



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THIRD QUARTER FISCAL 2016**

**(Three and nine-month periods ended March 31, 2016)**

**May 11, 2016**

## 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, 2016; as compared with the corresponding periods 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, 2015.

The Company's third quarter of Fiscal 2016 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 11, 2016. 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](http://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 22, 2015, accessible via [www.sedar.com](http://www.sedar.com).

## **FISCAL 2016 THIRD QUARTER SUMMARY**

- Revenue increased to \$28.1 million in the third quarter of Fiscal 2016 ("Q3 FY2016"), up 50% from \$18.7 million in the third quarter of Fiscal 2015 ("Q3 FY2015")
- Gross margin was 4.7% compared to 0.2% in Q3 FY2015
- Adjusted gross margin (excluding depreciation expense) was 14.9%, up from 11.8% in Q3 FY2015
- EBITDA increased to \$0.3 million from \$0.2 million in Q3 FY2015
- Net loss was \$2.6 million compared to \$2.0 million in Q3 FY2015, reflecting increased investments in business development initiatives and integration costs associated with the Company's acquisition of Captagua
- Metres drilled in Q3 FY2016 increased to 313,469, up 45.3% from 215,776 metres drilled in Q3 FY2015

Q3 FY2016 represents Orbit Garant's seventh consecutive quarter of year-over-year growth in domestic drilling revenue, and the fifth consecutive quarter of year-over-year growth in international revenue. The Company is encouraged by this positive business momentum, as many senior and intermediate mining companies have scaled back their drilling programs over the past three years, and junior mining companies have significantly reduced their exploration activities due to a lack of capital. These factors have resulted in an oversupply of drilling services capacity in the market and pricing pressure from customers. Orbit Garant's recent growth in domestic drilling revenue primarily reflects increasing customer demand and drilling volumes, as pricing pressure continues to persist in Canada. The Company's recent growth in international revenue has resulted from its strategy to expand its international market penetration. The Company continues to carefully control costs, monitor its workforce and manage its capital expenditures in accordance with market conditions.

## **CORPORATE OVERVIEW**

From its head office in Val-d'Or, Québec, Orbit Garant, with more than 900 employees and a fleet of 226 drill rigs, provides surface and underground drilling services to the mining and exploration industry in Canada and internationally. The Company also provides geotechnical drilling services to mining or mineral exploration companies, engineering and environmental consultant firms and government agencies. The majority of Orbit Garant's business activity is currently conducted in Canada. The Company has worked on international projects in the United States, Mexico, Guyana, Chile and West Africa. In Fiscal 2015, Orbit Garant established new operating subsidiaries in Chile and Ghana, and a branch in Kazakhstan, to pursue international business opportunities.

In the second quarter of fiscal year 2016 ("Q2 FY2016"), the Company expanded its business operations in Chile through the acquisition of all of the issued and outstanding shares of Santiago, Chile-based Captagua Ingeniería S.A. ("Captagua"), a company that specializes in the provision of surface drilling services to the Chilean mineral exploration and mining industry.

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. Soudure Royale 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 undertaken by smaller conventional drilling companies.

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

For the nine-month period ended March 31, 2016:

- Specialized drilling services, which typically generate a higher gross margin than conventional drilling services, accounted for approximately 44% of the Company's total revenue, compared to 37% for the same period last year.
- Approximately 74% of the Company's revenues were generated by gold related operations, and approximately 26% were generated by base metal related and other operations.
- Surface and underground drilling services accounted for approximately 57% and 40%, respectively, of the Company's revenue. Orbit Garant's manufacturing activities accounted for the remaining 3% of revenue.
- Approximately 78% of Orbit Garant's revenue was generated from major and intermediate mining company projects, compared to 79% for the same period last year. Orbit Garant's drilling contracts with major and intermediate customers are typically from one to five years in length.

## **BUSINESS ACQUISITION**

On December 30, 2015, Orbit Garant acquired all of the issued and outstanding shares of Captagua, a Chilean-based mineral drilling services company that provides surface drilling (diamond drilling and reverse circulation) and water drilling services to the Chilean mineral exploration and mining industry. The purchase price of \$1.077 billion Chilean Pesos ("CLP"), or \$2.1 million, was satisfied by the issuance of 1,824,900 common shares of Orbit Garant. The transaction also included the assumption of Captagua's net debt of approximately CLP\$2.768 billion, or approximately \$5.5 million.

