FORAGE ORBIT GARANT DRILLING

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## THIRD QUARTER FISCAL 2014

**(Three and nine-month periods ended March 31, 2014)**

**May 12, 2014**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") is a review of the results of operations, the liquidity and the capital resources of Orbit Garant Drilling Inc. This discussion contains forward-looking statements. Please see ''Forward-Looking Statements'' for a discussion of the risks, uncertainties and assumptions relating to these statements.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine-month periods ended March 31, 2014; as compared with the corresponding period of the previous year and also with the audited consolidated financial statements and MD&A contained in the Company's annual report for the fiscal year ended June 30, 2013.

The Company's third quarter of fiscal 2014 unaudited interim condensed consolidated financial statements and the accompanying notes were prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars, except when otherwise noted.

In this MD&A, references to the "Company" or to "Orbit Garant" shall mean, as the context may require, either Orbit Garant Drilling Inc. or Orbit Garant Drilling Inc. together with its wholly owned subsidiaries.

This MD&A is dated May 12, 2014. Disclosure contained in this document is current to that date unless otherwise stated.

Percentage calculations are based on numbers in the Financial Statements and may not correspond to rounded figures presented in this MD&A.

Additional information relating to the Company, including the Company's Annual Information Form for the most recently completed fiscal year, can be found on SEDAR at www.sedar.com.

## FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information in order for investors to have a better understanding of a company's future prospects and make informed investment decisions.

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates and assumptions about the markets in which the Company operates; the world economic climate as it relates to the mining industry; the Canadian economic environment; and the Company's ability to attract and retain customers and to manage its assets and operating costs.

Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are discussed in this MD&A. For a more complete discussion of the risk factors that could cause the Company's actual results to materially differ from its current expectations, please refer to the Company's Annual Information Form dated September 26, 2013, accessible via www.sedar.com

## FISCAL 2014 THIRD QUARTER ("Q3 FY2014") SUMMARY

- Revenue was $16.0 million in Q3 FY2014, compared to $23.7 million in the third quarter of fiscal 2013 ("Q3 FY2013")
- Gross margin of (6.7%) compared to 14.5% in Q3 FY2013
- Adjusted gross margin (excluding depreciation expense) was 7.9%, compared to 25.3% in Q3 FY2013
- EBITDA of $(1.1) million compared to $2.9 million in Q3 FY2013
- Net loss of $2.9 million in Q3 FY2014, compared to a net loss of $0.6 million in Q3 FY2013
- 205,441 metres drilled in Q3 FY2014, down from 239,960 metres in Q3 FY2013

Orbit Garant's results in the third quarter of fiscal 2014 and the first nine months of fiscal 2014 have been negatively affected by lower drilling volumes and lower pricing, reflecting the difficult market conditions prevailing in the mineral drilling industry. Many senior and intermediate mining companies have scaled back their drilling programs over the past 12 to 18 months, and junior mining companies have significantly cut their exploration activities due to a lack of capital. Orbit Garant's customers' drilling activity in Q3 FY2014 and the first nine months of fiscal 2014 reflect these broad market trends. The Company continues to control costs, monitor its workforce and manage its capital expenditures to adjust to the current level of business activity.

## CORPORATE OVERVIEW

From its head office in Val-d'Or, Québec, with approximately 600 employees, Orbit Garant manages a fleet of 214 drilling rigs that provide surface and underground drilling services to the mining and exploration industry in Canada and internationally.

Orbit Garant has a comprehensive infrastructure that is vertically integrated with its subsidiary, Soudure Royale, which manufactures drill rigs for the Company and third parties (and so provides the Company with a competitive advantage in the provision of drilling services and equipment). Orbit Garant focuses on "specialized drilling" which refers to those drilling projects that are in remote locations or, in the opinion of Management, because of the scope, complexity or technical nature of the work, cannot be completed by smaller conventional drilling companies.

The Company has two operating segments: Canada (including surface drilling, underground drilling and manufacturing), and International.

For the nine-month period ended March 31, 2014:

- Specialized drilling services, which typically generate a higher gross margin than conventional drilling services, accounted for approximately 41% of the Company's total revenue.
- Approximately 77% of the Company's contract drilling revenues were generated by gold related operations, and approximately 23% were generated by base metal related and other operations.

- Surface and underground drilling services accounted for approximately 59% and 39%, respectively, of the Company's revenues. Orbit Garant's manufacturing subsidiary, Soudure Royale, accounted for the remaining 2% of revenue.

- Orbit Garant operates principally in stable jurisdictions, with approximately 94% of the Company's revenues generated in Canada. The Company also maintains field operations and/or offices in the USA, Mexico, Guyana, Chile (South America) and Liberia (West Africa). Approximately 99% of the Company's revenues were in Canadian dollars, providing currency stability.

- Approximately 72% of Orbit Garant's revenue was generated from major and intermediate mining company projects. Orbit Garant's drilling contracts with major and intermediate customers are typically from one to three years in length.

## BUSINESS STRATEGY

Orbit Garant's goal is to be the leading Canadian-based mineral drilling company. This will be achieved through the pursuit of both domestic and international opportunities and through the provision of best-in-class underground and surface drilling services, equipment and personnel for all stages of the mining and minerals business, including exploration, development and production. The Company employs the following business strategies:

- Focus primarily on major and well financed intermediate mining and exploration companies operating in stable jurisdictions;
- Provide conventional, specialized and geotechnical drilling services;
- Manufacture drills and equipment to fit the needs of customers;
- Maintain a commitment to Research and Development ("R&D") and advanced drilling technologies, such as the Company's current implementation of computerized monitoring and control technologies;
- Provide training for the Company's personnel to continuously improve labour efficiency and the availability of a skilled labour force;
- Maintain a high level of safety standards in the work environment and promote protection of the environment;
- Establish and maintain long-term relationships with customers;
- Cross-sell drilling services to existing customers;
- Expand its base of operations in strategic regions; and
- Evaluate strategic acquisition opportunities to enhance value for the Company's stakeholders.

