



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

**FIRST QUARTER FISCAL 2020**

**(Three-month period ended September 30, 2019)**

**November 13, 2019**

## 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-month period ended September 30, 2019; as compared with the corresponding period of the previous year and also with the audited consolidated financial statements and MD&A contained in the Company's annual report for the fiscal year ended June 30, 2019.

The Company's first quarter of Fiscal 2020 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 November 13, 2019. 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 18, 2019, accessible via [www.sedar.com](http://www.sedar.com).

## **FISCAL 2020 FIRST QUARTER SUMMARY**

- Revenue increased 16.1% to \$43.3 million in the first quarter of Fiscal 2020 ("Q1 FY2020"), compared to \$37.3 million in the first quarter of Fiscal 2019 ("Q1 FY2019")
- Gross margin increased to 16.0% from 15.0% in Q1 FY2019
- Adjusted gross margin (excluding depreciation expense)<sup>1</sup> was 21.3%, up from 20.4% in Q1 FY2019
- EBITDA<sup>1</sup> increased 46.8% to \$5.1 million, compared to \$3.4 million in Q1 FY2019
- Net earnings increased to \$1.1 million, or \$0.03 per share, compared to net earnings of \$0.4 million, \$0.01 per share, in Q1 FY2019
- Metres drilled in Q1 FY2020 totalled 387,424, an increase of 22.6% compared to 316,045 metres drilled in Q1 FY2019.

(1) See Reconciliation of non-IFRS financial measures

## **CORPORATE OVERVIEW**

Orbit Garant (TSX: OGD) is one of the largest Canadian-based mineral drilling companies, with 234 drill rigs and more than 1,300 employees. Headquartered in Val-d'Or, Québec, the Company provides both underground and surface drilling services in Canada and internationally to major, intermediate and junior mining companies, through each stage of mineral exploration, mine development and production. Orbit Garant also provides geotechnical and water 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 regional offices and facilities in Sudbury, Ontario and Moncton, New Brunswick, to support its Canadian business activities. Orbit Garant has worked on international projects in the United States, Mexico, Guyana, Chile, Argentina, Kazakhstan, Burkina Faso, Liberia and West Africa. The Company has established international operating subsidiaries in: Winnemucca, (Nevada) USA, Santiago, Chile; Lima, Peru; Georgetown, Guyana; Ouagadougou, Burkina Faso; and Takoradi, Ghana, to support its international operations.

Orbit Garant has a comprehensive infrastructure that is vertically integrated with its Val-d'Or, Québec, based 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 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 three-month period ended September 30, 2019:

- Specialized drilling services, which typically generate a higher gross margin than conventional drilling services, accounted for approximately 50% of the Company's total revenue, compared to 61% in Q1 FY2019.
- Approximately 71% of the Company's revenues were generated by gold related operations, and approximately 29% were generated by base metal related and other operations.
- Surface and underground drilling services accounted for approximately 63% and 35%, respectively, of the Company's revenue. Orbit Garant's manufacturing subsidiary, Soudure Royale, accounted for the remaining 2% of revenue.
- Approximately 83% of Orbit Garant's revenue was generated from major and intermediate mining company projects, compared to 78% Q1 FY2019. Orbit Garant's drilling contracts with major and intermediate customers are typically from one to five years in length.

- Approximately 82% of Orbit Garant's revenue was generated from domestic drilling projects, and approximately 18% was generated from international drilling contracts.

## **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 technological innovation 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 acquisition of, Orbit Garant Chile S.A. ("OG Chile") based in Santiago, Chile, in December 2015; and the acquisition of the drilling business of Projet Production International BS S.A. ("PPI") in Ouagadougou, Burkina Faso in October 2018;
- 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 demand for gold jewelry, investment demand, and to a much lesser extent, demand from industrial applications.

The price of gold has increased in 2019, trading at its highest levels since 2013. At the time of this report, the spot price of gold was approximately US\$1,463 per ounce. That represents an increase of approximately 14% since the start of 2019 and an increase of approximately 40% from its trailing five-year price low in December 2015.