The acquisition of Captagua enhances Orbit Garant's platform for future growth in Chile, a major mining jurisdiction, and throughout South America. Captagua has an experienced management team, highly skilled personnel and a strong reputation in the Chilean market. Captagua operates as a wholly owned subsidiary of Orbit Garant. The results of operations of Captagua for the two-day period ended December 31, 2015 and three-month period ended March 31, 2016, are included in Orbit Garant's results of operations for the three and nine-month periods ended March 31, 2016.

## **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 market 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 customized 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 health and safety standards in the workplace and promote protection of the environment;
- Establish and maintain long-term relationships with customers;
- Cross-sell drilling services to existing customers;
- Expand the Company's base of operations in strategic regions, such as the Company's recent acquisition of Captagua, based in Santiago, Chile;
- Maintain a sound balance sheet and a judicious deployment of capital; and
- Evaluate strategic acquisition opportunities to enhance value for the Company's stakeholders.

## INDUSTRY OVERVIEW

Orbit Garant provides drilling services, in Canada and internationally, to the minerals industry through all stages of mine development, from exploration through production. Client mining companies consist of major (or senior), intermediate, and junior companies (which generally focus on exploration only). Mining companies' budgets for external drilling services, such as those offered by Orbit Garant, are typically determined by ferrous (iron) and non-ferrous (precious and base) metals prices, and the availability of capital to finance exploration (particularly in the case of juniors) and development programs, and/or ongoing mining operations.

### Gold

Gold prices are determined by the balance between supply (primarily mine production) and the many sources of demand including global investment demand, global demand for gold jewelry, and to a much lesser extent, demand from industrial applications. Following a prolonged rally in the price of gold that started in 2001 and resulted in a peak price for gold of more than US\$1,900 per ounce in September 2011, the price of gold entered a period of overall decline starting in January 2013, when it was at approximately US\$1,700 per ounce. The spot price of gold reached a trailing five-year price low of approximately US\$1,049 per ounce in December 2015. Gold prices have since risen sharply in 2016. At the time of this report, the spot price of gold was approximately US\$1,275 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 base metals. At the time of this report, the respective spot prices for all of the primary base metals were lower than 12 months ago. The spot price for copper, the metal widely considered to be the most sensitive to macroeconomic activity, was approximately US\$2.90 per pound a year ago and at the time of this report was approximately US\$2.15 per pound. Current spot prices for each of the primary base metals are at the lower end of their trailing five-year price ranges.

### 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 both the world's largest consumer and producer of steel, 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 fueling global steel consumption, and long-term demand is expected to continue to trend higher. In the short term, the spot price of iron ore is principally affected by seasonal effects, short term mismatches between supply and demand and other factors. Since the beginning of 2014, the price of iron ore has dropped significantly. At the time of this report, the spot price of iron ore was approximately US\$60 per tonne, a decrease of approximately 55% compared to the average price of US\$135 per tonne in 2013.

### Market Participants

The past three years have 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, combined with lower metals prices, have also forced some senior and intermediate mining companies to delay or scale back their drilling programs. These conditions have resulted in an oversupply of mineral drilling services capacity in the market.

## OVERALL PERFORMANCE

### Results of operations for the third quarter ended March 31, 2016

THIRD QUARTER ENDED MARCH 31 * (\$millions)	Fiscal 2016 3 <sup>rd</sup> Quarter	Fiscal 2015 3 <sup>rd</sup> Quarter	2016 vs. 2015 Variation
Revenue *	28.1	18.7	9.4
Gross profit *	1.3	0.0	1.3
Gross margin (%)	4.7	0.2	4.5
Adjusted gross margin (%) <sup>(1)</sup>	14.9	11.8	3.1
EBITDA * <sup>(2)</sup>	0.3	0.2	0.1
Metres drilled	313,469	215,776	97,693
Net (loss) earnings *	(2.6)	(2.0)	(0.6)
Net (loss) earnings per common share - Basic (\$)	(0.07)	(0.06)	(0.01)
- Diluted (\$)	(0.07)	(0.06)	(0.01)

