 20,325 | 20,325 | - | - |
| Contingent consideration | 4,800 | 2,400 | 1,600 | 800 |
| Long-term debt (capital only) | 30,689 | 542 | 547 | 29,600 |
| | <u>55,814</u> | <u>23,267</u> | <u>2,147</u> | <u>30,400</u> |
| | As at June 30, 2011 | | | |
| | Total | 0 - 1 year | 2 - 3 years | 4 - 5 years |
| | \$ | \$ | \$ | \$ |
| Bank overdraft | 698 | 698 | - | - |
| Accounts payable and accrued charges | 19,009 | 19,009 | - | - |
| Contingent consideration | 2,400 | 800 | 1,600 | - |
| Long-term debt (capital only) | 15,117 | 168 | 55 | 14,894 |
| | <u>37,224</u> | <u>20,675</u> | <u>1,655</u> | <u>14,894</u> |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

18. SEGMENTED INFORMATION

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

| | December 31 2011 (3 months) \$ | December 31 2010 (3 months) \$ | December 31 2011 (6 months) \$ | December 31 2010 (6 months) \$ |
|------------------------------------|---|---|---|---|
| Contract revenue | | | | |
| Drilling Canada | 26,265 | 21,292 | 56,618 | 46,044 |
| Drilling International | 4,790 | 3,623 | 10,985 | 6,093 |
| Manufacturing Canada | 3,367 | 2,341 | 6,715 | 4,148 |
| Elimination - Manufacturing Canada | (1,973) | (1,376) | (4,778) | (3,020) |
| | <u>32,449</u> | <u>25,880</u> | <u>69,540</u> | <u>53,265</u> |
| Gross profit | | | | |
| Drilling Canada | 3,909 | 3,920 | 8,846 | 8,295 |
| Drilling International | 2,746 | 1,762 | 6,695 | 2,897 |
| Manufacturing Canada | 401 | 251 | 433 | 345 |
| | <u>7,056</u> | <u>5,933</u> | <u>15,974</u> | <u>11,537</u> |
| Finance costs | 356 | 117 | 567 | 177 |
| General corporate expenses | 3,932 | 2,409 | 7,411 | 4,764 |
| Income taxes | 901 | 1,108 | 2,453 | 2,078 |
| | <u>5,189</u> | <u>3,634</u> | <u>10,431</u> | <u>7,019</u> |
| Net earnings | <u>1,867</u> | <u>2,299</u> | <u>5,543</u> | <u>4,518</u> |
| Amortization | | | | |
| Drilling Canada | 1,857 | 1,385 | 3,615 | 2,684 |
| Drilling International | 221 | 211 | 450 | 439 |
| Manufacturing Canada | 35 | 12 | 69 | 25 |
| Administrative | 529 | 308 | 1,358 | 749 |
| | <u>2,642</u> | <u>1,916</u> | <u>5,492</u> | <u>3,897</u> |
| | | As at | As at | As at |
| | | December 31, 2011 | June 30, 2011 | July 1, 2010 |
| | | \$ | \$ | \$ |
| Identifiable assets | | | | |
| Drilling and Manufacturing Canada | | 151,456 | 130,040 | 100,764 |
| Drilling International | | 17,074 | 12,596 | 7,696 |
| | | <u>168,530</u> | <u>142,636</u> | <u>108,460</u> |
| Property, plant and equipment | | | | |
| Drilling and Manufacturing Canada | | 49,467 | 39,415 | 28,210 |
| Drilling International | | 5,507 | 3,808 | 3,471 |
| | | <u>54,974</u> | <u>43,223</u> | <u>31,681</u> |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS

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

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

Initial choices on adoption

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

Mandatory exceptions

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

Optional choices applied by the Company

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS

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

Reconciliation of Equity

| As at: | Explanation | June 30, 2011 | December 31, 2010 | July 1, 2010 |
|--|-------------|----------------|-------------------|---------------|
| | | \$ | \$ | \$ |
| Equity under Canadian GAAP | | 103,787 | 96,286 | 89,592 |
| Differences with the Canadian GAAP decreasing reported equity: | | | | |
| Business acquisition expenses | (c) | (328) | (328) | - |
| Contingent consideration | (b) | (116) | (25) | - |
| Total equity under IFRS | | 103,343 | 95,933 | 89,592 |

