



**Unaudited Interim Condensed Consolidated
Financial Statements**

Second Quarter Fiscal 2019

(For the three and six-month periods ended December 31, 2018 and 2017)

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 earnings (loss)**

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

		December 31 2018 (3 months) \$	December 31 2017 (3 months) \$	December 31 2018 (6 months) \$	December 31 2017 (6 months) \$
Contract revenue	17	33,700	43,033	70,971	85,508
Cost of contract revenue	6	30,787	37,986	62,469	73,720
Gross profit		2,913	5,047	8,502	11,788
Expenses					
General and administrative expenses		4,866	4,290	8,761	8,038
Foreign exchange loss (gain)		(394)	(331)	86	(248)
Finance costs		481	516	888	853
	6	4,953	4,475	9,735	8,643
Earnings (loss) before income taxes		(2,040)	572	(1,233)	3,145
Income tax expense (recovery)	12				
Current		465	(187)	682	473
Deferred		(865)	(93)	(634)	136
		(400)	(280)	48	609
Net earnings (loss)		(1,640)	852	(1,281)	2,536
Net earnings (loss) per share	11				
Basic		(0.04)	0.02	(0.03)	0.07
Diluted		(0.04)	0.02	(0.03)	0.07

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

For the three and six-month periods ended December 31, 2018 and 2017

(in thousands of Canadian dollars)

(Unaudited)

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Net earnings (loss)	(1,640)	852	(1,281)	2,536
Other comprehensive earnings				
Items that may be reclassified subsequently to net earnings (loss)				
Change in fair value on available-for-sale investments	-	(40)	-	(53)
Deferred income tax	-	6	-	7
	-	(34)	-	(46)
Cumulative translation adjustments	(16)	200	(225)	188
Other comprehensive earnings (loss), net of income tax	(16)	166	(225)	142
Comprehensive earnings (loss)	(1,656)	1,018	(1,506)	2,678

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statements of changes in equity

For the three and six-month periods ended December 31, 2018 and 2017

(in thousands of Canadian dollars)

(Unaudited)

Six-month period ended December 31, 2018						Total
	Share capital	Equity settled reserve	Retained Earnings	Accumulated other comprehensive earnings (loss)	Shareholders' Equity	
	\$	\$	\$	\$	\$	\$
	(Note 11)	(Note 11)				
Balance as at July 1, 2018	57,207	1,208	20,609	(88)	78,936	
Impact of adopting IFRS 9	(Note 4)	-	(189)	189	-	
Adjusted balance as at July 1, 2018	57,207	1,208	20,420	101	78,936	
Total comprehensive loss						
Issuance of shares related to a business acquisition	(Note 2)	1,632	-	-	1,632	
Net loss		-	(1,281)	-	(1,281)	
Other comprehensive loss						
Cumulative translation adjustments		-	-	(225)	(225)	
Other comprehensive loss		-	-	(225)	(225)	
Transactions with shareholders, recorded directly in equity						
Share-based compensation	(Note 11)	-	149	-	149	
Total transactions with shareholders		-	149	-	149	
Balance as at December 31, 2018	58,839	1,357	19,139	(124)	79,211	

Six-month period ended December 31, 2017						Total
	Share capital	Equity settled reserve	Retained Earnings	Accumulated other comprehensive earnings	Shareholders' Equity	
	\$	\$	\$	\$	\$	\$
	(Note 11)	(Note 11)				
Balance as at July 1, 2017	57,130	1,178	15,907	49	74,264	
Total comprehensive earnings						
Net earnings		-	2,536	-	2,536	
Other comprehensive earnings						
Change in fair value on available-for-sale investments, net of deferred income tax		-	-	(46)	(46)	
Cumulative translation adjustments		-	-	188	188	
Other comprehensive earnings		-	-	142	142	
Transactions with shareholders, recorded directly in equity						
Issuance of shares related to share-based compensation		65	(20)	-	45	
Share-based compensation		-	120	-	120	
Stock option cancelled		-	(122)	122	-	
Total transactions with shareholders		65	(22)	122	165	
Balance as at December 31, 2017	57,195	1,156	18,565	191	77,107	