## INDUSTRY OVERVIEW

Orbit Garant provides drilling services to the minerals industry through all stages of mine development, from exploration through production. The client mining companies consist of majors (or seniors), intermediates, and junior exploration companies. Demand for drilling services is driven by conditions in the global markets for ferrous (iron) and non-ferrous (precious and base metals) metals. The strength of demand is determined primarily by metals prices and the availability of capital for mining companies to finance exploration (particularly in the case of juniors) and development programs, and/or ongoing mining operations.

### Gold

Gold prices are influenced by global investment demand, global demand for gold jewelry; and to a much lesser extent, demand from industrial applications. Following a historical 10-year price rally in the price of gold that started in 2001, and resulted in a peak spot price of US$1,895.00 per ounce in September 2011, the price of gold entered a period of decline starting in January 2013, when it was at approximately US$1,700 per ounce and declining to approximately US$1,200 per ounce in December 2013. At the time of this report, the price of gold was just over US$1,290 per ounce.

### Base Metals

Base metals' price performance generally reflects global economic conditions, as these metals are used primarily in infrastructure, industrial and manufacturing applications. Demand from emerging markets, particularly China and India, has a major influence on base metals markets. As emerging markets advance their economic development, their infrastructure and industrial bases expand. Further, residents typically become more affluent, driving increased demand for manufactured goods.

Aluminum, copper, lead, nickel and zinc are the primary industrial metals. At the time of this report, prices for aluminum and copper were lower than 12 months ago, while the prices of lead, nickel and zinc were higher. The spot price for copper, the base metal widely considered to be the most sensitive to macroeconomic activity, was just over US$3.10 per pound a year ago and at the time of this report was just over US$3.05 per pound. Current spot prices for each of the primary industrial metals remain above their respective trailing five-year price lows.

### Iron Ore

Iron ore prices are determined by the global demand for steel, as more than 95% of mined iron ore is used to make steel. As the world's largest steel consumer, China is widely regarded as having the most influence on global iron ore market prices. Continuing urbanization of the world's population, particularly in China and India, the world's most populous countries, is fuelling global steel consumption, with demand expected to double by 2050. In Canada, there has been a recent surge in exploration activity in the Labrador Trough region of Quebec and Labrador, which may impact future supply and prices as some of these projects come into production. The spot price of iron ore is affected in the short term by seasonal effects, short term mismatches between supply and demand and other factors. At the time of this report, spot price for iron ore was just over US$100 per tonne. While current spot prices for iron ore are below the record spot price levels of over US$190 reached in 2011, they remain well above the trailing five-year price lows.

### Market Participants

The past 12 to 18 month period has been challenging for intermediate and junior mining companies needing to raise capital, resulting in budget restraints and reduced exploration and development programs. Further, the rising costs of mineral production, caused by higher operating and construction costs, together with recent declines in metals prices, that caused some senior and well financed intermediate mining companies to scale back their existing drilling programs in 2013, have resulted in further cost res traints in 2014 and in many instances, planned drilling programs have been delayed or further reduced. These trends are expected to continue in the near term.

## OVERALL PERFORMANCE

### Results of operations

| THIRD QUARTER ENDED MARCH 31 * ($millions) | Fiscal 2014 3rd Quarter | Fiscal 2013 3rd Quarter | 2014 vs. 2013 Variation | Variation (%) |
|---|---|---|---|---|
| **Revenue *** | **16.0** | 23.7 | **(7.7)** | **(32.7)** |
| **Gross profit (loss) *** | **(1.1)** | 3.4 | **(4.5)** | **(131.0)** |
| **Gross margin (%)** | **(6.7)** | 14.5 | | **(21.2)** |
| **Adjusted gross margin (%) (1)** | **7.9** | 25.3 | | **(17.4)** |
| **EBITDA * (2)** | **(1.1)** | 2.9 | **(4.0)** | **(136.6)** |
| **Metres drilled** | **205,441** | 239,960 | **(34,519)** | **(14.4)** |
| **Net earnings (loss)*** | **(2.9)** | (0.6) | **(2.3)** | **(367.8)** |
| **Net earnings (loss) per common share - Basic ($)** | **(0.09)** | (0.02) | | |
| **- Diluted ($)** | **(0.09)** | (0.02) | | |

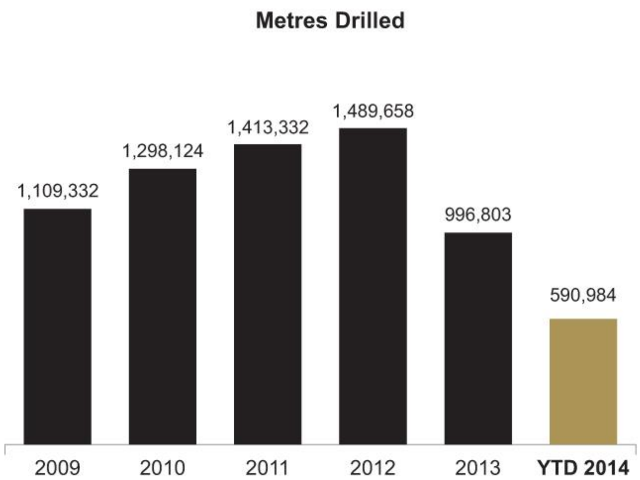
(1) Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"
(2) EBITDA = Earnings before interest, taxes, depreciation and amortization. See "Reconciliation of non-IFRS financial measures"