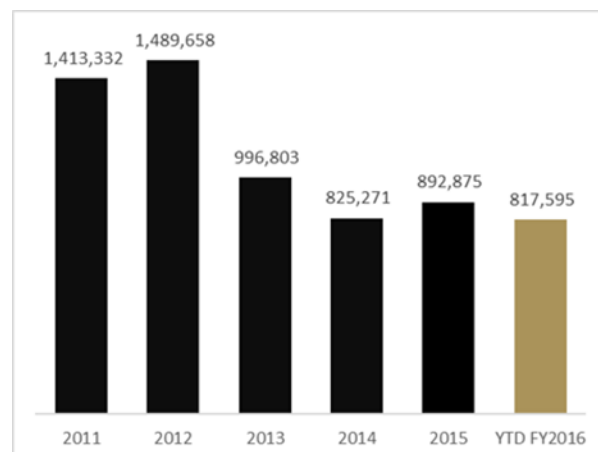
<sup>(1)</sup> Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"

<sup>(2)</sup> EBITDA = Earnings before interest, taxes, depreciation and amortization. See "Reconciliation of non-IFRS financial measures"

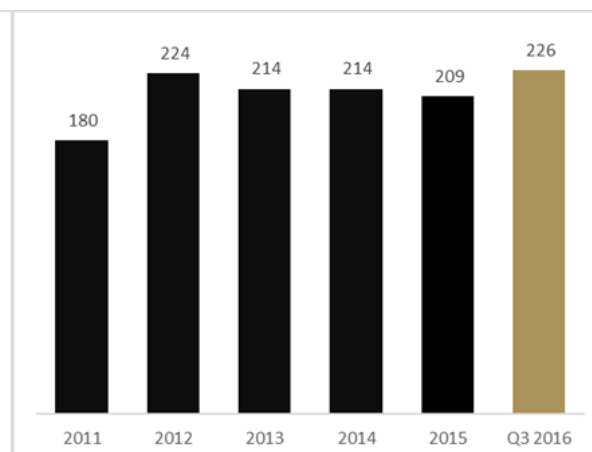
During Q3 FY2016, Orbit Garant drilled 313,469 metres, a 45.3% increase from 215,776 metres drilled during Q3 FY2015. The growth in metres drilled reflects an increase in demand from customers and the impact of a full quarter contribution from Captagua. The Company's average revenue per metre drilled in Q3 FY2016 was \$87.86, up 9% compared to \$80.72 in Q3 FY2015. The increase in average revenue per metre drilled is attributable to the impact of increased international drilling activity in the quarter, including a high proportion of specialized drilling activity in Chile and Kazakhstan.

The size of the Company's drill fleet remained stable at 226 drill rigs in Q3 FY2016, including the 17 drill rigs added through the acquisition of Captagua at the end of Q2 FY2016. The Company added one new computerized drill rig in the quarter and sold one existing drill rig. Orbit Garant currently has 27 drill rigs outfitted with its computerized monitoring and control technology.