### **Base Metals**

Base metals' prices generally reflect 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. The price performance of the primary base metals is mixed compared to 12 months ago. The spot prices of aluminum, copper and zinc are lower compared to 12 months ago, while the spot prices of lead and nickel are higher. The spot price for copper, the metal widely considered to be the most sensitive to macroeconomic activity, was approximately US\$2.80 per pound a year ago and at the time of this report was approximately US\$2.64 per pound, a decrease of 5%. The spot prices of copper, lead, and zinc are currently near the mid-points of their respective trailing five-year price ranges, the spot price of aluminum is near the lower end of its trailing five-year price range, while the spot price of nickel is near the upper end.

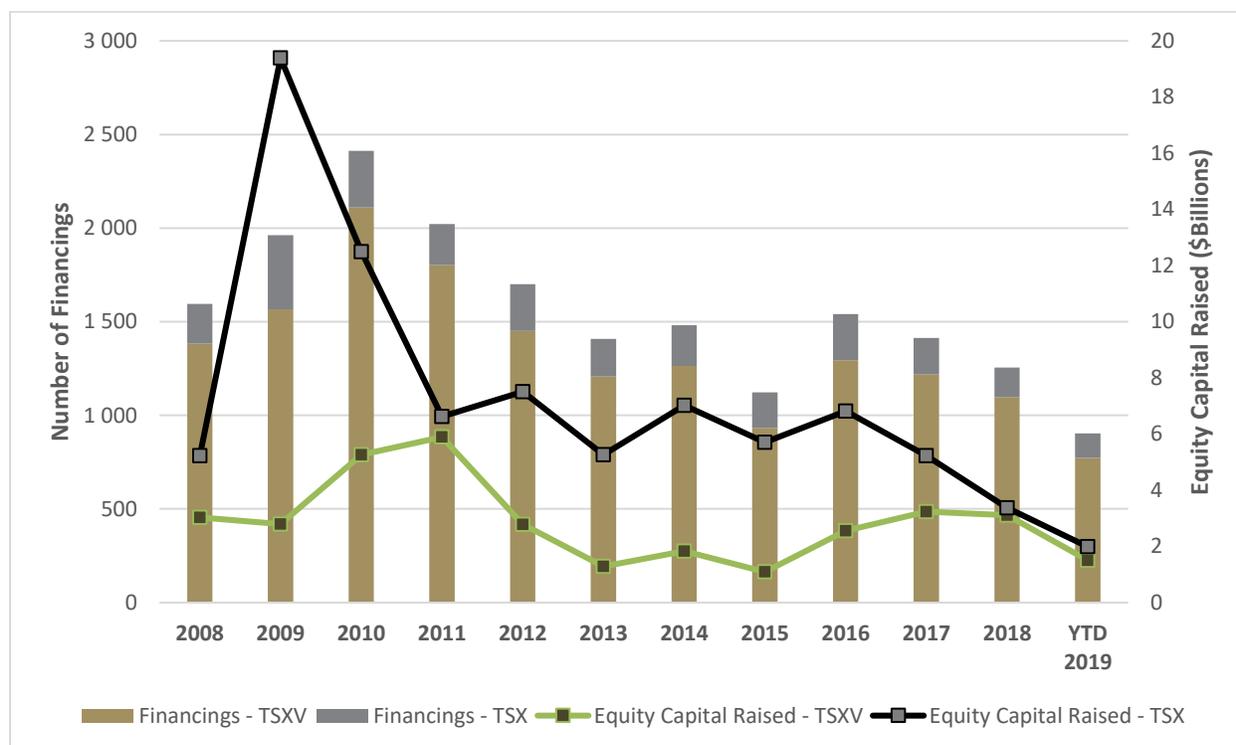
### **Iron Ore**

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. At the time of this report, the spot price of iron ore was approximately US\$81 per tonne, compared to approximately US\$75 per tonne one year ago. The spot price of iron ore is currently near the mid-point of its trailing five-year price range.

### **Market Participants**

The mining sector began to recover from a prolonged downturn in early 2016. Metal prices increased, driving higher mining equity valuations and increased financing activity. However, the recovery paused in mid-2018 as metal prices declined. In late May 2019, the price of gold entered into a sustained rally, surpassing US\$1,500 an ounce in August for the first time in more than six years. While the price of gold has recently declined from its recent high of approximately US\$1,552 per ounce on September 4, 2019, it still remains well above levels prior to the beginning of the price rally in late May. Accordingly, the share valuations of gold mining companies have increased significantly, as reflected by the approximately 30% increase in the S&P/TSX Global Gold Index (May 31, 2019 to November 12, 2019). The performance of the base metals has been mixed during 2019, and the stock performance of base metal mining companies has generally lagged gold mining companies. The S&P/TSX Global Base Metals Index was down approximately 1% from May 31, 2019 to November 12, 2019.