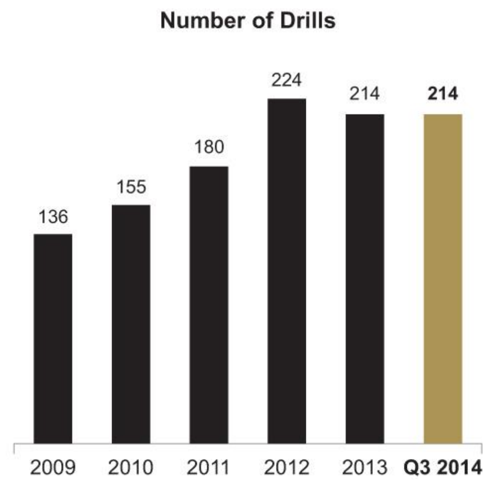
### Contract Revenue

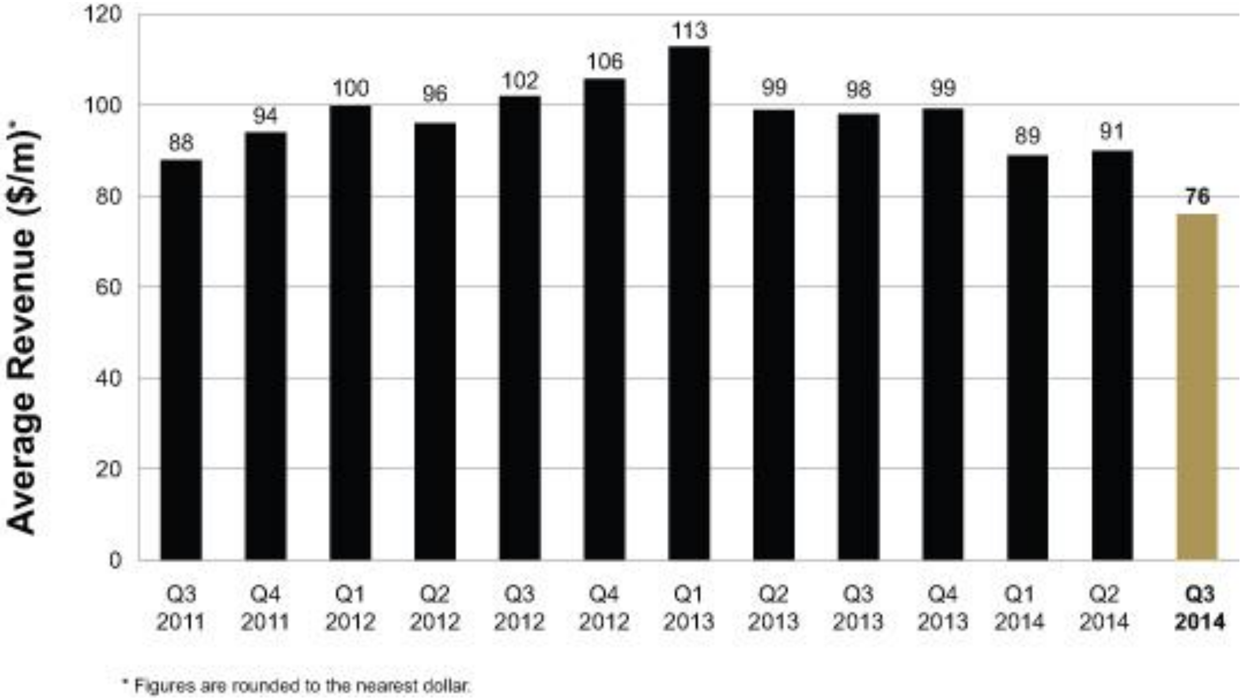
| Segmented Information * ($ millions) | Three months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2014 | | | March 31, 2013 | | |
| | Revenue ($) | Gross profit ($) | Gross margin (%) | Revenue ($) | Gross profit ($) | Gross margin (%) |
| **Drilling Canada *** | 15.2 | (0.5) | (3.4) | 23.3 | 4.0 | 17.4 |
| **Drilling International *** | 0.8 | (0.6) | (70.1) | 0.4 | (0.6) | (166.1) |
| | **16.0** | **(1.1)** | **(6.7)** | **23.7** | **3.4** | **14.5** |

During Q3 FY2014, Orbit Garant drilled 205,441 metres, a 14.4% decrease from 239,960 metres drilled during Q3 FY2013. The decline in metres drilled reflects decreased demand from customers. Further, a number of Orbit Garant's recent drilling contracts are for shorter durations and for a lower number of metres as compared to the Company's more typical historical contracts. The Company's average revenue per metre drilled in Q3 FY2014 was $76.06 compared to $97.80 in Q3 FY2013, a decrease of 22.2%. The decline in average revenue per metre drilled is attributable to a number of factors, including: current conditions in the minerals industry, which has resulted in pricing pressure from customers; a significant decline in the Company's specialized drilling during the quarter which is typically charged at a higher rate.

The size of the Company's drill fleet remained stable at 214 drill rigs at the end of Q3 FY2014, as Soudure Royale manufactured one new computerized drill rig for the Company, and dismantled one drill rig. The Company currently has 20 drill rigs outfitted with its computerized monitoring and control technology.




## ANALYSIS OF THE THIRD QUARTER OF FISCAL 2014 COMPARED TO THIRD QUARTER OF FISCAL 2013

### Contract Revenue

Revenue for Q3 FY2014 totaled $16.0 million, a decrease of $7.7 million, or 32.7%, from $23.7 million in Q3 FY2013. The decrease was primarily attributable to lower average revenue per metre drilled and a decline in metres drilled, as discussed above, reflecting weakened industry-wide demand for mineral drilling services.