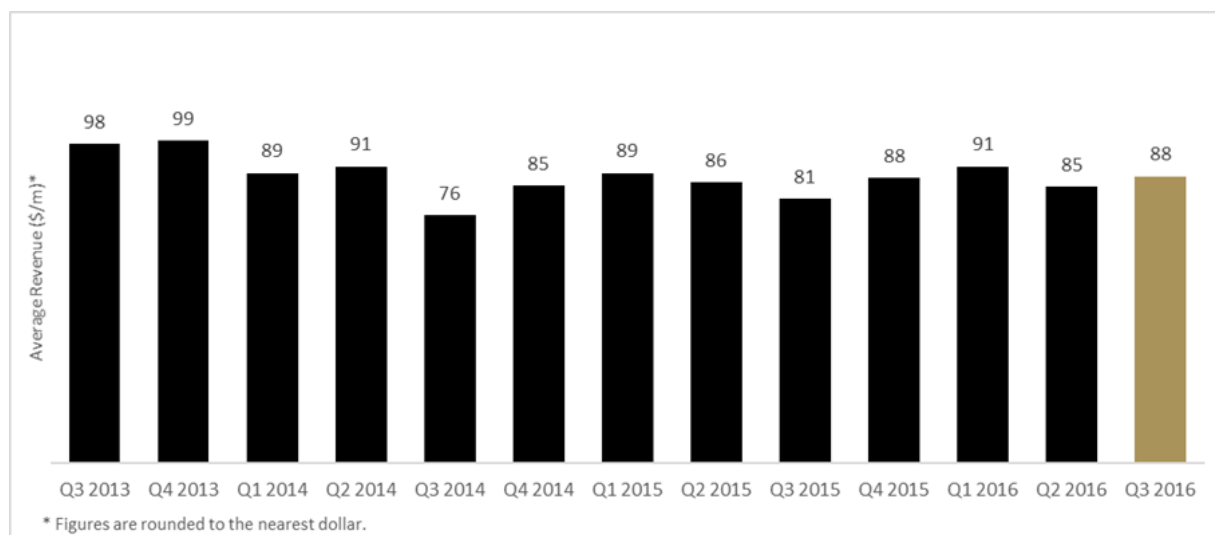
### Metres Drilled



### Number of Drills



## Average Revenue per Metre Drilled



## ANALYSIS OF THE THIRD QUARTER OF FISCAL 2016 COMPARED TO THIRD QUARTER OF FISCAL 2015

### Contract Revenue

Revenue in Q3 FY2016 totalled \$28.1 million, an increase of \$9.4 million, or 50.0%, from \$18.7 million in Q3 FY2015. Revenue growth was attributable to an increase in metres drilled in Canada and internationally, and higher average revenue per metre drilled on a consolidated basis.

Domestic contract drilling revenue was \$21.4 million in Q3 FY2016, compared to \$17.8 million in Q3 FY2015, representing an increase of \$3.6 million, or 20.1%. The increase was primarily attributable to a higher number of metres drilled, partially offset by a modest decline in average revenue per metre drilled.

International contract drilling revenue was \$6.7 million in Q3 FY2016, compared to \$0.9 million in Q3 FY2015, representing an increase of \$5.8 million. International revenue growth was primarily attributable to increased specialized drilling activity in Chile and Kazakhstan. The Company also commenced work on a new drilling project in Ghana during the quarter.

### Gross Profit and Margins (see Reconciliation of non-IFRS measures)

Gross profit for Q3 FY2016 increased to \$1.3 million, compared to a negligible amount in Q3 FY2015. Gross margin for Q3 FY2016 increased to 4.7% from 0.2% in Q3 FY2015. In accordance with IFRS, depreciation expenses totalling \$2.9 million are included in cost of contract revenue for Q3 FY2016, compared to \$2.2 million in Q3 FY2015. Adjusted gross margin, excluding depreciation expenses, was 14.9% in Q3 FY2016, compared to 11.8% in Q3 FY2015. The increase in gross profit, gross margin and adjusted gross margin was primarily attributable to the increased metres drilled in Canada and internationally, and increased higher margin specialized drilling activity, partially offset by higher start-up and demobilization costs in the quarter, reflecting increased short duration surface drilling contracts.

### General and Administrative Expenses

General and administrative (G&A) expenses were \$3.9 million (representing 13.9% of revenue) in Q3 FY2016, compared to \$2.8 million (representing 14.7% of revenue) in Q3 FY2015. The increase in G&A expenses is primarily attributable to the Company incurring additional administrative costs in support of business development initiatives and expenses related to the acquisition of Captagua.

In accordance with IFRS, depreciation and amortization expenses of \$0.4 million are included in G&A expenses for Q3 FY2016, in line with Q3 FY2015. Adjusted G&A expenses, excluding depreciation and amortization expenses, and \$0.3 million in acquisition expenses related to Captagua, totalled \$3.1 million (representing 11.5% of revenue) in Q3 FY2016. This compares to adjusted G&A expenses, excluding amortization and depreciation of \$0.4 million, of \$2.4 million (representing 12.5% of revenue) in Q3 FY2015.

The Company continues to maintain discipline in managing its expenses in line with current market conditions.

### **Operating Results**

Loss from operations for Q3 FY2016 was \$1.4 million, compared to a loss from operations of \$1.9 million in Q3 FY2015. The decreased loss from operations was primarily attributable to the increase in metres drilled in Canada and internationally, and higher average revenue per metre drilled on a consolidated basis.

Drilling Canada's operating loss totalled \$0.2 million, an improvement of \$0.2 million, from an operating loss of \$0.4 million in Q3 FY2015. The decreased operating loss was primarily attributable to the increase in metres drilled, partially offset by a modest decline in average revenue per metre drilled.

Drilling International's operating loss totalled \$1.2 million, compared to an operating loss of \$1.5 million in Q3 FY2015. The improvement was primarily attributable to increased specialized drilling activity in Chile and Kazakhstan.

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

Earnings before interest, taxes, depreciation and amortization ("EBITDA") was \$0.3 million in Q3 FY2016, compared to \$0.2 million in Q3 FY2015.

### **Foreign Exchange (Gain) Loss**

Foreign exchange loss was \$0.3 million in Q3 FY2016, compared to a gain of \$0.3 million in Q3 FY2015. The unfavourable variance primarily relates to the strength of the Canadian dollar against the US dollar.

