# Unaudited Interim Condensed Consolidated Financial Statements

# Second Quarter Fiscal 2015

(Three and six-month periods ended December 31, 2014 and 2013)

These interim condensed consolidated financial statements have not been reviewed by the Company's independant auditors.

ORBIT GARANT DRILLING INC.

# Interim condensed consolidated statements of loss and comprehensive loss

For the three and six-month periods ended December 31, 2014 and 2013

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

(Unaudited)

| | Notes | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Contract revenue | 16 | 16,754 | 16,845 | 37,462 | 35,319 |
| Cost of contract revenue | 6 | 17,164 | 15,695 | 35,903 | 32,200 |
| Gross profit | | (410) | 1,150 | 1,559 | 3,119 |
| Expenses | | | | | |
| General and administrative expenses | 2 - 6 | 2,941 | 3,073 | 5,631 | 6,178 |
| Other expenses (revenues) | 6 | 113 | (79) | (20) | (57) |
| Finance costs | 6 | 113 | 191 | 272 | 389 |
| | | 3,167 | 3,185 | 5,883 | 6,510 |
| Loss before income taxes | | (3,577) | (2,035) | (4,324) | (3,391) |
| Income taxes recovery | 12 | | | | |
| Current | | (513) | (417) | (339) | (492) |
| Deferred | | (274) | (103) | (599) | (314) |
| | | (787) | (520) | (938) | (806) |
| Loss and comprehensive loss attributable to shareholders | | (2,790) | (1,515) | (3,386) | (2,585) |
| Loss per share attributable to shareholders | 11 | | | | |
| Basic | | (0.08) | (0.05) | (0.10) | (0.08) |
| Diluted | | (0.08) | (0.05) | (0.10) | (0.08) |

# ORBIT GARANT DRILLING INC.
## Consolidated statements of changes in equity
For the six-month periods ended December 31, 2014 and 2013
(in thousands of Canadian dollars)
(Unaudited)

| Six-month period ended December 31, 2014 | Share capital | Equity settled reserve | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | (Note 11) | (Note 11) | | |
| Balance as of July 1, 2014 | 54,411 | 5,133 | 25,025 | 84,569 |
| Net loss and comprehensive loss | - | - | (3,386) | (3,386) |
| Share-based compensation | - | 273 | - | 273 |
| Balance as of December 31, 2014 | 54,411 | 5,406 | 21,639 | 81,456 |

| Six-month period ended December 31, 2013 | Share capital | Equity settled reserve | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | (Note 11) | (Note 11) | | |
| Balance as of July 1, 2013 | 54,411 | 4,480 | 31,327 | 90,218 |
| Net loss and comprehensive loss | - | - | (2,585) | (2,585) |
| Share-based compensation | - | 382 | - | 382 |
| Balance as of December 31, 2013 | 54,411 | 4,862 | 28,742 | 88,015 |

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

# Interim condensed consolidated statements of financial position

As of December 31, 2014 and June 30, 2014

(in thousands of Canadian dollars)

(Unaudited)

| | Notes | December 31 2014 | June 30 2014 |
|---|---|---|---|
| | | $ | $ |
| ASSETS | | | |
| Current assets | | | |
| Cash | | 86 | 335 |
| Accounts receivable | 15 | 14,182 | 15,540 |
| Inventories | | 35,139 | 36,423 |
| Income taxes receivable | | 464 | 1,869 |
| Prepaid expenses | | 1,082 | 1,280 |
| | | 50,953 | 55,447 |
| Non-current assets | | | |
| Investments | 7 | 435 | 300 |
| Property, plant and equipment | 8 | 42,321 | 46,040 |
| Intangible assets | | 874 | 1,166 |
| Deferred tax assets | | 531 | - |
| Total assets | | 95,114 | 102,953 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 8,847 | 9,623 |
| Contingent consideration | 2 - 15 | - | 146 |
| Current portion of long-term debt | 9 | - | 8,547 |
| | | 8,847 | 18,316 |
| Non-current liabilities | | | |
| Long-term debt | 9 | 4,811 | - |
| Deferred tax liabilities | | - | 68 |
| | | 13,658 | 18,384 |
| EQUITY | | | |
| Share capital | 11 | 54,411 | 54,411 |
| Equity settled reserve | 11 | 5,406 | 5,133 |
| Retained earnings | | 21,639 | 25,025 |
| Equity attributable to shareholders | | 81,456 | 84,569 |
| Total liabilities and equity | | 95,114 | 102,953 |

