FORAGE ORBIT GARANT DRILLING

# Unaudited Interim Condensed Consolidated Financial Statements

## Second Quarter Fiscal 2017

(For the three and six-month periods ended December 31, 2016 and 2015)

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

# ORBIT GARANT DRILLING INC.
## Interim condensed consolidated statements of loss
For the three and six-month periods ended December 31, 2016 and 2015
(in thousands of Canadian dollars, except for data per share)
(Unaudited)

| | Notes | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Contract revenue | 15 | 27,414 | 21,704 | 57,922 | 45,989 |
| Cost of contract revenue | 5 | 25,893 | 20,464 | 53,517 | 41,413 |
| Gross profit | | 1,521 | 1,240 | 4,405 | 4,576 |
| Expenses | | | | | |
| General and administrative expenses | 5 | 3,977 | 3,518 | 7,359 | 6,636 |
| Foreign exchange gain | 5 | (83) | (47) | (222) | (28) |
| Finance costs | 5 | 236 | 114 | 427 | 220 |
| | | 4,130 | 3,585 | 7,564 | 6,828 |
| Loss before income taxes | | (2,609) | (2,345) | (3,159) | (2,252) |
| Income taxes (recovery) | 11 | | | | |
| Current | | 157 | (82) | 75 | (169) |
| Deferred | | (862) | (423) | (1,083) | (34) |
| | | (705) | (505) | (1,008) | (203) |
| Net loss attributable to shareholders | | (1,904) | (1,840) | (2,151) | (2,049) |
| Net loss per share attributable to shareholders | 10 | | | | |
| Basic and diluted | | (0.05) | (0.05) | (0.06) | (0.06) |

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

# Interim condensed consolidated statements of comprehensive loss

For the three and six-month periods ended December 31, 2016 and 2015

(in thousands of Canadian dollars)

(Unaudited)

| | Notes | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Net loss | | (1,904) | (1,840) | (2,151) | (2,049) |
| Other comprehensive loss | | | | | |
| Items that will be reclassified subsequently to net loss : | | | | | |
| Unrealized loss (gain) on available-for-sale investments | 6 | 9 | - | (16) | - |
| Deferred income tax | | - | - | 3 | - |
| | | 9 | - | (13) | - |
| Cumulative translation adjustments | | (44) | - | (29) | - |
| Other comprehensive loss, net of income tax | | (35) | - | (42) | - |
| Comprehensive loss attributable to shareholders | | (1,939) | (1,840) | (2,193) | (2,049) |



See accompanying notes to interim condensed consolidated financial statements.

# ORBIT GARANT DRILLING INC.

## Interim condensed consolidated statements of changes in equity

For the six-month periods ended December 31, 2016 and 2015

(in thousands of Canadian dollars)

(Unaudited)

| Six-month period ended December 31, 2016 | Share capital | Equity settled reserve | Retained Earnings | Accumulated other comprehensive income | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | $ (Note 10) | $ (Note 10) | $ | $ | $ |
| **Balance as of July 1, 2016** | 55,688 | 1,468 | 21,720 | 195 | 79,071 |
| **Total comprehensive loss** | | | | | |
| Net loss | - | - | (2,151) | - | (2,151) |
| Other comprehensive loss: | | | | | |
| Unrealized gain on available-for-sale investments, net of defered income tax | - | - | - | (13) | (13) |
| Cumulative translation adjustments | - | - | - | (29) | (29) |
| Other comprehensive loss | - | - | - | (42) | (42) |
| Transactions with owners, recorded directly in equity | | | | | |
| Share-based compensation | - | 102 | - | - | 102 |
| **Balance as of December 31, 2016** | 55,688 | 1,570 | 19,569 | 153 | 76,980 |

| Six-month period ended December 31, 2015 | Share capital | Equity settled reserve | Retained Earnings | Accumulated other comprehensive income | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | $ (Note 10) | $ (Note 10) | $ | $ | $ |
| **Balance as of July 1, 2015** | 54,411 | 1,458 | 21,750 | - | 77,619 |
| **Total comprehensive loss** | | | | | |
| Net loss | - | - | (2,049) | - | (2,049) |
| Transactions with owners, recorded directly in equity | | | | | |
| Issuance of shares related to business acquisition | 1,277 | - | - | - | 1,277 |
| Share-based compensation | - | 92 | - | - | 92 |
| Total transactions with owners | 1,277 | 92 | - | - | 1,369 |
| **Balance as of December 31, 2015** | 55,688 | 1,550 | 19,701 | - | 76,939 |

