



FORAGE

**ORBIT**  **GARANT**  
DRILLING

*Audited consolidated financial statements*



*June 30, 2011*

## Management's responsibility for financial reporting

The accompanying consolidated financial statements of Orbit Garant Drilling Inc. (the "Company") and all the information in this annual report are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, include management's best estimates and judgments. Management has reviewed the financial information presented throughout this report and has ensured that it is consistent with the consolidated financial statements.

Management maintains the required system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and the integrity and fairness of the financial information is ensured. In addition, management has reviewed the company's disclosure controls and procedures, which are designed to ensure the quality and timeliness of the disclosures made to the public.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through the Audit Committee. The Board of Directors appoints the Audit Committee, and all of the members of the Audit Committee are independent members of the Board of Directors. The Audit Committee meets periodically with management and the shareholders' auditors to review internal controls, audit results and accounting principles. Acting on the recommendation of the Audit Committee, the consolidated financial statements are forwarded to the Board of Directors of the Company for its approval.

Samson Belair/Deloitte & Touche s.e.n.c.r.l., an independent firm of chartered accountants, has been appointed to express an independent professional opinion on the fairness of the consolidated financial statements. Samson Belair/Deloitte & Touche s.e.n.c.r.l. has full and free access to the Audit Committee.



**Éric Alexandre, CMA**  
**President and Chief Executive Officer**



**Alain Laplante, FCGA**  
**Vice-President and Chief Financial Officer**

Val-d'Or, Québec  
September 21, 2011

## Independent auditor's report

To the Shareholders of  
Orbit Garant Drilling Inc.

We have audited the accompanying consolidated financial statements of Orbit Garant Drilling Inc., which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of earnings and comprehensive income, retained earnings and contributed surplus and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orbit Garant Drilling Inc. as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samsou Belaei  
Deloitte & Touche s.e.m.c.l.<sup>1</sup>

September 21, 2011

---

<sup>1</sup> Chartered accountant auditor permit n° 9138

**ORBIT GARANT DRILLING INC.****Consolidated statement of earnings and comprehensive income**

For the years ended June 30, 2011 and 2010

(in thousands of dollars, except for earnings per share)

	June 30 2011	June 30 2010
	\$	\$
<b>CONTRACT REVENUE</b>	127,738	109,958
<b>COST OF CONTRACT REVENUE</b>	92,471	76,335
<b>GROSS PROFIT</b>	<u>35,267</u>	<u>33,623</u>
<b>EXPENSES</b>		
General and administrative	9,247	6,567
Amortization of property, plant and equipment	7,159	5,455
Amortization of intangible assets	1,510	3,935
Foreign exchange losses	41	14
Gain on disposal of property, plant and equipment	(126)	(460)
Interest on long-term debt	258	230
Interest and bank charges	182	89
	<u>18,271</u>	<u>15,830</u>
<b>EARNINGS BEFORE THE FOLLOWING ITEMS</b>	16,996	17,793
Share in net earnings of a company subject to significant influence	225	404
Gain on long-term investments	209	-
	<u>434</u>	<u>404</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	17,430	18,197
<b>INCOME TAXES (Note 12)</b>		
Current	5,647	6,959
Future	(345)	(1,349)
	<u>5,302</u>	<u>5,610</u>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>	<u>12,128</u>	<u>12,587</u>
<b>Earnings per share (Note 11)</b>		
Basic	0.37	0.38
Diluted	0.36	0.38

**ORBIT GARANT DRILLING INC.****Consolidated statement of retained earnings and contributed surplus**

For the years ended June 30, 2011 and 2010

(in thousands of dollars)

	June 30 2011	June 30 2010
	\$	\$
<b>STATEMENT OF RETAINED EARNINGS</b>		
BALANCE, BEGINNING OF YEAR	36,325	23,738
NET EARNINGS	12,128	12,587
BALANCE, END OF YEAR	<u>48,453</u>	<u>36,325</u>
<b>STATEMENT OF CONTRIBUTED SURPLUS</b>		
BALANCE, BEGINNING OF YEAR	1,369	900
STOCK-BASED COMPENSATION TO EMPLOYEES AND DIRECTORS (Note 11)	581	469
FAIR VALUE OF STOCK OPTION EXERCISED	(2)	-
BALANCE, END OF YEAR	<u>1,948</u>	<u>1,369</u>

# ORBIT GARANT DRILLING INC.

## Consolidated balance sheets

As at June 30, 2011 and 2010

(in thousands of dollars)

