MAJOR
Partners on the Ground

# President's Report to Shareholders – Third Quarter 2012

We are pleased to report record revenue and net earnings for the third quarter of fiscal 2012, which is historically the Company's weakest quarter due to extended holiday shut-downs by many customers. During the quarter, the Company had revenue of $182.2 million, up nearly 70% from the $107.7 million recorded in Q3 last year. Even on a pre-Bradley basis, the Company had quarterly earnings that would have been a new Q3 record. Net earnings for the quarter were $9.6 million, or $0.12 per share, compared to $1.7 million recorded for the third quarter of fiscal 2011. Our record performance would have been even stronger if it were not for heavy ramp-up costs and delays in Canada, which were caused by mild weather. All of the Company's regions contributed to this growth, as demand for drilling services continues to increase and customers remain anxious to secure rigs and crews.

Quarterly EBITDA was 2.5 times Q3 EBITDA last year, coming in at $27.0 million compared to $10.8 million. The overall gross margin percentage for the quarter was 25.9% as compared to 22.2% for the same period last year.

Net capital expenditures for the quarter were $22.5 million as we purchased 19 rigs. We also retired eight rigs through our modernization program. We continue the renewal of our fleet, which helps improve productivity, safety and speeds up the training of crews. These additions should improve rig utilization and reliability as we focus on increasing the earning power of each crew and each rig. 60% of our rigs are now less than five years old in an industry where rigs tend to last 20 years.

The outlook for the fourth quarter remains strong although weather continued to be somewhat challenging throughout February. During the third quarter, we renewed many of our contracts with improved pricing. We expect demand from gold and copper projects to continue to be strong in calendar 2012 assuming prices remain well above economical thresholds required for sustained exploration. Strong demand from coal and iron ore projects has also added a layer of work, which was not present at the peak in 2008. Intermediate and junior mining companies with advanced projects have ramped up their already busy drilling programs by adding rigs, and most senior mining companies have increased their exploration budgets for 2012. We are starting to see increased demand for underground services around the world as mines are moving some surface drilling activities underground. Even though underground drilling tends to have lower margins, the Company expects to invest more in this area going forward given that these contracts provide more financial stability, due to their longer term nature, and target a different labour force.

Our biggest operational challenge continues to be the speed at which we can grow the labour force and shrink the productivity gap of new drillers as they gain experience. We continue to aggressively and successfully invest in recruitment and training. Our ongoing efforts on recruitment and training should allow our global utilization rates to continue to improve as we add more drillers. We are also pleased to report that we have been able to reduce our turnover rate of new entrants by half over the last 12 months. As competition for drillers heats up, wage increases will be required in certain areas to retain and attract the most experienced drillers, which are key to high-quality customer service.

The Company is pleased to announce that its Board of Directors declared a cash dividend of $0.09 per common share payable on May 2, 2012 to shareholders of record as of April 6, 2012. This dividend is designated as an "eligible dividend" for Canadian tax purposes, and represents a 12.5% increase over the dividend declared six months ago.

The Company would also like to take this opportunity to welcome Fred Dyment to its Board of Directors. Mr. Dyment is a Chartered Accountant with over 35 years of experience in the oil and natural gas industry and in international business. He held increasingly senior positions at Ranger Oil Limited, including Chief Financial Officer and President and Chief Executive Officer.

As always, we value the continued support of our customers, employees, and shareholders.

Francis P. McGuire
President & CEO

MAJOR

Partners on the Ground

# Management's Discussion and Analysis

# Third Quarter Fiscal 2012

# MAJOR DRILLING GROUP INTERNATIONAL INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# THIRD QUARTER FISCAL 2012

This Management's Discussion and Analysis ("MD&A") relates to the results of operations, financial condition and cash flows of Major Drilling Group International Inc. ("Major Drilling" or the "Company") as at and for the three-month period ended January 31, 2012. All amounts in this MD&A are in Canadian dollars, except where otherwise noted. The Company's third quarter 2012 unaudited interim period condensed consolidated financial statements and the accompanying notes will form part of the first annual audited consolidated financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") for the year ended April 30, 2012 and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein.

This MD&A is a review of activities and results for the quarter ended January 31, 2012 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited consolidated interim financial statements as at and for the three months ended January 31, 2012, and also in conjunction with the audited consolidated financial statements and Management's Discussion and Analysis contained in the Company's annual report for the fiscal year ended April 30, 2011.

This MD&A is dated February 29, 2012. Disclosure contained in this document is current to that date, unless otherwise stated.

## FORWARD-LOOKING STATEMENTS

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, 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, which include, but are not limited to: cyclical downturn, competitive pressures, dealing with business and political systems in a variety of jurisdictions, repatriation of 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, legal and regulatory risk, extreme weather conditions and the impact of natural or other disasters, specialized skills and cost of labour increases, equipment and parts availability and reputational risk. These factors and other risk factors, as described under "General Risks and Uncertainties" of the Company's Annual Information Form, represent risks the Company believes are material. 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 annual MD&A.

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

## CORPORATE OVERVIEW

Major Drilling Group International Inc. is one of the world's largest drilling service companies primarily serving the mining industry. To support its customers' varied exploration drilling requirements, Major Drilling maintains operations on every continent. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, sonic, RAB, geotechnical, environmental, water-well, and coal-bed methane and shallow gas.

## 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 projects that have these characteristics, calling these services "specialized drilling". Over the years, the Company has positioned itself as one of the largest specialized operators in the world by leveraging its main competitive advantages: skilled personnel, specialized equipment, long-standing relationships with the world's largest mining companies, a reputation for safe high-quality work, and access to capital.

Although the Company's main focus remains specialized services, it also intends to continue to modernize its conventional fleet and expand its footprint in strategic areas while maintaining minimum debt levels and remaining best in class in safety and human resources. The Company will also seek to diversify by investing in energy and environmental drilling services that are complementary to its skill set.

The Company categorizes its 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 over the next two decades, believes these skills will be in greater and greater demand.

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.

Underground drilling takes on greater importance in the latter stages of the mining cycle as clients develop underground mines.

## INDUSTRY OVERVIEW

The metals and minerals drilling industry is reliant primarily on demand from two metal groups, gold on the one hand and base metals on the other. Each commodity group is influenced by distinct market forces. The strength of demand is determined by commodity price levels and the availability of capital to finance exploration and development programs. Despite the recent events in the global economy, as of the date of the MD&A, customers had not modified their activity patterns. Most senior and intermediate mining companies are in much better financial position than three years ago and many junior companies have raised money. In addition, the price of gold is double what it was in 2008, the price of copper is still reasonably high, and both are well above average costs of production.

In the longer-term, management believes the fundamental drivers of the business remain positive, with worldwide supply for most metals expected to tighten due to the continuing lack of significant discoveries. Management believes the prospects for gold related drilling, which generally accounts for approximately 50 percent of the drilling market, remains positive. In the short-term, there is a risk that the global economy could worsen, impacting commodity prices.

**Gold**

Drilling services for gold are always affected by overall commodity prices. However, Metals Economics Group ("MEG") had reported that declining gold reserves replacement via exploration, since 1997, may result in gold supply shortages in the long-term, a fact that has been echoed by several senior gold mining companies. Increased production by the major gold producers over the past decade has resulted in a greater need to add to reserves in order to maintain a life-of-production that satisfies the long-term views of investors and market analysts.

It is generally believed that future gold deposits will probably 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 believes this should improve demand for specialized services in the future.

**Base Metals**

Drilling services for base metals are affected by overall commodity prices. With the recent limited expansion of supply, and the emergence of China and India as major consumers of base metals, supply is expected to be stretched within the next several years. MEG reported that the time required to take a project from discovery through to production ensures that any new discoveries will not benefit global supply for years. During this time, definition drilling is required to establish mine plans in order to bring these discoveries into production.

## BUSINESS ACQUISITION

***Acquisition of Bradley Group Limited***

Effective September 30, 2011, the Company acquired all the issued and outstanding shares of Bradley Group Limited ("Bradley"), which provides a unique opportunity to further the Company's corporate strategy of focusing on specialized drilling, expanding its geographic footprint in areas of high growth and of maintaining a balance in the mix of drilling services. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes the assets acquired indicated below, contracts and personnel. The purchase price for the transaction was CAD $78.1 million, including customary working capital adjustments and net of cash acquired.

Through the acquisition, Major Drilling has added Bradley Group's 124 rigs to its fleet. The addition of Bradley Group's rigs, of which approximately 80% are surface drilling rigs and 20% are underground diamond drilling rigs, furthers the Company's strategic focus on specialized drilling. The acquisition also involves the addition of Bradley Group's highly experienced workforce, experienced management team and existing contracts in Canada, the Philippines, Colombia, Mexico and Suriname.

