# Management's Discussion and Analysis

# April 30, 2020

# MAJOR DRILLING GROUP INTERNATIONAL INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*The following management's discussion and analysis ("MD&A"), prepared as of June 4, 2020, should be read together with the audited financial statements for the year ended April 30, 2020 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.*

*Amounts presented in comparative periods for certain items may have been allocated consistent with current year presentation.*

## FORWARD-LOOKING STATEMENTS

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

This MD&A contains statements that may constitute forward-looking statements about Major Drilling Group International Inc.'s ("Major Drilling" or "the Company") objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates, assumptions, risks and uncertainties. These forward-looking statements are typically identified by future or conditional verbs such as "outlook", "believe", "anticipate", "estimate", "project", "expect", "intend", "plan", and terms and expressions of similar import.

Such forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to: cyclical downturn; competitive pressures; dealing with business and political systems in a variety of jurisdictions; repatriation of funds or property in other jurisdictions; payment of taxes in various jurisdictions; exposure to currency movements; inadequate or failed internal processes, people or systems or from external events; dependence on key customers; safety performance; expansion and acquisition strategy; regulatory and legal risks; corruption, bribery or fraud by employees or agents; climate change risk; pandemics, force majeure and natural disasters; shortage of specialized skills and cost of labour increases; equipment and parts availability; reputational risk; cybersecurity risk; market price and dilution of common shares; and environmental, health and safety regulations and considerations. These factors and other risk factors, as described under "General Risks and Uncertainties" in this MD&A, represent risks the Company believes are material. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair its business, results of operations, financial condition and liquidity. 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 also discussed in the Company's Annual Information Form.

Additional information relating to the Company, including the Company's Annual Information Form for the previous year and the most recently completed financial year, are or will be available on the SEDAR website at www.sedar.com.

## COVID-19

In December 2019, the novel coronavirus, later named "COVID-19", surfaced in China, spreading quickly to the rest of the world. In March 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic, leading many countries to take drastic measures to curb the spread of the virus. Global responses to the spread of COVID-19 have resulted in a challenging economic climate, with disruptions to normal operations in certain jurisdictions; a significant increase in economic uncertainty; volatile commodity prices, equity markets and currency exchange rates; and a marked decline in long-term interest rates.

These are unprecedented times and the longer-term impacts of COVID-19 are as yet unknown and continue to evolve. Management expects these impacts on the Company's business to be temporary, however, the total impact cannot be reasonably estimated at this time and the Company will continue to react quickly to this changing environment, as necessary. From the onset of the pandemic, management and the Board of Directors have been in regular communication to ensure the impact of this unique and unprecedented situation is reviewed as it evolves.

Due to the cyclical nature of the business, Major Drilling is a Company well-versed in managing successfully during typical cyclical industry downturns, which also has enabled the Company to manage successfully during the pandemic the world is currently facing. The Company has a global, diversified and durable business model that serves well during these times. The Company's experienced management team has been proactive from the onset of the COVID-19 pandemic, and will continue to react quickly to this changing environment, as necessary. The Company has formally implemented its business continuity plan, which is focused on ensuring that: (i) employees who can work remotely do so; and (ii) employees in the field and workshops, who are not able to work remotely, are able to work safely and in a manner that complies with applicable governmental orders and guidelines and ensures they remain healthy. This plan includes, among other things, health screening, enhanced cleaning arrangements, travel bans, revised work schedules and the reorganization of processes and procedures to limit contact with other employees, customers and contractors on-site.

Although the Company continues to operate globally, there can be no assurance that certain countries will continue to allow mining and drilling related activities as the impact of the global COVID-19 pandemic unfolds. The Company has reduced forward inventory purchases, minimized discretionary expenditures and significantly reduced capital spend, while closely following developments in each of the regions in which it operates in order to take actions if warranted.

As a strictly precautionary measure, to ensure access to cash in the event that the COVID-19 pandemic causes a prolonged slowdown and limits access to capital, the Company drew the remaining $35.0 million on its revolving credit facility in mid-March. The Company has no current plans to use these funds for operations and intends to repay this draw as stability returns to the economic outlook. The Company deals only with credit-worthy clients, with the vast majority of activity coming from senior clients, and has increased its scrutiny of outstanding trade receivables in order to react quickly in the event of additional credit risk caused by the pandemic.

The Company is well positioned to return to growth after the impact of the pandemic subsides as its variable cost structure and strong balance sheet allow it to navigate through these challenging times, while maintaining flexibility to respond quickly once operations can proceed safely.

## CORPORATE OVERVIEW

Major Drilling Group International Inc. is one of the world's largest drilling services companies primarily serving the mining industry. Established in 1980, Major Drilling has over 1,000 years of combined experience and expertise within its management team alone. The Company maintains field operations and offices in Canada, the United States, Mexico, South America, Asia, Africa and Europe. Major Drilling provides a complete suite of drilling services including surface and underground coring, directional, reverse circulation, sonic, geotechnical, environmental, water-well, coal-bed methane, shallow gas, underground percussive/longhole drilling, surface drill and blast, and a variety of mine services.

In terms of customer base, the Company has two categories of customers: senior/intermediate companies, for which the Company provides greenfield exploration drilling and/or drilling at operating mines, and junior exploration companies.

At Major Drilling, safety is a core value. Keeping people safe is of the utmost importance. The Company's safety standards lead the industry with well-trained crews who can quickly assess and manage risk, leading to better results for the Company's clients. The Company's safety system has been developed to meet or exceed all applicable government and client standards.

Innovation continues to be at the forefront at Major Drilling. The Company leverages its collective experience to continuously improve its equipment and processes to meet current and future industry demands. By incorporating impactful technologies, paired with a commitment to environmental and social responsibility, Major Drilling is positioned to remain a leader in the drilling services field as mine discovery and development evolve.

## BUSINESS STRATEGY

Major Drilling continues to base its business premise on the following: mining companies continue to deplete the more easily accessible mineral reserves around the world and attractive deposits will be in increasingly remote locations, areas difficult to access and/or deep in the ground. For this reason, Major Drilling's strategy is to focus its services on these "specialized drilling" projects, and remain the world's leading provider of specialized drilling services. Over the years, the Company has positioned itself as one of the largest specialized drilling operators in the world by leveraging its main competitive advantages: skilled personnel, specialized equipment, robust safety systems, long-standing relationships with the world's largest mining companies and access to capital.