See accompanying notes to interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

Interim condensed consolidated statements of financial position

As of December 31, 2018 and June 30, 2018

(in thousands of Canadian dollars)

(Unaudited)

	Notes	December 31 2018	June 30 2018
		\$	\$
ASSETS			
Current assets			
Cash		2,025	4,633
Trade and other receivables		31,079	32,503
Inventories		45,872	39,419
Income taxes receivable		899	944
Prepaid expenses		853	884
		80,728	78,383
Non-current assets			
Loan receivable	15	-	662
Investments	7	396	542
Property, plant and equipment	8	43,765	39,741
Intangible assets	2	1,348	-
Deferred tax assets		4,622	4,010
Total assets		130,859	123,338
LIABILITIES			
Current liabilities			
Trade and other payables		19,018	24,247
Balance payable related to a business acquisition	2	3,472	-
Income taxes payable		478	-
Current portion of long-term debt and finance leases	9	686	812
		23,654	25,059
Non-current liabilities			
Long-term debt and finance leases	9	27,888	19,226
Deferred tax liabilities		106	117
		51,648	44,402
EQUITY			
Share capital	11	58,839	57,207
Equity-settled reserve	11	1,357	1,208
Retained earnings		19,139	20,609
Accumulated other comprehensive loss		(124)	(88)
Equity attributable to shareholders		79,211	78,936
Total liabilities and equity		130,859	123,338

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, 2018 and 2017

(in thousands of Canadian dollars)

(Unaudited)

	Notes	December 31 2018 (3 months) \$	December 31 2017 (3 months) \$	December 31 2018 (6 months) \$	December 31 2017 (6 months) \$
OPERATING ACTIVITIES					
Earnings (loss) before income taxes		(2,040)	572	(1,233)	3,145
Items not affecting cash					
Depreciation of property, plant and equipment	6	2,452	2,182	4,687	4,356
Loss (gain) on disposal of property, plant and equipment	8	4	(15)	(90)	(133)
Share-based compensation	11	75	62	149	120
Finance costs		481	516	888	853
Net change in fair value of investments	7	17	-	207	-
		989	3,317	4,608	8,341
Changes in non-cash operating working capital items	13	(4,650)	(4,391)	(7,583)	(9,638)
Income taxes paid		(239)	(310)	(160)	(442)
Finance costs paid		(572)	(702)	(961)	(1,023)
		(4,472)	(2,086)	(4,096)	(2,762)
INVESTING ACTIVITIES					
Business acquisition of Projet Production International BF S.A.	2	(3,357)	-	(3,357)	-
Acquisition of investments	7	-	(90)	-	(90)
Acquisition of property, plant and equipment	8	(1,873)	(2,198)	(4,436)	(3,542)
Proceeds from disposal of property, plant and equipment	8	10	41	122	363
		(5,220)	(2,247)	(7,671)	(3,269)
FINANCING ACTIVITIES					
Repayment of loan receivable	15	675	628	675	628
Proceeds from issuance of shares		-	45	-	45
Proceeds from factoring		-	8,287	-	10,159
Repayment on factoring		-	(4,543)	-	(5,896)
Proceeds from long-term debt		23,913	23,376	46,391	43,098
Repayment of long-term debt and finance leases		(17,006)	(22,310)	(37,782)	(40,851)
		7,582	5,483	9,284	7,183
Effect of exchange rate changes on cash		(47)	(56)	(125)	(61)
Increase (decrease) in cash		(2,157)	1,094	(2,608)	1,091
Cash, beginning of the period		4,182	1,598	4,633	1,601
Cash, end of the period		2,025	2,692	2,025	2,692