The portion of the purchase price payable on the closing of the acquisition was financed using the net proceeds of an equity offering and new and extended credit facilities.

## OVERALL PERFORMANCE

In this quarter, the Company achieved the highest third quarter revenue and profits in its history. Demand for drilling services continues to increase and customers remain anxious to secure rigs and crews. The third quarter is always seasonally the weakest quarter of the Company's fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season. Although the Company had a record third quarter performance, results reflect heavy-ramp up costs and delays in Canada, which were caused by mild weather.

The overall gross margin percentage for the quarter was 25.9% compared to 22.2% for the same period last year. Third quarter margins are always impacted by a slowdown during the holiday season combined with higher than usual mobilizations, demobilizations, and increased repairs during this period. This quarter, mild weather in Canada also caused delays in mobilizing to certain jobs.

Net earnings were $9.6 million or $0.12 per share ($0.12 per share diluted) for the quarter, compared to net earnings of $1.7 million or $0.02 per share ($0.02 per share diluted) for the prior year quarter.

## RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2012

Total revenue for the third quarter was $182.2 million compared to $107.7 million recorded for the prior year period. Part of the increase comes from the acquisition of the Bradley operations. Even without considering this acquisition, revenue was still the highest level of third quarter revenue in the Company's history. All of the Company's regions contributed to this growth.

Revenue from Canada-U.S. drilling operations was up 83% to $69.8 million for the quarter compared to $38.2 million for the same period last year. U.S. mineral drilling operations continued a strong recovery, particularly from its senior mining customers. In Canada, increased activity levels, combined with the acquisition of Bradley, contributed to the growth of revenue.

In South and Central America, revenue for the quarter was $59.2 million, up 61% from $36.8 million recorded in the prior year quarter. The increase was primarily driven by strong growth in our Mexican and Chilean operations, combined with the addition of the Bradley operations in Colombia and Suriname.

Australian, Asian and African drilling operations reported revenue of $53.2 million, up 63% from $32.7 million reported in the same period last year. Australia and Mongolia accounted for a significant portion of this growth. New operations in Burkina Faso, Mozambique and the DRC, combined with the addition of Bradley's operations in the Philippines, accounted for the rest of the growth in the region.

The overall gross margin percentage for the quarter was 25.9% compared to 22.2% for the same period last year. Third quarter margins are always impacted by a slowdown during the holiday season combined with higher than usual mobilizations, demobilizations and increased repairs during this period. This quarter, mild weather in Canada also caused delays in mobilizing to certain jobs.

General and administrative costs were $16.5 million for the quarter compared to $10.1 million in the same period last year. The increase was due to three main factors: i) new Bradley operations; ii) new operations in Burkina Faso, Mozambique and the DRC; and iii) increased costs to support the strong growth in activity levels.

Other expenses were $3.4 million for the quarter compared to $1.6 million for the same period last year, due to higher incentive compensation expenses given the Company's improved profitability and increased provision for bad debt.

Depreciation and amortization expense increased to $12.0 million for the quarter compared to $8.0 million for the same quarter last year. Two thirds of the increase relates to the acquisition of Bradley, including the amortization of intangible assets, which are amortized over four years. Investments in equipment over the last year account for the rest of the increase.

Net earnings were $9.6 million or $0.12 per share ($0.12 per share diluted) for the quarter, compared to net earnings of $1.7 million or $0.02 per share ($0.02 per share diluted) for the prior year quarter.

## RESULTS OF OPERATIONS – YEAR TO DATE ENDED JANUARY 31, 2012

Revenue for the nine months ended January 31, 2012 increased 62% to $560.2 million from $345.0 million for the corresponding period last year.

Canada-U.S. revenue increased by 67% to $215.4 million compared to last year. Strong recovery in the U.S. mineral drilling operations, particularly from senior mining customers, combined with the Bradley acquisition and increased activity levels in Canada contributed to the growth of revenue.

Revenue in South and Central America increased by 50% to $178.5 million compared to the prior year period. Mexico, Argentina and Chile accounted for three quarters of the growth in the region with most of the rest of the increase coming from Bradley's operations in Colombia and Suriname.

Revenue in Australia, Asia and Africa increased 72% to $166.3 million from the prior year period. Australian and Mongolian operations were the main drivers of this growth combined with new operations in Mozambique and the DRC.

Gross margins year to date were 30.8% compared to 24.8% last year as pricing continued to improve this year. Ramp-up costs, such as mobilization and up-front purchases, have now somewhat normalized. Training and recruitment efforts allowed the Company to increase the number of shifts in the field during the year.

General and administrative expenses increased to $42.0 million compared to $29.6 million for the same period last year. The increase was due to increased costs to support the strong growth in activity levels, the addition of new operations in Mozambique, the DRC and Burkina Faso, and the acquisition of Bradley.

Other expenses were $12.0 million for the year compared to $6.0 million for the same period last year due primarily to higher incentive compensation expenses given the Company's increased profitability in the current year and costs related to the Bradley acquisition.

Depreciation and amortization expense increased to $30.0 million compared to $22.7 million in the previous period. The acquisition of Bradley, including the amortization of intangible assets, which are amortized over four years, accounts for a significant portion of this increase. Investments in equipment over the last year account for the rest of the increase.

Net earnings were $59.0 million or $0.79 per share ($0.78 per share diluted) compared to $18.1 million or $0.25 per share ($0.25 per share diluted) last year.

## SUMMARY OF QUARTERLY RESULTS

| (in $000 CAD, except per share) | Fiscal 2010 | Fiscal 2011 [1] | | | | Fiscal 2012 | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Revenue | $ 97,368 | $ 109,480 | $ 127,818 | $ 107,720 | $ 137,258 | $ 164,152 | $ 213,854 | $ 182,188 |
| Gross profit | 22,372 | 26,532 | 35,101 | 23,873 | 34,913 | 51,499 | 74,055 | 47,120 |
| Gross margin | 23.0% | 24.2% | 27.5% | 22.2% | 25.4% | 31.4% | 34.6% | 25.9% |
| Net earnings | 3,225 | 5,134 | 11,321 | 1,671 | 9,467 | 17,892 | 31,560 | 9,566 |
| Per share [2] - basic | 0.05 | 0.07 | 0.16 | 0.02 | 0.13 | 0.25 | 0.43 | 0.12 |
| Per share [2] - diluted | 0.04 | 0.07 | 0.16 | 0.02 | 0.13 | 0.25 | 0.42 | 0.12 |

[1]Figures for the 2011 financial year have been restated to comply with IFRS. 2010 comparative figures, which are prior to the Company's transition date into IFRS, have not been restated and remain unchanged as previously reported under Canadian GAAP.

[2]Adjusted to reflect the 3 for 1 stock split completed in fiscal 2011.

With the exception of the third quarter, the Company exhibits comparatively less seasonality in quarterly revenue than in the past. 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, particularly in South and Central America.

## LIQUIDITY AND CAPITAL RESOURCES

***Operating Activities***

Cash flow from operations (before changes in non-cash operating working capital items, finance costs and income taxes) was $28.2 million for the quarter compared to $11.8 million generated in the same period last year.

The change in non-cash operating working capital items was an inflow of $17.7 million for the quarter compared to an inflow of $7.1 million for the same period last year. The inflow in non-cash operating working capital in the quarter ended January 31, 2012 was primarily impacted by:

- A decrease in accounts receivable of $36.7 million due to decreased activity in the third quarter;
- A decrease in accounts payable of $10.2 million due to decreased activity in the third quarter;
- An increase in inventory of $8.4 million as the Company was ramping up for a busy fourth quarter.

***Financing Activities***

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

<u>Operating Credit Facilities</u>

The credit facilities related to operations total $28.3 million ($25.0 million from a Canadian chartered bank and $3.3 million in various credit facilities) and are primarily secured by corporate guarantees of companies within the group. At January 31, 2012, the Company had utilized $10.4 million of these lines for stand-by letters of credit. The Company also has a credit facility of $3.8 million for credit cards for which interest rate and repayment are as per cardholder agreements.

<u>Short-Term Debt</u>

The Company has a 3,835 million Chilean peso (CAD $7.9 million) loan secured by a stand-by letter of credit drawn from the Company's demand credit facility and maturing in April 2012. During the quarter, the Company paid off a USD $5.0 million short-term facility it had in Colombia.

<u>Long-Term Debt</u>

Total long-term debt decreased by $11.6 million during the quarter to $52.8 million at January 31, 2012. Debt repayments were $11.6 million during the quarter.

As of January 31, 2012, the Company had the following long-term debt facilities available:

- $25.0 million non-revolving facility for financing the acquisition of Bradley Group. At January 31, 2012, the remaining balance of this facility stood at $23.3 million. This facility is amortized over five years ending in September 2016.