APPROVED BY THE BOARD

(signed) Éric Alexandre, Director

(signed) Jean-Yves Laliberté, Director

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

# Interim condensed consolidated statements of cash flows

For the three and six-month periods ended December 31, 2014 and 2013

(in thousands of Canadian dollars)

(Unaudited)

| | Notes | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| OPERATING ACTIVITIES | | | | | |
| Loss before income taxes | | (3,577) | (2,035) | (4,324) | (3,391) |
| Items not affecting cash: | | | | | |
| Depreciation of property, plant and equipment | 6 | 2,494 | 2,606 | 5,045 | 5,290 |
| Amortization of intangible assets | 6 | 146 | 146 | 292 | 292 |
| Loss (gain) on disposal of property, plant and equipment | 8 | 14 | 9 | (6) | (3) |
| Share-based compensation | 11 | 117 | 188 | 273 | 382 |
| Finance costs | | 111 | 175 | 268 | 357 |
| Reversal of contingent consideration | 2 - 15 | (150) | - | (150) | - |
| Change in fair value of contingent considerations | 15 | 2 | 16 | 4 | 32 |
| | | (843) | 1,105 | 1,402 | 2,959 |
| Changes in non-cash operating working capital items | 13 | 2,060 | 1,494 | 2,064 | 1,784 |
| Income taxes recovered | | 1,829 | 1,224 | 1,744 | 1,338 |
| Finance costs paid | | (287) | (154) | (439) | (315) |
| | | 2,759 | 3,669 | 4,771 | 5,766 |
| INVESTING ACTIVITIES | | | | | |
| Acquisition of investments | 7 | (65) | - | (135) | - |
| Acquisition of property, plant and equipment | 8 | (1,041) | (756) | (1,558) | (1,539) |
| Proceeds from disposal of property, plant and equipment | 8 | 116 | 110 | 243 | 236 |
| | | (990) | (646) | (1,450) | (1,303) |
| FINANCING ACTIVITIES | | | | | |
| Proceeds from long-term debt | | 12,650 | 9,600 | 24,050 | 21,200 |
| Repayment of long-term debt | | (14,850) | (11,789) | (27,615) | (25,575) |
| | | (2,200) | (2,189) | (3,565) | (4,375) |
| Effect of exchange rate changes | | (1) | (7) | (5) | (1) |
| Increase (decrease) in cash | | (432) | 827 | (249) | 87 |
| Cash, beginning of the period | | 518 | 767 | 335 | 1,507 |
| Cash, end of the period | | 86 | 1,594 | 86 | 1,594 |

See accompanying notes to interim condensed consolidated financial statements.

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

## 1. DESCRIPTION OF BUSINESS

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

The Company's head office 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 as follows:

| | % of voting rights |
|---|---|
| Services de forage Orbit Garant Inc. | 100% |
| 9116-9300 Québec inc. | 100% |
| Orbit Garant Ontario Inc. | 100% |
| Drift Exploration Drilling Inc. | 100% |
| Drift de Mexico SA de CV | 100% |
| Lantech Drilling Services Inc. | 100% |
| Lantech Liberia Limited | 100% |
| Perforación Orbit Garant Chile SpA | 100% |
| Orbit Garant Drilling Ghana Limited | 100% |
| Cygnus-Orbit Drilling SpA | 70% |

## 2. CONTINGENT CONSIDERATION

*Lantech Drilling Services Inc.:*

The purchase price of Lantech Drilling Services Inc. is subject to an adjustment of an amount up to $2,400 based on certain specific financial objectives regarding earnings levels for the periods ending December 15, 2012, 2013 and 2014. This contingent consideration was evaluated at fair value at the acquisition date. On June 30, 2013, an amount of $400 was paid for the contingent consideration due December 15, 2012. For the balance of the amount of $400 for the contingent consideration due on December 15, 2012 and for the contingent considerations due on December 15, 2013 and December 15, 2014, the Company has not reached the specific financial objectives that were fixed and Management does not anticipate reaching them.