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

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. The percentage of voting rights in its subsidiaries and its associates is as follows:

	% of voting rights
Orbit Garant Drilling Services Inc.	100%
9116-9300 Québec inc.	100%
Drift Exploration Drilling Inc.	100%
Drift de Mexico SA de CV	100%
Orbit Garant Chile S.A.	100%
Orbit Garant Drilling Ghana Limited	100%
Perforación Orbit Garant Peru S.A.C.	100%
OGD Drilling (Guyana) Inc.	100%
Forage Orbit Garant BF S.A.S.	100%
Orbit Miyuu Kaa Drilling Inc.	49%
Sarliaq-Orbit Garant Inc.	49%

2. BUSINESS ACQUISITION

Acquisition of the asset of Projet Production International BF S.A.:

On October 11, 2018, the Company acquired the drilling business of Projet Production International BF S.A., based in Burkina Faso, through an asset purchase agreement for a total purchase price of \$8.3 million (US\$6.4 million). Through the acquisition, the Company has added 13 surface drills, related support equipment, and existing customer contracts in Burkina Faso. The Company has also retained approximately 100 employees, including experienced drillers and support personnel, who will now be based in Orbit Garant BF S.A.'s offices in Ouagadougou. This acquisition significantly strengthens the presence of the Company in Burkina Faso and the broader West African mineral drilling market, positioning the Company to pursue new growth opportunities.

The Company funded the \$8.3 million (US\$6.4 million) purchase price through draws on its Credit Facility and the issuance of common shares of the Company to Projet Production International BF S.A. The cash component of the transaction is \$6.7 million (US\$5.15 million), with \$3.35 million (US\$2.575 million) paid on closing, and \$3.35 million (US\$2.575 million) to be paid 12 months after the closing date. The remaining \$1.6 million (US\$1.25 million) of the purchase price was satisfied through the issuance of 861,637 common shares at a price of \$1.89 per share, from the Company's treasury. The details of the assets acquired amounted approximately to \$2.6 million (US\$2 million) for inventory, \$4.4 million (US\$3.4 million) for property, plant and equipment and 1.3 million (US\$1 million) for intangible assets. The Management expects to finalize the purchase price allocation by the end of the fiscal year ending June 30, 2019.

The results of operations of Projet Production International BF S.A. are included in the interim condensed consolidated financial statements from October 11, 2018.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

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 3 to the Company's annual audited consolidated statements for the year ended June 30, 2018 were consistently applied to all periods presented, except for the adoption of new standards effective July 1, 2018 as described in Note 4. These interim condensed consolidated financial statements have not been subject to a review engagement by the Company's independent auditors.

The preparation of consolidated financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates, assumptions and judgements. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 4 in the Company's annual audited consolidated financial statements for the year ended June 30, 2018. They remained unchanged for the three and six-month periods ended December 31, 2018, except for the business acquisition disclosed in Note 2 of these interim condensed consolidated financial statements, where estimates and assumptions were used to determine the fair value of assets acquired.

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for the investments, which are measured at fair value, and share-based compensation is measured in accordance with IFRS 2, *Share-Based Payment*. They 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 2018 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, 2019.

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 are considered when the Company controls another entity.

Income and expenses of subsidiaries acquired or disposed of during the year 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.

4. STANDARDS AND INTERPRETATIONS ADOPTED

The following standards and amendments to existing standards have been adopted by the Company on July 1, 2018:

IFRS 9 – Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

4. STANDARDS AND INTERPRETATIONS ADOPTED (continued)

The Company has applied IFRS 9 in the current period. The Company has adopted the new standards retrospectively without prior period restatement based on the new classification requirements and the characteristics of each financial instrument at July 1, 2018. The following summarizes the classification and measurement changes for the Company's financial assets and financial liabilities as a result of the adoption of IFRS 9.