- $50.0 million revolving facility for financing the cost of equipment purchases or acquisition costs of related businesses. At January 31, 2012, the Company had utilized $11.2 million of this line. Draws on this line are due on maturity in September 2016.

- $10.0 million non-revolving facility. At January 31, 2012, the remaining balance of this facility stood at $9.6 million. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.

- $8.0 million note payable, carrying interest at a fixed rate of 4% repayable over three years ending in September 2014.

- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled $0.5 million at January 31, 2012, which were fully drawn and mature through 2016.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure, dividend and debt obligations. As at January 31, 2012, the Company had unused borrowing capacity under its credit facilities of $56.7 million and cash of $50.1 million, for a total of $106.8 million in available funds.

***Investing Activities***

Capital expenditures were $22.5 million for the quarter ended January 31, 2012 compared to $18.3 million for the same period last year.

During the quarter, the Company added 19 drill rigs through its capital expenditure program while retiring or disposing of eight drill rigs through its modernization program bringing the Company's total rig fleet to 711.

## OUTLOOK

Going forward, the outlook for the fourth quarter remains strong, although weather continued to be somewhat challenging throughout February. During the third quarter, the Company renewed many of its contracts with pricing catching up to market conditions. Demand from gold and copper projects is expected to continue to be strong in calendar 2012 assuming prices remain well above economical thresholds required for sustained exploration. Strong demand from coal and iron ore projects has also added a layer of work, which was not present at the peak in 2008. Intermediate and junior mining companies with advanced projects have ramped up their already busy drilling programs by adding rigs, and most senior mining companies have increased their exploration budgets for 2012. The Company is starting to see increased demand for underground services around the world as mines are moving some surface drilling activities underground. Even though underground drilling tends to have lower margins, the Company expects to invest more in this area given that these contracts provide more financial stability, and target a different labour force.

The Company's biggest operational challenge continues to be the speed with which it can grow the labour force and shrink the productivity gap as new drillers gain experience. The Company continues to aggressively and successfully invest in the recruitment and training of new drillers. Ongoing efforts on training and recruitment should allow global utilization rates to continue to improve as more drillers are added. The Company is also pleased to report that it has been able to reduce its turnover rate of new entrants by half over the last 12 months. As competition for drillers heats up, wage increases will be required in certain areas to retain and attract the most experienced drillers, which are key to high-quality customer service.

## FOREIGN EXCHANGE

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar. The unfavourable impact of U.S. dollar exchange translation, for the quarter, when comparing to the effective rates for the same period last year, is estimated at $1.7 million on revenue but negligible on net earnings. The unfavourable impact of foreign exchange translation, for the nine-month period ended January 31, 2012, is estimated at $8 million on revenue and $1.5 million on net earnings.

## COMPREHENSIVE EARNINGS

The consolidated statements of other comprehensive earnings for the quarter include $2.3 million in unrealized gains on translating the financial statements of the Company's foreign operations compared to a loss of $4.3 million for the same period last 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.

## GENERAL RISKS AND UNCERTAINTIES

A complete discussion of general risks and uncertainties may be found in the Company's Annual Information Form for the fiscal year ended April 30, 2011, which can be found on the SEDAR website at www.sedar.com, and which continue to apply to the business of the Company. The Company is not aware of any significant changes to risk factors from those disclosed at that time.

## OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2011, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Effective September 30, 2011, the Company completed the acquisition of the Bradley group of companies. The results of Bradley's operations have been included in the financial statements since the date of acquisition. However, the Company has not had sufficient time to appropriately review the internal controls used by Bradley. The Company is in the process of integrating the Bradley operation and will be expanding its disclosure controls and procedures and internal controls over financial reporting compliance program to include the Bradley group of companies over the next year. As a result, the Chief Executive Officer and Chief Financial Officer have limited the scope of design of disclosure controls and procedures and testing of internal controls over financial reporting to exclude Bradley controls, policies and procedures from the January 31, 2012 certification of internal controls. The acquisition date financial information for Bradley is included in the discussion regarding the acquisition contained in this MD&A and Note 16 of the interim condensed consolidated financial statements.

Other than restrictions mentioned above, there have been no changes in the Company's internal controls over financial reporting during the period beginning on May 1, 2011 and ended on January 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

The Company has prepared its January 31, 2012 interim condensed consolidated financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards, and with IAS 34, Interim Financial Reporting, as issued by the IASB. Prior to 2011, the Company prepared its financial statements in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, or internal controls.

The Company's IFRS accounting policies are provided in Note 4 to the fiscal 2012 interim condensed consolidated financial statements. In addition, Note 6 to the interim condensed consolidated financial statements presents reconciliations between the Company's April 30, 2011 previous GAAP results and the IFRS results and an explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows.

## OUTSTANDING SHARE DATA

As of February 29, 2012, there were 79,135,379 common shares issued and outstanding in the Company. This represents an increase of 225,003 issued and outstanding shares as compared to the number reported in our second quarter MD&A (reported as of November 30, 2011).

## ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Operations
**(in thousands of Canadian dollars, except per share information)**
**(unaudited)**

| | Three months ended January 31 | | Nine months ended January 31 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **TOTAL REVENUE** | **$ 182,188** | $ 107,720 | **$ 560,194** | $ 345,018 |
| **DIRECT COSTS** | **135,068** | 83,847 | **387,520** | 259,512 |
| **GROSS PROFIT** | **47,120** | 23,873 | **172,674** | 85,506 |
| **OPERATING EXPENSES** | | | | |
| General and administrative | **16,522** | 10,118 | **41,956** | 29,640 |
| Other expenses | **3,388** | 1,573 | **12,036** | 6,005 |
| Loss (gain) on disposal of property, plant and equipment | **635** | 391 | **1,316** | (427) |
| Foreign exchange (gain) loss | **(384)** | 1,028 | **(19)** | (220) |
| Finance costs | **874** | 265 | **2,660** | 876 |
| Depreciation and amortization (note 15) | **12,017** | 8,048 | **29,963** | 22,742 |
| | **33,052** | 21,423 | **87,912** | 58,616 |
| **EARNINGS BEFORE INCOME TAX** | **14,068** | 2,450 | **84,762** | 26,890 |
| **INCOME TAX - PROVISION (RECOVERY) (note 12)** | | | | |
| Current | **(3,910)** | 597 | **13,377** | 9,447 |
| Deferred | **8,412** | 182 | **12,367** | (683) |
| | **4,502** | 779 | **25,744** | 8,764 |
| **NET EARNINGS** | **$ 9,566** | $ 1,671 | **$ 59,018** | $ 18,126 |
| **EARNINGS PER SHARE (note 13)** | | | | |
| **Basic** * | **$ 0.12** | $ 0.02 | **$ 0.79** | $ 0.25 |
| **Diluted** ** | **$ 0.12** | $ 0.02 | **$ 0.78** | $ 0.25 |

*Based on 78,948,691 and 71,579,811 daily weighted average shares outstanding for the quarter ended January 31, 2012 and 2011, respectively and on 75,078,293 and 71,451,882 daily weighted average shares outstanding for the fiscal year to date 2012 and 2011, respectively. The total number of shares outstanding on January 31, 2012 was 79,086,376.

** Based on 80,067,340 and 72,534,171 daily weighted average shares outstanding for the quarter ended January 31, 2012 and 2011, respectively, and on 76,046,641 and 72,042,816 daily weighted average shares outstanding for the fiscal year to date 2012 and 2011, respectively.

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Comprehensive Earnings (Loss)
**(in thousands of Canadian dollars)**
**(unaudited)**

| | Three months ended January 31 | | Nine months ended January 31 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **NET EARNINGS** | **$ 9,566** | $ 1,671 | **$ 59,018** | $ 18,126 |
| **OTHER COMPREHENSIVE EARNINGS** | | | | |
| Unrealized gains (losses) on foreign currency translations (net of tax of $0) | **2,286** | (4,315) | **9,860** | 4,280 |
| Unrealized loss on cash flow hedge (net of tax of $0) | **(119)** | - | **(119)** | - |
| **COMPREHENSIVE EARNINGS (LOSS)** | **$ 11,733** | $ (2,644) | **$ 68,759** | $ 22,406 |