	June 30 2011	June 30 2010
	\$	\$
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	-	8,114
Accounts receivable	33,081	21,188
Accounts receivable related from disposal of long-term investments (Note 6)	784	-
Inventories	33,646	22,708
Income taxes receivable	2,412	2,351
Prepaid expenses	689	460
	<u>70,612</u>	<u>54,821</u>
LONG-TERM INVESTMENTS (Note 6)	-	886
PROPERTY, PLANT AND EQUIPMENT (Note 7)	43,223	31,681
GOODWILL	21,061	19,698
INTANGIBLE ASSETS (Note 8)	6,044	1,374
	<u>140,940</u>	<u>108,460</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Bank overdraft	698	-
Accounts payable and accrued liabilities	18,135	16,601
Client deposits	453	557
Accounts payable related to business acquisitions (Note 2)	421	-
Current portion of long-term debt (Note 9)	168	203
	<u>19,875</u>	<u>17,361</u>
LONG-TERM DEBT (Note 9)	14,673	172
FUTURE INCOME TAXES (Note 12)	2,605	1,335
	<u>37,153</u>	<u>18,868</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	53,386	51,898
Contributed surplus	1,948	1,369
Retained earnings	48,453	36,325
	<u>103,787</u>	<u>89,592</u>
	<u>140,940</u>	<u>108,460</u>

APPROVED BY THE BOARD

---

(signed) Eric Alexandre, Director

---

(signed) Jean-Yves Laliberté, Director

See accompanying notes.

**ORBIT GARANT DRILLING INC.**  
**Consolidated statement of cash flows**

For the years ended June 30, 2011 and 2010

(in thousands of dollars)

	June 30 2011	June 30 2010
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net earnings	12,128	12,587
Items not affecting cash:		
Amortization of property, plant and equipment	7,159	5,455
Amortization of intangible assets	1,510	3,935
Gain on disposal of property, plant and equipment (Note7)	(36)	(96)
Gain on long-term investments	(209)	-
Stock-based compensation	581	469
Amortization of financing costs	80	70
Future income taxes	(345)	(1,349)
Share in net earnings of a company subject to significant influence less dividends	(216)	(364)
	<u>20,652</u>	<u>20,707</u>
Changes in non-cash operating working capital items (Note 13)	<u>(20,803)</u>	<u>227</u>
	(151)	20,934
<b>INVESTING ACTIVITIES</b>		
Business acquisition (less cash of \$87) (Note 2)	(6,176)	-
Proceed from long-term investment	528	-
Acquisition of property, plant and equipment	(18,647)	(13,996)
Proceeds from disposal of property, plant and equipment	1,244	1,063
	<u>(23,051)</u>	<u>(12,933)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of share	4	-
Proceeds from long-term debt	21,507	342
Repayment of long-term debt	(7,121)	(10,787)
	<u>14,390</u>	<u>(10,445)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(8,812)	(2,444)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<u>8,114</u>	<u>10,558</u>
<b>CASH AND CASH EQUIVALENTS (BANK OVERDRAFT), END OF THE YEAR</b>	<u>(698)</u>	<u>8,114</u>

Additional information (Note 13)



# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 1. DESCRIPTION OF BUSINESS

Orbit Garant Drilling Inc. (the "Company"), amalgamated under the Canada Business Corporations Act, operates mainly an underground and surface diamond drilling business. The Company has operations in Canada, United States and Central and South America.

### 2. BUSINESS ACQUISITIONS

Acquisition of 1085820 Ontario Limited (Advantage Control Technologies):

On November 8, 2010, the Company acquired all issued and outstanding shares of 1085820 Ontario Limited (specialized in the development of new technologies for mineral drilling in Canada) for a total net consideration of \$3,585 (excluding acquisition costs) payable for a cash consideration of \$2,935 and \$650 through the issuance of 132,743 common shares of the company. Furthermore, the Company will pay a cash consideration of \$521 as compensation of the net working capital of the company on the acquisition date and an amount of \$136 for acquisition costs. The account payable as compensation of the net working capital does not bear interest and will be paid ten days after the deliverance of the financial statements of 1085820 Ontario Limited. An amount of \$4,280 has been accounted for as intangible assets.

Further to this transaction, the Company has also acquired some equipment related to this business for an amount of \$375 payable in cash.