Reconciliation of earnings

| For the year to date periods ended : | Explanation | June 30, 2011 (12 months) | December 31, 2010 (3 months) | December 31, 2010 (6 months) |
|---|-------------|------------------------------|---------------------------------|---------------------------------|
| | | \$ | \$ | \$ |
| Net earnings under Canadian GAAP | | 12,128 | 2,699 | 4,948 |
| Differences in GAAP decreasing reported earnings: | | | | |
| Business acquisition expenses | (c) | (328) | (328) | (328) |
| Change in fair value of contingent consideration | (b) | (116) | (25) | (25) |
| Share-based compensation | (a) | (238) | (47) | (77) |
| Net earnings under IFRS | | 11,446 | 2,299 | 4,518 |

Reconciliation of Comprehensive Earnings

| For the year to date periods ended: | Explanation | June 30, 2011 (12 months) | December 31, 2010 (3 months) | December 31, 2010 (6 months) |
|---|-------------|------------------------------|---------------------------------|---------------------------------|
| | | \$ | \$ | \$ |
| Comprehensive earnings under Canadian GAAP | | 12,128 | 2,699 | 4,948 |
| Differences in GAAP decreasing reported comprehensive earnings: | | | | |
| Business acquisition expenses | (c) | (328) | (328) | (328) |
| Change in fair value of contingent consideration | (b) | (116) | (25) | (25) |
| Share-based compensation | (a) | (238) | (47) | (77) |
| Comprehensive earnings under IFRS | | 11,446 | 2,299 | 4,518 |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Changes in accounting policies

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

Share-based compensation

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

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

Translation gains or losses related to net investments in foreign operations

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

Reconciliation of Canadian GAAP to IFRS

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Consolidated balance sheet as of July 1, 2010

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Consolidated statements of earnings for the three month period ended December 31, 2010

| Explanation | Canadian GAAP | IFRS adjustments | IFRS reclass | IFRS |
|---|------------------|---------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Contract revenue | 25,880 | | | 25,880 |
| Cost of contract revenue (d) | 18,339 | | 1,608 | 19,947 |
| Gross profit | 7,541 | - | (1,608) | 5,933 |
| Expenses | | | | |
| General and administrative expenses (a), (d) | 1,785 | 375 | 308 | 2,468 |
| Amortization of property, plant and equipment (d) | 1,692 | | (1,692) | - |
| Amortization of intangible assets (d) | 224 | | (224) | - |
| Foreign exchange losses (d) | (7) | | 7 | - |
| Interest on long-term debt (d) | 18 | | (18) | - |
| Interest and bank charges (d) | 74 | 25 | (99) | - |
| Other operating expenses (d) | - | | (7) | (7) |
| Finance costs (d) | - | | 117 | 117 |
| | 3,786 | 400 | (1,608) | 2,578 |
| Earnings before the following items | 3,755 | (400) | - | 3,355 |
| Share in net earnings of associate | 52 | | | 52 |
| Income taxes | 1,108 | | | 1,108 |
| Net earnings | 2,699 | (400) | - | 2,299 |

Consolidated statements of comprehensive earnings for the three month period ended December 31, 2010

| Explanation | Canadian GAAP | IFRS adjustments | IFRS reclass | IFRS |
|----------------------------------|------------------|---------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Net earnings (a) | 2,699 | (400) | - | 2,299 |
| Other comprehensive earnings | | | | |
| Currency translation differences | - | - | | - |
| Comprehensive earnings | 2,699 | (400) | - | 2,299 |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Consolidated statements of earnings for the six month period ended December 31, 2010

| Explanation | Canadian GAAP | IFRS adjustments | IFRS reclass | IFRS |
|---|------------------|---------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Contract revenue | 53,265 | | | 53,265 |
| Cost of contract revenue (d) | 38,580 | | 3,148 | 41,728 |
| Gross profit | 14,685 | - | (3,148) | 11,537 |
| Expenses | | | | |
| General and administrative expenses (a), (d) | 3,736 | 405 | 750 | 4,891 |
| Amortization of property, plant and equipment (d) | 3,316 | | (3,316) | - |
| Amortization of intangible assets (d) | 582 | | (582) | - |
| Foreign exchange losses (d) | 26 | | (26) | - |
| Interest on long-term debt (d) | 36 | | (36) | - |
| Interest and bank charges (d) | 116 | 25 | (141) | - |
| Other operating expenses (d) | - | | 26 | 26 |
| Finance costs (d) | - | | 177 | 177 |
| | 7,812 | 430 | (3,148) | 5,094 |
| Earnings before the following items | 6,873 | (430) | - | 6,443 |
| Share in net earnings of associate | 153 | | | 153 |
| Income taxes | 2,078 | | | 2,078 |
| Net earnings | 4,948 | (430) | - | 4,518 |