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

# Interim condensed consolidated statements of financial position

As of December 31, 2016 and June 30, 2016

(in thousands of Canadian dollars)

(Unaudited)

| | Notes | December 31 2016 | June 30 2016 |
|---|---|---|---|
| | | $ | $ |
| ASSETS | | | |
| Current assets | | | |
| Cash | | 3,743 | 2,293 |
| Accounts receivable | 14 | 17,809 | 21,339 |
| Inventories | | 40,567 | 35,289 |
| Income taxes receivable | | 1,146 | 1,058 |
| Prepaid expenses | | 479 | 568 |
| | | 63,744 | 60,547 |
| Non-current assets | | | |
| Investments | 6 | 667 | 709 |
| Property, plant and equipment | 7 | 40,664 | 42,978 |
| Deferred tax assets | 11 | 2,016 | 930 |
| Total assets | | 107,091 | 105,164 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 16,466 | 15,362 |
| Factoring liabilities | | 1,120 | 1,395 |
| Current portion of long-term debt and finance leases | 8 | 9,805 | 889 |
| | | 27,391 | 17,646 |
| Non-current liabilities | | | |
| Long-term debt and finance leases | 8 | 2,720 | 8,447 |
| | | 30,111 | 26,093 |
| EQUITY | | | |
| Share capital | 10 | 55,688 | 55,688 |
| Equity settled reserve | 10 | 1,570 | 1,468 |
| Retained earnings | | 19,569 | 21,720 |
| Accumulated other comprehensive income | | 153 | 195 |
| Equity attributable to shareholders | | 76,980 | 79,071 |
| Total liabilities and equity | | 107,091 | 105,164 |

APPROVED BY THE BOARD

Éric Alexandre, Director

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, 2016 and 2015
(in thousands of Canadian dollars)
(Unaudited)

| | Notes | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| OPERATING ACTIVITIES | | | | | |
| Loss before income taxes | | (2,609) | (2,345) | (3,159) | (2,252) |
| Items not affecting cash: | | | | | |
| Depreciation of property, plant and equipment | 5 | 2,414 | 2,366 | 5,179 | 4,654 |
| Amortization of intangible assets | | - | 146 | - | 292 |
| Loss (gain) on disposal of property, plant and equipment | 7 | 12 | (7) | - | (24) |
| Gain on disposal of investments | 6 | - | - | (266) | (3) |
| Share-based compensation | 10 | 52 | 39 | 102 | 92 |
| Finance costs | | 236 | 114 | 427 | 220 |
| | | 105 | 313 | 2,283 | 2,979 |
| Changes in non-cash operating working capital items | 12 | 581 | 201 | (615) | 141 |
| Income taxes paid (recovered) | | (93) | 902 | (163) | 842 |
| Finance costs paid | | (234) | (113) | (405) | (204) |
| | | 359 | 1,303 | 1,100 | 3,758 |
| INVESTING ACTIVITIES | | | | | |
| Business acquisition | | - | (577) | - | (577) |
| Proceeds from disposal of investments | 6 | - | - | 352 | 23 |
| Acquisition of property, plant and equipment | 7 | (2,241) | (2,257) | (3,638) | (3,206) |
| Proceeds from disposal of property, plant and equipment | 7 | 816 | 69 | 867 | 86 |
| | | (1,425) | (2,765) | (2,419) | (3,674) |
| FINANCING ACTIVITIES | | | | | |
| Proceeds from factoring | | 1,125 | - | 2,142 | - |
| Repayment on factoring | | (5) | - | (2,417) | - |
| Proceeds from long-term debt and finance leases | | 21,944 | 16,656 | 47,144 | 31,879 |
| Repayment of long-term debt and finance leases | | (20,184) | (14,621) | (43,977) | (31,715) |
| | | 2,880 | 2,035 | 2,892 | 164 |
| Effect of exchange rate changes | | (90) | (6) | (123) | (2) |
| Increase in cash | | 1,724 | 567 | 1,450 | 246 |
| Cash, beginning of the period | | 2,019 | 75 | 2,293 | 396 |
| Cash, end of the period | | 3,743 | 642 | 3,743 | 642 |