The Company intends to continue modernizing and innovating its fleet and expanding its footprint in strategic areas, while maintaining a strong balance sheet and remaining best in class in safety and human resources. The Company also seeks to continue its diversification strategy within the drilling field by investing in underground and mine services that are complementary to its existing skill set.

Major Drilling categorizes its mineral drilling services into three types: specialized drilling, conventional drilling and underground drilling.

Specialized drilling can be defined as any drilling project that, by virtue of its scope, technical complexity or location, creates significant barriers to entry for smaller drilling companies. This would include, for example, deep-hole drilling, directional drilling, and mobilizations to remote locations or high altitudes. Because significant ore bodies are getting more difficult to find, the Company expects specialized drilling services to continue to fuel future growth and the Company believes these skills will be in greater and greater demand over the next two decades.

Conventional drilling tends to be more affected by the industry cycle, as the barriers to entry are not as significant as with specialized drilling. This part of the industry is highly fragmented and has numerous competitors. Because the Company offers only limited differentiation in this sector, it is not its priority for investment.

The Company's underground services include both underground exploration drilling and underground percussive/longhole drilling. Underground exploration drilling takes on greater importance in the latter stages of the mining cycle as clients develop underground mines. Underground percussive/longhole drilling, which relates more to the production function of a mine, provides relatively more stable work during the mining cycles. By offering both underground production drilling and underground exploration drilling, the Company provides a wide range of complementary services to its clients.

Major Drilling delivers quality, high safety standards and results on even the toughest sites through the Company's extensive knowledge and experience, focus on safety, and commitment to meeting the local needs of every customer. With the best people on the ground and a diversified drilling fleet, the Company partners with its customers and local communities for outstanding results.

A key part of the Company's strategy is to maintain a strong balance sheet. Its financial strength allows the Company to invest in safety and continuous improvement initiatives, to retain key employees, to maintain its equipment in good condition and maintain sufficient inventory to meet increased customer demands. The Company's financial strength allows it to manage effectively through challenging environments such as the world is currently facing with the COVID-19 pandemic.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Major Drilling believes its long-term sustainability depends on the Company serving as: stewards of the environment where it works; valued contributors to the communities where it operates; and responsible corporate citizens in the eyes of the Company's workforce, clients, shareholders and other external stakeholders. While the Board of Directors and management have long had responsibility and oversight over ESG practices of the Company, in fiscal 2020, it began the process of consolidating its ESG efforts under an ESG Framework in order to formalize its risk management structure and mitigation strategies. As part of these efforts, the Company is currently in the process of preparing its second annual CDP (formerly the Carbon Disclosure Project) submission as part of a broader pursuit to identify and manage business risks and reduce greenhouse gas emissions.

**INDUSTRY OVERVIEW**

The metals and minerals drilling industry is reliant primarily on demand from two metal groups: gold and base metals. Each commodity group is influenced by distinct market forces.

Gold has historically been a significant driver in the mining industry, accounting for 40 to 50% of the global exploration spend. Exploration activity generally varies up or down with the trend in gold prices. Gold prices, trading above the US$1,700 per ounce range, have recently reached the seven-year high mark. The recent COVID-19 outbreak has created economic uncertainty, which led to copper prices declining, as both supply and demand have been impacted. While opinions vary on the short-term outlook of this commodity, some industry experts believe the shift to electric vehicles, coupled with government driven infrastructure spending to accommodate a green economy, could provide an increase in demand over the coming years.

The demand for base metals is dependent on economic activity. In the longer-term, the fundamental drivers of base metals remain positive, with worldwide supply of most metals expected to tighten and higher demand coming from the emerging markets. As these markets continue to urbanize, the requirement for base metals will continue to increase at the same time as easily accessible reserves are being depleted.

The industry has experienced a cyclical downturn over the past several years, and appeared to be in recovery in the early part of the year, however, the COVID-19 outbreak resulted in disruptions throughout the industry.

Mineral reserves for gold and base metals continue to be depleted. As resources in some areas are also becoming depleted, future mineral deposits will have to come from areas difficult to access, either in remote or politically sensitive areas, deeper in the ground or at higher altitudes. This should improve demand for specialized services in the future as stability returns to the industry.

**BUSINESS ACQUISITION**

On November 1, 2019, the Company completed the purchase of the issued and outstanding shares of Norex Drilling Limited ("Norex"), a family-owned drilling company and a leading exploration drilling contractor based in Timmins, Ontario, Canada. Norex has been operating successfully in the Ontario marketplace for some 40 years, and has a solid reputation with its clients.

With this acquisition, the Company welcomed 120 skilled and experienced personnel, including the management team. The Company also acquired 22 drill rigs, including 17 compatible specialized surface drill rigs and 5 underground drills, together with related support equipment and inventory.

The results of this operation were included in the Consolidated Statements of Operations as of the closing date. While Norex's historical performance should not be viewed as guidance for future performance, for the last two years, Norex had average yearly revenue of approximately $21 million and earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately $5 million.

The purchase price for the acquisition is valued at an amount up to $19.6 million (consisting of a cash payment of $14.2 million and $1.9 million in Major Drilling shares), a holdback of $1.0 million, and an additional maximum amount of $2.5 million tied to performance. The additional payout period extends for three years, commencing on November 1, 2019, and payment is contingent on growing EBITDA run rates above current levels.

## OVERALL PERFORMANCE

Revenue for the fiscal year ended April 30, 2020 was $409.1 million, up 6% from revenue of $384.8 million recorded in the prior year. Despite the impact of the COVID-19 pandemic late in the fiscal year, the Company recorded its highest annual revenue since 2013.

Gross margin percentage for the year, which includes depreciation expense of $37.6 million (2019 - $39.9 million), was 14.8%, up from 13.3% for the previous year. Adjusted gross margin, which excludes depreciation expense (see "Non-IFRS financial measures"), was 24.0% for the year compared to 23.6% for the previous year.

During the year, the Company made the decision to close its operations in Colombia, and as such, recorded a total charge of $6.1 million, after tax. The Company recorded $4.6 million in restructuring charges and a $1.5 million write-down in deferred tax assets (recorded in its deferred tax expense).

By mid-March, the Company's operations were impacted by COVID-19 and in the second half of the fourth quarter, there was a significant decrease of activity in certain regions. North America was impacted particularly hard, with revenue down 22% in Canada, U.S. and Mexico.

As a cautionary measure, during the fourth quarter of the current fiscal year, the Company drew $35.0 million from its revolving operating facility to ensure access to cash in the event there is a prolonged slowdown. The Company has no current plans to use these funds. The net cash position (including lease liabilities of $3.8 million) remained positive at $3.3 million.