The purchase price of 1085820 Ontario Limited is subject to an adjustment of an amount up to \$2,400 calculated on the achievement of specified earnings levels over the periods ended November 8, 2011, 2012 and 2013. When the specified earnings are achieved, a payable amount will be accounted for as an increase of goodwill or intangible assets.

Acquisition of Morris Drilling Inc.:

On December 13, 2010, the Company acquired all issued and outstanding shares of Morris Drilling Inc. (doing a surface diamond drilling business in Canada) for a total net consideration of \$3,426 (excluding acquisition costs) payable for a cash consideration of \$2,595 and \$831 through the issuance of 173,010 common shares of the company. Furthermore, the Company will receive a cash consideration of \$100 as compensation of the net working capital of the company on the acquisition date and will pay an amount of \$222 for acquisition costs. The account receivable as compensation of the net working capital does not bear interest and will be received ten days after the deliverance of the financial statements of Morris Drilling Inc. An amount of \$1,900 has been accounted for as intangible assets and \$1,363 as goodwill.

The results of operations of 1085820 Ontario Limited and Morris Drilling Inc. are included in the consolidated financial statements from November 8, 2010 and December 13, 2010, respectively.

On January 1, 2011, Morris Drilling was merged with 1085820 Ontario Inc. and on February 8, 2011, the legal corporate name of 1085820 Ontario Limited has been changed for Orbit Garant Ontario Inc.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 2. BUSINESS ACQUISITIONS (continued)

The estimated purchase price of these above transactions were allocated to the net assets acquired on the basis of their estimated fair values as follows:

	Total
	\$
Cash	87
Current assets	2,187
Property, plant and equipments	1,262
Goodwill	1,363
Intangible assets	6,180
Current liabilities	(1,299)
Future income taxes	(1,614)
Purchase price	<u>8,166</u>
Consideration	
Cash (including acquisition costs of \$358)	6,263
Issuance of common shares	1,482
Account payable related to net working capital adjustment	421
	<u>8,166</u>

### 3. FUTURE ACCOUNTING CHANGES

#### *International Financial Reporting Standards*

The Accounting Standards Board of Canada ("AcSB") will make the transition from Canadian GAAP for publicly accountable enterprises to International Financial Reporting Standards ("IFRS") over a transition period that will end effective January 1, 2011 with the adoption of IFRS. In October 2009, the AcSB reconfirmed that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 therefore the transition date for the Company is July 1, 2011. This will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended June 30, 2011 and of the opening balance sheet as at July 1, 2010. The Company will convert to these new standards according to the timetable set with these new rules.

The Company has established a conversion and implementation plan to ensure the timely conversion to IFRS.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 4. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

#### Principles of consolidation

The consolidated financial statements includes the accounts of the Company and its wholly-owned subsidiaries as follows:

Orbit Garant Drilling Services Inc. (a)  
9116-9300 Québec Inc.  
Orbit Garant Ontario Inc.  
Drift Exploration Drilling Inc.  
Drift de Mexico SACV  
Forage Orbit Inc.  
9129-5642 Québec Inc.

(a) On July 1, 2010, all the assets and liabilities of Orbit Garant Drilling, a General Partnership has been transferred in 4378792 Canada Inc. Furthermore, 4378792 Canada Inc. has changed its name for Orbit Garant Drilling Services Inc.

#### Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

<u>Asset/Liability</u>	<u>Classification</u>	<u>Mesurement</u>
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Investments in shares of public companies	Available-for-sale	Fair value
Investment in shares of private companies	Available-for-sale	Cost
Bank overdraft	Held for trading	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Client deposits	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

#### Cash and cash equivalents

Cash and cash equivalents include cash and bank overdraft of which the balance often fluctuates between the available cash amount and the indebtedness.

#### Inventories

The Company maintains an inventory of operating supplies, drill rods and drill bits. Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price less the estimated cost necessary to make the sale. Cost is determined on the first-in, first-out basis. Used inventories are valued at 50% of cost.

#### Investments

Investments in companies over which the company exercises significant influence are accounted for using the equity method. The Company's share in net earnings of from these companies is presented in the statement of earnings.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 4. ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

Property, plant and equipment are recorded at cost and amortization is calculated using the straight-line method based on their estimated useful life using the following periods:

Parking	10 years
Buildings	5 to 20 years
Office equipment	5 years
Drilling equipment	5 to 10 years
Machinery and equipment	5 years
Computer equipment	3 to 5 years
Vehicles	5 years
Leasehold improvements	5 to 10 years

Cost of repairs and maintenance are charged to operations as incurred. Significant improvements are capitalized and amortized over the useful life of the asset.