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, West Africa and Kazakhstan.

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% |
| Drift Exploration Drilling Inc. | 100% |
| Drift de Mexico SA de CV | 100% |
| Lantech Drilling Services Inc. | 100% |
| Orbit Garant Chile S.A. | 100% |
| Perforación Orbit Garant Chile SpA | 100% |
| Cygnus-Orbit Drilling SpA (wound up into Perforación Orbit Garant Chile SpA as of December 31, 2016) | 100% |
| Orbit Garant Drilling Ghana Limited | 100% |
| Perforación Orbit Garant Peru S.A.C. | 100% |
| OGD Drilling (Guyana) Inc. (since August 16, 2016) | 100% |
| Forage Orbit Garant BF S.A.S. (since October 24, 2016) | 100% |

## 2. 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, 2016 were consistently applied to all periods presented. These interim condensed consolidated financial statements have not been subject to a review engagement by the Company's independent auditors.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 4 in the Company's annual audited consolidated financial statements for the year ended June 30, 2016. They remained unchanged for the three and six-month periods ended December 31, 2016.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the investments, which have been measured at fair value, and are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company operates («functional currency»). All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These 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 2016 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 13, 2017.

## 2. BASIS OF PREPARATION (continued)

### 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 a period are included in the interim condensed consolidated statement of earnings from the effective date of acquisition to the effective date of disposal, as appropriate. Intercompany transactions and balances are eliminated on consolidation.

## 3. STANDARDS AND INTERPRETATIONS ADOPTED

The following standards and amendments to existing standards have been adopted by the Company on July 1, 2016:

### IAS 16 – Property, Plant and Equipment

IAS 16 prohibits entities from using a revenue-based depreciation method for items of property, plant and equipment.

### 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.

### 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.

### IAS 1 – Presentation of Financial Statements

The amendment entitled "*Disclosure Initiative*" comprises several narrow-scope amendments to improve presentation and disclosure requirements in existing standards.

### 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 consolidated financial statements.

## 3. STANDARDS AND INTERPRETATIONS ADOPTED (continued)

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 condensed consolidated financial statements to the other part of the interim condensed consolidated financial report that is available to users on the same terms and at the same time as the interim condensed consolidated financial statements.

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

## 4. RECENT ACCOUNTING PRONOUNCEMENT

The Company has not early adopted the following new standards that have been issued, but are not yet effective:

### 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 years 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 years beginning January 1, 2018, with early adoption permitted.

### IAS 7 – Statement of Cash Flows

The amendment entitled "*Disclosure Initiative - Reconciliation of Liabilities from Financing Activities* " comprises amendments to provide investors with improved disclosures about an entity's debt and movements in debt during the reporting period and its liquidity. The amendments to IAS 7 are effective from years beginning January 1, 2017 without need to provide comparative information when they first apply the amendments, with early adoption permitted.

### IAS 12 – Income Taxes

The amendment entitled "*Recognition of Deferred Tax Assets for Unrealized Losses* " comprises amendments to give guidance that clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments to IAS 12 are effective from years beginning January 1, 2017, with early adoption permitted.

### IFRS 16 – Leases

IFRS 16 specifies the new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. IFRS 16 is effective from years beginning January 1, 2019, with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is applied.