Drilling Canada revenue was $15.2 million in Q3 FY2014, compared to $23.3 million in Q3 FY2013, representing a decrease of $8.1 million, or 35.0%. The decrease was primarily attributable to lower average revenue per metre drilled and a decline in metres drilled during the quarter.

Drilling International revenue was $0.8 million in Q3 FY2014, compared to $0.4 million in Q3 FY2013, an increase of $0.4 million, reflecting increased activity with one of the Company' s international customers during the period

**Gross Profit / Loss and Margins (see Reconciliation of non-IFRS measures)**

Gross loss for Q3 FY2014 was $1.1 million compared to gross profit of $3.4 million in Q3 FY2013. Gross margin for Q3 FY2014 was (6.7%) compared to 14.5% in the third quarter a year ago. In accordance with IFRS, depreciation expenses totalling $2.3 million are included in cost of contract revenue for Q3 FY2014, compared to $2.6 million in Q3 FY2013. Adjusted gross margin, excluding depreciation expenses, decreased to 7.9% in Q3 FY2014 from 25.3% in Q3 FY2013. The decline in gross profit, gross margin and adjusted gross margin in the quarter is attributable to lower average revenue per metre drilled, reduced metres drilled, employee-related fixed costs on a lower revenue base, severe weather conditions during the period, which resulted in higher fuel and maintenance costs, and a decline in driller productivity on certain project sites.

Drilling Canada's gross loss was $0.5 million, a decrease of $4.5 million, from gross profit of $4.0 million in Q3 FY2013, reflecting lower average revenue per metre drilled, reduced metres drilled, and lower margins as discussed above. The reduction of specialized drilling activities, which is typically higher margin, also contributed to the decline of gross profit and margin.

Drilling International's gross loss totalled $0.6 million, the same as Q3 FY2013. Despite increase of revenue in Q3 FY2014, margin was reduced due to market conditions.

**General and Administrative Expenses**

General and administrative ("G&A") expenses were $2.9 million (18.1% of revenue) in Q3 FY2014, compared to $3.8 million (16.0% of revenue) in Q3 FY2013.

Adjusted G&A expenses, excluding depreciation and amortization expenses of $0.4 million, were $2.5 million (15.6% of revenue) in Q3 FY2014, compared to adjusted G&A expenses, excluding depreciation and amortization expenses of $0.7 million from $3.1 million (13.0% of revenue) in Q3 FY2013. The decrease in G&A expenses and adjusted G&A expenses resulted from the actions taken by the Company to reduce expenses due to current market conditions.

**EBITDA (see Reconciliation of non-IFRS measures)**

EBITDA was $(1.1) million in Q3 FY2014, compared to $2.9 million (12.3% of revenue) in the third quarter a year ago, a decrease of $4.0 million. The decline is primarily attributable to decreased domestic drilling revenue and lower gross margins, as discussed above.

**Financial Expenses**

Interest costs related to long-term debt and bank charges were $0.2 million in Q3 FY2014, compared to $0.3 million in Q3 FY2013.

### Income Tax Expenses (recovery)

Income tax recovery was $1.1 million in Q3 FY2014, compared to $0.1 million of income tax recovery in the third quarter of fiscal 2013, attributable to the reduction in net earnings.

### Net Earnings (loss)

Net loss in Q3 FY2014 was $2.9 million, or $(0.09) per common share (basic and diluted), compared to a net loss of $0.6 million, or $(0.02) per share common (basic and diluted) in Q3 FY2013. Reduced domestic drilling revenue, and lower gross margins, as discussed above, contributed to the Company's increased net loss for the quarter.

## NINE MONTHS ENDED MARCH 31, 2014 COMPARED TO NINE MONTHS ENDED MARCH 31, 2013

| NINE MONTHS ENDED MARCH 31 * ($ millions) | 2014 | 2013 | Variation | Variation (%) |
|---|---|---|---|---|
| **Revenue *** | 51.3 | 82.8 | (31.5) | (38.1) |
| **Gross profit (loss) *** | 2.0 | 13.2 | (11.2) | (84.5) |
| **Gross margin (%)** | 4.0 | 16.0 | | (12.0) |
| **Adjusted gross margin (%)** (1) | 17.7 | 25.0 | | (7.3) |
| **EBITDA *** (2) | 1.5 | 12.3 | (10.8) | (87.7) |
| **Meters drilled** | 590,984 | 785,345 | (194,361) | (24.7) |
| **Net earnings (loss) *** | (5.5) | 1.1 | (6.6) | (600.5) |
| **Net earnings (loss) per common shares - Basic ($)** | (0.17) | 0.03 | | |
| **- Diluted ($)** | (0.17) | 0.03 | | |

(1) Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"
(2) EBITDA = Earnings before interest, taxes, depreciation and amortization. See "Reconciliation of non-IFRS financial measures"

### Contract Revenue

| Segmented Information * ($ millions) | Nine months ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2014 | | | March 31, 2013 | | |
| | Revenue ($) | Gross profit ($) | Gross margin (%) | Revenue ($) | Gross profit ($) | Gross margin (%) |
| **Drilling Canada *** | 48.2 | 2.7 | 5.7 | 77.3 | 13.7 | 17.8 |
| **Drilling International *** | 3.1 | (0.7) | (22.7) | 5.5 | (0.5) | (9.0) |
| | **51.3** | **2.0** | **4.0** | **82.8** | **13.2** | **16.0** |

Revenues totalled $51.3 million for the nine-month period ended March 31, 2014, a decrease of $31.5 million, or 38.1%, from $82.8 million during the comparable period in fiscal 2013. Drilling Canada revenues totalled $48.2 million, a decrease of $29.1 million from $77.3 million for the same period last fiscal year. Drilling International revenues were $3.1 million, down from $5.5 million in the comparable period last fiscal year. Lower revenue in the first nine months of fiscal 2014 was attributable to lower average revenue per metre drilled and a decline in metres drilled, as noted in the discussion pertaining to Orbit Garant's results for the three-month period ended March 31, 2014. These factors reflect the industry-wide decline in demand for mineral drilling services.