TSX / TSX-V Mining Sector Financings (2008 to the nine months ended September 30, 2019)



Overall, mining financing activity has slowed in 2019 relative to 2018. According to TMX Group, mining companies listed on the Toronto Stock Exchange (“TSX”) and the TSX-Venture Exchange completed 904 financings in the first three quarters of 2019, raising an aggregate of \$3.5 billion of equity capital, compared to 915 financings that raised \$5.2 billion of equity capital in the first three quarters of 2018. Despite the overall lower levels of mining financing to date in 2019, activity has rebounded after a slow start to the year. In the third quarter of 2019, mining companies on the two exchanges completed 344 financings that raised \$1.9 billion of equity capital, including two large financings for a base metals company. That compares to 265 financings that raised \$850 million of equity capital in the third quarter of 2018.

According to research from S&P Global Market Intelligence’s Corporate Exploration Strategies series (October 2019), global exploration budgets for nonferrous metals are an estimated \$9.8 billion in 2019. That represents a small decline of 3% compared to US\$10.1 billion in 2018, an increase of 15% compared to US\$8.5 billion in 2017, and an increase of 36% compared to \$7.2 billion in 2016. The annual increases in global nonferrous exploration budgets recorded in 2017 and 2018 followed four consecutive years of declining expenditures. S&P expects global exploration budgets for nonferrous metals to remain relatively flat in 2020.

## OVERALL PERFORMANCE

### Results of operations for the first quarter ended September 30, 2019

FIRST QUARTER ENDED SEPTEMBER 30 * (\$millions)	Fiscal 2020 1 <sup>st</sup> Quarter	Fiscal 2019 1 <sup>st</sup> Quarter	2020 vs. 2019 variance
Revenue *	43.3	37.3	6.0
Gross profit *	6.9	5.6	1.3
Gross margin (%)	16.0	15.0	1.0
Adjusted gross margin (%) <sup>(1)</sup>	21.3	20.4	0.9
Net earnings (loss) *	1.1	0.4	0.7
Net earnings (loss) per common share - Basic (\$)	0.03	0.01	0.02
- Diluted (\$)	0.03	0.01	0.02
EBITDA * <sup>(2)</sup>	5.1	3.4	1.7
Metres drilled	387,424	316,045	71,379

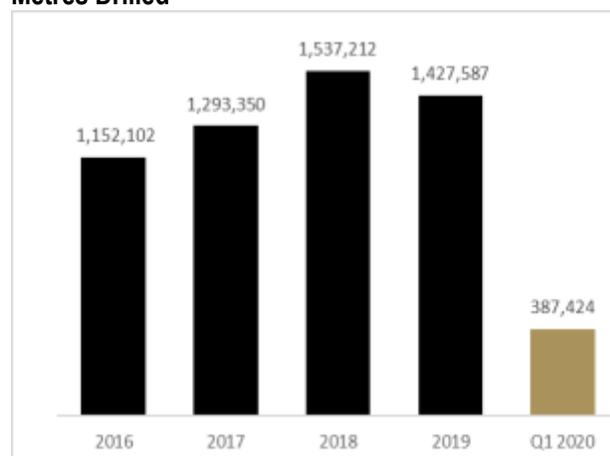
<sup>(1)</sup> Reflects gross margin, excluding depreciation expenses. See "Reconciliation of non-IFRS financial measures"