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

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

## 5. EXPENSES BY NATURE

### Detail of the depreciation and amortization expenses

The depreciation expense of property, plant and equipment and the amortization expense of intangible assets have been charged to the interim condensed consolidated statement of loss as follows:

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cost of contract revenue | 2,202 | 2,127 | 4,763 | 4,173 |
| General and administrative expenses | 212 | 385 | 416 | 773 |
| Total depreciation and amortization | 2,414 | 2,512 | 5,179 | 4,946 |

### Principal expenses by nature

Cost of contract revenue, general and administrative expenses, foreign exchange gain and finance costs, by nature are as follows:

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Depreciation and amortization | 2,414 | 2,512 | 5,179 | 4,946 |
| Employee benefits expense | 15,205 | 12,427 | 31,486 | 24,518 |
| Cost of inventory | 7,490 | 4,826 | 13,787 | 10,414 |
| Other expenses | 4,914 | 4,284 | 10,629 | 8,363 |
| Total cost of contract revenue, general and administrative expenses, foreign exchange gain and finance costs | 30,023 | 24,049 | 61,081 | 48,241 |

As at December 31, 2016, an amount of $295 has been accounted as reversal of write-down of inventory (December 31,2015: $nil).

## 6. INVESTMENTS

Changes in investments were as follows:

| | Six-month period ended December 31 2016 | Year ended June 30 2016 |
|---|---|---|
| | $ | $ |
| Investments in public companies, beginning of the period | 709 | 424 |
| Conversion of accounts receivable | 60 | - |
| Disposal of investments | (86) | (51) |
| Change in fair value of available for sale investments | (16) | 336 |
| Investments in public companies, end of the period | 667 | 709 |

The gain on disposal of investments totalling $266 for the six-month period ended December 31, 2016 is included in general and administrative expenses ($3 for the six-month period ended December 31, 2015).

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

## 7. PROPERTY, PLANT AND EQUIPMENT

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

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Acquisition of property, plant and equipment | 2,241 | 2,257 | 3,638 | 3,206 |
| Proceed from disposal of property, plant and equipment | (816) | (69) | (867) | (86) |
| Loss (gain) on disposal of property, plant and equipment | 12 | (7) | - | (24) |

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

## 8. LONG-TERM DEBT AND FINANCE LEASE

| | December 31 2016 | June 30 2016 |
|---|---|---|
| | $ | $ |
| Loan authorized for a maximum amount of $25 million, bearing interest at prime rate plus 1.00%, effective rate as at December 31, 2016 3.70%, maturing December 2017, secured by first rank hypothec on the universality of all present and future assets [(a)] [(b)] | 8,741 | 7,403 |
| Loan authorized for an amount of $2.5 million, bearing interest at prime rate plus 4.50%, effective rate as at December 31, 2016 7.20%, payable in monthly instalments of $60 as from June 2017, maturing December 2020, secured by second rank hypothec on the universality of all present and future assets [(b)] | 2,484 | - |
| Finance leases, bearing interest between 3.34% and 9.77% (June 30, 2016: 3.34% and 29.02%), maturing December 2018 | 1,300 | 1,933 |
| | 12,525 | 9,336 |
| Current portion | (9,805) | (889) |
| | 2,720 | 8,447 |

(a) The rate is variable based on the quarterly calculation of a financial ratio and can vary from prime rate plus 0.50% to 2.25%.

(b) An unamortized amount of $75 ($97 as at June 30, 2016), 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 9). As at December 31, 2016, the Company was compliant with its financial covenants.

On December 31, 2016, the prime rate was 2.70% (2.70% as at June 30, 2016).

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

## 8. LONG-TERM DEBT AND FINANCE LEASE (continued)

As at December 31, 2016, principal payments required in the next years are as follows:

| | Loan | Finance lease | Total |
|---|---|---|---|
| | $ | $ | $ |
| Not more than one year | 9,157 | 723 | 9,880 |
| Later than one year and not later than five years | 2,143 | 577 | 2,720 |
| | 11,300 | 1,300 | 12,600 |