In the fourth quarter, the Company assessed the impairment indicators that existed as at April 30, 2020 in light of the uncertainty surrounding the impact of the COVID-19 outbreak and the significant volatility in equity markets. This resulted in the Company recognizing a pre-tax, non-cash goodwill impairment charge of $58.7 million. The goodwill impairment reflects the impact and uncertainty COVID-19 is having on the Company's Canadian and U.S. Cash Generating Units ("CGUs"). This impairment is primarily triggered by near-term impacts caused by COVID-19, as management believes longer-term cash flows are consistent with those forecasted prior to the pandemic. As well, due to the unknown near-term impacts caused by COVID-19 in the current year, the Company de-recognized a portion of its deferred income tax assets, related to previously recognized tax losses. Combined with the tax impact of the goodwill impairment, the Company recorded a non-cash charge of $10.0 million in deferred tax expense.

Net loss was $71.0 million or $0.88 per share compared to a net loss of $18.1 million or $0.23 per share for the previous year. Despite the impacts of the COVID-19 pandemic on operations at the end of the current fiscal year, earnings before interest, taxes, depreciation and amortization, excluding restructuring charge and goodwill impairment ("EBITDA" - see "Non-IFRS financial measures") increased by more than 20% to $48.4 million in the current year, versus $39.2 million for the previous year. The Company has taken steps to continue to generate positive EBITDA, provided the situation in regards to the COVID-19 pandemic does not deteriorate further.

## SELECTED ANNUAL INFORMATION

| **Years ended April 30**<br>(in millions of Canadian dollars, except per share information) | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Revenue by region** | | | |
| Canada - U.S. | **$ 205** | $ 196 | $ 185 |
| South and Central America | **104** | 108 | 94 |
| Asia and Africa | **100** | 81 | 63 |
| | **409** | 385 | 342 |
| **Gross profit** | **61** | 51 | 28 |
| as a percentage of revenue | **14.8%** | 13.3% | 8.2% |
| **Adjusted gross profit** | **99** | 91 | 74 |
| as a percentage of revenue | **24.0%** | 23.6% | 21.7% |
| **Net loss** | **(71)** | (18) | (22) |
| per share (basic and diluted) | **$ (0.88)** | $ (0.23) | $ (0.28) |
| **Total assets** | **426** | 461 | 467 |
| **Total cash and cash equivalents** | **58** | 27 | 21 |
| **Total long-term financial liabilities** | **51** | 17 | 19 |

### RESULTS OF OPERATIONS

#### *FISCAL 2020 COMPARED TO FISCAL 2019*

Revenue for the fiscal year ended April 30, 2020 was up 6% at $409.1 million, compared to revenue of $384.8 million recorded in the prior year. Activity levels continued to grow across all regions resulting in the Company's highest annual revenue since 2013, despite the impacts of COVID-19 late in the current fiscal year.

Gross margin percentage for the year was 14.8%, up from 13.3% for the previous year, despite the impacts of COVID-19 late in the fourth quarter, a historically strong quarter for the Company. Adjusted gross margin percentage was 24.0% for the year compared to 23.6% for the previous year.

***Canada - U.S.***
Canada - U.S. revenue increased by 5% to $205.6 million, compared to $196.1 million last year. The increase in activity came primarily from a growth in market share in the U.S. operations. Canadian operations were impacted significantly by COVID-19, causing temporary shutdowns during the last two months of the fiscal year.

Gross margins in Canada - U.S. were down slightly compared to last year.

***South and Central America***
Revenue in South and Central America decreased by 4% to $104.0 million, compared to $108.1 million for the prior year. Increased activity levels in Brazil this year were offset by COVID-19 related reductions in Argentina, Chile and Mexico as well as the shutdown of the Colombian operation.

Gross margins in the region were down slightly compared to last year.

***Asia and Africa***
Revenue in Asia and Africa increased 24% to $99.6 million from $80.6 million in the prior year. Increased activity levels from Indonesia, Southern Africa and Mongolia were offset by the closure of the Burkina Faso operations in the previous year.

Gross margins for the region improved year-over-year, with strong performance in Mongolia and Southern Africa.

***Operating expenses***
General and administrative costs were up slightly at $48.0 million compared to $47.6 million in the prior year. Increases from the Norex acquisition were offset by decreases from the closure of the Colombian operation and the implementation of IFRS 16 Leases ("IFRS 16").

Depreciation and amortization expense was $39.5 million for the year, compared to $40.9 million in the previous year, resulting primarily from reduced capital expenditures during the recent industry downturn. Depreciation and amortization expense is recorded in the Consolidated Statements of Operations as follows: $37.6 million of depreciation in direct costs (2019 - $39.9 million); $1.7 million of depreciation (including depreciation of right-of-use assets of $1.2 million) in general and administrative expenses (2019 - $1.0 million); and $0.2 million of amortization expense in general and administrative expenses.

At April 30, 2020, after assessing impairment indicators driven by impacts of the COVID-19 pandemic, the Company recorded a pre-tax, non-cash goodwill impairment charge of $58.7 million in relation to its U.S. and Canadian CGUs. The impact COVID-19 had on these CGUs in the quarter created near-term uncertainty in cash flow generation however, management did not change their long-term projections for growth in these areas.

During the year, the Company made the decision to close its operations in Colombia and in the previous year, operations in Burkina Faso were closed. The Company recorded $4.6 million in restructuring charges (2019 - $7.9 million) consisting of non-cash charges totaling $3.5 million (2019 - $7.3 million), including an impairment charge of $1.1 million relating to property, plant and equipment (2019 - $0.3 million); a write-down of $2.3 million to reduce inventory to net realizable value (2019 - $2.8 million); and other non-cash charges of nil (2019 - $4.2 million). Cash charges of $1.1 million (2019 - $0.6 million) include costs to wind down operations, and employee severance costs incurred to rationalize the workforce in various jurisdictions.

Income tax expense for the year was $15.4 million, compared to an expense of $7.7 million for the prior year. Due to the unknown near-term impacts caused by COVID-19 in the current year, the Company de-recognized a portion of its deferred income tax assets, related to previously recognized tax losses.

Net loss for the year was $71.0 million or $0.88 per share ($0.88 per share diluted), compared to a net loss of $18.1 million or $0.23 per share ($0.23 per share diluted) for the prior year.