### **Financial Expenses**

Interest costs related to long-term debt and bank charges were \$0.3 million in Q3 FY2016, compared to \$0.1 million in Q3 FY2015.

### **Income Tax Recovery**

Income tax recovery was \$0.6 million for Q3 FY2016, compared to \$0.5 million in Q3 FY2015.

### **Net Loss**

The Company's net loss for Q3 FY2016 was \$2.6 million, or \$0.07 per share, compared to a net loss of \$2.0 million, or \$0.06 per share in Q3 FY2015. The increased net loss is primarily attributable to higher G&A expenses as the Company incurred additional administrative costs in support of business development initiatives and expenses related to the acquisition of Captagua during the quarter, a foreign exchange loss, and the decline in average revenue per metre drilled in Canada, as discussed above.



**NINE MONTHS ENDED MARCH 31, 2016 COMPARED TO NINE MONTHS ENDED MARCH 31, 2015**

<b>NINE MONTHS ENDED MARCH 31 * (\$millions)</b>	<b>Fiscal 2016 Nine Months</b>	<b>Fiscal 2015 Nine Months</b>	<b>2016 vs. 2015 Variation</b>
<b>Revenue *</b>	74.1	56.2	17.9
<b>Gross profit *</b>	5.9	1.6	4.3
<b>Gross margin (%)</b>	8.0	2.9	5.1
<b>Adjusted gross margin (%) <sup>(1)</sup></b>	17.5	14.8	2.7
<b>EBITDA * <sup>(2)</sup></b>	3.2	1.5	1.7
<b>Meters drilled</b>	817,595	640,060	177,535
<b>Net earnings (loss) *</b>	(4.6)	(5.4)	0.8
<b>Net earnings (loss) per common share - Basic (\$)</b>	(0.13)	(0.16)	0.03
<b>- Diluted (\$)</b>	(0.13)	(0.16)	0.03

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

<sup>(2)</sup> EBITDA = Earnings before interest, taxes, depreciation and amortization. See "Reconciliation of non-IFRS financial measures"

Revenue totalled \$74.1 million for the nine-month period ended March 31, 2016 ("YTD FY2016"), an increase of \$17.9 million, or 31.9%, from \$56.2 million during the comparable period in fiscal 2015 ("YTD FY2015"). Revenue growth was primarily attributable to an increase in domestic and international metres drilled.

Canada revenue totalled \$65.4 million in YTD FY2016, an increase of \$10.9 million, or 20.0%, compared to \$54.5 million in YTD FY2015. The positive variance was attributable to increased metres drilled.

International revenue was \$8.7 million compared to \$1.7 million in the comparable period last fiscal year, an increase of \$7.0 million. International revenue growth was primarily attributable to the acquisition of Captagua in Q2 FY2016.

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

Gross profit for the first nine months of fiscal 2016 was \$5.9 million, an increase of \$4.3 million from \$1.6 million in YTD FY2015. Gross margin for the first nine months of fiscal 2016 was 8.0% compared to 2.9% for the comparable period in fiscal 2015. In accordance with IFRS, depreciation expenses totalling \$7.0 million are included in cost of contract revenue for YTD FY2016, compared to \$6.7 million for YTD FY2015. Adjusted gross margin, excluding depreciation expenses, increased to 17.5% for YTD FY2016, compared to adjusted gross margin of 14.8% for the comparable period in fiscal 2015. The increase in gross profit, gross margin and adjusted gross margin was primarily attributable to increased metres drilled in Canada and internationally, and increased higher margin specialized drilling activity.

**General and Administrative Expenses**

G&A expenses were \$10.5 million (representing 14.2% of revenue) in the nine-month period ended March 31, 2016, compared to \$8.4 million (representing 14.9% of revenue) for the comparable period last year. The increase in G&A expenses is primarily attributable to the Company incurring additional administrative costs in support of business development initiatives and expenses related to the acquisition of Captagua.

Adjusted G&A expenses, excluding amortization and depreciation of \$1.1 million, and \$0.7 million of acquisition expenses related to the Captagua acquisition, were \$8.7 million (representing 11.8% of revenue) for YTD FY2016. This compares with adjusted G&A expenses, excluding amortization and depreciation of \$1.2 million, of \$7.3 million (representing 13.0% of revenue) in YTD FY2015.

The Company continues to maintain discipline in managing its expenses in line with current market conditions.