In accordance with the recommendations of IFRS 3, the Company reversed its current liabilities, in 2013, for the amounts of $400 for contingent considerations which was due December 15, 2012 and $777 which was due December 15, 2013 and as at June 30, 2014, the Company reversed $631 which was due December 15, 2014, and the balance of $150 was reversed as at December 15, 2014, as a reduction of the general and administrative expenses.

## 3. BASIS OF PREPARATION

### Basis of presentation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, («IAS 34»). The IFRS accounting policies that are set out in Note 5 to the Company's annual audited consolidated statements for the year ended June 30, 2014 were consistently applied to all periods presented, except for accounting policies affected by standards and interpretations adopted on July 1, 2014, as described in Note 4 below. These interim condensed consolidated financial statements have not been subject to a review engagement by the Company's external auditors.

## 3. BASIS OF PREPARATION (continued)

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 6 in the Company's annual audited consolidated financial statements for the year ended June 30, 2014. They remained unchanged for the three and six-month periods ended December 31, 2014.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the contingent liabilities, 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»). All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These interim condensed consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's 2014 annual audited consolidated financial statements.

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

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

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

## 4. STANDARDS AND INTERPRETATIONS ADOPTED

The following standards and amendments to existing standards have been adopted by the Company on July 1, 2014:

### IAS 32 – Financial Instruments - Presentation

IAS 32 is amended to provide clarification on the application of rules to offset financial assets and financial liabilities. The following notions are clarified: legally enforceable right to offset, application of simultaneous realization or settlement, offsetting a guaranteed amount and the unit of accounting for application of the offsetting obligations.

### IAS 36 – Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets

IAS 36 is amended to address the disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.

### IFRIC 21 – Levies

IFRIC Interpretation 21 considers how an entity should account for levies imposed by governments, other than income taxes, in its financial statements.

4. STANDARDS AND INTERPRETATIONS ADOPTED (continued)

Annual improvements to IFRS (2010-2012 Cycle), which include among others:

Amendments to IFRS 2, *Share-based Payments* , relate to the definitions of «vesting condition» and «market condition» and add definitions for «performance condition» and «service condition».

Amendments to IFRS 3, *Business Combinations* , clarify that contingent consideration classified as an asset or a liability should be measured at fair value on each reporting date, irrespective of whether the contingent consideration is a financial instrument or a non-financial asset or liability.

Amendments to IFRS 8, *Operating Segments* , require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarity that a reconciliation of the total of the reportable segments' assets and the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

Amendments to IFRS 13, *Fair Value Measurement* , clarify that the issuance of IFRS 13 did not remove the ability to measure current receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

Annual improvements to IFRS (2011-2013 Cycle), which include among others:

Amendments to IFRS 3, *Business Combinations* , clarify that the scope of IFRS 3 does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

Amendments to IFRS 13, *Fair Value Measurement* , clarify that the scope of the portfolio exception for measuring the fair value of a group of financial liabilities on a net basis includes all contracts that are within the scope of IAS 39, *Financial Instruments: Recognition and Measurement* , even if those contracts do not meet the definition of financial assets or financial liabilities.

The standards and amendments listed above did not have any impact on the Company's interim condensed consolidated financial statements.

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 non-derivative financial instruments and its related classification and measurement. IFRS 9 is effective from periods beginning January 1, 2018, with early adoption permitted.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, *Revenue* , IAS 11, *Construction Contracts* , and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is effective from periods beginning January 1, 2017, with early adoption permitted.

IAS 16 – Property, Plant and Equipment

IAS 16 prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 16 are effective from periods beginning January 1, 2016, with early adoption permitted.

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

5. RECENT ACCOUNTING PRONOUNCEMENT (continued)

IAS 38 – Intangible assets

IAS 38 introduces a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset, except in two limited circumstances. The amendments to IAS 38 are effective from periods beginning January 1, 2016, with early adoption permitted.

IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures

The amendment entitled *«Sale or Contribution of Assets between an Investor and its Associate or Joint Venture»* specifies the treatment to be adopted when an entity sells or contributes assets that constitute a business to a joint venture or an associate or loses control of a subsidiary that contains a business but it retains joint control or significant influence, the gain or loss resulting from that transaction is recognized in full. When an entity sells or contributes assets that do not constitute a business to a joint venture or associate or loses control of a subsidiary that does not contain a business but it retains joint control or significant influence in a transaction involving an associate or a joint venture, the gain or loss resulting from that transaction is recognized only to the extent of the unrelated investors' interest in the joint venture or associate, the entity's share of the gain or loss is eliminated. The amendments to IFRS 10 are effective from periods beginning January 1, 2016, with early adoption permitted.

Annual improvements to IFRS (2012-2014 Cycle), which include among others:

Amendments to IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, introduce guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued.

Amendments to IFRS 7, *Financial Instruments: Disclosure*, provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets, and guidance as to whether the disclosure requirements on offsetting financial assets and financial liabilities should be included in condensed interim financial statements.

Amendments to IAS 34, Interim Financial Reporting, clarify the requirements relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Company is currently evaluating the impacts of adopting these standards on its consolidated financial statements.

6. EXPENSES BY NATURE

Detail of the depreciation and amortization expenses

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

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cost of contract revenue | 2,233 | 2,304 | 4,522 | 4,678 |
| General and administrative expenses | 407 | 448 | 815 | 904 |
| Total depreciation and amortization | 2,640 | 2,752 | 5,337 | 5,582 |

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

6. EXPENSES BY NATURE (continued)

Principal expenses by nature

Cost of contract revenue, general and administrative expenses, other expenses (revenues) and finance costs, net by nature are as follows:

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Depreciation and amortization | 2,640 | 2,752 | 5,337 | 5,582 |
| Employee benefits expense | 10,236 | 9,058 | 20,633 | 19,159 |
| Cost of inventory | 4,068 | 4,134 | 9,282 | 8,209 |
| Other expenses | 3,387 | 2,936 | 6,534 | 5,760 |
| Total cost of contract revenue, general and administrative expenses, other expenses (revenues) and finance costs | 20,331 | 18,880 | 41,786 | 38,710 |

7. INVESTMENTS

Changes in investments were as follows:

| | December 31 2014 | June 30 2014 |
|---|---|---|
| | $ | $ |
| Investments in public companies, beginning of the period | 300 | - |
| Acquisitions | 135 | 116 |
| Conversion of accounts receivable | - | 184 |
| Investments in public companies, end of the period | 435 | 300 |

8. PROPERTY, PLANT AND EQUIPMENT

Changes in the property, plant and equipment are detailed as follow for the periods:

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Acquisition of property, plant and equipment | 1,041 | 756 | 1,558 | 1,539 |
| Disposal of property, plant and equipment | (116) | (110) | (243) | (236) |
| Loss (gain) on disposal of property, plant and equipement | 14 | 9 | (6) | (3) |

The loss (gain) on disposal of property, plant and equipment is included in cost of contract revenue.

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

## 9. LONG-TERM DEBT

| | December 31 2014 | June 30 2014 |
|---|---|---|
| | $ | $ |
| Loan authorized for a maximum amount of $25 million ($30 million before December 19, 2014), bearing interest at prime rate plus 0.5%, effective rate as at December 31, 2014 3.5%, maturing December 2017, secured by first rank hypothec on the universality of all present and future assets (a) (b) | 4,811 | 8,482 |
| Loans, bearing interest at rates ranging from 0% to 1.5%, payable in monthly instalments of $26, matured in September 2014 | - | 65 |
| | 4,811 | 8,547 |
| Current portion | - | (8,547) |
| | 4,811 | - |

(a) The rate is variable based on the quarterly calculation of a financial ratio and can vary from prime rate plus 0.5% to 2.25% (0.5% to 2.0% before December 19, 2014).

(b) An unamortized amount of $ 189 ($18 as at June 30, 2014), 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 10). As at December 31, 2014, the Company was compliant with its financial covenants.

On December 31, 2014, the prime rate was 3 % (3% as at June 30, 2014).