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Changes in Equity
**For the nine months ended January 31, 2011 and 2012**
**(in thousands of Canadian dollars)**
**(unaudited)**

| | Share capital | Reserves | Share based payments reserve | Retained earnings | Foreign currency translation reserve | Total |
|---|---|---|---|---|---|---|
| **BALANCE AS AT MAY 1, 2010** | $ 144,919 | $ - | $ 9,236 | $153,358 | $ - | $307,513 |
| Exercise of stock options | 2,011 | - | (599) | - | - | 1,412 |
| Share based payments reserve | - | - | 1,906 | - | - | 1,906 |
| Dividends | - | - | - | (5,243) | - | (5,243) |
| | 146,930 | - | 10,543 | 148,115 | - | 305,588 |
| **Comprehensive earnings:** | | | | | | |
| Net earnings | - | - | - | 18,126 | - | 18,126 |
| Unrealized gains on foreign currency translations | - | - | - | - | 4,280 | 4,280 |
| Total comprehensive earnings | - | - | - | 18,126 | 4,280 | 22,406 |
| **BALANCE AS AT JANUARY 31, 2011** | $ 146,930 | $ - | $ 10,543 | $166,241 | $ 4,280 | $327,994 |
| **BALANCE AS AT MAY 1, 2011** | **$ 150,642** | **$ -** | **$ 10,280** | **$170,425** | **$ (3,662)** | **$327,685** |
| Exercise of stock options | **2,022** | **-** | **(322)** | - | - | **1,700** |
| Share issue (net of issue costs) (note 11) | **76,439** | **-** | - | - | - | **76,439** |
| Share based payments reserve | **-** | **-** | **1,766** | **-** | **-** | **1,766** |
| Dividends | **-** | **-** | **-** | **(6,242)** | **-** | **(6,242)** |
| | **229,103** | **-** | **11,724** | **164,183** | **(3,662)** | **401,348** |
| **Comprehensive earnings:** | | | | | | |
| Net earnings | **-** | **-** | **-** | **59,018** | **-** | **59,018** |
| Unrealized gains on foreign currency translations | **-** | **-** | **-** | **-** | **9,860** | **9,860** |
| Unrealized loss on cash flow hedge | **-** | **(119)** | **-** | **-** | **-** | **(119)** |
| Total comprehensive earnings | **-** | **(119)** | **-** | **59,018** | **9,860** | **68,759** |
| **BALANCE AS AT JANUARY 31, 2012** | **$ 229,103** | **$ (119)** | **$ 11,724** | **$223,201** | **$ 6,198** | **$470,107** |

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Cash Flows
**(in thousands of Canadian dollars)**
**(unaudited)**

| | Three months ended January 31 | | Nine months ended January 31 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **OPERATING ACTIVITIES** | | | | |
| Earnings before income tax | **$ 14,068** | $ 2,450 | **$ 84,762** | $ 26,890 |
| Operating items not involving cash | | | | |
| Depreciation and amortization (note 15) | **12,017** | 8,048 | **29,963** | 22,742 |
| Loss (gain) on disposal of property, plant and equipment | **635** | 391 | **1,316** | (427) |
| Share based payments reserve | **645** | 695 | **1,766** | 1,906 |
| Finance costs recognized in earnings before income tax | **874** | 265 | **2,660** | 876 |
| | **28,239** | 11,849 | **120,467** | 51,987 |
| Changes in non-cash operating working capital items | **17,672** | 7,080 | **(4,629)** | (4,784) |
| Finance costs paid | **(938)** | (265) | **(2,724)** | (876) |
| Income taxes (paid) recovered | **(4,915)** | 2,188 | **(16,240)** | 473 |
| Cash flow from operating activities | **40,058** | 20,852 | **96,874** | 46,800 |
| **FINANCING ACTIVITIES** | | | | |
| Repayment of long-term debt | **(11,588)** | (1,890) | **(15,817)** | (7,124) |
| Proceeds from long-term debt | **-** | - | **25,000** | - |
| Repayment of short-term debt | **(5,141)** | - | **(5,141)** | - |
| Proceeds from short-term debt | **-** | - | **-** | 10,400 |
| Issuance of common shares | **1,035** | 132 | **78,139** | 1,412 |
| Dividends paid | **(6,242)** | (5,243) | **(11,525)** | (9,993) |
| Cash flow (used in) from financing activities | **(21,936)** | (7,001) | **70,656** | (5,305) |
| **INVESTING ACTIVITIES** | | | | |
| Business acquisitions (net of cash acquired) (note 16) | **(7,960)** | (30) | **(74,479)** | (2,567) |
| Acquisition of property, plant and equipment (net of direct financing) | **(22,539)** | (18,310) | **(60,032)** | (40,518) |
| Proceeds from disposal of property, plant and equipment | **164** | 572 | **1,711** | 3,929 |
| Cash flow used in investing activities | **(30,335)** | (17,768) | **(132,800)** | (39,156) |
| Effect of exchange rate changes | **269** | 237 | **(828)** | (404) |
| **(DECREASE) INCREASE IN CASH** | **(11,944)** | (3,680) | **33,902** | 1,935 |
| **CASH, BEGINNING OF THE PERIOD** | **62,061** | 35,847 | **16,215** | 30,232 |
| **CASH, END OF THE PERIOD** | **$ 50,117** | $ 32,167 | **$ 50,117** | $ 32,167 |

# Major Drilling Group International Inc.
# Interim Condensed Consolidated Balance Sheets
**As at January 31, 2012 and April 30, 2011**
**(in thousands of Canadian dollars)**
**(unaudited)**

| | January 31, 2012 | April 30, 2011 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 50,117 | $ 16,215 |
| Trade and other receivables | 122,722 | 100,300 |
| Income tax receivable | 4,719 | 2,720 |
| Inventories | 99,703 | 69,864 |
| Prepaid expenses | 6,635 | 8,439 |
| | 283,896 | 197,538 |
| **PROPERTY, PLANT AND EQUIPMENT (note 7)** | 315,160 | 235,473 |
| **DEFERRED INCOME TAX ASSETS** | 4,659 | 11,575 |
| **GOODWILL (note 8)** | 53,421 | 28,316 |
| **INTANGIBLE ASSETS (note 9)** | 7,370 | 1,235 |
| | $ 664,506 | $ 474,137 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | $ 100,357 | $ 88,599 |
| Income tax payable | 4,789 | 4,297 |
| Short-term debt | 7,893 | 7,919 |
| Current portion of long-term debt (note 10) | 8,799 | 8,402 |
| | 121,838 | 109,217 |
| **CONTINGENT CONSIDERATIONS** | 2,760 | 2,612 |
| **LONG-TERM DEBT (note 10)** | 44,005 | 16,630 |
| **DEFERRED INCOME TAX LIABILITIES** | 25,344 | 17,993 |
| **DEFERRED REVENUE** | 452 | - |
| | 194,399 | 146,452 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 11) | 229,103 | 150,642 |
| Reserves | (119) | - |
| Share based payments reserve | 11,724 | 10,280 |
| Retained earnings | 223,201 | 170,425 |
| Foreign currency translation reserve | 6,198 | (3,662) |
| | 470,107 | 327,685 |
| | $ 664,506 | $ 474,137 |

## 1. NATURE OF ACTIVITIES

Major Drilling Group International Inc. ("the Company") is incorporated under the Canada Business Corporations Act and has its head office at 111 St. George Street, Suite 100, Moncton, NB, Canada. The Company's common shares are listed on the Toronto Stock Exchange ("TSX"). The principal source of revenue consists of contract drilling for companies primarily involved in mining and mineral exploration. The Company maintains operations on every continent.

## 2. BASIS OF PRESENTATION

***Statement of compliance***
International Financial Reporting Standards ("IFRS") require entities that adopt IFRS to make an explicit and unreserved statement, in their first annual IFRS financial statements, of compliance with IFRS. The Company will make this statement when it issues its financial statements for the year ending April 30, 2012. These financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending April 30, 2012.

***Basis of consolidation***
The Interim Condensed Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intra-group transactions, balances, income and expenses are eliminated on consolidation, where appropriate.

***Basis of preparation***
The Interim Condensed Consolidated Financial Statements have been prepared based on the accounting policies presented in the first quarter Notes to Interim Condensed Consolidated Financial Statements for the three months ended July 31, 2011.

## 3. FUTURE ACCOUNTING CHANGES

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 7 *(as amended in 2011) Financial Instruments: Disclosures*
IFRS 9 *(as amended in 2010) Financial Instruments*
IFRS 10 *Consolidated Financial Statements*
IFRS 11 *Joint Arrangements*
IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 13 *Fair Value Measurement*
IAS 1 *Presentation of Financial Statements*
IAS 12 *(amended) Income Taxes – recovery of underlying assets*
IAS 19 *Employee Benefits*
IAS 27 *(reissued) Separate Financial Statements*
IAS 28 *(reissued) Investments in Associates and Joint Ventures*
IAS 32 *(amended) Financial Instruments: Presentation*

The Company is currently evaluating the impact of applying these standards to its Consolidated Financial Statements.

## 4. SIGNIFICANT NEW ACCOUNTING POLICIES

***Derivative financial instruments***

The Company has entered into a derivative financial instrument, in the form of an interest rate swap, to manage its exposure to interest rate risk. The derivative is initially recognized at fair value at the date the derivative contract is executed and is subsequently re-measured to fair value at each reporting date. The resulting gain or loss is recognized in comprehensive earnings unless the derivative is considered to be ineffective, in which event it is recognized in profit or loss.