## ***SUMMARY ANALYSIS FISCAL 2019 COMPARED TO FISCAL 2018***

Revenue for the fiscal year ended April 30, 2019 was $385 million, an increase of 12% from revenue of $342 in the prior year. Activity levels grew across all regions resulting in the Company's highest annual revenue since 2013.

Adjusted gross margin percentage for the year was 23.6%, up from 21.7% for the previous year as the Company focused on maximizing its skilled labour force by concentrating on specialized services.

The increase in both revenue and margins resulted in a net loss of $18 million or $0.23 per share compared to a net loss of $22 million or $0.28 per share for the previous year.

**SUMMARY OF QUARTERLY RESULTS**

| (in $000s CAD, except per share) | *Fiscal 2019* | | | | ***Fiscal 2020*** | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | **Q1** | **Q2** | **Q3** | **Q4** |
| Revenue | $ 98,485 | $105,501 | $ 80,439 | $100,397 | **$117,459** | **$121,182** | **$81,719** | **$ 88,784** |
| Gross profit | 13,087 | 18,999 | 5,606 | 13,381 | **21,369** | **24,706** | **5,167** | **9,401** |
| Gross margin | 13.3% | 18.0% | 7.0% | 13.3% | **18.2%** | **20.4%** | **6.3%** | **10.6%** |
| Adjusted gross margin | 23.8% | 27.4% | 19.4% | 23.0% | **26.1%** | **28.1%** | **17.6%** | **21.5%** |
| Net (loss) earnings | (2,482) | 3,261 | (15,906) | (2,957) | **6,033** | **7,259** | **(9,947)** | **(74,307)** |
| Per share - basic | (0.03) | 0.04 | (0.20) | (0.04) | **0.08** | **0.09** | **(0.12)** | **(0.92)** |
| Per share - diluted | (0.03) | 0.04 | (0.20) | (0.04) | **0.08** | **0.09** | **(0.12)** | **(0.92)** |

The third quarter (November to January) is normally the Company's weakest quarter due to the shutdown of mining and exploration activities, often for extended periods over the holiday season.

**SUMMARY ANALYSIS FOURTH QUARTER RESULTS ENDED APRIL 30, 2020**

Total revenue for the quarter was $88.8 million, down 12% from revenue of $100.4 million recorded in the same quarter last year. The favourable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same period last year, is estimated at $1 million on revenue, with a negligible impact on net earnings.

Revenue for the quarter from Canada - U.S. drilling operations decreased by 19.4% to $41.1 million, compared to the same period last year. The region was impacted significantly in mid-March due to government and customer imposed restrictions on operations caused by COVID-19.

South and Central American revenue decreased by 20.7% to $22.2 million for the quarter, compared to the same quarter last year. All countries in the region experienced some operational challenges in relation to government or customer imposed restrictions regarding COVID-19. The duration of these impacts varied throughout the region.

Asian and African operations reported revenue of $25.5 million, up 19.2% from the same period last year. This region incurred minimal impacts in relation to COVID-19 during the quarter, which is reflected in the results. Strong growth in Indonesia and Mongolia contributed to the overall performance of the region.

Gross margin for the quarter was 10.6%, compared to 13.3% for the same period last year. Depreciation expense totaling $9.7 million is included in direct costs for both the current quarter and the same quarter last year. Adjusted gross margin was 21.5% for the quarter, compared to 23.0% for the same period last year. Although the quarter started off well, by mid-March, COVID-19 related operational impacts were being felt in many regions. Standby labour costs, as well as normal fourth quarter ramp-up costs, contributed to lower margins as jobs were abruptly shut down in many jurisdictions.

General and administrative costs were $11.1 million, a decrease of $0.1 million compared to the same quarter last year. The additional general and administrative expenses from the Norex acquisition were offset by reduced travel and various cost saving initiatives. As well, the Company recorded a benefit of $0.6 million related to the Canada Emergency Wage Subsidy ("CEWS") program.

Depreciation and amortization was flat at $9.9 million, the result of reduced capital expenditures during the recent industry downturn. Depreciation and amortization expense is recorded in the Consolidated Statements of Operations as follows: $9.7 million of depreciation in direct costs (2019 - $9.7 million); $0.1 million of depreciation in general and administrative expenses (2019 - $0.2 million); and $0.1 million of amortization expense in general and administrative expenses.

At April 30, 2020, after assessing impairment indicators driven by impacts of the COVID-19 pandemic, the Company recorded a pre-tax, non-cash goodwill impairment charge of $58.7 million in relation to its U.S. and Canadian CGUs. The impact COVID-19 had on these CGUs in the quarter created near-term uncertainty in cash flow generation however, management did not change their long-term projections for growth in these areas.

In the quarter, the Company recorded an additional restructuring charge of $2.4 million, including $2.1 million in non-cash charges, mainly related to the previously announced closure of its Colombian operations. COVID-19 has negatively impacted the ability to execute the initial restructuring plan, resulting in additional charges.

The income tax provision for the quarter was an expense of $10.1 million compared to an expense of $2.7 million for the prior year period. Due to the unknown near-term impacts caused by COVID-19, the Company has de-recognized a portion of its deferred income tax assets related to previously recognized tax losses. Combined with the tax impact of the goodwill impairment, the Company recorded a non-cash charge of $10.0 million in deferred tax expense.

Net loss was $74.3 million or $0.92 per share ($0.92 per share diluted) for the quarter, compared to a net loss of $3.0 million or $0.04 per share ($0.04 per share diluted) for the prior year quarter.

## LIQUIDITY AND CAPITAL RESOURCES

***Operating activities***

Cash flow from operations (before changes in non-cash operating working capital items, interest and income taxes) for the year ended April 30, 2020 was an inflow of $47.5 million compared to an inflow of $38.8 million in the previous year.

The change in non-cash operating working capital items was an inflow of $1.7 million for the year, compared to an outflow of $7.3 million for the prior year. The inflow of non-cash operating working capital was primarily impacted by:

- a decrease in accounts receivable of $22.0 million;
- an increase in inventory of $9.5 million;
- a decrease in prepaids of $0.6 million; and
- a decrease in accounts payable of $11.0 million.

***Financing activities***

Under the terms of certain of the Company's debt agreements, the Company must satisfy specific financial covenants. 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 year, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

As a strictly precautionary measure, to ensure access to cash in the event that the COVID-19 pandemic causes a prolonged slowdown and limits access to capital, the Company drew the remaining $35.0 million on its revolving credit facility in mid-March. The Company has no current plans to use these funds for operations and intends to repay this draw as stability returns to the economic outlook.