Asset/Liability	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value through profit or loss
Loan receivable	Loans and receivables	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Balance payable related to a business acquisition	Other liabilities	Amortized cost
Factoring liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

The accounting for these instruments and the line item in which they are included in the balance sheet were unaffected by the adoption of IFRS 9 with the exception of the Company's investments, which were reclassified from available-for-sale to financial assets measured at fair value through profit or loss ("FVTPL"). Fair value gains and losses on investments are recognized in finance income or finance cost in net earnings. In accordance with transitional provisions, the Company has reflected the retrospective impact of the adoption of IFRS 9 due to change in classification for investments as an adjustment to opening components of equity as at July 1, 2018.

Equity	July 1, 2018		
	As presented	Restatements	As restated
	\$	\$	\$
Retained earnings	20,609	(189)	20,420
Accumulated other comprehensive income (loss)	(88)	189	101
Impact on equity	20,521	-	20,521

The adoption of the new expected credit loss model for calculating impairment did not have any meaningful impact on the measurement of financial assets measured at amortised cost.

IFRS 15 – Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

4. STANDARDS AND INTERPRETATIONS ADOPTED (continued)

The Company has applied IFRS 15 in the current period. The Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. July 1, 2018). The Company used the practical expedient that allows an entity to recognise revenue in the amount to which it has a right to invoice, since the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. As such, there has been no change in the way the Company recognizes revenue. The adoption of IFRS 15 did not have a material impact on the Company's interim condensed consolidated financial statements. The Company believes that the categories used in the Segmented information in Note 17 are the same categories necessary for disaggregation of revenue.

Revenue recognition

Revenue from drilling contracts and ancillary services – which are considered as a single performance obligation – is recognized on the basis of actual metres drilled for each contract, which corresponds to the amount to which the entity has a right to invoice.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

The amendments provide requirements on the accounting for (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. The adoption of the Amendments to IFRS 2 did not have an impact on the Company's interim condensed consolidated statements.

IFRIC Interpretation 22 – Foreign Currency Transaction and Advance Consideration

IFRIC 22 clarifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset and deferred income liability, and that if there are multiple payments or receipt in advance, a date of transaction is established for each payment or receipt. IFRIC Interpretation 22 is effective from years beginning January 1, 2018. The adoption of IFRIC Interpretation 22 did not have an impact on the Company's interim condensed consolidated financial statements.

5. RECENT ACCOUNTING PRONOUNCEMENTS

New standards and interpretations not yet adopted:

IFRS 16 – Leases

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*. The Company is currently evaluating the impact of the adoption of this standard on its interim condensed consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires an entity to (i) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (ii) reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and (iii) measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable). The Company is currently evaluating the impact of the adoption of this standard on its interim condensed consolidated financial statements.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

6. EXPENSES BY NATURE

Detail of the depreciation and amortization expenses

The depreciation expense of property, plant and equipment have been charged to the interim condensed consolidated statement of earnings (loss) as follows:

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Cost of contract revenue	2,222	1,966	4,218	3,927
General and administrative expenses	230	216	469	429
Total depreciation and amortization	2,452	2,182	4,687	4,356

Principal expenses by nature

Cost of contract revenue of \$30,787 (December 31, 2017: \$37,986), general and administrative expenses, foreign exchange loss (gain) and finance costs totalling \$4,953 (December 31, 2017: \$4,475), by nature are as follows:

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Depreciation and amortization	2,452	2,182	4,687	4,356
Employee benefits expense	23,633	21,023	48,648	41,430
Cost of inventories	6,139	9,158	12,935	17,721
Other expenses	3,516	10,098	5,934	18,856
Total cost of contract revenue, general and administrative expenses, foreign exchange loss (gain) and finance costs	35,740	42,461	72,204	82,363