**Gross Profit / Loss and Margins (see Reconciliation of non-IFRS measures)**

Gross profit for the first nine months of fiscal 2014 was $2.0 million, a decrease of $11.2 million from $13.2 million in the comparable period last fiscal year. Gross margin was 4.0% compared to 16.0% for comparable period in fiscal 2013. Adjusted gross margin, excluding depreciation expenses, decreased to 17.7% for the nine-month period ended March 31, 2014, compared to 25.0% for the comparable period last fiscal year. The decrease in gross profit, gross margin and adjusted gross margin is primarily attributable to lower average revenue per metre drilled, decreased metres drilled, contract revenue mix (higher proportion of underground drilling and less specialized drilling, which is typically higher margin) and severe weather conditions in Canada in Q3 FY2014 , which resulted in higher fuel and maintenance costs, and a decline in driller productivity on certain project sites.

Drilling Canada's gross profit totalled $2.7 million, a decrease of $11.0 million from $13.7 million for the same period last fiscal year, attributable to the factors discussed above.

Drilling International's gross loss totalled $0.7 million, compared to a gross loss of $0.5 million for the same period last fiscal year, a decrease of $0.2 million. The decrease primarily attributable to the decreased metres drilled.

**General and Administrative Expenses**

G&A expenses were $9.1 million (17.7% of revenue) in the nine-month period ended March 31, 2014, compared to $10.5 million (12.7% of revenue) for the comparable period last year. A one-time gain of $0.8 million associated to a reversal of a portion of a contingent earn-out consideration in Q2 FY2013 reduced G&A expenses for the nine-month period ended March 31, 2013 by $0.8 million.

Adjusted G&A expenses, excluding amortization and depreciation expenses of $1.3 million, were $7.8 million (15.1% of revenue) for the nine-month period ended March 31, 2014, compared to adjusted G&A expenses, excluding amortization and depreciation expenses of $2.2 million, and the $0.8 million gain from the reversal of a portion of a contingent earn-out consideration in Q2 FY2013, of $9.2million (11.1% of revenue) in the comparable period last fiscal year. Lower G&A and adjusted G&A expenses resulted from the actions taken by the Company to reduce expenses due to the current decline in drilling activities.

**EBITDA (see Reconciliation of non-IFRS measures)**

EBITDA was $1.5 million for the nine-month period ended March 31, 2014, compared to $12.3 million in the comparable period last fiscal year, a decrease of $10.8 million. EBITDA for the nine-month period ended March 31, 2014, represented 2.9% of sales, compared to 14.8% of sales in the comparable period last fiscal year.

**Financial Expenses**

Interest costs related long-term debt and bank charges were $0.6 million in the nine-month period ended March 31, 2014, compared to $0.9 million for the first nine months of fiscal 2013.

### Income Tax Expenses (recovery)

Income tax recovery was $1.9 million in the nine-month period ended March 31, 2014, compared to $0.6 million of income taxes for the comparable period in fiscal 2013. The decline in income taxes resulted from the Company's net loss.

### Net Earnings (loss)

Net loss for the nine-month period ended March 31, 2014, was $5.5 million, or $(0.17) per common share (basic and diluted), compared to net earnings of $1.1 million, or $0.03 per share (basic and diluted), in the comparable period last fiscal year. Reduced drilling revenue, and lower gross margins, as discussed above, contributed to the Company's increased net loss, partially offset by lower interest costs and a $1.9 million tax recovery.

## SUMMARY OF QUARTERLY RESULTS

| * ($millions) | | Fiscal 2014 | | | Fiscal 2013 | | | | Fiscal 2012 |
|---|---|---|---|---|---|---|---|---|---|
| | | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 |
| Contract revenue * | | **16.0** | 16.8 | 18.5 | 21.4 | 23.7 | 24.2 | 34.9 | 43.6 |
| Gross profit (loss)* | | **(1.1)** | 1.1 | 2.0 | 2.3 | 3.4 | 2.9 | 6.9 | 7.7 |
| Gross margin % | | **(6.7)** | 6.8 | 10.7 | 10.6 | 14.5 | 11.9 | 19.8 | 17.7 |
| Adjusted Gross margin % (1) | | **7.9** | 20.5 | 23.5 | 21.9 | 25.3 | 22.2 | 26.8 | 22.6 |
| Net earnings (loss) * | | **(2.9)** | (1.5) | (1.1) | (27.6) | (0.6) | (0.3) | 2.0 | 1.3 |
| Net earnings (loss) per common share ($) | - Basic | **(0.09)** | (0.05) | (0.03) | (0.83) | (0.02) | (0.01) | 0.06 | 0.04 |
| | - Diluted | **(0.09)** | (0.05) | (0.03) | (0.83) | (0.02) | (0.01) | 0.06 | 0.04 |

(1) Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Cash flow from operations, before non-cash operating working capital items, was $(0.9) million in Q3 FY2014, compared to $2.9 million in Q3 FY2013.