***Hedge accounting***

The Company designates the derivative as a cash flow hedge. At the inception of the hedge, and on an ongoing basis, the Company documents whether the hedging instrument used in the hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

***Cash flow hedge***

The effective portion of changes in the fair value of the derivative is deferred in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is terminated, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time is recognized immediately in profit or loss.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may 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 for amortization purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, 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 impairment testing of goodwill and intangible assets.

The Company applied judgment in determining the functional currency of the Company and its subsidiaries, determination of cash generating units ("CGUs"), the degree of componentization of property, plant and equipment, and the recognition of provisions and accrued liabilities.

## 6. FIRST TIME ADOPTION OF IFRS

For the overall impact of IFRS on the opening balance sheet as at transition date, including a discussion of the optional exemptions taken and the applicable mandatory exceptions, refer to Note 6 in the first quarter Notes to Interim Condensed Consolidated Financial Statements for the three months ended July 31, 2011.

The following reconciliations present the adjustments made to the Company's previous GAAP financial results of operations and financial position to comply with IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). A discussion of transitional adjustments follows the reconciliations.

**IFRS Consolidated Balance Sheet**
**As at January 31, 2011**

| | | | (a) | (b) | (c) | (d) | (e) | (f) | |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | Previous GAAP | Opening IFRS restatements * | Adjustments | Share based payments reserve | Deferred share units | Contingent consideration | Fair value as deemed cost | Building componentization | IFRS |
| **CURRENT ASSETS** | | | | | | | | | |
| Cash | $ 32,167 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 32,167 |
| Trade and other receivables | 70,999 | - | - | - | - | - | - | - | 70,999 |
| Income tax receivable | 4,784 | - | - | - | - | - | - | - | 4,784 |
| Inventories | 67,155 | - | - | - | - | - | - | - | 67,155 |
| Prepaid expenses | 5,345 | - | - | - | - | - | - | - | 5,345 |
| | 180,450 | - | - | - | - | - | - | - | 180,450 |
| **PROPERTY, PLANT AND EQUIPMENT** | 229,995 | (11,877) | - | - | - | - | 544 | 85 | 218,747 |
| **DEFERRED INCOME TAX ASSETS** | 10,643 | 469 | - | - | - | - | (116) | (12) | 10,984 |
| **GOODWILL** | 25,559 | 2,011 | - | - | - | 741 | - | - | 28,311 |
| **INTANGIBLE ASSETS** | 1,499 | - | - | - | - | - | - | - | 1,499 |
| | $ 448,146 | $ (9,397) | $ - | $ - | $ - | $ 741 | $ 428 | $ 73 | $ 439,991 |
| **LIABILITIES** | | | | | | | | | |
| **CURRENT LIABILITIES** | | | | | | | | | |
| Trade and other payables | $ 57,898 | $ (35) | $ - | $ - | $ 26 | $ - | $ - | $ - | $ 57,889 |
| Income tax payable | 7,481 | - | - | - | - | - | - | - | 7,481 |
| Short-term debt | 11,129 | - | - | - | - | - | - | - | 11,129 |
| Current portion of long-term debt | 6,701 | - | - | - | - | - | - | - | 6,701 |
| | 83,209 | (35) | - | - | 26 | - | - | - | 83,200 |
| **CONTINGENT CONSIDERATION** | - | 2,011 | - | - | - | 741 | - | - | 2,752 |
| **LONG-TERM DEBT** | 10,178 | - | - | - | - | - | - | - | 10,178 |
| **DEFERRED INCOME TAX LIABILITIES** | 16,441 | (617) | - | - | - | - | 25 | 18 | 15,867 |
| | 109,828 | 1,359 | - | - | 26 | 741 | 25 | 18 | 111,997 |
| **SHAREHOLDERS' EQUITY** | | | | | | | | | |
| Share capital | 143,847 | 2,484 | 599 | - | - | - | - | - | 146,930 |
| Share based payments reserve | 12,605 | (1,906) | (599) | 443 | - | - | - | - | 10,543 |
| Retained earnings | 221,919 | (55,667) | - | (443) | (26) | - | 403 | 55 | 166,241 |
| Foreign currency translation reserve | (40,053) | 44,333 | - | - | - | - | - | - | 4,280 |
| | 338,318 | (10,756) | - | - | (26) | - | 403 | 55 | 327,994 |
| | $ 448,146 | $ (9,397) | $ - | $ - | $ - | $ 741 | $ 428 | $ 73 | $ 439,991 |

* total of May 1, 2010 transitional adjustments to re-state previous GAAP to IFRS

## 6. FIRST TIME ADOPTION OF IFRS (Continued)

**IFRS Consolidated Statement of Operations**
**For the three months ended January 31, 2011**

| | Previous GAAP | (c) Share based payments | (d) Deferred share units | (f) Fair value as deemed cost | (g) Building componentization | IFRS |
|---|---|---|---|---|---|---|
| **TOTAL REVENUE** | $ 107,720 | $ - | $ - | $ - | $ - | $ 107,720 |
| **DIRECT COSTS** | 83,847 | - | - | - | - | 83,847 |
| **GROSS PROFIT** | 23,873 | - | - | - | - | 23,873 |
| **OPERATING EXPENSES** | | | | | | |
| General and administrative | 10,112 | - | 6 | - | - | 10,118 |
| Other expenses | 1,434 | 139 | - | - | - | 1,573 |
| Loss on disposal of property, plant and equipment | 391 | - | - | - | - | 391 |
| Foreign exchange loss | 1,028 | - | - | - | - | 1,028 |
| Finance costs | 265 | - | - | - | - | 265 |
| Depreciation and amortization | 8,257 | - | - | (181) | (28) | 8,048 |
| | 21,487 | 139 | 6 | (181) | (28) | 21,423 |
| **EARNINGS (LOSS) BEFORE INCOME TAX** | 2,386 | (139) | (6) | 181 | 28 | 2,450 |
| **INCOME TAX - PROVISION (RECOVERY)** | | | | | | |
| Current | 597 | - | - | - | - | 597 |
| Deferred | 125 | - | - | 47 | 10 | 182 |
| | 722 | - | - | 47 | 10 | 779 |
| **NET EARNINGS (LOSS)** | $ 1,664 | $ (139) | $ (6) | $ 134 | $ 18 | $ 1,671 |

**IFRS Consolidated Statement of Operations**
**For the nine months ended January 31, 2011**

| | Previous GAAP | (c) Share based payments | (d) Deferred share units | (f) Fair value as deemed cost | (g) Building componentization | IFRS |
|---|---|---|---|---|---|---|
| **TOTAL REVENUE** | $ 345,018 | $ - | $ - | $ - | $ - | $ 345,018 |
| **DIRECT COSTS** | 259,512 | - | - | - | - | 259,512 |
| **GROSS PROFIT** | 85,506 | - | - | - | - | 85,506 |
| **OPERATING EXPENSES** | | | | | | |
| General and administrative | 29,614 | - | 26 | - | - | 29,640 |
| Other expenses | 5,562 | 443 | - | - | - | 6,005 |
| Gain on disposal of property, plant and equipment | (427) | - | - | - | - | (427) |
| Foreign exchange gain | (220) | - | - | - | - | (220) |
| Finance costs | 876 | - | - | - | - | 876 |
| Depreciation and amortization | 23,371 | - | - | (544) | (85) | 22,742 |
| | 58,776 | 443 | 26 | (544) | (85) | 58,616 |
| **EARNINGS (LOSS) BEFORE INCOME TAX** | 26,730 | (443) | (26) | 544 | 85 | 26,890 |
| **INCOME TAX - PROVISION (RECOVERY)** | | | | | | |
| Current | 9,447 | - | - | - | - | 9,447 |
| Deferred | (854) | - | - | 141 | 30 | (683) |
| | 8,593 | - | - | 141 | 30 | 8,764 |
| **NET EARNINGS (LOSS)** | $ 18,137 | $ (443) | $ (26) | $ 403 | $ 55 | $ 18,126 |

## 6. FIRST TIME ADOPTION OF IFRS (Continued)

**IFRS Consolidated Statement of Comprehensive Earnings (Loss)**
**For the three months ended January 31, 2011**

| | Previous GAAP | (b) Share based payments reserve | (c) Deferred share units | (e) Fair value as deemed cost | (f) Building componentization | IFRS |
|---|---|---|---|---|---|---|
| NET EARNINGS (LOSS) | $ 1,664 | $ (139) | $ (6) | $ 134 | $ 18 | $ 1,671 |
| OTHER COMPREHENSIVE EARNINGS | | | | | | |
| Unrealized loss on foreign currency translation (net of tax of $0) | (4,315) | - | - | - | - | (4,315) |
| COMPREHENSIVE EARNINGS (LOSS) | $ (2,651) | $ (139) | $ (6) | $ 134 | $ 18 | $ (2,644) |