7. INVESTMENTS

	Six month-period ended December 31, 2018	Year ended June 30, 2018
	\$	\$
Investments in public companies, beginning of the period	542	682
Acquisition of investments	-	90
Conversion of trade receivable	61	-
Proceeds from disposal of investments	-	(30)
Change in fair value of available-for-sale investments	-	(200)
Change in fair value of investments measured at fair value through profit or loss	(207)	-
Investments in public companies, end of the period	396	542

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

8. PROPERTY, PLANT AND EQUIPMENT

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

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Acquisition of property, plant and equipment	1,873	2,198	4,436	3,542
Property, plant and equipment related to a business acquisition	4,395	-	4,395	-
Proceed from disposal of property, plant and equipment	(10)	(41)	(122)	(363)
Loss (gain) on disposal of property, plant and equipment	4	(15)	(90)	(133)

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

9. LONG-TERM DEBT

	December 31 2018	June 30 2018
	\$	\$
Loan authorized for a maximum amount of \$35 million (\$30 million before December 12, 2018), bearing interest at prime rate plus 1.50%, effective rate as at December 31, 2018 of 5.45% (June 30, 2018: interest at prime rate plus 2.00%, effective rate of 5.45%), maturing November 2021, secured by a first rank hypothec on the universality of all present and future assets ^{(a) (b) (c)}	26,891	17,954
Loan authorized for an amount of \$2,5 million, bearing interest at prime rate plus 4.50%, effective rate as at December 31, 2018 of 8.45% (June 30, 2018: bearing interest at prime rate plus 4.50%, effective rate of 7.95%), payable in monthly instalments of \$52 as from June 2017, maturing May 2021, secured by a second rank hypothec on the universality of all present and future assets ^(b)	1,502	1,813
Finance leases, bearing interest between 4.50% and 5.99% (June 30, 2018: 3.34% and 5.99%), maturing December 2020	181	271
	28,574	20,038
Current portion	(686)	(812)
	27,888	19,226

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

9. LONG-TERM DEBT (continued)

- (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 \$252 (\$178 as at June 30, 2018), representing financing fees, has been netted against the long-term debt. This amount is being amortized to earnings over the term of the debt, using the effective interest method.
- (c) On December 12, 2018, the Company entered into a Third amended and Restated Credit Agreement with respect to the Credit Facility consisting of a revolving credit facility in the amount of \$35 million until November 2, 2019 and \$30 million thereafter, and a US\$5 million (US\$3 million before December 2018) revolving credit facility. The current term of the Credit Facility expires November 2, 2021. On December 20, 2018, the Company entered into a loan agreement for a term loan in a principal amount of up to US\$5.150 million. No amount was drawn from this loan as at December 31, 2018. The initial drawdown of US\$2.575 million received on January 21, 2019, was used to reduce the Credit Facility balance.

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, 2018, the Company was compliant with its financial covenants (June 30, 2018: the Company was compliant with its financial covenants).

As at December 31, 2018, the prime rate in Canada was 3.95% for Canadian loans (3.45% as at June 30, 2018) and the prime rate in United States was 6.00% for US loans (5.50% as at June 30, 2018).

As at December 31, 2018, principal payments required in the next years are as follows:

	Loan	Finance lease	Total
	\$	\$	\$
Within one year	625	61	686
Later than one year and not later than five years	28,020	120	28,140
	28,645	181	28,826

Minimum lease payments are as follows:

	Minimum lease payments	Present value of minimum lease payments	
		December 31 2018	June 30 2018
	\$	\$	\$
Within one year	71	61	187
Later than one year and not later than five years	126	120	84
	197	181	271
Less: future finance charges	(16)	-	-
Present value of minimum lease payments	181	181	271

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

As at December 31, 2018	Total	Within one year	Later than one but not later than five years
	\$	\$	\$
CAN	25,037	664	24,373
US (US\$2,575,000)	3,513	-	3,513
Chilean Pesos (CLP12,627,854)	24	22	2
	28,574	686	27,888

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

10. CAPITAL MANAGEMENT

The Company includes long-term debt and finance leases, share capital, equity settled reserve, retained earnings, accumulated other comprehensive loss and cash in its definition of capital.