The change in non-cash operating working capital items was an inflow of $1.0 million in Q3 FY2014, compared to an outflow of $2.8 million in Q3 FY2013.

### Investing Activities

Cash used in investing activities, primarily for the acquisition of property, plant and equipment, totalled $0.9 million in Q3 FY2014, compared to $1.2 million in Q3 FY2013.

## Financing Activities

During Q3 FY2014, the Company used a net amount of $0.2 million on its $40.0 million revolving Credit Facility, compared to the use of $1.6 million in Q3 FY2013. As at March 31, 2014, the Company's long-term debt, including the current portion, was $10.7 million, compared to $14.8 million as at June 30, 2013. The debt was used to support operating activities and the acquisition of capital assets, including property, plant and equipment.

As at March 31, 2014, the Company's working capital was $36.4 million, compared to $51.2 million as at June 30, 2013. The Company's working capital requirements primarily fund inventory acquisition and support account receivables.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital requirements and debt obligations. The Company's principal capital expenditures are related to the acquisition of drill rigs and property, plant and equipment.

## Source of Financing

The Company's primary sources of liquidity are from operations and borrowings under a credit agreement between the Company and National Bank of Canada Inc. (the "Credit Agreement") and also equity financing. On May 27, 2011, Orbit Garant obtained a $40.0 million secured, four-year revolving credit facility (the "Credit Facility"). Orbit Garant and its lenders have the option to increase the funds available under the Credit Facility up to a total of $60.0 million, subject to certain conditions. The Credit Facility will be used to fund working capital requirements and provide further flexibility to the Company's long-term acquisition program. This Credit Facility matures no later than May 27, 2015. As at March 31, 2014, the Company had drawn $10.5 million on this Credit Facility ($14.4 million as at June 30, 2013).

The Credit Agreement contains covenants that limit the Company's ability to undertake certain actions, including mergers, liquidations, dissolutions and changes of ownership; the incurrence of additional indebtedness; encumbering the Company's assets; guarantees, loans, investments and acquisitions that may be made by the Company; investing in or entering into derivative instruments, paying dividends and/or making other capital distributions to related parties; making capital expenditures; and making certain asset sales.

The Company has determined that it was in breach of certain financial covenants under its Senior Credit Facility at March 31, 2014, due to the decline in the Company's EBITDA because of the difficult market conditions experienced during the quarter. As a result, the non-current portion of the Credit Facility was required to be classified as a current liability as at March 31, 2014. Subsequent to quarter end, the Company entered into an amendment to the Credit Facility that waives these breaches and, going forward, reduces the size of the Credit Facility to $30 million and revises certain of the financial covenants. The revised financial covenants include the requirement to maintain a Senior Debt to EBITDA ratio of not more than 3.00 to 1.00 (up from 2.00 to 1.00) and a fixed charge coverage ratio that excludes, for the quarter ended March 31, 2014, the balloon capital payment due under the Credit Facility at maturity. However, unless the fixed charge coverage ratio is further amended to exclude the balloon capital payment from the test for future periods, in addition to the quarter ended March 31, 2014, the Company expects that it will be in breach of the fixed charge coverage ratio as at June 30, 2014. The Company is currently discussing this issue with its lenders with a view to further amending the Credit Facility prior to June 30, 2014 in a way that will allow the Company to avoid being in breach of the fixed charge coverage ratio as at June 30, 2014.

**OUTSTANDING SECURITIES AS OF MAY 12, 2014**

| | |
|---|---|
| **Number of common shares** | **33,276,519** |
| **Number of options** | **3,832,500** |
| **Fully diluted** | **37,109,019** |

## SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The Company's unaudited 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, 2013 were consistently applied to all periods presented, except for accounting policies affected by standards and interpretations adopted on July 1st, 2013, as described below. These interim condensed consolidated financial statements have not been subject to a review engagement by the Company's external 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 consolidated financial statements for the year ended June 30, 2013 and remained unchanged for the three and six-month period ended December 31, 2013.

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

These unaudited interim condensed consolidated financial statements were approved for issue by the Board of Directors of Orbit Garant Drilling Inc. on May 12, 2014.

### Principles of Consolidation

The Company's unaudited interim condensed consolidated financial statements incorporate the Company's financial statements and entities controlled by the Company. A subsidiary is an entity controlled by the Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, independently of its percentage of participation. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when the Company controls another entity.

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

## STANDARDS AND INTERPRETATIONS ADOPTED

The following standards and amendments to existing standards have been adopted by the Company on July 1, 2013:

**IFRS 10 – Consolidated Financial Statements**
IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements* and provides additional guidance regarding the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

**IFRS 11 – Joint Arrangements**
IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, with guidance that focuses on the rights and obligations of the arrangement, rather than its legal form. It also withdraws the option to proportionately consolidate an entity's interests in joint ventures. The new standard requires that such interests be recognized using the equity method.

**IFRS 12 – Disclosure of Interests in Other Entities**
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet vehicles.

**IFRS 13 – Fair value measurements**
IFRS 13 defines fair value, requires the disclosure of estimates at fair value and provides guidance on measuring fair value when required or permitted to do so according to the IFRS standards.

**IFRS 7 - Financial instruments - Disclosure**
IFRS 7 is amended to include obligations of qualitative and quantitative information related to gross and net amounts recognized in the financial statements that, a) are subject to an offset in the Statement of financial position and b) are subject to a master netting agreement or similar agreement enforceable even if they are not netted in the Statement of financial position.

**IAS 19 - Employee benefits**
IAS 19 is amended to eliminate the application of the so-called «corridor» method that has the effect of deferring the recognition of gains and losses to simplify the presentation of changes in assets and liabilities arising from defined benefit plans and improve disclosures for defined benefit plans.

**IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures**
IAS 27 and IAS 28 are amended and renamed to be consistent with the publication of IFRS 10, 11 and 12.

**The International Accounting Standards Board issued a collection of amendments to IFRS as follows:**

IFRS 1, *First-time adoption of IFRS* («IFRS 1») related to repeated application of IFRS 1 and to borrowing costs.

IAS 1, *Presentation of Financial Statements*, related to clarification of the requirements for comparative information.

IAS 16, P*roperty, Plant and Equipment*, related to classification of servicing equipment.

IAS 32, *Financial Instruments*: Presentation, related to tax effect of distribution to holders of equity instruments.

IAS 34, *Interim Financial Reporting*, related to interim financial reporting and segment information for total assets and liabilities.

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

## RECENT ACCOUNTING PRONOUNCEMENT

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

**IFRS 9 – Financial Instruments**
IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of non-derivative financial instruments and its related classification and measurement. IFRS 9 is effective from periods beginning January 1, 2018 with early adoption permitted.

**IAS 32 - Financial Instruments - Presentation**
IAS 32 is amended to provide clarification on the application of rules to offset financial assets and financial liabilities. The following notions are clarified: legally enforceable right to offset, application of simultaneous realization or settlement, offsetting a guaranteed amount and the unit of accounting for application of the offsetting obligations. Amended IAS 32 is applicable for the period beginning on, or after January 1, 2014 and must be presented retrospectively.

**IAS 36 - Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets**
IAS 36 is amended to address the disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. Amended IAS 32 is applicable for the beginning on, or after January 1, 2014, with an earlier application permitted.

**IFRIC 21 – Levies**
IFRIC Interpretation 21 considers how an entity should account for levies imposed by governments, other than income taxes, in its financial statements. IFRIC Interpretation 21 is applicable for the periods beginning on, or after January 1, 2014, with an earlier application permitted.

The following amendments to the standards have been issued by the IASB and are applicable to the Company for its annual periods beginning on July 1, 2014 and thereafter, with an earlier application permitted:

**Annual improvements to IFRS (2010-2012 Cycle), which including among others**

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

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

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

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

**Annual improvements to IFRS (2011-2013 Cycle), which including among others**

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

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

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

## RECONCILIATION OF NON - IFRS FINANCIAL MEASURES

Financial data has been prepared in conformity with IFRS. However, certain measures used in this discussion and analysis do not have any standardized meaning under IFRS and could be calculated differently by other companies. The Company believes that certain non-IFRS financial measures, when presented in conjunction with comparable IFRS financial measures, are useful to investors and other readers because the information is an appropriate measure for evaluating the Company's operating performance. Internally, the Company uses this non-IFRS financial information as an indicator of business performance. These measures are provided for information purposes, in addition to, and not as a substitute for, measures of financial performance prepared in accordance with IFRS.

**Non-IFRS Financial Measures**

<u>EBITDA:</u> Earnings (loss) before interest, taxes, depreciation and amortization.

<u>Adjusted gross margin:</u> Contract revenue less operating costs. Operating expenses comprise material and service expenses, personnel expenses, and other operating expenses, excluding depreciation.

## EBITDA

### Reconciliation of EBITDA

| (unaudited)<br>(in millions of dollars) | 3 months ended March 31, 2014 | 3 months ended March 31, 2013 | 9 months ended March 31, 2014 | 9 months ended March 31, 2013 |
|---|---|---|---|---|
| **Net (loss) earnings for the period** | **(2.9)** | (0.6) | **(5.5)** | 1.1 |
| **Finance costs** | **0.2** | 0.3 | **0.6** | 0.9 |
| **Income tax expense (recovery)** | **(1.1)** | (0.1) | **(1.9)** | 0.6 |
| **Depreciation and amortization** | **2.7** | 3.3 | **8.3** | 9.7 |
| **EBITDA (negative)** | **(1.1)** | 2.9 | **1.5** | 12.3 |

### Adjusted Gross Margin

Although adjusted gross margin is not a recognized financial measure defined by IFRS, it is a widely recognized measure in the mineral drilling industry. As a result, management believes it provides a useful and comparable benchmark for evaluating the Company's performance.

| (unaudited)<br>(in millions of dollars) | 3 months ended March 31, 2014 | 3 months ended March 31, 2013 | 9 months ended March 31, 2014 | 9 months ended March 31, 2013 |
|---|---|---|---|---|
| **Contract revenue** | **16.0** | 23.7 | **51.3** | 82.8 |
| **Cost of contract revenue (including depreciation)** | **17.0** | 20.3 | **49.2** | 69.6 |
| **Less depreciation** | **(2.3)** | (2.6) | **(7.0)** | (7.5) |
| **Direct costs** | **14.7** | 17.7 | **42.2** | 62.1 |
| **Adjusted gross profit** | **1.3** | 6.0 | **9.1** | 20.7 |
| **Adjusted gross margin (%)** [1] | **7.9** | 25.3 | **17.7** | 25.0 |

[1] Adjusted gross profit, divided by Contract revenue X 100

## RISK FACTORS

The following are certain factors relating to the Company's business and the industry within which it operates. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and should be read in conjunction with, the detailed information appearing elsewhere in this report and in the Company's Annual Information Form dated September 26, 2013. These risks and uncertainties are not the only ones relevant to the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, liquidity and results of operations of the Company could be affected materially and adversely.

## Ongoing Integration of business systems

The Company has recently installed new operating information and technology systems. These systems are designed to improve the business operations and management oversight. However, there may be a level of disruption to the business with incorrect information produced and relied upon while implementation and training are being completed and Management's attention may be diverted to ensuring the successful integration of the new technology during this process. The Company's financial performance, financial condition, cash flows and growth prospects may be adversely affected by any implementation problems associated with the business systems.