#### Goodwill

Goodwill, representing the excess of purchase price over fair value of the net identifiable assets of acquired businesses, is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of earnings in an amount equal to the excess.

#### Intangible assets

Intangible assets are accounted for at cost. Amortization is based on their estimated useful life using the straight-line method and the following periods:

Customer relationship	36 and 42 months
Drilling technology	60 months
Non-compete agreement	36 and 60 months

#### Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss if any is determined as the excess of the carrying value of the asset over its fair value.

#### Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded to account for future tax effects of differences between the value of the assets and liabilities on the balance sheet and their tax values, by using the tax rates in effect for the year during which the differences are expected to reverse. Management reduces the carrying value of the future income tax assets by a valuation allowance when it is more likely than not that some portion of the asset will not be realized.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 4. ACCOUNTING POLICIES (continued)

#### Foreign currency translation

Integrated foreign operations and accounts denominated in foreign currency are translated as follows: monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period except for amortization, which is translated at historical rates. Translation gains or losses are included in earnings.

#### Revenue recognition

Revenue from drilling contracts is recognized on the basis of actual meterage drilled for each contact. Revenue from ancillary services is recorded when the service is rendered and revenue from the sale of drilling rigs is recorded at shipping. The Company recognizes revenue when persuasive evidence of an arrangement exists, service has been rendered, merchandise has been shipped, the price to the buyer is fixed or determinable and collection is reasonably assured.

#### Earnings per share

Earnings per share are calculated using the weighted daily average number of shares outstanding during the year.

Diluted earnings per share are determined as net earnings divided by the weighted average number of diluted common shares for the year. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury stock method.

#### Stock options

The Company uses the fair value method to account for stock options. In accordance with this method, compensation cost is measured at the fair value of the option at the grant date using the Black-Scholes option pricing model and is amortized to earnings over the vesting period.

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment and intangible assets for amortization purposes, valuation of goodwill, inventory valuation, determination of bad debt allowance, purchase price allocation related to business acquisitions, income and other taxes, amounts recorded as accrued liabilities and stock-based compensation.

### 5. INVENTORY

The cost of inventory recognized as an expense and included in cost of contract revenue for the year ended June 30, 2011 was \$27,097 (June 30, 2010, \$23,324). During the year, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

The Company's credit facilities is in part secured by a general assignment of the Company's inventory.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 6. LONG-TERM INVESTMENTS

	June 30 2011	June 30 2010
	\$	\$
Company subject to significant influence:		
6483976 Canada Inc. (Usage X-SPEC):		
4,000 class A shares, representing 40% of the voting shares, participating, at equity method	-	838
48,000 class I shares, non-participating, non-voting, maximum dividend of 8% per year, redeemable at the option of the company at \$48,000, at cost	-	48
	<u>-</u>	<u>886</u>

### 7. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Net book value June 30 2011
	\$	\$	\$
Land	730	-	730
Parking	20	19	1
Buildings	8,480	172	8,308
Office equipment	748	219	529
Drilling equipment	42,190	17,242	24,948
Machinery and equipment	1,580	458	1,122
Computer equipment	1,195	663	532
Vehicles	11,163	4,244	6,919
Leasehold improvements	167	33	134
	<u>66,273</u>	<u>23,050</u>	<u>43,223</u>

	Cost	Accumulated amortization	Net book value June 30 2010
	\$	\$	\$
Land	761	-	761
Parking	20	15	5
Buildings	2,808	144	2,664
Office equipment	224	116	108
Drilling equipment	32,422	11,122	21,300
Machinery and equipment	616	284	332
Computer equipment	967	467	500
Vehicles	8,519	2,751	5,768
Leasehold improvements	317	74	243
	<u>46,654</u>	<u>14,973</u>	<u>31,681</u>

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 7. PROPERTY, PLANT AND EQUIPMENT (continued)

The gain on disposal of property plant and equipment totaling \$36 (\$96 in 2010) consist of \$126 (\$460 in 2010) presented as a gain separately in the statement of earning and a loss of \$90 (\$364 in 2010) included in cost of contract revenue.