Consolidated statements of comprehensive earnings for the six month period ended December 31, 2010

| Explanation | Canadian GAAP | IFRS adjustments | IFRS reclass | IFRS |
|----------------------------------|------------------|---------------------|-----------------|--------------|
| | \$ | \$ | \$ | \$ |
| Net earnings (a) | 4,948 | (430) | - | 4,518 |
| Other comprehensive earnings | | | | |
| Currency translation differences | - | - | | - |
| Comprehensive earnings | 4,948 | (430) | - | 4,518 |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Consolidated balance sheet as of December 31, 2010

| Explanation | Canadian GAAP | IFRS adjustments | IFRS reclass | IFRS |
|--|------------------|---------------------|-----------------|---------|
| | \$ | \$ | \$ | \$ |
| ASSETS | | | | |
| Current assets | | | | |
| Cash | 1,769 | | | 1,769 |
| Accounts receivable | 18,124 | | | 18,124 |
| Inventories | 28,375 | | | 28,375 |
| Income taxes receivable | 4,564 | | | 4,564 |
| Prepaid expenses | 555 | | | 555 |
| | 53,387 | - | - | 53,387 |
| Non-current assets | | | | |
| Investments in associate | 1,040 | | | 1,040 |
| Property, plant and equipment | 35,805 | | | 35,805 |
| Goodwill | 25,566 | (2,994) | | 22,572 |
| Intangible assets | 792 | 6,222 | | 7,014 |
| Total assets | 116,590 | 3,228 | - | 119,818 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Bank loan | 1,400 | | | 1,400 |
| Accounts payable and accrued liabilities | 11,270 | (80) | | 11,190 |
| Contingent consideration | - | 741 | | 741 |
| Current portion of long-term debt | 207 | | | 207 |
| | 12,877 | 661 | - | 13,538 |
| Non-current liabilities | | | | |
| Contingent consideration | - | 1,298 | | 1,298 |
| Long-term debt | 6,229 | | | 6,229 |
| Deferred tax liabilities | 1,198 | 1,622 | | 2,820 |
| Total non-current | 20,304 | 3,581 | - | 23,885 |
| Equity | | | | |
| Share capital | 53,380 | | | 53,380 |
| Contributed surplus | 1,632 | 412 | | 2,044 |
| Retained earnings | 41,274 | (765) | | 40,509 |
| Total equity attributable to shareholders | 96,286 | (353) | - | 95,933 |
| Total liabilities and equity | 116,590 | 3,228 | - | 119,818 |

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

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

| Explanation | Canadian GAAP | IFRS adjustments | IFRS reclass | IFRS |
|---|------------------|---------------------|-----------------|---------------|
| | \$ | \$ | \$ | \$ |
| Contract revenue | 127,738 | | | 127,738 |
| Cost of contract revenue (d) | 92,471 | | 6,793 | 99,264 |
| Gross profit | 35,267 | - | (6,793) | 28,474 |
| Expenses | | | | |
| General and administrative expenses (a), (c), (d) | 9,247 | 566 | 1,750 | 11,563 |
| Amortization of property, plant and equipment (d) | 7,159 | | (7,159) | - |
| Amortization of intangible assets (d) | 1,510 | | (1,510) | - |
| Foreign exchange losses (d) | 41 | | (41) | - |
| Gain on disposal of property, plant and equipment (d) | (126) | | 126 | - |
| Interest on long-term debt (d) | 258 | | (258) | - |
| Interest and bank charges (b), (d) | 182 | 116 | (298) | - |
| Other operating expenses (d) | - | | 41 | 41 |
| Finance costs (d) | - | | 556 | 556 |
| | 18,271 | 682 | (6,793) | 12,160 |
| Earnings before the following items | 16,996 | (682) | - | 16,314 |
| Share in net earnings of associate | 225 | | | 225 |
| Gain on investments in associate | 209 | | | 209 |
| | 434 | - | - | 434 |
| Earnings before income taxes | 17,430 | (682) | - | 16,748 |
| Income taxes | 5,302 | | | 5,302 |
| Net earnings | 12,128 | (682) | - | 11,446 |

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

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

Consolidated balance sheet as of June 30, 2011

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

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the 3 and 6 month periods ended December 31, 2011 and 2010

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

(Unaudited)

19. TRANSITION TO IFRS (continued)

(a) Stock-based compensation

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

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

(b) Business combinations - Contingent consideration

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

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

(c) Business combination - Acquisition costs

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

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

(d) Statement of earnings reclassification

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

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

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