## Risk Related to Structure and Common Shares

### *Equity Market Risks*

There is a risk associated with any investment in shares. The market price of securities such as the Common Shares of the Company are affected by numerous factors including, but not limited to, general market conditions, actual or anticipated fluctuations in the Company's results of operations, changes in estimates of future results of operations by the Company or securities analysts, risks identified in this section and other factors. In addition, the financial markets have experienced significant price and volume fluctuations that have sometimes been unrelated to the operating performance of the issuers or the industries in which they operate. Consequently, the trading price of the Common Shares may fluctuate.

### *Influence of Existing Shareholders*

As at May 12, 2014, Pierre Alexandre, Vice-Chairman and Vice-President of Business Development of the Company, holds or controls, directly or indirectly, approximately 28% of Orbit Garant's outstanding Common Shares. As a result, this shareholder has the ability to influence Orbit Garant's strategic direction and policies, including any merger, consolidation or sale of all or substantially all of its assets, and the election and composition of Orbit Garant's Board of Directors. The foregoing ability to affect the control and direction of Orbit Garant could reduce its attractiveness as a target for potential takeover bids and business combinations, and correspondingly affect its share price.

### *Future Sales of Common Shares by the Company's Existing Shareholders*

Certain shareholders, including Pierre Alexandre, hold or control significant blocks of shares of the Company. The decision of any of these shareholders to sell a substantial number of Common Shares in the public market could result in a material imbalance in demand for the Company's shares and therefore a decline in the market price of the Common Shares. In addition, the perception among the public that such sales may occur could also result in a reduction in the market price of the Common Shares.

### *Dilution*

Orbit Garant may raise additional funds in the future by issuing equity securities. Holders of Common Shares will have no pre-emptive rights in connection with such further issuances. Additional Common Shares may be issued by Orbit Garant in connection with the exercise of options granted. Such additional equity issuances could, depending on the price at which such securities are issued, substantially dilute the interests of the holders of Common Shares.

### *Credit Risk*

In order to reduce the credit risk, the Company was using an insurance coverage from Export Development Canada ("EDC") on certain accounts receivable from customers. Due to the reduction of International drilling demands the Company does not meet the EDC requirements. Consequently the insurance coverage ceased as of May 1st 2014. Considering the payed premiums and claims made over the past years, the Company has evaluated that this change will have little impact on its financial results.

## OUTLOOK

Many exploration and mining companies continue to exercise restraint with their mineral exploration and development programs. Senior and intermediate mining companies scaled back their drilling programs in 2013 and this trend has continued in 2014. At the same time, junior mining companies have significantly cut their exploration activities due to a lack of capital. The continued volatility in gold prices has raised concerns that gold producers will have to slow down spending by deferring new capital programs, delaying development of new projects and cutting discretionary expenses. As metal prices have risen over the past decade, production costs including labour, materials, equipment and energy have increased in tandem. These adverse market conditions have created a short term oversupply of drilling services capacity in the market, which in turn has created downward pricing pressure. Management expects that these market conditions will continue to impact the contract drilling industry and negatively affect Orbit Garant's utilization rates and gross margins in the near term.

Despite these current market challenges, management believes the long-term outlook for the mining industry is positive. While global economic conditions may negatively impact market conditions from time-to-time, management believes long-term global demand for ferrous and non-ferrous metals combined with depleting reserves and resources will ultimately result in increased exploration and development activities by mining companies. Increased demand for minerals from developing countries, such as Brazil, Russia, India and China, provides the greatest impetus for long-term growth. China, the world's second largest economy, now has a significant impact on global demand and pricing for ferrous and non-ferrous metals. The lack of major new mineral discoveries, shortages of labour and other supply issues affecting traditional markets are all contributing to constraints in supply.

In the near term, Management will continue to focus on maximizing stakeholder value principally by reducing costs, optimizing drill rig utilization, increasing productivity, preserving the Company's cash position and maintaining Orbit Garant's strong health and safety standards. Management believes the Company's computerized monitoring and control drilling technology will increasingly be an important contributor in achieving these goals by reducing both labour and consumable drilling costs, enhancing driller productivity rates and improving safety going forward. Orbit Garant currently has 20 drill rigs featuring its computerized monitoring and control technology. The Company's capital expenditure budget for fiscal 2014 is $3.4 million, down from $9.3 million in fiscal 2013, reflecting disciplined cost management in line with current market demand. Orbit Garant will continue to monitor market conditions closely and manage its staff and inventory levels, capital expenditures and balance sheet accordingly. With its strong balance sheet, Orbit Garant remains committed to pursuing value-enhancing growth opportunities in Canada and internationally.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting ("ICFR") or ensuring they are designed in accordance with ICFR through supervision. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company, have been detected. Therefore, no matter how well designed, ICFR have inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

The Company has recently installed new operating information and technology systems. While these systems are expected to strengthen the Company's disclosure and internal controls, adopting new technology is a complicated and disruptive process. Implementation of the new systems is ongoing and Company staff continues to be trained in their use. Until implementation and training is complete, the use of new operating information and technology systems creates potential weaknesses in the Company's internal controls as a result of an increased likelihood of fraudulent activities going undetected and of the Company's systems generating inaccurate information. The Company plans to address this weakness by completing the implementation and training associated with the new systems as quickly as possible.

Other than as indicated above, for the nine months ended March 31, 2014, there have been no significant changes to the ICFR and no change in the assessment of the effectiveness of the Company's ICFR.