### 8. INTANGIBLE ASSETS

	Cost	Accumulated amortization	Net book value June 30 2011
	\$	\$	\$
Intangible assets, limited life:			
Customer relationship	16,950	14,284	2,666
Drilling technology (a)	2,884	-	2,884
Non-compete agreement	2,480	1,986	494
	<u>22,314</u>	<u>16,270</u>	<u>6,044</u>
	Cost	Accumulated amortization	Net book value June 30 2010
	\$	\$	\$
Intangible assets, limited life:			
Customer relationship	14,024	13,258	766
Non-compete agreement	2,110	1,502	608
	<u>16,134</u>	<u>14,760</u>	<u>1,374</u>

(a) The drilling technology has not been amortized during the year ended June 30, 2011.

### 9. LONG-TERM DEBT

	June 30 2011	June 30 2010
	\$	\$
Loan authorized for a maximum amount of \$40 millions, bearing interest at prime rate plus 0.5%, maturing May 2015, secured by first rank hypothec on the universality of all present and future assets (a) (b)	14,618	-
Loans, bearing interest at rates ranging from 0 % to 1 %, payable in monthly instalments of \$19, maturing in August 2013, secured by certain vehicles of a net book value of \$550	<u>223</u>	<u>375</u>
	14,841	375
Current portion	<u>(168)</u>	<u>(203)</u>
	<u>14,673</u>	<u>172</u>

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 9. LONG-TERM DEBT (continued)

- (a) The rate is variable based on the quarterly calculation of a financial ratio and can vary from prime rate plus 0,5% to 1,50%. As per certain conditions, the credit facility can be increased by an amount of \$20 millions up to a maximum authorized amount of \$60 millions.
- (b) An unamortized amount of \$276, representing financing fees has been presented in deduction of the long-term debt. This amount is being amortized to earnings over the term of the debt, using the effective interest method.

Under the terms of the long-term debt agreement, the Company must satisfy certain restrictive covenants as to minimum financial ratios (see Note 10).

On June 30, 2011, the prime rate was 3% (June 30, 2010, 2.50%).

Principal payments required in each of the next four years are as follows:

	<u>\$</u>
2012	168
2013	51
2014	4
2015	14,894

### 10. CAPITAL MANAGEMENT

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

Total managed capital was as follows:

	<u>June 30</u> <u>2011</u>	<u>June 30</u> <u>2010</u>
	\$	\$
Bank overdraft	698	-
Long-term debt	14,841	375
Share capital	53,386	51,898
Contributed surplus	1,948	1,369
Retained earnings	48,453	36,325
Cash	-	(8,114)
	<u>119,326</u>	<u>81,853</u>

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: i) preserve access to capital markets; ii) meet financial obligations and iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants, such as Senior debt to earnings before income taxes, interest, depreciation and amortization ratio, Senior debt to capitalization ratio and Fixed charge coverage ratio. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the period, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.



# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 10. CAPITAL MANAGEMENT (continued)

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from the prior period.

### 11. SHARE CAPITAL

Authorized, an unlimited number of common and preferred shares:

Common shares, participating and voting

Preferred shares, rights' privileges, restrictions and conditions shall be provided before their issuance by a resolution of the board of directors of the Company

Common shares issued:

	June 30, 2011		June 30, 2010	
	Number of shares	\$	Number of shares	\$
Balance, beginning of the year	32,738,684	51,918	32,738,684	51,918
Shares issued:				
For business acquisition (a)	305,753	1,482	-	-
Stock option exercised	4,500	6	-	-
	<u>33,048,937</u>	<u>53,406</u>	<u>32,738,684</u>	<u>51,918</u>
Share purchase financing (b)	-	(20)	-	(20)
Balance, end of the year	<u>33,048,937</u>	<u>53,386</u>	<u>32,738,684</u>	<u>51,898</u>

(a) Issuance during the year ended June 30, 2011:

In November and December 2010, the Company issued a total of 305,753 common shares for total amount of \$1,482 as part of the consideration for the acquisitions of 1085820 Ontario Limited and Morris Drilling Inc. (see Note 2).

(b) Share purchase financing:

On August 20, 2007, 13,333 common shares were issued to an employee of the Company at \$1.50 per common share under the Company's share purchase plan. The Company granted a five-year loan in the amount of \$20 to this employee pursuant to the terms and conditions set out in a promissory note secured by 13,333 common shares. The loan is repayable at the earlier of (i) the date the shares were sold or, (ii) at the maturity date of the loan. Interest on the principal of the loan is calculated and compounded annually at a rate of 8%. As at June 30, 2011, the fair value of the securities is \$74 .

