



## **Management's Discussion and Analysis**

**Second Quarter Fiscal 2020**

# **MAJOR DRILLING GROUP INTERNATIONAL INC.**

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

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 October 31, 2019. All amounts in this MD&A are in Canadian dollars, except where otherwise noted.

This MD&A is a review of activities and results for the quarter ended October 31, 2019 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited Interim Condensed Consolidated Financial Statements as at and for the three months ended October 31, 2019, prepared in accordance with IAS 34 Interim Financial Reporting, 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, 2019.

This MD&A is dated November 30, 2019. Disclosure contained in this document is current to that date, unless otherwise stated.

### **FORWARD-LOOKING STATEMENTS**

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

This MD&A contains statements that may constitute 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 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; 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 the Company's Annual Information Form, 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 available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **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 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.

The Company operates on a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue, and a large part of the Company's other expenses relate to variable incentive compensation based on the Company's profitability.

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. As the industry appears to be in the early stages of the cyclical recovery, the Company's financial strength allows it to react quickly to meet its customers' needs.

## **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 have recently remained close to the US\$1,500 per ounce range after reaching a six-year high. With continued political unrest amongst the world's largest economies, investments in value assets, such as gold, tend to increase.

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.

As resources in some areas are 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.

The industry has experienced a cyclical downturn over the past several years, however at this point in time, the industry appears to be in the early stages of recovery. As the financing environment for juniors remains challenging, and senior customers are working through their budget process, mineral reserves for gold and base metals continue to be depleted.

## **OVERALL PERFORMANCE**

Demand for the Company's services continued to grow across all regions in the quarter, stemming primarily from market share growth as customers value the Company's specialized expertise and safety culture. Revenue for the quarter ended October 31, 2019 was \$121.2 million, up 15% from revenue of \$105.5 million recorded for the same quarter last year.

Gross margin percentage for the quarter improved to 28.1% from 27.4% for the same quarter last year, as the Company had a good operational quarter and recorded a one-time revenue adjustment from escalation and currency clauses on one contract.

Earnings before interest, taxes, depreciation and amortization ("EBITDA" - see "Non-IFRS financial measure") increased by 30% to \$20.5 million for the current quarter versus \$15.6 million for the same quarter last year. This 30% EBITDA growth on revenue growth of 15% demonstrates the Company's operational leverage. Net earnings were \$7.3 million or \$0.09 per share compared to net earnings of \$3.3 million or \$0.04 per share for the same quarter last year.

The Company maintained a strong working capital position with net cash (net of debt) more than doubling this quarter in comparison to July 31, 2019. Net cash was \$22.5 million at October 31, 2019, despite recording capital expenditures of \$5.5 million for the quarter as the Company added one new rig to the fleet as well as rod handlers and support equipment and disposed of one rig, in line with the Company's strategy of improving its fleet and services.

During the quarter, the Company announced the acquisition of Norex Drilling Limited (“Norex”). Norex has been operating successfully in the Ontario marketplace for some 40 years, and has a solid reputation with its clients. The acquisition of Norex is a unique opportunity for the Company to gain a strong position to service customers in both surface and underground exploration drilling services in the prolific Northeastern Ontario region. Upon closing, the Company welcomed 120 skilled and experienced personnel, including the management team, and acquired 22 drill rigs together with related support equipment and inventory. The acquisition was completed on November 1, 2019.

## **RESULTS OF OPERATIONS - SECOND QUARTER RESULTS ENDED OCTOBER 31, 2019**

Total revenue for the quarter was \$121.2 million, up 15% from revenue of \$105.5 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 increased by 16% to \$65.3 million, compared to the same period last year, with both regions demonstrating growth. The U.S. operations experienced another strong quarter of revenue growth due to increased market share with senior customers.

South and Central American revenue increased by 2% to \$29.8 million for the quarter, compared to the same quarter last year. A strong quarter in Mexico and Brazil was offset by a continued slowdown in Argentina due to political uncertainty, as well as business interruptions in Chile and Suriname due to unforeseen political and civil unrest.

Asian and African operations reported revenue of \$26.1 million, up 32% from the same period last year. Indonesia and Southern Africa continued their recent growth trends, which more than offset the loss of revenue from closing the Burkina Faso operations in the previous year.

The overall gross margin percentage for the quarter was 28.1%, compared to 27.4% for the same period last year. A good operational quarter, somewhat strengthened by a one-time revenue adjustment from escalation and currency clauses on one of the Company’s contracts, contributed to the margin growth.

General and administrative costs were \$11.5 million, an increase of \$0.3 million compared to the same quarter last year. The marginal increase was mainly driven by the Company’s share-based compensation plan that was impacted by the positive upward movement of the Company’s share price over the quarter, offset by the impact of IFRS 16 Leases (“IFRS 16”).

Depreciation decreased by \$0.1 million to \$10.0 million.

The income tax provision for the quarter was an expense of \$3.0 million compared to an expense of \$2.0 million for the prior year period.