**IFRS Consolidated Statement of Comprehensive Earnings (Loss)**
**For the nine months ended January 31, 2011**

| | Previous GAAP | (b) Share based payments reserve | (c) Deferred share units | (e) Fair value as deemed cost | (f) Building componentization | IFRS |
|---|---|---|---|---|---|---|
| NET EARNINGS (LOSS) | $ 18,137 | $ (443) | $ (26) | $ 403 | $ 55 | $ 18,126 |
| OTHER COMPREHENSIVE EARNINGS | | | | | | |
| Unrealized gain on foreign currency translation (net of tax of $0) | 4,280 | - | - | - | - | 4,280 |
| COMPREHENSIVE EARNINGS (LOSS) | $ 22,417 | $ (443) | $ (26) | $ 403 | $ 55 | $ 22,406 |

### *Adjustments required to transition to IFRS:*

a) Adjustments - Subsequent to the release of the April 30, 2011 annual consolidated financial statements, management identified adjustments required for a component of deferred tax and classification of a component of stock based payments in the Company's April 30, 2010, July 31, 2010 and April 30, 2011 historical annual and interim consolidated financial statements.

b) Share based payments - The Company's policy under Canadian GAAP was to use the straight-line method to account for options that vest in installments over time. Under IFRS, each installment is accounted for as a separate share option grant with its own distinct vesting period, hence the fair value of each tranche differs. In addition, Canadian GAAP permits companies to either estimate the forfeitures at the grant date or record the entire expense as if all share based payments vest and then record forfeitures as they occur. IFRS requires that forfeitures be estimated at the time of grant to eliminate distortion of remuneration expense recognized during the vesting period. The estimate is revised if subsequent information indicates that actual forfeitures are likely to differ from previous estimates.

## 6. FIRST TIME ADOPTION OF IFRS (Continued)

c) Deferred Share Units ("DSUs") - The Company's policy under Canadian GAAP was to value the DSUs using the intrinsic value at each reporting date. Under IFRS we use the fair value, which is affected by changes in underlying volatility of the stock as well as changes in the stock price.

d) Contingent consideration - Under Canadian GAAP, contingent consideration is recognized as part of the purchase cost when it can be reasonably estimated at the acquisition date and the outcome of the contingency can be determined beyond reasonable doubt. Under IFRS, contingent consideration, regardless of probability considerations, is recognized at fair value at the acquisition date. The Company has booked contingent considerations for the SMD Services and the North Star Drilling acquisitions.

e) Fair value as deemed cost - The Company has applied the IFRS 1 exemption as described in the "exceptions and exemptions applied" section presented in the first quarter Notes to Interim Condensed Consolidated Financial Statements for the three months ended July 31, 2011.

f) Building componentization - Under Canadian GAAP, costs incurred for property, plant and equipment on initial recognition are allocated to significant components when practicable. Under IFRS, costs incurred for plant and equipment on initial recognition are allocated to significant components, capitalized and depreciated separately over the estimated useful lives of each component. Practicability of allocating costs to significant components is not considered under IFRS. Costs incurred subsequent to the initial purchase of property, plant and equipment are capitalized when it is probable that future economic benefits will flow to the Company and the costs can be measured reliably. Upon capitalization, the carrying amount of components replaced, if any, are written off. The Company has componentized buildings.

## 7. PROPERTY, PLANT AND EQUIPMENT

Changes in the property, plant and equipment balance were as follows for the periods:

| **Cost** | **Land** | **Buildings** | **Drills** | **Auto** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at April 30, 2011** | **$ 1,375** | **$ 11,201** | **$ 257,838** | **$ 91,977** | **$ 25,501** | **$ 387,892** |
| Additions | - | 127 | 45,397 | 11,811 | 3,138 | 60,473 |
| Disposals | - | - | (6,085) | (2,582) | (47) | (8,714) |
| Business acquisitions | 367 | 9,382 | 28,727 | 4,474 | 401 | 43,351 |
| Effect of exchange rate changes and other | 36 | 89 | 2,016 | 4,691 | (141) | 6,691 |
| **Balance as at January 31, 2012** | **$ 1,778** | **$ 20,799** | **$ 327,893** | **$ 110,371** | **$ 28,852** | **$ 489,693** |

| **Accumulated Depreciation** | **Land** | **Buildings** | **Drills** | **Auto** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at April 30, 2011** | **$ -** | **$ (2,791)** | **$ (84,421)** | **$ (48,095)** | **$ (17,112)** | **$ (152,419)** |
| Disposals | - | - | 3,725 | 1,923 | 39 | 5,687 |
| Depreciation | - | (594) | (16,438) | (9,968) | (1,388) | (28,388) |
| Effect of exchange rate changes and other | - | 5 | 753 | 564 | (735) | 587 |
| **Balance as at January 31, 2012** | **$ -** | **$ (3,380)** | **$ (96,381)** | **$ (55,576)** | **$ (19,196)** | **$ (174,533)** |
| | | | | | | |
| **Net book value April 30, 2011** | **$ 1,375** | **$ 8,410** | **$ 173,417** | **$ 43,882** | **$ 8,389** | **$ 235,473** |
| **Net book value January 31, 2012** | **$ 1,778** | **$ 17,419** | **$ 231,512** | **$ 54,795** | **$ 9,656** | **$ 315,160** |

There were no impairments recorded as at January 31, 2012, April 30, 2011 or January 31, 2011. The Company has assessed whether there is any indication that an impairment loss recognized in prior periods for property, plant and equipment may no longer exist or may have decreased. There were no impairments requiring reversal as at January 31, 2012, April 30, 2011 or January 31, 2011.

Capital expenditures were $22,833 and $18,310 for the three months ended January 31, 2012 and 2011 respectively, and $60,473 and $40,568 for the nine months ended January 31, 2012 and 2011, respectively. The Company obtained direct financing of $294 and $441 for the three and nine months ended January 31, 2012, respectively (three months ended January 31, 2011 – nil; nine months ended January 31, 2011 - $50).

## 8. GOODWILL

Changes in the goodwill balance were as follows:

| | | |
|---|---|---|
| **Balance as at April 30, 2011** | **$** | **28,316** |
| Goodwill on acquisition (note 17) | | 25,088 |
| Effect of movement in exchange rates | | 17 |
| **Balance as at January 31, 2012** | **$** | **53,421** |

For a full discussion on allocation of goodwill to cash generating units ("CGUs"), refer to Note 8 in the first quarter Notes to Interim Condensed Consolidated Financial Statements for the three months ended July 31, 2011.

Goodwill from the acquisition of Bradley Group Limited, as disclosed in Note 16, has not been allocated to a CGU since the value is preliminary.

## 9. INTANGIBLE ASSETS

Changes in the intangible assets balance were as follows:

| | | |
|---|---|---|
| **Balance as at April 30, 2011** | **$** | **1,235** |
| Intangible assets on acquisition (note 17) | | 7,666 |
| Amortization | | (1,575) |
| Effect of movement in exchange rates | | 44 |
| **Balance as at January 31, 2012** | **$** | **7,370** |

## 10. LONG-TERM DEBT

| | **January 31, 2012** | April 30, 2011 |
|---|---|---|
| Revolving equipment and acquisition loan (authorized $50,000), bearing interest at either the bank's prime rate plus 0.75% or the bankers' acceptance rate plus 2.25% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 0.75% or the bank's LIBOR plus 2.25% for U.S. dollar draws, interest only payments required until maturity, maturing in September 2016, secured by corporate guarantees of companies within the group. | **$ 11,223** | $ - |
| Non-revolving term loan, bearing interest at either the bank's prime rate plus 0.75% or the bankers' acceptance rate plus 2.25% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 0.75% or the bank's LIBOR plus 2.25% for U.S. dollar draws, payable in monthly installments of $417, maturing in September 2016, secured by corporate guarantees of companies within the group. | **23,333** | - |
| Revolving/non-revolving equipment and acquisition loan (authorized $45,000), bearing interest at either the bank's prime rate plus 1.0% or the bankers' acceptance rate plus 2.5% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 1.0% or the bank's LIBOR plus 2.5% for U.S. dollar draws, secured by corporate guarantees of companies within the group. This facility was refinanced in September 2011. | **-** | 24,552 |
| Term loan bearing interest at 5.9%, payable in monthly installments of $84, unsecured, maturing in August 2021. | **9,584** | - |
| Term loans bearing interest at rates ranging from 0% to 6.99%, payable in monthly installments of $25, secured by certain equipment, maturing through 2016. | **545** | 480 |
| Note payable bearing interest at 4%, repayable over three years, maturing in September 2014. | **8,000** | - |
| Derivative financial instrument with a notional principal amount of $23,333, swapping Canadian-Bankers' Acceptance-Canadian Dealer Offered Rate for an annual fixed rate of 3.665%, maturing in September 2016. | **119** | - |
| | **52,804** | 25,032 |
| Current portion | **8,799** | 8,402 |
| | **$ 44,005** | $ 16,630 |

## 10. LONG TERM DEBT (Continued)

The required annual principal repayments per remaining fiscal years on long-term debt are as follows:

| | |
|---|---|
| 2012 | **$ 1,584** |
| 2013 | **8,809** |
| 2014 | **8,598** |
| 2015 | **9,088** |
| 2016 | **4,402** |
| 2017 and beyond | **20,323** |
| | **$ 52,804** |

The Company hedges its exposure to floating rates under the non-revolving term loan via an interest rate swap, exchanging a variable rate interest payment for a fixed rate interest payment. The interest swap contract was entered into early in the current quarter. As at January 31, 2012 the swap is deemed effective and is recognized as a cash flow hedge.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain 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. The Company, at all times, was in compliance with all covenants and other conditions imposed by its debt agreements.