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

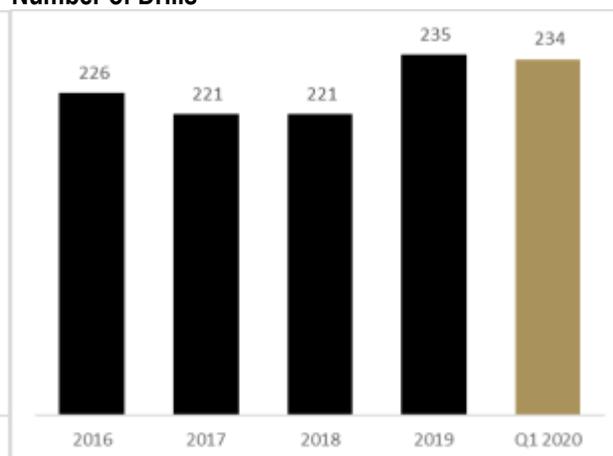
During Q1 FY2020, Orbit Garant drilled 387,424 metres, an increase of 22.6% compared to 316,045 metres drilled in Q1 FY2019. The Company's average revenue per metre drilled in Q1 FY2020 was \$109.93, compared to \$117.55 in Q1 FY2019. The decrease in average revenue per metre drilled is primarily attributable to a decrease in international specialized drilling activity during Q1 FY2020.

Orbit Garant had 234 drill rigs as at September 30, 2019. During the quarter, Soudure Royal manufactured one new computerized drill rig, while two conventional drill rigs were dismantled. Orbit Garant currently has 39 underground drill rigs outfitted with its computerized monitoring and control technology.

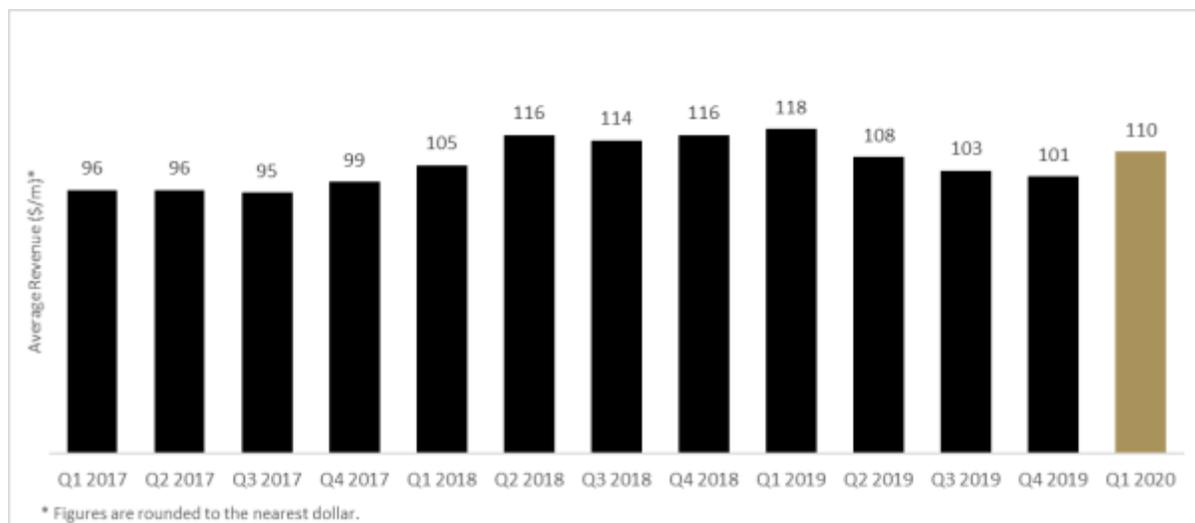
#### Metres Drilled



#### Number of Drills



## Average Revenue per Metre Drilled



## ANALYSIS OF THE FIRST QUARTER OF FISCAL 2020 COMPARED TO THE FIRST QUARTER OF FISCAL 2019

### Contract Revenue

Revenue in Q1 FY2020 totalled \$43.3 million, an increase of \$6.0 million, or 16.1%, from \$37.3 million in Q1 FY2019. Revenue growth was primarily attributable to increased drilling activity in Canada.

Canada revenue totalled \$35.4 million in Q1 FY2020, an increase of \$6.3 million, or 21.7%, from \$29.1 million in Q1 FY2019. The increase was primarily attributable to an increase in meters drilled.

International revenue totalled \$7.9 million in Q1 FY2020, compared to \$8.2 million in Q1 FY2019, a decrease of \$0.3 million. The decrease in International revenue was primarily attributable to lower revenue in Chile, (\$3.6 million in Q1 FY2020 compared to \$6.7 million in Q1 FY2019), resulting from the completion of a multi-year contract in the fourth quarter of fiscal 2019, partially offset by new drilling projects in Burkina Faso, Guyana and Argentina.