The Company's capital structure is as follows:

	December 31	June 30
	2018	2018
	\$	\$
Long-term debt and finance leases	28,574	20,038
Balance payable related to a business acquisition	3,472	-
Share capital	58,839	57,207
Equity settled reserve	1,357	1,208
Retained earnings	19,139	20,609
Accumulated other comprehensive loss	(124)	(88)
Cash	(2,025)	(4,633)
	109,232	94,341

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, 2018, as mentioned in Note 9, the Company complied with its covenants (June 30, 2018: 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 regards to capital management remain unchanged from the prior year.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

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 must be adopted before their issuance by a resolution of the Board of Directors of the Company.

	Six-month period ended December 31, 2018		Year ended June 30, 2018	
	Number of shares	\$	Number of shares	\$
Common shares				
Balance, beginning of the period	36,147,119	57,207	36,094,919	57,130
Shares issued:				
For share options exercised for business acquisition ^(a)	861,637	1,632	-	-
For share options exercised	-	-	52,200	77
Balance, end of the period	37,008,756	58,839	36,147,119	57,207

^(a) On October 11, 2018, the Company issued 861,637 common shares for an amount of \$1,632 as part of the consideration for the acquisition of the drilling business of Projet Production International BF S.A. (see Note 2).

Net earnings (loss) per share

Diluted net earnings (loss) per common share were calculated based on net earnings (loss) divided by the average number of common shares outstanding using the treasury shares method. For 2018, shares options are not included in the computation of diluted net loss per share as their inclusion would be anti-dilutive.

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
Net earnings (loss) per share - basic				
Net earnings (loss) attributable to common shareholders	(1,640) \$	852	(1,281) \$	2,536 \$
Weighted average basic number of common shares outstanding	36,905,734	36,102,119	36,526,427	36,098,597
Net earnings (loss) per share - basic	(0.04) \$	0.02	(0.03) \$	0.07 \$
Net earnings (loss) per share - diluted				
Net earnings (loss) attributable to common shareholders	(1,640) \$	852	(1,281) \$	2,536 \$
Weighted average basic number of common shares outstanding	36,905,734	36,102,119	36,526,427	36,098,597
Adjustment to average number of common shares - share options	-	668,975	-	662,193
Weighted average diluted number of common shares outstanding	36,905,734	36,771,094	36,526,427	36,760,790
Net earnings (loss) per share - diluted	(0.04) \$	0.02	(0.03) \$	0.07 \$

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

11. SHARE CAPITAL (continued)

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

	December 31, 2018 (6 months)		December 31, 2017 (6 months)	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the period	2,496,500	1.48	2,336,500	1.35
Granted during the period	500,000	1.73	490,000	2.10
Exercised during the period ^(a)	-	-	(47,200)	0.95
Cancelled during the period	-	-	(197,800)	1.25
Outstanding at end of the period	2,996,500	1.52	2,581,500	1.51
Exercisable at end of the period	1,509,735	1.49	1,075,200	1.57

^(a) For the six-month period ended December 31, 2017, the weighted average share price at the date of exercise was \$2.09.

On December 5, 2018, 500,000 share options have been granted to employees and directors giving the option to purchase a common share for an exercise price of \$1.73 per share which represents the fair value of a common share at the date of the grant. These options have a life of 5 years and will vest at a rate of 33% per annum commencing 12 months after the date of the grant.