Principal payments required in the next year are as follows:

| | $ |
|---|---|
| 2015 | - |
| 2016 | - |
| 2017 | 5,000 |

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

## 10. 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 2014 | June 30 2014 |
|---|---|---|
| | $ | $ |
| Long-term debt | 4,811 | 8,547 |
| Share capital | 54,411 | 54,411 |
| Equity settled reserve | 5,406 | 5,133 |
| Retained earnings | 21,639 | 25,025 |
| Cash | (86) | (335) |
| | 86,181 | 92,781 |

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. As at December 31, 2014, as mentioned in Note 9, the Company was compliant with its financial covenants. As at June 30, 2014, the Company was in breach of certain financial covenants imposed by its prior debt agreement.

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 year.

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

## 11. 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.

| | Six-month period ended December 31, 2014 | | Year ended June 30, 2014 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Balance, beginning of the period | 33,276,519 | 54,411 | 33,276,519 | 54,411 |
| Shares issued | - | - | - | - |
| Balance, end of the period | 33,276,519 | 54,411 | 33,276,519 | 54,411 |

*Loss per share*

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

| Loss per share - basic | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| Loss available to common shareholders | (2,790) $ | (1,515) $ | (3,386) $ | (2,585) $ |
| Weighted average basic number of common shares outstanding | 33,276,519 | 33,276,519 | 33,276,519 | 33,276,519 |
| Loss per share - basic | (0.08) $ | (0.05) $ | (0.10) $ | (0.08) $ |

| Loss per share - diluted | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| Loss available to common shareholders | (2,790) $ | (1,515) $ | (3,386) $ | (2,585) $ |
| Weighted average basic number of common shares outstanding | 33,276,519 | 33,276,519 | 33,276,519 | 33,276,519 |
| Adjustment to average number of common shares - stock options (1) | - | - | - | - |
| Weighted average diluted number of common shares outstanding | 33,276,519 | 33,276,519 | 33,276,519 | 33,276,519 |
| Loss per share - diluted | (0.08) $ | (0.05) $ | (0.10) $ | (0.08) $ |

(1) Stock options are not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

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

11. SHARE CAPITAL (continued)

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

| | December 31, 2014 (6 months) | | December 31, 2013 (6 months) | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding at the beginning of the period | 3,763,500 | 2.72 | 3,173,000 | 3.08 |
| Granted during the period | 75,000 | 1.35 | 682,500 | 1.02 |
| Cancelled during the period | (34,500) | 3.82 | (23,000) | 3.43 |
| Outstanding at end of the period | 3,804,000 | 2.68 | 3,832,500 | 2.71 |
| Exercisable at end of the period | 2,716,000 | 2.86 | 2,327,000 | 2.83 |

On December 5, 2014, 75,000 stock options has been granted to a director giving the option to purchase a common share for an exercice price of $1.35 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.

The following table summarizes information on stock options outstanding at December 31, 2014:

| Range of exercise price $ | Outstanding at December 31, 2014 | Weighted average remaining life (years) | Weighted average exercise price $ | Exercisable at December 31, 2014 | Weighted average exercise price $ |
|---|---|---|---|---|---|
| 1.00 - 1.50 | 1,755,500 | 3.68 | 1.03 | 1,162,500 | 1.02 |
| 2.00 - 2.50 | 500,000 | 4.87 | 2.28 | 200,000 | 2.28 |
| 4.00 | 923,500 | 3.93 | 4.00 | 923,500 | 4.00 |
| 5.60 - 6.02 | 625,000 | 3.34 | 5.67 | 430,000 | 5.67 |
| | 3,804,000 | | | 2,716,000 | |

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

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Expense related to share-based compensation | 117 | 188 | 273 | 382 |

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

## 12. INCOME TAXES

The tax rate prescribed by the applicable laws is at 26.75% in 2014 and at 26.52% in 2013. The applicable tax rate of the Company corresponds to Canadian combined rates applicable in the provinces where the Company operates.