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

Gross profit for Q1 FY2020 was \$6.9 million, compared to \$5.6 million in Q1 FY2019. Gross margin was 16.0%, compared to 15.0% in Q1 FY2019. Depreciation expenses totalling \$2.3 million are included in cost of contract revenue for Q1 FY2020, compared to \$2.0 million in Q1 FY2019. Adjusted gross margin, excluding depreciation expenses, was 21.3% in Q1 FY2020, compared to 20.4% in Q1 FY2019. The increase in gross profit, gross margin and adjusted gross margin was primarily attributable to higher drilling volumes.

### General and Administrative Expenses

General and administrative (G&A) expenses were \$4.4 million (representing 10.1% of revenue) in Q1 FY2020, compared to \$3.9 million (representing 10.4% of revenue) in Q1 FY2019. Increased G&A expenses reflect the Company's strategic growth in Canada and its international operations.

## Operating Results

Earnings from operations for Q1 FY2020 increased 32.2% to \$3.7 million, compared to \$2.8 million in Q1 FY2019.

Drilling Canada's operating earnings totalled \$5.3 million compared to operating earnings of \$2.0 million in Q1 FY2019, reflecting increased business activity.

Drilling International's operating loss was \$1.6 million, compared to operating earnings of \$0.8 million in Q1 FY2019. The operating loss is primarily attributable to a decrease in specialized drilling activities.

## Foreign Exchange Loss (Gain)

Foreign exchange loss was \$0.2 million in Q1 FY2020, compared to a loss of \$0.5 million in Q1 FY2019.

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

Earnings before interest, taxes, depreciation and amortization ("EBITDA") totalled \$5.1 million in Q1 FY2020, an increase of 46.8% compared to \$3.4 million in Q1 FY2019.

## Financial Expenses

Interest costs related to long-term debt and bank charges were \$0.7 million in Q1 FY2020, compared to \$0.4 million in Q1 FY2019.

## Income Tax

Income tax expense was \$0.6 million for Q1 FY2020, compared to \$0.4 million in Q1 FY2019.

## Net Earnings

The Company's net earnings for Q1 FY2020 were \$1.1 million, or \$0.03 per share, compared to net earnings of \$0.4 million, or \$0.01 per share, in Q1 FY2019. Higher gross profit and margins, as discussed above, contributed to the increase of the Company's net earnings for Q1 2020.

## SUMMARY OF QUARTERLY RESULTS

* (\$millions)		Fiscal 2020	Fiscal 2019				Fiscal 2018		
		Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Contract revenue *		43.3	44.4	37.4	33.7	37.3	44.5	43.1	43.0
Gross profit * <sup>(1)</sup>		6.9	4.7	3.1	2.9	5.6	7.5	2.2	5.1
Gross margin %		16.0	10.6	8.2	8.6	15.0	16.8	5.2	11.7
Net earnings (loss) *		1.1	(0.8)	(1.4)	(1.7)	0.4	3.3	(1.3)	0.8
Net earnings (loss) per common share (\$)	- Basic	0.03	(0.02)	(0.04)	(0.04)	0.01	0.09	(0.04)	0.02
	- Diluted	0.03	(0.02)	(0.04)	(0.04)	0.01	0.09	(0.04)	0.02

<sup>(1)</sup> Includes amortization and depreciation expenses related to operations.

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Cash flow from operations (before changes in non-cash operating working capital items, finance costs and income taxes paid), was \$5.1 million in Q1 FY2020, compared to \$3.6 million in Q1 FY2019.

The change in non-cash operating working capital items was an outflow of \$2.6 million in Q1 FY2020, compared to an outflow of 2.9 million in Q1 FY2019. The change in non-cash operating working capital in Q1 FY2020 was primarily attributable to a \$7.5 million increase in inventory to support operations, partially offset by a \$2.6 million decrease in accounts receivable and prepaid expenses, and a \$2.3 million increase in accounts payable.

### Investing Activities

Cash used in investing activities totalled \$2.8 million in Q1 FY2020, compared to \$2.4 million in Q1 FY2019. During Q1 FY2020, \$2.8 million was used for the acquisition of property, plant and equipment. In Q1 FY2019, \$2.5 million was used for the acquisition of property, plant and equipment, partially offset by a cash inflow of \$0.1 million on disposal of property, plant and equipment.

### Financing Activities

During Q1 FY2020, the Company generated \$3.2 million from financing activities, compared to \$1.7 million in Q1 FY2019.