The following table summarizes information on share options outstanding at December 31, 2018:

Range of exercise price \$	Outstanding at December 31, 2018	Weighted average remaining life (years)	Weighted average exercise price \$	Exercisable at December 31, 2018	Weighted average exercise price \$
0.50 - 1.49	1,206,500	3.09	0.87	814,400	0.95
1.50 - 2.49	1,787,500	3.82	1.95	692,835	2.11
3.50 - 4.49	2,500	0.86	4.00	2,500	4.00
	2,996,500			1,509,735	

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 December 2018	Granted in December 2017
Risk-free interest rate	2.41%	1.62%
Expected life (years)	3	3
Expected volatility (based on historical volatility)	39.77%	40.07%
Expected dividend yield	0%	0%
Fair value of options granted	\$0.55	\$0.66

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

11. SHARE CAPITAL (continued)

During the years 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 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Expense related to share-based compensation	75	62	149	120

12. INCOME TAXES

The tax rates prescribed by the applicable laws were at 26.65% in 2018 and at 26.75% in 2017.

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Earnings (loss) before income taxes	(2,040)	572	(1,233)	3,145
Statutory rates	26.65%	26.75%	26.65%	26.85%
Income taxes based on statutory rates	(536)	153	(321)	844
Increase (decrease) of income taxes due to the following:				
Non-deductible expenses and other	13	211	23	265
Non-deductible share-based compensation expense	20	16	40	32
Difference of income tax rates between territories	12	(18)	17	(30)
Withholdings taxes	74	-	231	-
Income tax assets unrecognized	-	-	-	177
Prior year adjustment	(9)	-	(9)	-
Others	26	(642)	67	(679)
Total income tax expense (recovery)	(400)	(280)	48	609

13. ADDITIONAL INFORMATION RELATING TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital items:

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Trade and other receivables	801	(1,496)	1,350	(11,057)
Inventories	80	927	(3,880)	(2,347)
Prepaid expenses	(52)	38	31	103
Trade and other payables	(5,479)	(3,860)	(5,084)	3,663
	(4,650)	(4,391)	(7,583)	(9,638)

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

14. COMMITMENTS AND GUARANTEES

Commitments

The Company has entered into operating lease agreements expiring in 2020 which call for lease payments of \$27 for the rental of vehicles. The Company has also entered into lease agreements for offices expiring in 2029 for minimum lease payments of \$2,339. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions. The minimum lease payments under these lease agreements for the next five and subsequent years are detailed as follows:

	\$
2019	650
2020	508
2021	138
2022	138
2023	138
Subsequent years	794

Guarantees

For the six-month period ended December 31, 2018, the Company issued some bank guarantees in favor of customers for a total amount of \$929 (for the six-month period ended December 31, 2017: \$1,085), maturing in February 2019. For the six-month periods ended December 31, 2018 and 2017, the Company has not made any payments in connection with these guarantees.

The Company have made available a US\$1.0 million letter of credit to one of its subsidiaries's bank (or approximately CAN\$1.3 million) from the Credit Facility. The purpose of the letter of credit is to provide performance bonds to secure drilling contracts with some of its customers. As at December 31, 2018 and 2017, the subsidiary did not use this guarantee to secure drilling contracts.

15. RELATED PARTY TRANSACTIONS

Transactions with related parties

The Company is related to Dynamitage Castonguay Ltd., a company in which a director has an interest.

On February 28, 2017, the Company granted a loan maturing not later than February 28, 2019, for the amount of \$1,237 to the President and Chief Executive Officer in connection with the exercise of his options to purchase 942,000 shares of Orbit Garant Drilling Inc. The loan bears interest at the rate of 4% annually and is secured by a pledge of shares and a guarantee from 6705570 Canada Inc. On December 15, 2017, the President and Chief Executive Officer repaid an amount of \$628 and the balance of the loan and accrued interest were paid on December 19, 2018 for an amount of \$675. As at December 31, 2018, the loan and accrued interest amounted to \$nil (June 30, 2018: \$662).

Transactions with related parties

During the three and six-month periods ended December 31, 2018 and 2017, the Company entered into the following transactions with its related companies and with persons related to directors:

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
Revenues	\$ 44	\$ 72	\$ 161	\$ 196
Expenses	41	70	78	123

As at December 31, 2018, an amount of \$87 was receivable resulting from these transactions (June 30, 2018: \$769).