### **Operating Results**

Loss from operations was \$1.4 million for YTD FY2016, compared to a loss from operations of \$4.4 million in YTD FY2015. The positive variance is primarily attributable to the increase in metres drilled in Canada and internationally and an increase in higher margin specialized drilling activity.

Drilling Canada's operating earnings totalled \$2.5 million, an increase of \$3.2 million, from an operating loss of \$0.7 million in the nine-month period ended March 31, 2015, primarily attributable to increased metres drilled.

Drilling International's operating loss totalled \$3.9 million, compared to an operating loss of \$3.7 million in YTD FY2015. The increased operating loss is attributable to additional costs related to starting new international drilling projects and investments in business development activities, partially offset by the increase in metres drilled.

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

EBITDA was \$3.2 million for the nine-month period ended March 31, 2016, compared to \$1.5 million in the comparable period last fiscal year, an increase of \$1.7 million. EBITDA in YTD FY2016 represented 4.4% of sales, compared to 2.6% of sales in the comparable period in fiscal 2015.

### **Foreign Exchange (Gain) Loss**

Foreign exchange loss was \$0.3 million for YTD 2016, compared to a foreign exchange gain of \$0.3 million for YTD 2015. The negative variance relates primarily to the strength of the Canadian dollar against the US dollar.

### **Financial Expenses**

Interest costs related to long-term debt and bank charges were \$0.5 million for the nine-month period ended March 31, 2016, compared to \$0.4 million for the first nine months of fiscal 2015.

### **Income Tax Recovery**

Income tax recovery was \$0.8 million in the nine-month period ended March 31, 2016, compared to \$1.4 million for the comparable period in fiscal 2015.

### **Net Loss**

Net loss for YTD FY2016 was \$4.6 million, or \$0.13 per share, compared to a net loss of \$5.4 million, or \$0.16 per share, for the comparable period in fiscal 2015. The decreased net loss is primarily attributable to increased domestic drilling revenue and higher gross margin, partially offset by higher G&A expenses as the Company incurred additional administrative costs in support of business development initiatives, a foreign exchange loss, and expenses related to the acquisition of Captagua.

## SUMMARY OF QUARTERLY RESULTS

* (\$millions)		Fiscal 2016				Fiscal 2015			Fiscal 2014
		Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Contract revenue *		28.1	21.7	24.3	22.8	18.7	16.8	20.7	20.2
Gross profit *		1.3	1.3	3.3	1.6	0.0	(0.4)	2.0	1.8
Gross margin %		4.7	5.7	13.7	7.1	0.2	(2.4)	9.5	8.4
Adjusted gross margin % <sup>(1)</sup>		14.9	15.5	22.2	16.4	11.8	10.9	20.6	20.5
Net earnings (loss) *		(2.6)	(1.8)	(0.2)	(2.0)	(2.0)	(2.8)	(0.6)	(0.8)
Net earnings (loss) per common share (\$)	- Basic	(0.07)	(0.05)	(0.01)	(0.06)	(0.06)	(0.08)	(0.02)	(0.02)
	- Diluted	(0.07)	(0.05)	(0.01)	(0.06)	(0.06)	(0.08)	(0.02)	(0.02)

<sup>(1)</sup> 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 \$0.1 million in Q3 FY2016, compared to \$0.2 million in Q3 FY2015.

The change in non-cash operating working capital items was an inflow of \$1.9 million in Q3 FY2016, compared to \$0.7 million in Q3 FY2015. The change in non-cash operating working capital in Q3 FY2016 was primarily impacted by:

- \$1.9 million related to a decrease in accounts receivable and prepaid expenses
- \$0.3 million related to a decrease in inventory, offset by
- \$0.3 million related to a decrease in accounts payable.

### Investing Activities

Cash used in investing activities totalled \$1.2 million in Q3 FY2016, compared to \$0.7 million in Q3 FY2015. During Q3 FY2016, \$1.5 million was used for the acquisition of property, plant and equipment, partially offset by a cash inflow of \$0.3 million on disposal of property, plant and equipment, compared to \$0.9 million for the acquisition of property, plant and equipment in Q3 FY2015.

### Financing Activities

During Q3 FY2016, the Company withdrew a net amount of \$1.1 million on its \$25.0 million revolving Credit Facility. In Q3 FY2015, the Company withdrew a net amount of \$0.5 million. As at March 31, 2016, the Company's long-term debt, from its revolving credit facility was \$8.8 million, compared to \$7.4 million as at June 30, 2015. The Company's debt was incurred to support the acquisition of capital assets, including property, plant and equipment and the business acquisition of Captagua.