## 11. SHARE CAPITAL

On March 9, 2011, the Company announced a stock split for the issued and outstanding common shares on a three for one basis. The record date for the stock split was March 23, 2011. All share and stock option numbers have been retroactively adjusted to reflect the stock split to provide more comparable information.

On September 28, 2011, the Company issued a total of 5,900,000 Subscription Receipts at a price of $11.90 per Subscription Receipt for aggregate gross proceeds of $70,210. These Subscription Receipts were subsequently converted to 5,900,000 common shares in the Company upon the closing of the acquisition by the Company of Bradley Group Limited on September 30, 2011. The Company used the net proceeds of the offering to fund a portion of the purchase price in connection with the acquisition. On October 25, 2011, the Company issued a further 885,000 common shares for further aggregate gross proceeds of $10,531 as a result of the exercise by the underwriters of an over allotment option to purchase an additional 885,000 common shares of the Company for $11.90 per share. The Company is using the net proceeds from the over allotment exercise for general corporate purposes.

***Authorized***
Unlimited number of fully paid common shares, without nominal or par value, with each share carrying one vote and a right to dividends when declared.

## 11. SHARE CAPITAL (Continued)

The movement in the Company's issued and outstanding share capital during the period is as follows:

| | Number of shares (000's) | Share capital |
|---|---|---|
| **Balance as at April 30, 2011** | **72,040** | **$ 150,642** |
| Exercise of stock options | 261 | 2,022 |
| Share issue (net of issue costs)* | 6,785 | 76,439 |
| **Balance as at January 31, 2012** | **79,086** | **$ 229,103** |

*share issue costs total $4,302

## 12. INCOME TAXES

The income tax expense for the period can be reconciled to accounting profit as follows:

| | **2012 Q3** | 2011 Q3 | **2012 YTD** | 2011 YTD |
|---|---|---|---|---|
| Earnings before income tax | **$ 14,068** | $ 2,450 | **$ 84,762** | $ 26,890 |
| Statutory Canadian corporate income tax rate | **29%** | 30% | **29%** | 30% |
| Expected income tax expense based on statutory rate | **$ 4,080** | $ 735 | **$ 24,581** | $ 8,067 |
| Non-recognition of tax benefits related to losses | **47** | 352 | **360** | 605 |
| Other foreign taxes paid | **273** | 62 | **560** | 271 |
| Rate variances in foreign jurisdictions | **(137)** | (441) | **(625)** | (1,389) |
| Other | **239** | 71 | **868** | 1,210 |
| | **$ 4,502** | $ 779 | **$ 25,744** | $ 8,764 |

The Company periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Company recorded its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. While management believes they have adequately provided for the probable outcome of these matters, future results may include favorable or unfavorable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the statute of limitation lapses.

## 13. EARNINGS PER SHARE

All of the Company's earnings are attributable to common shares therefore net earnings are used in determining earnings per share.

| | **2012 Q3** | 2011 Q3 | **2012 YTD** | 2011 YTD |
|---|---|---|---|---|
| Net earnings for the period | **$ 9,566** | $ 1,671 | **$ 59,018** | $ 18,126 |
| Weighted average shares outstanding - basic (000's) | **78,949** | 71,580 | **75,078** | 71,452 |
| **Net effect of dilutive securities:** | | | | |
| Stock options | **1,118** | 954 | **969** | 591 |
| Weighted average number of shares - diluted (000's) | **80,067** | 72,534 | **76,047** | 72,043 |
| **Earnings per share:** | | | | |
| Basic | **$ 0.12** | $ 0.02 | **$ 0.79** | $ 0.25 |
| Diluted | **$ 0.12** | $ 0.02 | **$ 0.78** | $ 0.25 |

There were no anti-dilutive options for the three months ended January 31, 2012 and 2011 and the nine months ended January 31, 2012 while the calculation of diluted earnings per share for the nine months ended January 31, 2011 exclude the effect of 30,543 options as they were anti-dilutive.

## 14. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments corresponding to its management structure, Canada - U.S., South and Central America, and Australia, Asia and Africa. The services provided in each of the reportable drilling segments are essentially the same. The accounting policies of the segments are the same as those described in Note 4 presented in the first quarter Notes to Interim Condensed Consolidated Financial Statements for the three months ended July 31, 2011. Management evaluates performance based on earnings from operations in these three geographic segments before finance costs and income tax. Data relating to each of the Company's reportable segments is presented as follows:

## 14. SEGMENTED INFORMATION (Continued)

| | **2012 Q3** | 2011 Q3 | **2012 YTD** | 2011 YTD |
|---|---|---|---|---|
| Revenue | | | | |
| Canada - U.S. | **$ 69,805** | $ 38,191 | **$ 215,394** | $ 129,211 |
| South and Central America | **59,168** | 36,836 | **178,522** | 118,896 |
| Australia, Asia and Africa | **53,215** | 32,693 | **166,278** | 96,911 |
| | **$ 182,188** | $ 107,720 | **$ 560,194** | $ 345,018 |
| Earnings from operations | | | | |
| Canada - U.S. | **$ 5,491** | $ 1,503 | **$ 34,406** | $ 16,649 |
| South and Central America | **9,560** | 1,400 | **36,750** | 10,535 |
| Australia, Asia and Africa | **5,405** | 2,996 | **30,274** | 10,608 |
| | **20,456** | 5,899 | **101,430** | 37,792 |
| Eliminations | **(10)** | (235) | **(93)** | (700) |
| | **20,446** | 5,664 | **101,337** | 37,092 |
| Finance costs | **874** | 265 | **2,660** | 876 |
| General corporate expenses * | **5,504** | 2,949 | **13,915** | 9,326 |
| Income tax | **4,502** | 779 | **25,744** | 8,764 |
| Net earnings | **$ 9,566** | $ 1,671 | **$ 59,018** | $ 18,126 |

*General corporate expenses include expenses for corporate offices, stock options and certain un-allocated costs

| | **2012 Q3** | 2011 Q3 | **2012 YTD** | 2011 YTD |
|---|---|---|---|---|
| Depreciation and amortization | | | | |
| Canada - U.S. | **$ 4,970** | $ 2,815 | **$ 12,365** | $ 7,381 |
| South and Central America | **2,716** | 2,227 | **7,471** | 6,261 |
| Australia, Asia and Africa | **3,189** | 2,668 | **8,244** | 7,948 |
| Unallocated and corporate assets | **1,142** | 338 | **1,883** | 1,152 |
| | **$ 12,017** | $ 8,048 | **$ 29,963** | $ 22,742 |

| | **January 31, 2012** | April 30, 2011 |
|---|---|---|
| Identifiable assets | | |
| Canada - U.S. | **$ 239,730** | $ 134,666 |
| South and Central America | **202,127** | 189,083 |
| Australia, Asia and Afirca | **175,914** | 130,071 |
| | **617,771** | 453,820 |
| Eliminations | **(1,606)** | 439 |
| Unallocated and corporate assets | **48,341** | 19,878 |
| | **$ 664,506** | $ 474,137 |

## 15. NET EARNINGS FOR THE YEAR

Net earnings for the year have been arrived at after charging various employee benefit expenses as follows.

| | **2012 Q3** | 2011 Q3 | **2012 YTD** | 2011 YTD |
|---|---|---|---|---|
| **Direct costs:** | | | | |
| Salaries and wages | **$ 47,750** | $ 31,383 | **$ 87,080** | $ 91,376 |
| Other employee benefits | **9,314** | 5,712 | **16,842** | 16,948 |
| **General and administrative expenses:** | | | | |
| Salaries and wages | **5,524** | 4,249 | **10,705** | 12,499 |
| Other employee benefits | **890** | 642 | **1,801** | 2,024 |
| **Other expenses:** | | | | |
| Share based payments | **439** | 619 | **862** | 1,711 |

Amortization expense for intangible assets has been included in the line item "Depreciation and amortization" in the Interim Condensed Consolidated Statements of Operations with breakdown as follows:

| | **2012 Q3** | 2011 Q3 | **2012 YTD** | 2011 YTD |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | **$ 10,921** | $ 7,910 | **$ 28,388** | $ 22,340 |
| Amortization of intangible assets | **1,096** | 138 | **1,575** | 402 |
| | **$ 12,017** | $ 8,048 | **$ 29,963** | $ 22,742 |

## 16. BUSINESS ACQUISITIONS

***Bradley Group Limited***

Effective September 30, 2011, the Company acquired all the issued and outstanding shares of Bradley Group Limited ("Bradley"), which provides a unique opportunity to further the Company's corporate strategy of focusing on specialized drilling, expanding its geographic footprint in areas of high growth and of maintaining a balance in the mix of drilling services. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes the assets acquired (indicated below), contracts and personnel. The purchase price for the transaction was CAD $78,060, including customary working capital adjustments and net of cash acquired, financed with cash and debt.