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Loss before income taxes | (3,577) | (2,035) | (4,324) | (3,391) |
| Statutory rates | 26.75% | 26.52% | 26.75% | 26.52% |
| Income taxes recovery based on statutory rates | (957) | (540) | (1,157) | (899) |
| Increase (decrease) of income taxes due to the following: | | | | |
| Non-deductible expenses and other | (7) | (5) | 7 | 21 |
| Non-deductible share-based compensation expense | 31 | 50 | 74 | 101 |
| Non-deductible reversal of contingent consideration | (40) | - | (40) | - |
| Effect of corporate tax rate modification | 83 | (29) | 87 | (38) |
| Prior year adjustments | 103 | - | 90 | - |
| Change in fair value of contingent consideration | - | 4 | 1 | 9 |
| Total income taxes recovery | (787) | (520) | (938) | (806) |

## 13. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

Changes in non-cash operating working capital items:

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts receivable | 3,387 | 2,058 | 1,358 | 1,960 |
| Inventories | 540 | 1,804 | 1,284 | 1,868 |
| Prepaid expenses | (166) | 246 | 198 | 262 |
| Accounts payable and accrued liabilities | (1,701) | (2,614) | (776) | (2,306) |
| | 2,060 | 1,494 | 2,064 | 1,784 |

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

## 14. COMMITMENTS

The Company has entered into operating lease agreements expiring in 2018 which call for lease payments of $118 for the rental of vehicles. The Company has also entered into lease agreements for offices expiring in 2021 for minimum lease payments of $1,288. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions. The minimum lease payments under lease agreements for the next five years are detailed as follows:

| | $ |
|---|---|
| 2015 | 354 |
| 2016 | 294 |
| 2017 | 244 |
| 2018 | 188 |
| 2019 | 176 |
| Subsequent years | 150 |

## 15. 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 years, unless otherwise stated in this note.

*Currency risk*

The Company realizes a part of its activities in US dollars and in Chilean Pesos and is thus exposed to foreign exchange fluctuations. The Company does not actively manage this risk. As at December 31, 2014, the Company has cash in US dollars for an amount of $332 (June 30, 2014, $726) and accounts receivable in US dollars for an amount of $149 (June 30, 2014, $174). The Company has cash in Chilean Pesos for an amount of 99,891 (June 30, 2014, nil) and accounts receivable in Chilean Pesos for an amount of 186,500 (June 30, 2014, nil).

As at December 31, 2014, the Company has estimated that a 10% increase or decrease of the US exchange rate would have caused a corresponding annual increase or decrease in net loss and comprehensive loss of approximately $23 (June 30, 2014, $37) and a 10% increase or decrease of the Chilean Pesos exchange rate would have caused a corresponding annual increase or decrease in net loss and comprehensive loss of approximately 15,095 (June 30, 2014, nil).

*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, 2014, the amount of the insurance coverage from EDC represents approximately 5% of the accounts receivable (5% in June 30, 2014). Due to the reduction of International drilling demands, the Company does not meet the EDC requirements. Consequently, the insurance coverage ceased as of May 1, 2014. Considering the payed premiums and claims made over the past years, the Company has evaluated that this change will have little impact on its financial results.

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.

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

15. FINANCIAL INSTRUMENTS (continued)

The allowance for doubtful accounts is established based on the Company's best estimate on the recovery of balances for which collection may be uncertain. Uncertainty of collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client or delay in collection when the aging of invoices exceeds the normal payment terms. Management regularly reviews accounts receivable and assesses the appropriateness of the allowance for doubtful accounts.

The change in the allowance for doubtful accounts is detailed below:

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at beginning of the period | 1,131 | 1,229 | 1,126 | 1,239 |
| Change in allowance, other than write-offs and recoveries | 3 | 52 | 8 | 88 |
| Write-offs of trade receivables | - | (6) | - | (6) |
| Recoveries | - | (54) | - | (100) |
| Balance at end of the period | 1,134 | 1,221 | 1,134 | 1,221 |

As at December 31, 2014, 35% (June 30, 2014: 45%) of the trade accounts receivable are aged as current and 8% are impaired (June 30, 2014: 7%).

One major customer represents 11% of the trade accounts receivable as at December 31, 2014 (June 30, 2014, one major customer represents 12% of these accounts).

Three major customers represent 36% of the contract revenue for the three-month period ended December 31, 2014 (three-month period ended December 31, 2013, three major customers represent 38%).

Two major customers represent 29% of the contract revenue for the six-month period ended December 31, 2014 (six-month period ended December 31, 2013, one major customer represents 15%).

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, 2014, the Company has estimated that a 1% point increase or decrease in interest rates would have caused a corresponding annual increase or decrease in net loss of approximately $37 (June 30, 2014, $63).