<u>Operating credit facilities</u>

The credit facilities related to operations total $31.4 million ($30.0 million from a Canadian chartered bank and $1.4 million from an American chartered bank) and are primarily secured by corporate guarantees of companies within the group. At April 30, 2020, the Company had utilized $10.2 million of these facilities, with stand-by letters of credit outstanding for $4.0 million (2019 - $2.0 million). The Company also has a credit facility of $2.7 million for credit cards for which interest rate and repayment are as per cardholder agreements.

<u>Long-term debt</u>

Total long-term debt increased by $34.0 million during the year to $51.4 million at April 30, 2020. The increase is a result of the $35.0 million draw described above, which has been deposited into short-term cashable deposits, offset by normal debt repayments.

As of April 30, 2020, the Company had the following long-term debt facilities:

- $50.0 million revolving facility for financing the cost of equipment purchases or acquisition costs of related businesses. At April 30, 2020, $50.0 million had been drawn on this facility, bearing interest at either the bank's prime rate plus 0.5% or the bankers' acceptance rate plus 2.0% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 0.5% or the bank's LIBOR plus 2.0% for U.S. dollar draws (depending on timing of draw), interest only payable in monthly installments, secured by corporate guarantees of companies within the group, maturing in October 2023.

- $1.3 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.

| | Payments due by period (in $000s CAD) | | | |
|---|---|---|---|---|
| **Contractual obligations** | **Total** | **Less than 1 year** | **2 - 3 years** | **4 - 5 years** |
| Long-term debt (interest included) | $ 56,674 | $ 2,584 | $ 3,343 | $ 50,747 |
| Purchasing commitments | 1,011 | 1,011 | - | - |
| Contingent consideration | 2,500 | - | 2,500 | - |
| Lease liabilities (interest included) | 4,485 | 1,420 | 2,354 | 711 |
| Operating leases | 1,910 | 951 | 705 | 254 |
| Total contractual obligations | $ 66,580 | $ 5,966 | $ 8,902 | $ 51,712 |

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure and debt obligations. As at April 30, 2020, the Company had unused borrowing capacity under its credit facilities of $21.2 million and cash of $58.4 million, for a total of $79.6 million in available funds.

***Investing activities***

Capital expenditures were $32.0 million for the year ended April 30, 2020, compared to $25.5 million in the prior year, with no direct financing of equipment in either year.

The drill rig count was at 607 at year-end as the Company added 12 rigs to its fleet as part of the Company's specialized and diversification strategies and adding 22 rigs with the Norex acquisition, while retiring or disposing of 28 older, inefficient rigs.

## RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in note 22 "Related Party Transactions" of the Notes to Consolidated Financial Statements for the year ended April 30, 2020.

## OUTLOOK

Looking forward, the price of gold, which historically has accounted for approximately 50% of the Company's drilling activity, has increased above the US$1,700 level. In light of existing conditions, industry experts are forecasting gold prices to remain at this level for the short to medium term. Copper typically accounts for 20-25% of the Company's drilling activity however, the economic impacts caused by COVID-19 have created some uncertainty for the short-term outlook. The anticipated decrease in demand for base metals due to the slowdown in the global economy could be offset by new infrastructure stimulus programs currently being contemplated by many governments. Ongoing discussions regarding such stimulus plans revolve around green economy initiatives, including electric vehicles, which by default will require more conductive and battery metals such as copper, lithium and cobalt.

The Company incorporates its innovation strategies with specialized drilling services to provide solutions for complex drilling situations, and has positioned itself as one of the largest specialized drilling operators in the world. The Company has established mutually beneficial partnerships with several of its senior customers to continuously improve the suite of services it offers, with innovative solutions and improved equipment, through increased hands-free rod handling capacity, computerized rigs and deep hole capacity. Going forward, demand for specialized services should improve and the Company expects to benefit as resources in some areas are becoming depleted, and future mineral deposits will have to come from areas difficult to access, either in remote or politically sensitive areas, deeper in the ground or at higher altitudes.

The Company's financial strength allows it to continue to deploy technologies that will aid in the ongoing development of safe, competent employees and maintain its fleet to meet customers' demands, improve rig reliability, productivity and utilization, as well as to invest in its continuous improvement initiatives.

## NON-IFRS FINANCIAL MEASURES

The Company's financial data has been prepared in accordance with IFRS, with the exception of certain financial measures detailed below. The Company believes these non-IFRS financial measures are key, for both management and investors, in evaluating performance at a consolidated level and are commonly reported and widely used by investors and lending institutions as indicators of a company's operating performance and ability to incur and service debt, and as a valuation metric. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

***EBITDA* -** earnings before interest, taxes, depreciation and amortization, excluding restructuring charge and goodwill impairment

| (in $000s CAD) | **2020** | 2019 |
|---|---|---|
| Net loss | **$ (70,962)** | $ (18,084) |
| Finance costs | **1,108** | 775 |
| Income tax provision | **15,408** | 7,748 |
| Depreciation and amortization | **39,542** | 40,909 |
| Impairment of goodwill | **58,743** | - |
| Restructuring charge | **4,553** | 7,874 |
| EBITDA | **$ 48,392** | $ 39,222 |

***Adjusted gross profit/margin*** – excludes depreciation expense

| (in $000s CAD) | **2020** | 2019 |
|---|---|---|
| Total revenue | **$ 409,144** | $ 384,822 |
| Direct costs | **348,501** | 333,749 |
| Less: depreciation | **(37,605)** | (39,925) |
| Adjusted gross profit | **98,248** | 90,998 |
| Adjusted gross margin | **24.0%** | 23.6% |

## FOREIGN EXCHANGE

The Company's reporting currency is the Canadian dollar, however a significant portion of the Company's revenue and operating expenses outside of Canada are denominated in U.S. dollars. The year-over-year comparisons in the growth of revenue and operating expenses have been impacted by the relative strength of the Canadian dollar against the U.S. dollar.

During fiscal 2020, approximately 23% of revenue generated was in Canadian dollars with most of the balance being in U.S. dollars. Since most of the input costs related to this revenue is denominated in the same currency as the revenue, the impact on earnings is somewhat muted.

The favourable foreign exchange translation impact for the year, when comparing to the effective rates for the prior year, is estimated at approximately $1 million on revenue. Net earnings however, remained less impacted by currency fluctuations during the year as a large proportion of costs are typically incurred in the same currency as revenue. The total foreign exchange impact on net earnings for the year was negligible.