Minimum lease payments are as follows:

| | | Minimum lease payments | | Present value of minimum lease payments |
|---|---|---|---|---|
| | December 31 2016 | December 31 2015 | December 31 2016 | December 31 2015 |
| | $ | $ | $ | $ |
| Not more than one year | 778 | 1,246 | 723 | 1,136 |
| Later than one year and not later than five years | 599 | 1,150 | 577 | 1,097 |
| | 1,377 | 2,396 | 1,300 | 2,233 |
| Less: future finance charges | (77) | (163) | - | - |
| Present value of minimum lease payments | 1,300 | 2,233 | 1,300 | 2,233 |

Long-term debt and finance leases by currency and by term are as follows:

| As at December 31, 2016 | Total | Not more than one year | Later than one but not later than five years |
|---|---|---|---|
| | $ | $ | $ |
| CAN | 11,443 | 9,190 | 2,253 |
| Chilean Pesos (CLP577,193,093) | 1,157 | 690 | 467 |
| | 12,600 | 9,880 | 2,720 |

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

## 9. CAPITAL MANAGEMENT

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

Total managed capital was as follows:

| | December 31 2016 | June 30 2016 |
|---|---|---|
| | $ | $ |
| Long-term debt and finance leases | 12,525 | 9,336 |
| Share capital | 55,688 | 55,688 |
| Equity settled reserve | 1,570 | 1,468 |
| Retained earnings | 19,569 | 21,720 |
| Cash | (3,743) | (2,293) |
| | 85,609 | 85,919 |

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 debts.

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, 2016, as mentioned in Note 8, the Company complied with its covenants (June 30, 2016: the Company was compliant with its financial covenants).

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 regard to capital management remain unchanged from the prior year.

## 10. 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, 2016 | | Year ended June 30, 2016 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Balance, beginning of the period | 35,101,419 | 55,688 | 33,276,519 | 54,411 |
| Shares issued for business acquisition [(a)] | - | - | 1,824,900 | 1,277 |
| Balance, end of the period | 35,101,419 | 55,688 | 35,101,419 | 55,688 |

(a) As at December 30, 2015, the Company issued a total of 1,824,900 common shares for a total amount of $1,277 as part of the consideration for the acquisition of Captagua Ingeniería S.A.

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

10. SHARE CAPITAL (continued)

*Net loss per share*

Diluted net loss per common share was calculated based on net loss divided by the average number of common shares outstanding using the treasury stock method. Stock options are not included in the computation of diluted net loss per share as their inclusion would be anti-dilutive.

| Net loss per share - basic and diluted | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| Net loss available to common shareholders | (1,904) $ | (1,840) $ | (2,151) $ | (2,049) $ |
| Weighted average basic number of common shares outstanding | 35,101,419 | 33,296,355 | 35,101,419 | 33,286,437 |
| Net loss per share - basic and diluted | (0.05) $ | (0.05) $ | (0.06) $ | (0.06) $ |

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

| | December 31, 2016 (6 months) | | December 31, 2015 (6 months) | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | $ | | $ |
| Outstanding at the beginning of the period | 2,877,500 | 1.16 | 2,226,500 | 1.35 |
| Granted during the period | 500,000 | 1.75 | - | - |
| Cancelled during the period | - | - | (21,000) | 4.00 |
| Outstanding at end of the period | 3,377,500 | 1.25 | 2,205,500 | 1.32 |
| Exercisable at end of the period | 1,780,000 | 1.30 | 1,591,000 | 1.28 |

On December 6, 2016, 500,000 stock options have been granted to employees and directors giving the option to purchase a common share for an exercice price of $1.75 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, 2016:

| Range of exercise price $ | Outstanding at December 31, 2016 | Weighted average remaining life (years) | Weighted average exercise price $ | Exercisable at December 31, 2016 | Weighted average exercise price $ |
|---|---|---|---|---|---|
| 0.50 - 1.49 | 2,384,000 | 3.01 | 0.92 | 1,374,000 | 1.01 |
| 1.50 - 2.49 | 976,000 | 4.86 | 1.98 | 388,500 | 2.20 |
| 4.00 | 17,500 | 1.68 | 4.00 | 17,500 | 4.00 |
| | 3,377,500 | | | 1,780,000 | |

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

## 10. SHARE CAPITAL (continued)

During the periods mentioned 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 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Expense related to share-based compensation | 52 | 39 | 102 | 92 |

## 11. INCOME TAXES

The tax rates prescribed by the applicable laws are at 26.90% in 2016 and at 26.63% in 2015.