Orbit Garant's primary sources of liquidity are cash flow from operations and borrowings under a credit facility (the "Credit Facility") with National Bank of Canada Inc. ("National Bank"). On December 12, 2018, the Company and National Bank entered into a Third Amended and Restated Credit Agreement in respect of the Credit Facility and on June 28, 2019 the Company and National Bank entered into an amendment to the Third Amended and Restated Credit Agreement. Pursuant to the Third Amended and Restated Credit Agreement, as amended, the Credit Facility consists of a \$35.0 million revolving credit facility and a US\$5.0 million revolving credit facility. The current term of the Credit Facility expires November 2, 2021.

The Company withdrew a net amount of \$2.8 million during Q1 FY2020 on its Credit Facility, compared to a withdrawal of \$1.9 million in Q1 FY2019. The Company's long-term debt under the Credit Facility, including the current portion, was \$28.1 million as at September 30, 2019, compared to \$25.3 million as at June 30, 2019. The Company's debt was incurred to support working capital requirements, the financing of the acquisition of certain assets of PPI in October 2018 and the acquisition of capital assets, property, plant and equipment.

As at September 30, 2019, the Company's working capital was \$59.4 million, compared to \$55.1 million as at June 30, 2019. The Company's working capital requirements are primarily related to the funding of inventory and the financing of 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.

### Sources of Financing

As at September 30, 2019, the Company complied with all covenants in the Credit Facility and in the EDC Loan Agreement.

Orbit Garant's primary sources of liquidity are cash flow from operations and borrowings under its Credit Facility. As

at September 30, 2019, the Company had drawn \$28.1 million (\$25.3 million as at June 30, 2019) under the Credit Facility.

Availability under the main revolving facility under the Credit Facility 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 Facility. In addition, the Company's obligations under the US\$5.0 million revolving credit facility are guaranteed by Export Development Canada ("EDC").

The Amended and Restated Credit Facility 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 Facility also contains a number of financial covenants that the Company must comply with. In addition, the Credit Facility will mature no later than November 2, 2021.

On December 20, 2018 Orbit Garant entered into a Loan Agreement with Export Development Canada (the "EDC Loan Agreement") for a term loan in the principal amount of up to US\$5,150,000 for the purposes of financing the acquisition of certain assets of Projet Production International BF S.A. ("PPI") that was completed on October 11, 2018. Orbit Garant is required to repay this loan in 57 consecutive monthly installments commencing May 2019, and maturing January 2024. The Company's obligations under the EDC Loan Agreement are secured by a third ranking hypothec over all of Orbit Garant's assets. On January 21, 2019, an initial drawdown of US\$2,575,000 was used to reduce the amount drawn from the Company's Credit Facility. Orbit Garant's long-term debt under EDC Loan, including the current portion, was \$3.1 million as at September 30, 2019 (\$3.2 million as at June 30, 2019). On October 9, 2019, Orbit Garant withdrew an amount of \$3.4 million (US\$2,575,000) to fulfill its obligation in regard to the acquisition of certain assets of PPI.

Orbit Garant 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 other assets included in property, plant and equipment.

## **OUTSTANDING SECURITIES AS AT NOVEMBER 13, 2019**

Number of common shares	37,021,756
Number of options	2,937,000
Fully diluted	39,958,756

## **RELATED PARTY TRANSACTIONS**

### **Transactions with related parties**

The Company is related to Dynamitage Castonguay Ltd. ("Dynamitage"), a company in which one of Orbit Garant's directors has an interest.

During the three-month period ended September 30, 2019 and 2018, Orbit Garant entered into the following transactions with "Dynamitage" and with persons related to directors:

*(\$thousands)	September 30, 2019 (3 months)	September 30, 2018 (3 months)
Revenue*	14	117
Purchases*	38	37

As at September 30, 2019, an amount of \$0.1 million was receivable resulting from these transactions (June 30, 2019, \$0.1 million).

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

### **Key management personnel and directors' transactions**

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

Compensation paid to key management personnel and directors for the three-month period ended September 30, 2019 amounted to \$0.5 million (\$0.9 million for the period ended September 30, 2018).