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 11. SHARE CAPITAL (continued)

#### *Earnings per share*

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

	June 30 2011	June 30 2010
<b>Earnings per share - basic</b>		
Net earnings available to common shareholders	12,128 \$	12,587 \$
Weighted average basic number of common shares outstanding	32,918,727	32,738,684
Earnings per share - basic	<u>0.37 \$</u>	<u>0.38 \$</u>
	June 30 2011	June 30 2010
<b>Earnings per share - diluted</b>		
Net earnings available to common shareholders	12,128 \$	12,587 \$
Weighted average basic number of common shares outstanding	32,918,727	32,738,684
Adjustment to average number of common shares - stock options	851,336	709,830
Weighted average diluted number of common shares outstanding	<u>33,770,063</u>	<u>33,448,514</u>
Earnings per share - diluted	<u>0.36 \$</u>	<u>0.38 \$</u>

The calculation of the diluted earnings per share for the year ended June 30, 2011 excludes the effect of 365,000 options (925,000 in 2010) as they are anti-dilutive.

#### *2007 stock option plan:*

In January 2007, the Board of Directors adopted a stock option plan (the « 2007 stock option plan »). The purpose of this plan is to retain, motivate and reward qualified directors, officers, employees and consultants of the Company.

The vesting and expiry terms of the outstanding options were modified in June 2008 and will now vest at the rate of 50% 31 days after the closing date of the IPO and 25% on each of the first and second anniversary of the closing date of the IPO and will expire 10 years after the grant date.

#### *2008 stock option plan*

Also, on June 26, 2008, the Company established the new option plan (the « 2008 stock option plan »), which is intended to aid in attracting, retaining and motivating the Company's officers, employees, directors and consultants. The new option plan has been prepared in accordance with TSX's policies on listed company security-based compensation arrangements. Persons eligible to be granted options under the new option plan are any director, officer or employee of Orbit Garant or of any subsidiary, corporation controlled by any such person or a family trust of which at least one trustee is any such person and all of the beneficiaries of which are such person and his or her spouse or children.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 11. SHARE CAPITAL (continued)

The aggregate number of common shares which may be issued from treasury under the new option plan or reserved for issuance upon the exercise of options under the 2008 stock option plan shall not exceed 10% of the issued and outstanding common shares after giving effect to the June 26, 2008 offering less the number of options issued under the prior option plan. The number of common shares which may be reserved for issuance pursuant to options granted under the new option plan, together with common shares reserved for issuance from treasury under any other employee-related plan of the Company or options for services granted by the Company, to any one person shall not exceed 5% of the then aggregate issued and outstanding common shares.

The Board of Directors, through the recommendation of the compensation and corporate governance committee, will manage the 2008 stock option plan and will determine, among other things, optionees, vesting periods, exercise price and other attributes of the options, in each case pursuant to the 2008 stock option plan, applicable securities legislation and the rules of the TSX. Unless otherwise determined by the Board of Directors, options will vest at a rate of 20% per annum commencing 12 months after the date of grant and will expire no later than 10 years after the grant date. Options are forfeited when the option holder ceases to be a director, officer or employee of the Company. The exercise price for any option may not be less than the fair market value (the closing price of the common shares on the TSX on the last trading day on which common shares traded prior to such day, or the average of the closing bid and ask prices over the last five trading days if no trades accrued over that period) of the common shares at the time of the grant of the option.

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

	Number of options	Weighted average exercise price
		\$
Outstanding as at June 30, 2010	1,973,000	2.42
Granted during the year	365,000	5.73
Exercised during the year	(4,500)	1.00
Outstanding as of June 30, 2011	2,333,500	2.94
Exercisable as at June 30, 2011	1,478,500	1.90

The following table summarized information on stock options outstanding at June 30, 2011:

Range of exercise prices	Outstanding at June 30, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at June 30, 2011	Weighted average exercise price
\$			\$		\$
1.00 - 1.50	1,043,500	5.63	1.02	1,043,500	1.02
4.00	925,000	7.44	4.00	435,000	4.00
5.65 - 6.02	365,000	6.42	5.73	-	
	2,333,500			1,478,500	

**ORBIT GARANT DRILLING INC.**  
**Notes to consolidated financial statements**

For the years ended June 30, 2011 and 2010

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

**11. SHARE CAPITAL (continued)**

The Company's calculations of the fair value of options granted were made using the Black-Scholes option-pricing model. The following table summarizes the grant date fair value calculations with weighted average assumptions:

	Granted in February 2011	Granted in November 2010
Risk-free interest rate	2.31%	1.84%
Expected life (years)	5	5
Expected volatility	67.96%	68.88%
Expected dividend yield	0%	0%
Fair value of options granted	\$3.45	\$3.17

During the year ended June 30, 2011, the total expense related to stock-based compensation to employees and directors amounting to \$581 has been recorded and presented in general and administrative expenses (\$469 for the year ended June 30, 2010).