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Loss before income taxes | (2,609) | (2,345) | (3,159) | (2,252) |
| Statutory rates | 26.90% | 26.63% | 26.90% | 26.63% |
| Income taxes recovery based on statutory rates | (702) | (625) | (850) | (600) |
| Increase (decrease) of income taxes due to the following: | | | | |
| Impact of foreign tax rate differences | 19 | - | - | - |
| Non-deductible expenses and other | (24) | 46 | (16) | 78 |
| Non-deductible share-based compensation expense | 14 | 10 | 27 | 24 |
| Non taxable portion of capital gain | - | - | (39) | - |
| Utilization of unrecognized tax losses | (183) | - | (628) | - |
| Prior year adjustments | - | (12) | - | (12) |
| Income tax asset not recognized | 171 | 76 | 498 | 307 |
| Total income taxes recovery | (705) | (505) | (1,008) | (203) |

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

Changes in non-cash operating working capital items:

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts receivable | 4,151 | 1,847 | 3,470 | 1,764 |
| Inventories | (1,712) | (745) | (5,278) | (3,396) |
| Prepaid expenses | 208 | 47 | 89 | 134 |
| Accounts payable and accrued liabilities | (2,066) | (948) | 1,104 | 1,639 |
| | 581 | 201 | (615) | 141 |

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

## 13. COMMITMENTS AND GUARANTEES

### Commitments

The Company has entered into operating lease agreements expiring in 2019 which call for lease payments of $253 for the rental of vehicles. The Company has also entered into lease agreements for offices expiring in 2021 for minimum lease payments of $1,471. 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:

| | $ |
|---|---|
| 2017 | 499 |
| 2018 | 289 |
| 2019 | 374 |
| 2020 | 356 |
| 2021 | 206 |

### Guarantees

For the six-month period ended December 31, 2016, the Company issued some bank guarantees in favor of customers for a total amount of $966, maturing in December 2017 (June 30, 2016: $885). For the six-month period ended December 31, 2016, the Company has not made any payments in connection with these guarantees (six-month period ended December 31, 2015: $nil).

## 14. 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, in Chilean Pesos and in GHS cedi and is thus exposed to foreign exchange fluctuations. The Company does not actively manage this risk. As at December 31, 2016, the Company has cash in US dollars for an amount of $511 (June 30, 2016, $1,473) and accounts receivable in US dollars for an amount of $645 (June 30, 2016, $640). The Company has cash in Chilean Pesos for an amount of CLP1,316,204,523 (June 30, 2016, CLP292,449,849) and accounts receivable in Chilean Pesos for an amount of CLP1,574,669,325 (June 30, 2016, CLP1,076,241,833). The Company has cash in GHS cedi for an amount of 228,402 (June 30, 2016, 131,758) and accounts receivable in GHS cedi for an amount of 2,454,423 (June 30, 2016, 519,382).

As at December 31, 2016, 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 of $99 (June 30, 2016, $197), a 10% increase or decrease of the Chilean Pesos exchange rate would have caused a corresponding annual increase or decrease in net loss $355 (June 30, 2016, $23) and a 10% increase or decrease of the GHS cedi exchange rate would have caused a corresponding annual increase or decrease in net loss of $238 (June 30, 2016: $66).

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

14. 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, 2016, the amount of the insurance coverage from EDC represents 7% of the accounts receivable (7% as at June 30, 2016).

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.

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 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at beginning of the period | 1,199 | 1,023 | 1,074 | 1,010 |
| Change in allowance, other than write-offs and recoveries | 209 | 478 | 334 | 491 |
| Recoveries | (17) | (4) | (17) | (4) |
| Balance at end of the period | 1,391 | 1,497 | 1,391 | 1,497 |

As at December 31, 2016, 41% (June 30, 2016: 53%) of the trade accounts receivable are aged as current and 8% are impaired (June 30, 2016: 5%).