Net earnings were \$7.3 million or \$0.09 per share (\$0.09 per share diluted) for the quarter, compared to net earnings of \$3.3 million or \$0.04 per share (\$0.04 per share diluted) for the prior year quarter.

## **RESULTS OF OPERATIONS - YEAR-TO-DATE ENDED OCTOBER 31, 2019**

Revenue for the six months ended October 31, 2019 increased 17% to \$238.6 million from \$204.0 million for the corresponding period last year. The favourable foreign exchange translation impact for the year, when comparing to the effective rates for the same period last year, is estimated at \$2 million on revenue, with a negligible impact on net earnings.

Revenue from Canada - U.S. drilling operations increased by 17% to \$126.3 million compared to the same period last year with growth across both regions. The U.S. operations showed particularly strong performance due to market share growth from senior customers.

South and Central American revenue was up by 12% at \$62.5 million compared to the same period last year, due to increased activity levels, primarily in Brazil, Mexico and the Guiana Shield, offset by the slowdown in Argentina due to continued political uncertainty.

Asian and African operations reported revenue of \$49.9 million, up 24% from the same period last year, led by Indonesia and Southern Africa as their recent growth trends continued and more than offset the loss of revenue from closing the Burkina Faso operations in the previous year.

With improved pricing and productivity, gross margin for the year-to-date was 27.1% compared to 25.7% last year.

General and administrative expenses were \$23.2 million, down \$0.4 million compared to the prior year. The decrease was the result of the shutdown of operations in Burkina Faso as well as the impact of the implementation of IFRS 16.

Depreciation and amortization decreased by \$1.6 million to \$19.7 million, the result of reduced capital expenditures during the recent industry downturn.

The income tax provision was an expense of \$5.0 million compared to an expense of \$3.2 million for the prior year period.

Net earnings were \$13.3 million or \$0.17 per share (\$0.17 per share diluted) compared to net earnings of \$0.8 million or \$0.01 per share (\$0.01 per share diluted) for the same period last year.

## SUMMARY OF QUARTERLY RESULTS

(in \$000s CAD, except per share)	Fiscal 2018		Fiscal 2019				Fiscal 2020	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	\$ 74,970	\$ 95,412	\$ 98,485	\$ 105,501	\$ 80,439	\$ 100,397	\$ 117,459	<b>\$ 121,182</b>
Gross profit	13,193	23,146	23,400	28,931	15,625	23,042	30,690	<b>34,018</b>
Gross margin	17.6%	24.3%	23.8%	27.4%	19.4%	23.0%	26.1%	<b>28.1%</b>
Net (loss) earnings	(8,494)	(4,346)	(2,482)	3,261	(15,906)	(2,957)	6,033	<b>7,259</b>
Per share - basic	(0.11)	(0.05)	(0.03)	0.04	(0.20)	(0.04)	0.08	<b>0.09</b>
Per share - diluted	(0.11)	(0.05)	(0.03)	0.04	(0.20)	(0.04)	0.08	<b>0.09</b>

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.

## 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 quarter ended October 31, 2019 was an inflow of \$20.5 million compared to an inflow of \$15.6 million in the previous year.

The change in non-cash operating working capital items was an inflow of \$1.0 million for the quarter, compared to an outflow of \$0.6 million for the prior year. The inflow of non-cash operating working capital was primarily comprised of:

- an increase in accounts payable of \$4.8 million;
- an increase in accounts receivable of \$2.4 million;
- an increase in inventory of \$1.7 million; and
- a decrease in prepaids of \$0.3 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 or 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.

### **Operating credit facilities**

The credit facilities related to operations total \$31.3 million (\$30.0 million from a Canadian chartered bank and \$1.3 million from an American chartered bank) and are primarily secured by corporate guarantees of companies within the group. At October 31, 2019, the Company had utilized \$2.4 million of these facilities for stand-by letters of credit. The Company also has a credit facility of \$2.6 million for credit cards for which interest rate and repayment are as per cardholder agreements.

### **Long-term debt**

Total long-term debt decreased by \$0.3 million during the quarter to \$16.8 million at October 31, 2019. The decrease is due to regular debt repayments.

As of October 31, 2019, 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 October 31, 2019, \$15.0 million had been drawn on this facility, bearing interest at 3.76%, maturing in October 2023.
- \$1.8 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.

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 October 31, 2019, the Company had unused borrowing capacity under its credit facilities of \$63.9 million and cash of \$39.4 million, for a total of \$103.3 million in available funds.

### ***Investing activities***

Capital expenditures were \$5.5 million for the quarter ended October 31, 2019, compared to \$7.0 million for the same quarter last year.

The drill rig count was at 601 at October 31, 2019, as the Company added one rig to its fleet as part of its strategy to improve the fleet and services, while disposing of one rig.