*Equity market risk*

Equity market risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors the general trends in the stock markets and individual equity movements, and determines the appropriate course of actions to be taken by the Company.

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

15. FINANCIAL INSTRUMENTS (continued)

*Fair value*

The fair value of cash, accounts receivable and accounts payable and accrued liabilities is approximately equal to their carrying values due to their short-term maturity. The fair value of the investments is equal to their original cost.

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 considerations has been evaluated with a discounted rate value.

*Fair value hierarchy*

The methodology used to measure the Company's financial instruments accounted for at fair value is determined based on the following hierarchy:

| Level | Basis for determination of fair value |
|---|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities; |
| Level 2 | Inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability; |
| Level 3 | Inputs for the asset or liability that are not based on observable market data. |

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The investments are classified as a Level 2 financial instrument as the fair value is determined using other inputs than quoted prices in the active market.

The changes in the contingent considerations are detailed below:

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at beginning of the period | 148 | 1,112 | 146 | 1,096 |
| Change in fair value of contingent considerations | 2 | 16 | 4 | 32 |
| Reversal of contingent consideration | (150) | - | (150) | - |
| Balance at end of the period | - | 1,128 | - | 1,128 |

There were no transfers of amounts between Level 1, Level 2 and Level 3 financial instruments for the periods ended December 31, 2014 and June 30, 2014.

*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 10 are details of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

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

15. FINANCIAL INSTRUMENTS (continued)

| | | | | As at December 31, 2014 |
|---|---|---|---|---|
| | Total | 0 -1 year | 2 - 3 years | 4 - 5 years |
| | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 8,847 | 8,847 | - | - |
| Long-term debt (capital only) | 5,000 | - | 5,000 | - |
| | 13,847 | 8,847 | 5,000 | - |

16. SEGMENTED INFORMATION

The Company is separated into two geographical segments: Canada and International (US, Central and South America and West Africa). The elements of the results and the financial situation are divided between the sectors, based on destination of contracts or profits. Data by geographical areas follow the same accounting rules as those used for the consolidated accounts. Transfers between sectors are carried out at market prices.

Operational sectors are presented using the same criteria as for the production of the internal report to the chief operating decision maker; who allocates the resources and evaluates the performance of the operational sectors. The chief operations decision maker is considered as the President and Chief Executive Officer, who evaluates the performance of both sectors by the revenues of ordinary activities from external clients, gross margin and net earnings.

Data relating to each of the Company's reportable segments is presented as follows:

| | December 31 2014 (3 months) | December 31 2013 (3 months) | December 31 2014 (6 months) | December 31 2013 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Contract revenue | | | | |
| Canada | 16,170 | 15,336 | 36,675 | 33,002 |
| International | 584 | 1,509 | 787 | 2,317 |
| | 16,754 | 16,845 | 37,462 | 35,319 |
| Gross profit | | | | |
| Canada | 164 | 1,033 | 2,728 | 3,271 |
| International | (574) | 117 | (1,169) | (152) |
| | (410) | 1,150 | 1,559 | 3,119 |
| General corporate expenses | 3,054 | 2,994 | 5,611 | 6,121 |
| Finance costs | 113 | 191 | 272 | 389 |
| Income taxes recovery | (787) | (520) | (938) | (806) |
| | 2,380 | 2,665 | 4,945 | 5,704 |
| Loss | (2,790) | (1,515) | (3,386) | (2,585) |
| Depreciation and amortization | | | | |
| Canada | 1,958 | 2,019 | 4,004 | 4,109 |
| International | 275 | 285 | 518 | 569 |
| Unallocated and corporate assets | 407 | 448 | 815 | 904 |
| | 2,640 | 2,752 | 5,337 | 5,582 |

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

16. SEGMENTED INFORMATION (continued)

| | As at December 31, 2014 | As at June 30, 2014 |
|---|---|---|
| | $ | $ |
| Identifiable assets | | |
| Canada | 83,392 | 93,263 |
| International | 11,722 | 9,690 |
| | 95,114 | 102,953 |
| Property, plant and equipment | | |
| Canada | 38,938 | 43,184 |
| International | 3,383 | 2,856 |
| | 42,321 | 46,040 |