## **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 set out in Note 4 to the Company's annual audited consolidated statements for the year ended June 30, 2019 were consistently applied to all periods presented, except for the adoption of new standards effective July 1, 2019 as described in Note 3. 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 assumptions and judgements. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 5 of the Company's annual audited consolidated financial statements for the year ended June 30, 2019. They remained unchanged for the three-month period ended September 30, 2019.

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the investments, which are measured at fair value, and share-based compensation which is measured in accordance with IFRS 2, Share-Based Payment. They are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company operates ("functional currency"). All values are rounded to the nearest thousand dollars, except where otherwise indicated.

These 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 2019 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 November 13, 2019.

### **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 are considered when the Company controls another entity.

Income and expenses of subsidiaries acquired or disposed of during a period are included in the unaudited interim condensed consolidated statement of earnings (loss) from the effective date of acquisition to the effective date of disposal, as appropriate. Intercompany transactions and balances are eliminated on consolidation.

### **STANDARDS AND INTERPRETATIONS ADOPTED**

The following standards and amendments to existing standards have been adopted by the Company on July 1, 2019:

#### **IFRS 16 – Leases**

The Company adopted IFRS 16, which replaces IAS 17, for its annual period beginning July 1, 2019 using the modified retrospective approach whereby no restatement of comparative periods is required. Under IAS 17, leases of property, plant and equipment were recognized as finance leases when substantially all the risks and rewards of ownership of underlying assets were transferred. All other leases were classified as operating leases. IFRS 16 requires lessees to recognize right-of-use assets, representing its right to use the underlying asset, and lease liabilities, representing its obligation to make payments. Right-of-use assets are initially measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made on or before the commencement date and any initial direct costs incurred, less any lease incentives received. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. If it is reasonably certain that the Company will exercise the purchase options, the underlying asset is depreciated on the basis of its estimated useful life. Right-of-use assets may also be adjusted to reflect the re-measurement of related lease liabilities. Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index and the exercise price of a purchase option reasonably certain to be exercised. Subsequently, the lease liability is measured at amortized cost using the effective interest method and adjusted for interest and lease payments.

#### **Impact on transition to IFRS 16 - Leases**

Upon adoption of IFRS 16, assets under finance leases were reclassified from property, plant and equipment to right-of-use assets and related obligations under finance leases were reclassified from long-term debt to lease liabilities, at the carrying amounts measured under IAS 17 as at June 30, 2019. Right-of-use assets and lease liabilities for these assets previously classified as finance leases are recognized in accordance with the requirements of IFRS 16 starting July 1, 2019.

On transition, the Company elected to measure the right-of-use asset at an amount equal to the lease liability (subject to certain adjustments) for leases classified as operating leases under IAS 17. As a result, the Company recorded lease liabilities of \$4.6 million and right-of-use assets of \$4.5 million, net of the deferred lease inducements of \$0.1 million, including leases previously recognized as finance leases under IAS 17. As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases (lease term of 12 months or less) and leases of low-value assets. The Company also used hindsight to determine the lease term where the contract contains purchase, extension, or termination options and relied on the assessment of the onerous lease provisions under IAS 37 Provisions, contingent liabilities and contingent assets, instead of performing an impairment review.

### **IFRIC 23 – Uncertainty over Income Tax Treatments**

This interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is applicable for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to (i) contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (ii) reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and (iii) measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable). The adoption of IFRIC 23 did not have an impact on the Company's interim condensed consolidated financial statements.

### **RECONCILIATION OF NON - IFRS FINANCIAL MEASURES**

Financial data has been prepared in conformity with IFRS. However, certain measures used in this discussion and analysis do not have any standardized meaning under IFRS and could be calculated differently by other companies. The Company believes that certain non-IFRS financial measures, when presented in conjunction with comparable IFRS financial measures, are useful to investors and other readers because the information is an appropriate measure 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: Net earnings (loss) before interest, taxes, depreciation and amortization.

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

### **EBITDA**

Management believes that EBITDA is an important measure when analyzing its operating profitability, as it removes the impact of financing costs, certain non-cash items and income taxes. As a result, Management considers it a useful and comparable benchmark for evaluating the Company's performance, as companies rarely have the same capital and financing structure.