Currency controls and government policies in foreign jurisdictions, where a portion of the Company's business is conducted, can restrict the Company's ability to exchange such foreign currency for other currencies, such as the U.S. dollar. To mitigate this risk, the Company has adopted a policy of carrying limited foreign currencies in local bank accounts.

The COVID-19 pandemic has resulted in significant volatility in foreign exchange markets. As at April 30, 2020, the most significant carrying amounts of net monetary assets (which may include intercompany balances with other subsidiaries) that: (i) are denominated in currencies other than the functional currency of the respective Company subsidiary; and (ii) cause foreign exchange rate exposure, including the impact on earnings before income taxes ("EBIT"), if the corresponding rate changes by 10%, are as follows:

| | **Rate variance** | **IDR/USD** | **MNT/USD** | **USD/AUD** | **MZN/USD** | **USD/CAD** | **Other** |
|---|---|---|---|---|---|---|---|
| Net exposure on monetary assets | | $ 8,702 | $ 4,308 | $ 4,132 | $ 2,003 | $ (2,327) | $ (387) |
| EBIT impact | +/-10% | 967 | 479 | 459 | 223 | 259 | 43 |

## COMPREHENSIVE EARNINGS

The Consolidated Statements of Comprehensive Loss for the year includes a $2.9 million unrealized gain on translating the financial statements of the Company's foreign operations compared to a loss of $8.8 million for the previous year. The change relates to translating the net assets of the Company's foreign operations, which have a functional currency other than the Canadian dollar, to the Company's Canadian dollar currency presentation.

## KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS

***Use of estimates***

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are not readily apparent from other sources, which affect the reported amounts of assets and liabilities at the dates of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reported periods. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment ("PP&E") for depreciation purposes, PP&E, inventory valuation, and determination of income and other taxes and recoverability of deferred income tax assets, assumptions used in compilation of share-based payments, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities and contingent considerations, and impairment testing of goodwill and intangible assets and long-lived assets.

Management determines the estimated useful lives of its PP&E based on historical experience of the actual lives of PP&E of similar nature and functions, and reviews these estimates at the end of each reporting period.

Management reviews the condition of inventories at the end of each reporting period and recognizes a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use. Management's estimate of the net realizable value of such inventories is based primarily on sales prices and current market conditions.

Amounts used for impairment calculations are based on estimates of future cash flows of the Company. By their nature, the estimates of cash flows, including the estimates of future revenue, operating expenses, utilization, discount rates and market pricing, are subject to measurement uncertainty. The Company notes that the estimates were done in the context of COVID-19, an unprecedented global pandemic, which results in a higher degree of uncertainty with limited reliable information regarding the extent and expected length of its impact. Accordingly, the impact in the Consolidated Financial Statements of future periods could be material.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings.

Compensation costs accrued for long-term share-based payment plans are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model, which is based on significant assumptions such as volatility, dividend yield and expected term.

The amount recognized as accrued liabilities, provisions, and contingent considerations, including legal, restructuring, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore, assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities, contingencies and contingent considerations based upon the best information available, relevant tax laws and other appropriate requirements.

***Judgments***

The Company applied judgment in determining the functional currency of the Company and its subsidiaries. Functional currency was determined based on the currency that mainly influences sales prices, labour, materials and other costs of providing services.

PP&E and goodwill are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment with respect to the lowest level at which independent cash inflows are generated.

The Company has applied judgment in determining the degree of componentization of PP&E. Each part of an item of PP&E with a cost that is significant in relation to the total cost of the item and has a separate useful life has been identified as a separate component and is depreciated separately.

The Company has applied judgment in recognizing provisions and accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reliable estimate can be made of the amount of the obligation.

Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings. This determination is subject to management judgment.

## OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases disclosed in note 21 "Commitments" of the Notes to Consolidated Financial Statements and presented as contractual obligations in the liquidity and capital resources section herein, the Company does not have any other off balance sheet arrangements.

## GENERAL RISKS AND UNCERTAINTIES

The Company is subject to a variety of risk factors and uncertainties in carrying out its activities. The Company's business, results of operations, financial condition and liquidity may be adversely affected by the risks and uncertainties discussed below. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair its business, results of operations, financial condition and liquidity.

***Cyclical downturn***

The most significant operating risk affecting the Company is a downturn in demand for its services, which can be due to, among other things, a decrease in activity in the mining industry. In attempting to mitigate this risk, the Company is exploiting its competitive advantage in specialized drilling and continues to explore opportunities to diversify and to rationalize its regional infrastructures. A prolonged downturn in the mining industry could result in a decrease in demand for the Company's services, which could have a negative impact on the Company's revenue, cash flow and profitability.

Fluctuations in global economic conditions may have an impact on clients' ability to pay their suppliers, such as the Company, in the event they are unable to access the capital markets to fund their project or their willingness to fund new projects. These conditions could make it difficult for clients to accurately forecast and plan future business trends and activities, thereby causing clients to slow spending on the Company's services, or seek contract terms more favourable to them. Any of these disruptions could adversely affect the Company's revenue, cash flow and profitability.

Levels of inventory typically increase as a result of increased activity levels. In addition to direct volume related increases however, inventory levels also increase due to an expansion of activity in remote locations at the end of long supply chains where it is necessary to increase inventory to ensure an acceptable level of continuing service, which is part of the Company's competitive advantage. In the event of a sudden downturn of activities related either to a specific project or to the sector as a whole, it is more difficult and costly to redeploy this remote inventory to other regions where it can be consumed.

***Competitive pressures***

The Company competes with many small regional or local companies as well as larger companies, and the intensity of competition may vary significantly from region to region at any particular time. Increased demand in a region where the Company operates may attract new competitors and impact the degree of work in such region. Pressure from competitors in a region may also result in an oversupply of drilling services in such region, which in turn may result in decreased contract prices and adversely affect the Company's revenues. Further, the Company may lose business to its competitors if it is unable to demonstrate competence, competitive pricing, adequate equipment or reliable performance to its customers. There can be no assurance that the Company's competitors will not be successful in capturing a share of the Company's present or potential customer base.