**12. INCOME TAXES**

Income tax expense comprises the following:

	June 30 2011	June 30 2010
	\$	\$
Current	5,647	6,959
Future	(345)	(1,349)
	<u>5,302</u>	<u>5,610</u>

Income tax expense differs from the amounts calculated by applying canadian statutory rates (federal and provincial) of 29,2% (2010, 31.06%) to the earnings before income taxes as follows:

	June 30 2011	June 30 2010
	\$	\$
Earnings before income taxes	17,430	18,197
Income taxes based on statutory rates	5,090	5,652
Increase (decrease) of income taxes due to the following:		
Non-deductible expenses	103	39
Non-deductible stock-based compensation expense	170	146
Non-taxable share in net earnings of a company subject to significant influence	(66)	(126)
Effect of corporate tax rate modification and prior year adjustments	74	(55)
Non-taxable portion of capital gain	(69)	(46)
Total income taxes	<u>5,302</u>	<u>5,610</u>

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 12. INCOME TAXES (continued)

Future income taxes are based on differences between the accounting and tax values of assets and liabilities and consist of the following as at the dates presented:

	June 30 2011	June 30 2010
	\$	\$
<b>Future income tax assets:</b>		
Share issue costs	216	444
Long-term investments	13	13
Total future income tax assets	<u>229</u>	<u>457</u>
<b>Future income tax liabilities:</b>		
Property, plant and equipment	1,121	1,313
Intangible assets	1,713	479
Total future income tax liabilities	<u>2,834</u>	<u>1,792</u>
<b>Net future income tax liabilities</b>	<u><u>2,605</u></u>	<u><u>1,335</u></u>

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

#### Changes in non-cash operating working capital items

	June 30 2011	June 30 2010
	\$	\$
Accounts receivable	(10,577)	1,495
Inventories	(10,068)	(3,038)
Income taxes receivable	(109)	(2,351)
Prepaid expenses	(228)	(136)
Accounts payable and accrued liabilities	297	5,959
Client deposits	(118)	209
Income taxes payable	-	(1,911)
	<u>(20,803)</u>	<u>227</u>
<b>Other information</b>		
Interest paid	440	319
Income taxes paid	10,411	11,221

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 14. COMMITMENTS

The Company has entered into lease agreements expiring 2013 which call for lease payments of \$76 for the rental of vehicles. The Company has also entered into lease agreements expiring 2020 for minimum lease payments of \$1,670. The minimum lease payments under lease agreements for the next five years are detailed as follows:

	<u>\$</u>
2012	217
2013	207
2014	186
2015	178
2016	178

Furthermore, the Company has entered into an agreement to purchase from a supplier, a total of \$2,5 millions in products or drilling services, no later than January 31, 2013.

### 15. RELATED PARTY TRANSACTIONS

The Company is related to 2867-3820 Québec Inc., a company owned by a director.

The Company was related to 6483976 Canada Inc. (Usage X-SPEC) until January 31, 2011 due to the significant influence exercised by the company.

During the year, the Company entered into the following transactions with its related companies:

	<u>June 30</u> <u>2011</u> <u>\$</u>	<u>June 30</u> <u>2010</u> <u>\$</u>
Sales	47	87
Purchases	1,267	1,982
Rent	95	108
General and administrative expenses	-	35

These above transactions were made within the normal course of operations and have been recorded at the exchange amount which is the amount of consideration established and agreed to by related parties.

As at June 30, 2011, accounts payable and accrued liabilities are negligible in relation to these transactions, compared to 0.7 million as at June 30, 2010.

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 16. FINANCIAL INSTRUMENTS

The Company is exposed to various risks related to its financial assets and liabilities. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them, from previous periods, unless otherwise stated in this note.

#### *Currency risk*

The Company realizes a part of its activities in US dollars and is thus exposed to foreign exchange fluctuations. The Company does not actively manage this risk. As at June 30, 2011, the Company has cash in US dollars for an amount of \$296 (June 30, 2010, \$228) and accounts receivable in US dollars for an amount of \$388 (June 30, 2010, \$516).

As at June 30, 2011, the Company has estimated that a ten percent increase or decrease of the US exchange rate would have caused a corresponding annual increase or decrease in net earnings of approximately \$18 (June 30, 2010, \$23).