Through the acquisition of Captagua, the Company assumed \$2.2 million of financial leases from which \$1.0 million was in current portion, maturing August 2018.

The Company's Chilean subsidiary enters into receivable purchase agreements (commonly referred to as "factoring agreements") with different banks as part of its normal working capital financing. The Company receives 100% of the value of the specific sales invoice less a charge of between 0.46% and 0.52%. As at March 31, 2016, trade receivables include \$2,088 related to factored accounts (\$nil as at June 30, 2015).

As at March 31, 2016, the Company's working capital was \$44.0 million, compared to \$43.5 million as at June 30, 2015. The Company's working capital requirements are primarily for funding inventory acquisition and financing accounts receivable.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital expenditures 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

Orbit Garant'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"). On December 19, 2014, Orbit Garant obtained a new \$25.0 million secured, three-year revolving credit facility (the "Credit Facility") with National Bank (the "Lender").

The Credit Facility is used to fund working capital requirements and provide further flexibility to the Company's long-term acquisition program. The Credit Facility matures no later than December 19, 2017. As at March 31, 2016, the Company had drawn \$8.8 million (\$7.4 million as at June 30, 2015).

Availability under the Credit Agreement is subject to a borrowing base that is determined by the value of the Company's inventory, accounts receivable and real estate. All of Orbit Garant's assets are pledged as security for the Company's obligations under the Credit Agreement.

The Credit Agreement contains covenants that limit the Company's ability to undertake certain actions, without prior approval of the Lender, including: i) mergers, liquidations, dissolutions and changes of ownership; ii) the incurrence of additional indebtedness; iii) encumbering the Company's assets; iv) guarantees, loans, investments and acquisitions that may be made by the Company; v) investing in or entering into derivative instruments, paying dividends and/or making other capital distributions to related parties; vi) capital expenditures exceeding mutually agreed upon limits; and vii) certain asset sales. The Credit Agreement also contains a number of financial covenants that the Company must comply with if more than \$12.5 million is drawn from the Credit Facility.

As at March 31, 2016, the Company complied with all covenants in the Credit Agreement.

### OUTSTANDING SECURITIES AS AT MAY 11, 2016

<b>Number of common shares</b>	<b>35,101,419</b>
<b>Number of options</b>	<b>2,877,500</b>
<b>Fully diluted</b>	<b>37,978,919</b>

On December 30, 2015, 1,824,900 shares were issued as partial consideration for the acquisition of Captagua. On January 20, 2016, the Company granted 732,000 stock options with an exercise price of \$0.70 per share, and cancelled 60,000 stock options in February 2016.

## 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 5 to the Company's annual audited consolidated statements for the year ended June 30, 2015 were consistently applied to all periods presented. These interim condensed consolidated financial statements have not been subject to a review engagement by the Company's 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 6 in the Company's annual audited consolidated financial statements for the year ended June 30, 2015. They remained unchanged for the three and nine-month periods ended March 31, 2016.

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

These unaudited 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 2015 annual audited consolidated financial statements.

These unaudited interim condensed consolidated financial statements were approved for issue by the Board of Directors of Orbit Garant Drilling Inc. on May 11, 2016.

### Principles of Consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the period are included in the unaudited 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.

## 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 to evaluate 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.

EBITDA: Earnings (loss) before interest, taxes, depreciation and amortization.

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

## EBITDA

### Reconciliation of EBITDA

(unaudited) (in millions of dollars)	3 months ended March 31, 2016	3 months ended March 31, 2015	9 months ended March 31, 2016	9 months ended March 31, 2015
Net earnings (loss) for the period	(2.6)	(2.0)	(4.6)	(5.4)
Finance costs	0.3	0.1	0.5	0.4
Income tax expense (recovery)	(0.6)	(0.5)	(0.8)	(1.4)
Depreciation and amortization	3.2	2.6	8.1	7.9
EBITDA	0.3	0.2	3.2	1.5

### Adjusted Gross Margin

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

(unaudited) (in millions of dollars)	3 months ended March 31, 2016	3 months ended March 31, 2015	9 months ended March 31, 2016	9 months ended March 31, 2015
Contract revenue	28.1	18.7	74.1	56.2
Cost of contract revenue (including depreciation)	26.8	18.7	68.2	54.6
Less depreciation	(2.9)	(2.2)	(7.0)	(6.7)
Direct costs	23.9	16.5	61.2	47.9
Adjusted gross profit	4.2	2.2	12.9	8.3
Adjusted gross margin (%) <sup>(1)</sup>	14.9	11.8	17.5	14.8

<sup>(1)</sup> 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 22, 2015. 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.