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

15. RELATED PARTY TRANSACTIONS (continued)

Transactions with associate parties

During the three and six-month periods ended December 31, 2018 and 2017, the Company entered into the following transactions with its associate parties:

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Revenues	3,896	-	11,359	-

As at December 31, 2018, trade and other receivables included an amount receivable of \$849 from one of its associates (June 30, 2018: \$1,454).

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

Key management personnel and directors' transactions

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

Compensation paid to key management personnel and directors for the three and six-month periods ended December 31, 2018 amounted to \$850 and \$1,171 (\$500 and \$795 for the three and six-month periods ended December 31, 2017).

16. 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.

Fair value

The fair value of cash, trade and other receivables, trade and other payables and balance payable related to a business acquisition 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 of loan receivable approximates its carrying value as the interest rate was established based on market conditions and the interest rates on the market have not changed significantly since the loan was granted.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

16. FINANCIAL INSTRUMENTS (continued)

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, 2018, the investments are classified as a Level 1 financial instrument as the fair value is determined using quoted prices in the active markets and the long-term debt and loan receivable are classified as Level 2 financial instruments as the fair value is determined using the carrying value.

There were no transfers of amounts between Level 1, Level 2 and Level 3 financial instruments for the six-month period ended December 31, 2018.

17. SEGMENTED INFORMATION

The Company is separated into two geographical reportable 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 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 from operation.

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

17. SEGMENTED INFORMATION (continued)

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

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
Contract revenue	\$	\$	\$	\$
Canada	25,170	29,992	55,273	62,164
International ⁽¹⁾	10,128	14,710	18,292	25,318
Inter-segment revenue	(1,598)	(1,669)	(2,594)	(1,974)
	33,700	43,033	70,971	85,508
Profit (loss) from operation				
Canada	(2,500)	757	(517)	4,405
International	1,950	1,084	2,754	1,360
	(550)	1,841	2,237	5,765
General and corporate expenses ⁽²⁾	1,009	753	2,582	1,767
Finance costs	481	516	888	853
Income tax expense (recovery)	(400)	(280)	48	609
	1,090	989	3,518	3,229
Net earnings (loss)	(1,640)	852	(1,281)	2,536
⁽¹⁾ The International operating segment included Chilean revenues as follows :	6,240	11,885	12,937	19,886
⁽²⁾ General and corporate expenses include expenses for corporate offices, share options and certain unallocated costs.				
Depreciation and amortization				
Canada	1,527	1,335	2,993	2,699
International	695	631	1,225	1,228
Total depreciation and amortization included in profit from operation	2,222	1,966	4,218	3,927
Unallocated and corporate assets	230	216	469	429
Total depreciation and amortization	2,452	2,182	4,687	4,356

ORBIT GARANT DRILLING INC.

Notes to interim condensed consolidated financial statements

For the three and six-month periods ended December 31, 2018 and 2017

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

(Unaudited)

17. SEGMENTED INFORMATION (continued)

	As at December 31, 2018	As at June 30, 2018
	\$	\$
Identifiable assets		
Canada	88,470	85,864
Chile	17,500	19,824
International - Other	24,889	17,650
	<u>130,859</u>	<u>123,338</u>
Property, plant and equipment		
Canada	29,488	29,789
Chile	4,705	4,914
International - Other	9,572	5,038
	<u>43,765</u>	<u>39,741</u>
Intangible assets		
International - Other	1,348	-

	December 31 2018 (3 months)	December 31 2017 (3 months)	December 31 2018 (6 months)	December 31 2017 (6 months)
	\$	\$	\$	\$
Non-current assets acquisitions				
Canada	1,242	1,730	3,295	2,826
International	6,134	289	6,449	510
Unallocated and corporate assets	240	179	435	206
	<u>7,616</u>	<u>2,198</u>	<u>10,179</u>	<u>3,542</u>