#### *Credit risk*

The Company provides credit to its customers in the normal course of its operations. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. Demand for the Company's drilling services depends upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold, nickel and copper.

In order to reduce the credit risk, the Company is using insurance coverage from Export Development Canada ("EDC") on certain accounts receivable from its customers. The insurance program provides under certain terms and conditions an insurance coverage amount of up to 90% of unpaid accounts. As at June 30, 2011, the amount of the insurance coverage from EDC represents approximately 32.7% of the accounts receivable (53% in 2010).

The carrying amounts for accounts receivable are net of allowances for doubtful accounts, which are estimated based on aging analysis of receivables, past experience, specific risks associated with the customer and other relevant information. The maximum exposure to credit risk is the carrying value of the financial assets.

As at June 30, 2011, 43% (54.9% in 2010) of the trade accounts receivable are aged as current and 2% (5% in 2010) of receivables are impaired.

One major customer represents 13% of the trade accounts receivable as at June 30, 2011 (June 30, 2010, one major customer represents 10%).

# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

---

### 16. FINANCIAL INSTRUMENTS (continued)

No major customer represents more than 10% of the contract revenue for the year ended June 30, 2011 (June 30, 2010, one major customer represents 10%).

Credit risk also arises from cash and cash equivalents with banks and financial institutions. This risk is limited because the counterparties are mainly Canadian banks with high credit rating.

The Company does not enter into derivatives to manage credit risk.

#### *Interest rate risk*

The Company is subject to interest rate risk since a significant part of the long-term debt bears interest at variable rates.

As at June 30, 2011, the Company has estimated that a one percentage point increase or decrease in interest rates would have caused a corresponding annual increase or decrease in net earnings of approximately \$105 (no significant impact in 2010).

#### *Fair value*

The fair value of cash, accounts receivable, accounts receivable related from disposal of long-term investments, bank overdraft, accounts payable and accrued liabilities, accounts payable related to business acquisitions and client deposits is approximately equal to their carrying values due to their short-term maturity.

The fair value of long-term debt approximates its carrying value as it bears interest at variable rate and has financing conditions similar to those currently available to the Company.

#### *Liquidity risk*

Liquidity risk arises from the Company's management of working capital, the finance charges and principal repayments on its debt instruments. It is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In Note 9 is detail of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

	Total	0 -1 year	2 - 3 years	4 - 5 years
	\$	\$	\$	\$
Client deposits	453	453	-	-
Accounts payable and accrued charges	18,135	18,135	-	-
Accounts payable related to business acquisitions	421	421	-	-
Long-term debt (capital only)	15,117	168	55	14,894
	<u>34,126</u>	<u>19,177</u>	<u>55</u>	<u>14,894</u>



# ORBIT GARANT DRILLING INC.

## Notes to consolidated financial statements

For the years ended June 30, 2011 and 2010

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

### 17. SEGMENTED INFORMATION

The Company operates in three geographic segments, Drilling Canada, Drilling International (US, Central and South America) and Manufacturing Canada. The services provided in each of the reportable drilling segments are essentially the same. Management evaluates performance based on gross profit in these three geographic segments before interest, general corporate expenses and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

	June 30 2011	June 30 2010
	\$	\$
Contract revenue		
Drilling Canada	105,641	99,090
Drilling International	19,013	10,224
Manufacturing Canada	10,733	7,498
Elimination - Manufacturing Canada	(7,649)	(6,854)
	<u>127,738</u>	<u>109,958</u>
Gross profit		
Drilling Canada	23,393	28,661
Drilling International	10,822	4,636
Manufacturing Canada	1,052	326
	<u>35,267</u>	<u>33,623</u>
Interest	440	319
General corporate expenses	17,397	15,107
Income taxes	5,302	5,610
	<u>23,139</u>	<u>21,036</u>
Net earnings	<u>12,128</u>	<u>12,587</u>
Identifiable assets		
Drilling and Manufacturing Canada	128,345	100,764
Drilling International	12,595	7,696
	<u>140,940</u>	<u>108,460</u>
Property, plant and equipment		
Drilling and Manufacturing Canada	39,415	28,210
Drilling International	3,808	3,471
	<u>43,223</u>	<u>31,681</u>
Amortization		
Drilling and Manufacturing Canada	7,806	8,744
Drilling International	863	646
	<u>8,669</u>	<u>9,390</u>

### 18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.