No major customer represents more than 10% of the trade accounts receivable as at December 31, 2016 (June 30, 2016, one major customer represents 10% of these accounts).

One major customer represents 11% of the contract revenue for the three-month period ended December 31, 2016 (three-month period ended December 31, 2015, three major customers represent 43%).

Two major customers represent 28% of the contract revenue for the six-month period ended December 31, 2016 (six-month period ended December 31, 2015, two major customers represent 43%).

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.

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

14. FINANCIAL INSTRUMENTS (continued)

*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, 2016, 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 $83 for the six-month period (June 30, 2016, $55).

*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.

*Fair value*

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and factoring 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.

*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.

As at December 31, 2016, the investments are classified as a Level 1 financial instrument as the fair value is determined using quoted prices in the active markets.

There were no transfers of amounts between Level 1, Level 2 and Level 3 financial instruments for the periods ended December 31, 2016 and December 31, 2015.

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

## 14. FINANCIAL INSTRUMENTS (continued)

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

The Company enters into receivable purchase agreements (commonly referred to as "factoring agreements") with different banks as part of its normal working capital financing. The Company receives 100% of the value of the specific sales invoice less a charge between 0.46% and 0.52%. As at December 31, 2016, trade receivables include $1,120 related to factored accounts ($1,395 as at June 30, 2016).

| | | | | As at December 31, 2016 |
|---|---|---|---|---|
| | Total | 0 -1 year | 2 - 3 years | 4 - 5 years |
| | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 16,466 | 16,466 | - | - |
| Long-term debt (capital only) | 11,300 | 9,157 | 1,429 | 714 |
| Finance leases | 1,300 | 723 | 520 | 57 |
| | 29,066 | 26,346 | 1,949 | 771 |

## 15. SEGMENTED INFORMATION

The Company is separated into two geographical reportable segments: Canada and International (US, Central, South America, West Africa and Kazakhstan). The elements of the results and the financial situation are divided between the segments, 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 segments 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 operating decision maker is considered as the President and Chief Executive Officer, who evaluates the performance of both segments by the revenues of ordinary activities from external clients and earnings (loss) from operation.

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

15. SEGMENTED INFORMATION (continued)

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

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Contract revenue | | | | |
| Canada | 19,999 | 20,204 | 45,449 | 43,996 |
| International | 7,415 | 1,500 | 12,473 | 1,993 |
| | 27,414 | 21,704 | 57,922 | 45,989 |
| Profit (loss) from operation | | | | |
| Canada | (1,063) | (186) | (164) | 2,649 |
| International | (650) | (957) | (1,573) | (2,686) |
| | (1,713) | (1,143) | (1,737) | (37) |
| General and corporate expenses [1] | 660 | 1,088 | 995 | 1,995 |
| Finance costs | 236 | 114 | 427 | 220 |
| Income taxes recovery | (705) | (505) | (1,008) | (203) |
| | 191 | 697 | 414 | 2,012 |
| Net loss | (1,904) | (1,840) | (2,151) | (2,049) |

[1] General and corporate expenses include expenses for corporate offices, stock options and certain unallocated costs.

| | December 31 2016 (3 months) | December 31 2015 (3 months) | December 31 2016 (6 months) | December 31 2015 (6 months) |
|---|---|---|---|---|
| Depreciation and amortization | | | | |
| Canada | 1,483 | 1,841 | 3,233 | 3,616 |
| International | 719 | 286 | 1,530 | 557 |
| Unallocated and corporate assets | 212 | 385 | 416 | 773 |
| | 2,414 | 2,512 | 5,179 | 4,946 |

| | As at December 31, 2016 | As at June 30, 2016 |
|---|---|---|
| | $ | $ |
| Identifiable assets | | |
| Canada | 75,472 | 76,200 |
| International | 31,619 | 28,964 |
| | 107,091 | 105,164 |
| Property, plant and equipment | | |
| Canada | 29,397 | 31,477 |
| International | 11,267 | 11,501 |
| | 40,664 | 42,978 |