## 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 of May 11, 2016, Pierre Alexandre, Vice Chairman and Vice President of Corporate Development of the Company, holds or controls, directly or indirectly, approximately 27% 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.

## OUTLOOK

The mining industry continues to exercise cost restraint with regard to mineral exploration and development programs. Senior and intermediate mining companies began scaling back their drilling programs in 2013 and this trend continued throughout 2015 and into 2016. Over this same period, junior mining companies have significantly cut their exploration activities due to a lack of capital. These adverse market conditions have resulted in a current oversupply of drilling services capacity in the market and pricing pressure from customers. An important contributor to this industry downturn has been the recent economic slowdown in China, which has had a negative impact on metal prices. Management expects that these market conditions will continue to impact the contract drilling industry in the near term. One positive factor for mining companies operating in Canada is the recent decline in the value of the Canadian dollar relative to the US dollar, as their expenses are typically in Canadian dollars and their revenues are denominated in US dollars. At the time of this report, the value of the Canadian dollar was approximately 0.78 US dollars.

Despite the current market challenges, Management believes the longer-term outlook for the mining industry is positive and is encouraged by the Company's recent increase in business activity in Canada and internationally. Global demand for ferrous and non-ferrous metals, combined with depleting reserves and resources, will eventually lead to increased exploration and development activities by mining companies. Management remains focused on maximizing stakeholder value principally by controlling costs, optimizing drill rig utilization, increasing productivity rates, continuing

to focus on technology innovation, retaining key personnel, maintaining strong health and safety standards, and evaluating opportunities to expand Orbit Garant's market presence both in Canada and abroad. Management believes the Company's proprietary computerized monitoring and control drilling technology will increasingly be an important contributor in reducing both labour and consumable drilling costs, enhancing driller productivity rates and improving safety. Orbit Garant currently has 27 drill rigs featuring its computerized monitoring and control technology, all of which are currently deployed on customer projects. To date, these next generation drill rigs have achieved a significant increase in productivity compared to that achieved using conventional drill rigs. Orbit Garant's customers have responded positively to the improved performance and potential of the new drill rigs, which has led to renewals of underground drilling contracts for longer terms.

Orbit Garant's growth strategy is currently focused on capturing increased market share in Canada and expanding its international market presence. Orbit Garant's seven consecutive quarters of year-over-year growth in domestic drilling revenue reflects the Company's recent success in securing new contracts and extending existing contracts in Canada. In terms of international market penetration, Orbit Garant established new operating subsidiaries in Chile, Ghana, and a new branch office in Kazakhstan during fiscal 2015. The Company's acquisition of Captagua in Chile, has significantly enhanced the Company's platform for growth in Chile and throughout South America. Orbit Garant is currently working on projects in Chile and is actively pursuing new opportunities to grow its South American business. The Company commenced and completed a drilling contract in Ghana during Q3 FY2016, and also commenced work on its first drilling contract in Kazakhstan.

Orbit Garant will continue to monitor market conditions closely and manage its staff and inventory levels, capital expenditures and balance sheet accordingly. With its sound balance sheet, the Company remains committed to pursuing value enhancing growth opportunities in Canada and internationally.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Effective December 30, 2015, the Company completed the acquisition of Captagua. The results of Captagua's operations have been included in these financial statements since the date of acquisition. However, the Company has not completed the review of the internal controls used by Captagua. The Company is in the process of integrating the Captagua's operations and will be expanding its disclosure controls and procedures and internal controls over its financial reporting compliance program to include Captagua over the next year. As a result, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have limited the scope of design of disclosure controls and procedures and testing of internal controls over financial reporting to exclude Captagua controls, policies and procedures from the March 31, 2016 certification of internal controls. The acquisition date financial information for Captagua is included in the discussion regarding the acquisition contained in the MD&A and Note 2 of the interim condensed consolidated financial statements.

The Company's CEO and the CFO are responsible for designing internal controls over financial reporting ("ICFR") or causing them to be designed under their 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.

For the nine months ended March 31, 2016, other than restrictions mentioned above, there have been no significant changes to the ICFR and no change in the assessment of the effectiveness of the Company's ICFR. Accordingly, the CEO and CFO have concluded that the design and operation were effective at a reasonable assurance level as at the end of the period covered by this report.