***Country risk***

The Company is committed to using its expertise and technology in exploration areas around the world. With this comes the risk of dealing with business and political systems in a variety of jurisdictions. The Company's international operations are subject to a variety of risks and uncertainties, including, but not limited to: social, political and economic instability; military repression, act of war, civil unrest, force majeure and terrorism; fluctuations in currency exchange rates; high rates of inflation; changes in laws, policies and regulations; changes in duties, taxes and governmental royalties; trade barriers; nationalization/expropriation of projects or assets; corruption; delays in obtaining or inability to obtain necessary permits; nullification of existing mining claims or interests therein; hostage takings; labour unrest; opposition to mining from environmental organizations; and deterioration of Canada's inter-governmental relationships or other non-governmental organizations or shifts in political attitude that may adversely affect the business. Also, there has been an emergence of a trend by some governments to increase their participation in the industry and thereby their revenues through increased taxation, expropriation, or otherwise. This could negatively impact the level of foreign investment in mining and exploration activities and thus drilling demand in these regions, which in turn may result in reductions of the Company's revenue and additional transition costs as equipment is shifted to other locations.

While the Company works to mitigate its exposures to potential country risk events, the impact of any such event is largely not under the control of the Company, is highly uncertain and unpredictable and will be based on specific facts and circumstances. As a result, the Company can give no assurance that it will not be subject to any country risk event, directly or indirectly, in the jurisdictions in which it operates. Any of the foregoing events may have a material negative impact on the Company's operations and assets.

***Repatriation of funds or property***
There is no assurance that any of the countries in which the Company operates or may operate in the future will not impose restrictions on the repatriation of funds or property to other jurisdictions.

***Taxes***
The Company is subject to many different forms of taxation in various jurisdictions throughout the world, including but not limited to, property tax, income tax, withholding tax, commodity tax, social security and other payroll related taxes, which may lead to disagreements with tax authorities regarding the application of tax law.

Tax law and administration is extremely complex and requires the Company to make certain assumptions about various tax laws and regulations. The computation of income, payroll and other taxes involves many factors, including the interpretation of tax legislation in various jurisdictions in which the Company is subject to ongoing tax assessments. The Company's estimate of tax-related assets, liabilities, recoveries and expenses incorporates significant assumptions. These assumptions include, but are not limited to, the effect of tax treaties between jurisdictions and taxable income projections. While the Company believes that such assumptions are correct, there can be no assurance that foreign taxation or other authorities will reach the same conclusion. If such assumptions differ from actual results, or if such jurisdictions were to change or modify such laws or the current interpretation thereof, the Company may have to record additional tax expenses and liabilities, including interest and penalties.

***Foreign currency***
The Company conducts a significant proportion of its business outside of Canada and consequently has exposure to currency movements, principally in U.S. dollars. In order to reduce its exposure to foreign exchange risks associated with currencies of developing countries, where a substantial proportion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where practical and legally permitted.

Foreign exchange translations can have a significant impact on year-to-year comparisons because of the geographic distribution of the Company's activities. Year-over-year revenue comparisons have been affected by the fluctuation in the Canadian dollar against the U.S. dollar. Margin performance, however, is less affected by currency fluctuations as a large proportion of costs are typically in the same currency as revenue. In future periods, year-to-year comparisons of revenue could be significantly affected by changes in foreign exchange rates.

***Operational risk***
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and/or systems (including, among other things, IT systems) or from external events. Operational risk is present in all aspects of the Company's activities, and incorporates exposure relating to fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, technology failures, processing errors, business integration, theft and fraud, damage to physical assets, employee safety and insurance coverage.

***Dependence on key customers***
From time to time, the Company may be dependent on a small number of customers for a significant portion of overall revenue and net income. Should one or more such customers terminate contracts with the Company, there can be no guarantee that the Company will obtain sufficient replacement contracts to maintain the existing revenue and income levels. Consequently, the Company continues to work to expand its client base and geographic field of operations to mitigate its exposure to any single client, commodity or mining region.

***Safety***
The nature of the Company's work places employees and others near large equipment, dangerous processes or highly regulated materials, and in challenging environments. Most of the Company's customers consider safety and reliability two primary attributes when selecting a provider of drilling services. The Company continues to invest in training to improve skills, abilities and safety awareness. If the Company fails to implement appropriate safety procedures and/or if its procedures fail, employees or others may suffer injuries. Failure to comply with such procedures and maintain a record of safety performance may have an adverse impact on the Company's ability to attract and retain customers and the Company's business.

***Expansion and acquisition strategy***

The Company intends to remain vigilant with regards to potential strategic future acquisitions and internal expansion. It is not possible to ensure that future acquisition opportunities will exist on acceptable terms, or that newly acquired or developed entities will be successfully integrated into the Company's operations. Additionally, the Company cannot give assurances that it will be able to secure the necessary financing on acceptable terms to pursue this strategy.

***Regulatory and legal risks***

The drilling industry is highly regulated by laws and regulations, including environmental, which are not consistent across the jurisdictions in which the Company operates. The Company is unable to predict what legislation, revisions or regulatory directives may be proposed that might affect its operations or when such proposals may be effective. While the Company's policies mandate full compliance with all applicable laws and regulations, the Company can provide no assurance that it will be in full compliance at all times with such laws and regulations. To the extent that the Company fails to comply, or is alleged to fail to comply, with applicable legislation, regulatory directives and permits, it could be subject to monetary fines, suspension of operations or other penalties.

***Corruption, bribery and fraud***

The Company is required to comply with the Canadian *Corruption of Foreign Public Officials Act* ("CFPOA") as well as similar applicable laws in other jurisdictions, which prohibit companies from engaging in bribery or other prohibited payments or gifts to foreign public officials for the purpose of retaining or obtaining business. The Company's policies mandate full compliance with these laws. However, there can be no assurance that the policies and procedures and other safeguards that the Company has implemented in relation to its compliance with these laws will be effective or that Company employees, agents, suppliers, or other industry partners have not engaged or will not engage in such illegal conduct for which the Company may be held responsible. Violations of these laws could disrupt the Company's business and result in a material adverse effect on its business and operations.

***Climate change risk***

The Company operates in various regions and jurisdictions where environmental laws are evolving and are not consistent. As the world is becoming increasingly aware of the impact of climate change, a number of governments or governmental bodies in jurisdictions where the Company operates have introduced or are contemplating regulatory changes in response to the potential impact of climate change, such as regulations relating to gas emission levels. Legislation, regulation or other restrictions imposed by governmental authorities on carbon emissions could result in increased cost for the Company. Such policy changes could increase the costs of projects for clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for the Company's services, which in turn could have a material adverse impact on the Company's business, operations and financial results.