## Reconciliation of EBITDA

(unaudited) (in millions of dollars)	3 months ended September 30, 2019	3 months ended September 30, 2018
Net earnings for the period	1.1	0.4
Add:		
Finance costs	0.7	0.4
Income tax expense	0.6	0.4
Depreciation and amortization	2.7	2.2
EBITDA	5.1	3.4

## Adjusted Gross Profit and Margin

Although adjusted gross profit and margin are not recognized financial measures defined by IFRS, Management considers them to be important measures as they represent the Company's core profitability, without the impact of depreciation expense. As a result, Management believes they provide a useful and comparable benchmark for evaluating the Company's performance.

## Reconciliation of Adjusted Gross Profit and Margin

(unaudited) (in millions of dollars)	3 months ended September 30, 2019	3 months ended September 30, 2018
Contract revenue	43.3	37.3
Cost of contract revenue (including depreciation)	36.4	31.7
Less depreciation	(2.3)	(2.0)
Direct costs	34.1	29.7
Adjusted gross profit	9.2	7.6
Adjusted gross margin (%) <sup>(1)</sup>	21.3	20.4

<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 18, 2019. 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 November 13, 2019, Pierre Alexandre, Vice Chairman and Vice President of Corporate Development of the Company, holds or controls, directly or indirectly, approximately 25.1% 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**

Orbit Garant continues to monitor market conditions in the mining sector. Management is encouraged by the 14% increase in the price of gold to date in calendar 2019, the recent increase in mining financing activity on the TSX and TSX-V, and the stronger year-over-year customer demand it has experienced in the last two fiscal quarters in Canada. While these market conditions may fluctuate in the near term, Management believes that the longer-term industry outlook is positive, as many mining companies are facing declining reserves, particularly in the gold mining industry. Accordingly, increased spending on exploration and new mine development will be required for the industry to remain viable in the long term as the reserves at existing mines are depleted. S&P Global Market Intelligence forecasts lower global gold production beyond 2022 due to declining reserves and expects that by 2024 more than 15% of global gold production will come from mines that are not yet in production. Orbit Garant is well positioned for increased drilling services demand in the gold sector as it derives approximately 70% of its revenue from gold related projects.

Orbit Garant generated 72% of its revenue from its Canadian operations in fiscal 2019, and 82% of its revenue from its Canadian operations in Q1 FY2020. S&P Global Market Intelligence forecasts that Canada is the only major gold-producing country in the world in which output is expected to increase significantly over the next five years. As such, the Company is well positioned to benefit from the positive outlook for the gold mining sector in Canada. An additional positive factor for mining companies operating in Canada is the current lower 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 \$0.75 US dollars.

Orbit Garant has operating subsidiaries in active international mining markets, including Burkina Faso, Chile, Ghana, Guyana and Peru. These international operations provide enhanced market, customer and commodity diversification and have provided the Company with increased access to higher margin specialized drilling activity. In South America, Orbit Garant is currently working on projects in Chile, Guyana and Argentina. In West Africa, the Company is currently working on projects in Burkina Faso and Ghana, and recently expanded its operations in this region with the acquisition of the drilling business of PPI in Burkina Faso.

While Management remains positive about the long-term outlook for its international markets, there has been recent political volatility and violence in both Chile and Burkina Faso. Since mid-October 2019, there have been large-scale civil protests in Chile. Orbit Garant believes this situation may result in the delay of certain mineral drilling projects in Chile. In Burkina Faso, there has been recurring acts of violence in certain areas of the country. Orbit Garant's current drilling projects in Burkina Faso are in areas of the country that have historically experienced less incidents of violence. Orbit Garant's policy is to only work in areas where the security of its employees can be appropriately protected. Management continues to closely monitor developments in both Burkina Faso and Chile.

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 further 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 39 drill rigs featuring its computerized monitoring and control technology, all of which are currently deployed on customer projects. 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 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 is well positioned to pursue value-enhancing growth opportunities in Canada and internationally.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Effective October 11, 2018 the Company completed the acquisition of PPI. The results of PPI'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 PPI. The Company is in the process of integrating the PPI operations and will be expanding its disclosure controls and procedures and internal controls over its financial reporting compliance program to include PPI 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 PPI controls, policies and procedures from the March 31, 2019 certification of internal controls. The acquisition date financial information for PPI is included in the discussion regarding the acquisition contained in the MD&A, Note 2 of the audited consolidated financial statements and in the Company's Annual Report for the fiscal year ended June 30, 2019.

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 three months ended September 30, 2019, 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.