## 16. BUSINESS ACQUISITIONS (Continued)

The Company is in the process of finalizing the valuation of assets. As at January 31, 2012, the values allocated to net tangible and intangible assets are preliminary and are subject to adjustments as additional information is obtained.

The estimated net assets acquired at fair market value at acquisition are as follows:

| | |
|---|---|
| **Assets acquired** | |
| Trade and other receivables (net) | $ 23,978 |
| Inventories | 15,330 |
| Prepaid expenses | 540 |
| Property, plant and equipment | 45,884 |
| Deferred income tax assets | 350 |
| Goodwill (not tax deductible) | 23,064 |
| Intangible assets | 7,324 |
| Trade and other payables | (19,057) |
| Income tax payable | (1,751) |
| Short-term debt | (5,101) |
| Current portion of long-term debt | (113) |
| Long-term debt | (10,352) |
| Deferred income tax liability | (2,036) |
| **Total assets** | **$ 78,060** |
| | |
| **Consideration** | |
| Cash | $ 72,000 |
| Long-term debt (holdback) | 8,000 |
| Less: Cash acquired | (1,940) |
| | **$ 78,060** |

The Corporation incurred acquisition-related costs of $857 relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in the other expenses line of the Interim Condensed Consolidated Statements of Operations.

It is impracticable to estimate the revenue and net income attributed to the additional business generated by Bradley for the three months ended January 31, 2012, or of the combined entity for the year as though the acquisition date was May 1, 2011.

***Resource Drilling***

Effective March 24, 2011, the Company acquired the assets of Resource Drilling, which provides contract drilling services in Mozambique, where Major Drilling did not previously have a presence. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes drilling equipment, inventory, contracts and personnel. The purchase price for the transaction was USD $9,563 (CAD $9,345), including customary working capital adjustments, financed with cash.

## 16. BUSINESS ACQUISITIONS (Continued)

The net assets acquired at fair market value at acquisition are as follows:

| **Assets acquired** | | |
|---|---|---|
| Inventories | $ | 946 |
| Prepaid expenses | | 23 |
| Property, plant and equipment | | 6,010 |
| Goodwill (not tax deductible) | | 2,024 |
| Intangible assets | | 342 |
| **Total assets** | **$** | **9,345** |
| | | |
| **Consideration** | | |
| Cash | $ | 5,628 |
| Trade and other payables | | 3,717 |
| | **$** | **9,345** |

***North Star Drilling***

Effective June 30, 2010, the Company acquired the assets of North Star Drilling, which provides contract drilling services to the fresh water and geothermal markets in certain mid-western states in the US, and operates from its head office in Little Falls, Minnesota, as well as from satellite offices in Brainerd and Bemidji, Minnesota. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes working capital, drilling equipment, contracts and personnel. The purchase price for the transaction, excluding contingent consideration, was USD $2,449 (CAD $2,567), including customary working capital adjustments of CAD $215, financed with cash. The contingent consideration of USD $750 to the purchase price is based on future earnings. The acquiree is expected to meet target earnings, with payments to be made over the next five years.

The net assets acquired at fair market value at acquisition are as follows:

| **Assets acquired and liabilities assumed** | | |
|---|---|---|
| Trade receivables (net) | $ | 776 |
| Inventories | | 382 |
| Prepaid expenses | | 18 |
| Property, plant and equipment | | 1,078 |
| Goodwill (not tax deductible) | | 1,083 |
| Intangible assets | | 763 |
| Trade and other payables | | (779) |
| **Net assets** | **$** | **3,321** |
| | | |
| **Consideration** | | |
| Cash | $ | 2,567 |
| Contingent consideration | | 754 |
| | **$** | **3,321** |

## 17. DIVIDENDS

The Company declared two dividends during the year, $0.08 per common share paid on November 1, 2011 to shareholders of record as of October 10, 2011, and $0.09 per common share to be paid on May 2, 2012 to shareholders of record as of April 6, 2012.

The Company declared two dividends during the previous year. The first dividend of $0.07333 per common share was paid on November 1, 2010 to shareholders of record as of October 8, 2010. The second dividend of $0.07333 per common share was paid on May 2, 2011 to shareholders of record as of April 8, 2011.

## 18. FINANCIAL INSTRUMENTS

There are no significant changes to financial instruments compared to the Company's 2011 annual financial statements prepared under previous GAAP except for the following:

***Risk management objectives***
The Company's corporate treasury function monitors and manages the financial risks relating to the operations of the Company through analysis of the various exposures. When deemed appropriate, the Company uses financial instruments to hedge these risk exposures.

***Interest rate risk management***
The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by use of interest rate swap contracts when deemed appropriate.

***Interest rate swap contract***
Under the interest rate swap contract, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. This contract enables the Company to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held.

The following table details the notional principal amount and the remaining term of the interest rate swap contract outstanding at the reporting date.

| Remaining term | Notional principal amount | Fair value |
|---|---|---|
| 56 months | $ 23,333 | $ (119) |

The interest rate swap settles on a monthly basis swapping Canadian-Bankers' Acceptance-Canadian Dealer Offered Rate for an annual fixed rate of 3.665%.

## 18. FINANCIAL INSTRUMENTS (Continued)

***Fair value***

The carrying values of cash, trade and other receivables, demand credit facility and trade and other payables approximate their fair value due to the relatively short period to maturity of the instruments. The following table shows carrying values of short and long-term debt and contingent considerations and approximates their fair value, as most debts carry variable interest rates and the remaining fixed rate debts have been acquired recently and their carrying value continues to reflect fair value. The fair value of the interest rate swap included in long-term debt is measured using quoted interest rates.

| | **January 31, 2012** | April 30, 2011 |
|---|---|---|
| Short-term debt | **$ 7,893** | $ 7,919 |
| Contingent considerations | **2,760** | 2,612 |
| Long-term debt | **52,804** | 25,032 |

***Credit risk***

As at January 31, 2012, 76.3% of the Company's trade receivables were aged as current and 1.3% of the trade receivables were impaired.

The movement in the allowance for impairment of trade receivables during the period was as follows:

| | |
|---|---|
| **Balance as at April 30, 2011** | **$ 982** |
| Increase in impairment allowance | 1,443 |
| Write-off charged against allowance | (518) |
| Recovery of amounts previously written off | (406) |
| Foreign exchange translation differences | 48 |
| **Balance as at January 31, 2012** | **$ 1,549** |

***Foreign currency risk***

The most significant carrying amounts of net monetary assets that: (1) are denominated in currencies other than the functional currency of the respective Company subsidiary; (2) cause foreign exchange rate exposure; and (3) may include intercompany balances with other subsidiaries, at the reporting dates are as follows:

| | **January 31, 2012** | April 30, 2011 |
|---|---|---|
| U.S. Dollars | **$ 37,021** | $ 14,605 |

If the Canadian dollar moved by plus or minus 10% at January 31, 2012, the unrealized foreign exchange gain or loss would move by approximately $3,702 (April 30, 2011 – $1,460).

## 18. FINANCIAL INSTRUMENTS (Continued)

***Liquidity risk***

The following table details the Company's contractual maturities for its financial liabilities.

| | 1 year | 2-3 years | 4-5 years | thereafter | Total |
|---|---|---|---|---|---|
| Trade and other payables | $100,357 | $ - | $ - | $ - | $100,357 |
| Short-term debt | 7,893 | - | - | - | 7,893 |
| Contingent considerations | 1,004 | 1,756 | - | - | 2,760 |
| Long-term debt | 8,799 | 17,760 | 21,662 | 4,583 | 52,804 |
| | $118,053 | $ 19,516 | $ 21,662 | $ 4,583 | $163,814 |