In addition, climate change, such as extreme weather conditions, natural disasters, resource shortages, changing sea levels and changing temperatures, represents a physical and financial risk and could affect the Company's operations, including by disrupting or delaying the transportation of equipment and employees to its operations, which in turn could have an adverse financial impact on the Company's business, operations, cash flow and financial results.

***Pandemics, force majeure and natural disasters***

The Company may be impacted by pandemics and public health emergencies, including those related to COVID-19 coronavirus, force majeure events and natural disasters. Although the full extent of the impact of a pandemic, public health emergency, force majeure event or natural disaster is highly uncertain and cannot be predicted, future increased or prolonged economic disruption as a result of such event or disaster, including the current COVID-19 outbreak, may have a material and adverse impact on the Company's business, operations, cash flow and financial results, including without limitation, through compromised employee health and workplace productivity, disruption to supply chains, and threats to the business continuity of the Company's customers. In regards to the current COVID-19 outbreak, the Company continues to work closely with operational management across the organization, ensuring that policies, procedures and plans are in place to help minimize the negative impact that the outbreak has on its business.

***Specialized skills and cost of labour increases***
Generally speaking, drilling activity related to metals and minerals is broadly linked to price trends in the metals and minerals sector. During periods of increased activity, a limiting factor in this industry can be a shortage of qualified drillers. The Company addresses this issue by attempting to become the "employer of choice" for drillers in the industry, as well as hiring and training more locally-based drillers. The development of local drillers has had a positive impact on the Company's global operations, and is expected to continue to play an important role.

The Company also relies on an experienced management team across the Company to carry on its business. A departure of several members of the management team at one time could have an adverse financial impact on operations.

A material increase in the cost of labour and the inability to attract and retain qualified drillers could result in, among other things, loss of opportunities, cost overruns and failure to perform on projects and materially affect gross margins and therefore the Company's financial performance.

***Equipment and parts availability***
The Company's ability to provide reliable service is dependent upon timely delivery of equipment and replacement parts from fabricators and suppliers. Any factor that substantially increases the order time on equipment and increases uncertainty surrounding final delivery dates may constrain future growth, existing operations, and the financial performance of the Company.

***Reputational risk***
Negative publicity, whether true or not, regarding practices, actions or inactions, could adversely affect the Company's value, liquidity, or customer base.

***Cybersecurity risk***
While information systems are integral to supporting the Company's business, due to the nature of the Company's services, it is not considered to be subject to the same level of cybersecurity risks as companies operating in sectors where sensitive information is at the core of their business. Nevertheless, the Company is potentially exposed to risks ranging from internal human error to uncoordinated individual attempts to gain unauthorized access to its information technology systems, to sophisticated and targeted measures directed at the Company and its systems, clients or service providers. Any such disruptions in the Company's systems or the failure of the systems to operate as expected could, depending on the magnitude of the problem, result in the loss of client information, a loss of current or future business, reputational harm and/or potential claims against the Company, all of which could have an adverse effect on the Company's business, financial condition and operating results. The Company continues to enhance its efforts to mitigate these risks. It invests in technology security initiatives to better identify and address any vulnerabilities including periodic third party vulnerability assessments, testing user knowledge of cybersecurity best practices, and audits of security processes and procedures. In addition, the Company continues to increase the employees' awareness of security policies through ongoing communications.

***Market price and dilution of common shares***
Securities of mining companies, and consequently, drilling companies, have experienced volatility in the past, at times unrelated to the financial performance of the companies involved. These factors include macroeconomic developments in North America and internationally and market perceptions of the attractiveness of particular industries. As a result of this volatility, the market price of the Company's common shares at any given point in time may not accurately reflect the Company's long-term value. In the event that the Company increases the number of common shares issued, this may have a dilutive effect on the price of the common shares.

***Environmental, health and safety regulations and considerations***
The Company's operations involving contract drilling, exploration, and development activities require permits and other approvals from various federal, provincial, state, and local governmental authorities. Such operations are, and will be, governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Environmental laws and regulations and their interpretation have changed rapidly in recent years and may continue to do so in the future. Evolving public expectations with respect to the environment and increasingly stringent laws and regulations could result in increased costs of compliance, and failure to recognize and adequately respond to them could result in fines, regulatory scrutiny, or have a significant effect on the Company's reputation and financial results. While the

Company's policies mandate full compliance with all of its required permits and approvals and all applicable laws and regulations, there can be no assurance that it will obtain and/or maintain full compliance at all time. Failure to obtain and/or maintain full compliance with such permits, approvals and/or regulations could have adverse effects on the Company's business, operations or financial results.

The activities at clients' worksites may also involve hazards that can result in personal injury and loss of life and/or damage to property. While the Company has implemented extensive health and safety initiatives at clients' worksites to protect the health and safety of its employees and contractors, there can be no assurance that such measures will eliminate the occurrence of such accidents or incidents, which could give rise to regulatory fines and/or civil liability. There can be no assurance that the Company's insurance policies will be sufficient or effective under all circumstances or against all claims or hazards to which it may be subject or that it will be able to continue to obtain adequate insurance protection. A successful claim or damage resulting from a hazard for which it is not fully insured could adversely affect the Company's business and financial results.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Management, including the CEO and the CFO, does not expect that the Company's disclosure controls will prevent or detect all errors and all fraud. 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.

The Company's CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and concluded that, subject to the inherent limitations and restrictions noted above, those disclosure controls were effective for the year ended April 30, 2020.

The Company's CEO and 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 International Financial Reporting Standards.

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 has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

During fiscal 2020, management, including its CEO and CFO, evaluated the existence and design of the Company's ICFR and confirm there were no changes to the ICFR that have occurred during the year that materially affected, or are reasonably likely to materially affect, the Company's ICFR. The Company continues to review and document its disclosure controls and its ICFR, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with the business.

As of April 30, 2020, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Company's ICFR as defined in NI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these ICFR were effective.

The evaluations were conducted in accordance with the framework and criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of NI 52-109.

## OUTSTANDING SHARE DATA

The authorized capital of the Company consists of an unlimited number of common shares, currently the only class of voting equity securities. Holders of common shares are entitled to receive notice of, attend and vote at all meetings of the shareholders of the Company. Each common share carries the right to one vote in person or by proxy at all meetings of the shareholders of the Company.

The Company's share data was composed of the following:

| *(amounts in thousands)* | **As at June 4, 2020** | As at June 6, 2019 |
|---|---|---|
| Common shares | **80,634** | 80,300 |
| Stock options outstanding | **2,139** | 3,375 |