## **OUTLOOK**

As the Company moves into its third quarter, the fundamentals driving the business continue to improve. Gold, which historically has accounted for approximately 50% of the Company's drilling activity, has recently reached a six-year high and has traded above the US\$1,400 per ounce range for the last four months, producing improved cash flow and balance sheets for the Company's senior gold customers.

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.

It is important to note that the Company is now in its third quarter, traditionally the weakest quarter of the fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season. At this time, most senior

and intermediate companies are still working through their budget process and have yet to decide on post-holiday start-up dates. As usual, due to the time it takes to mobilize once new contracts are awarded, a slow start-up pace is expected in January and February. As activity increases, the Company expects to face labour and materials cost inflation. Additionally, the Company schedules substantial overhaul and maintenance work on its equipment during this slower period. These factors result in reduced revenue, increased costs, and reduced margins in the third quarter.

## NON-IFRS FINANCIAL MEASURE

The Company uses the non-IFRS financial measure, EBITDA (earnings before interest, taxes, depreciation and amortization). The Company believes this non-IFRS financial measure is key, for both management and investors, in evaluating performance at a consolidated level. EBITDA is commonly reported and widely used by investors and lending institutions as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. This measure does 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.

(in \$000s CAD)	Q2 2020	Q2 2019	YTD 2020	YTD 2019
Net earnings	\$ 7,259	\$ 3,261	\$ 13,292	\$ 779
Finance costs	204	208	423	451
Income tax provision	3,020	2,019	5,014	3,230
Depreciation	9,972	10,131	19,689	21,275
EBITDA	<u>\$ 20,455</u>	<u>\$ 15,619</u>	<u>\$ 38,418</u>	<u>\$ 25,735</u>

## 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 the quarter, approximately 22% 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 are denominated in the same currency as the revenue, the impact on earnings is somewhat muted.

The favourable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same quarter last year, is estimated at approximately \$1 million on revenue. Net earnings however, remained less impacted by currency fluctuations during the quarter 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 quarter 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.

As at October 31, 2019, 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:



	<u>Rate variance</u>	<u>IDR/USD</u>	<u>MNT/USD</u>	<u>USD/AUD</u>	<u>USD/CLP</u>	<u>MZN/USD</u>	<u>COP/USD</u>	<u>USD/ZAR</u>
Net exposure on monetary assets		\$ 8,754	\$ 3,644	\$ 3,184	\$ 2,736	\$ 1,801	\$ 1,662	\$ (5,263)
EBIT impact	+/-10%	973	405	354	304	200	185	585
	<u>Rate variance</u>	<u>USD/CAD</u>	<u>MXP/USD</u>	<u>Other</u>				
Net exposure on monetary assets		\$ (6,278)	\$ (1,370)	\$ (503)				
EBIT impact	+/-10%	698	152	56				

### ***Argentina currency status***

The Argentine peso has devalued as Argentina has come under growing pressure over their high levels of foreign currency debt. The country remains in political unrest as uncertainty around the newly elected government's economic programs lingers.

The Company currently has limited exposure to the Argentine peso.

### **SUBSEQUENT EVENT**

On November 1, 2019, the Company completed the purchase of the issued and outstanding shares of Norex Drilling Limited, 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 welcomes 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.

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 EBITDA of approximately \$5 million.

The purchase price for the acquisition is valued at an amount up to \$19.7 million, which consists of the following: (i) a cash payment of \$15.2 million payable on closing of the transaction, subject to post-closing debt, working capital adjustments and holdbacks; (ii) the issuance of 334,169 common shares of Major Drilling; and (iii) an earn-out of up to \$2.5 million, payable in cash following the third anniversary of the closing, subject to certain conditions. The cash portion of the purchase price was paid from Major Drilling's current cash balance.

### **COMPREHENSIVE EARNINGS**

The Consolidated Statements of Comprehensive Earnings for the quarter includes a \$2.4 million unrealized loss on translating the financial statements of the Company's foreign operations compared to a loss of \$0.2 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.

### **ADOPTION OF IFRS 16 LEASES**

The Company adopted IFRS 16, which replaces IAS 17 Leases, for its annual period beginning May 1, 2019 using the modified retrospective approach whereby no restatement of comparative periods is required. Under IAS 17, leases of property, plant and equipment were recognized as finance leases when substantially all the risks and rewards of ownership of the underlying assets were transferred. All other leases were classified as operating leases. IFRS 16 requires lessees to recognize right-of-use assets, representing its right to use the underlying asset, and lease liabilities, representing its obligation to make payments. Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made on or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also

be adjusted to reflect the re-measurement of related lease liabilities. Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method and adjusted for interest and lease payments.

On transition, the Company recognized lease liabilities and right-of-use assets for 14 leases, previously classified as operating leases, in the amount of \$2.9 million. As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases (lease term of 12 months or less) and leases of low-value assets. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at the transition date.

## **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, 2019, which can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com). 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 above, the Company does not have any off-balance sheet arrangements.

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

There have been no changes in the Company's disclosure and internal controls over financial reporting during the period beginning on August 1, 2019 and ended on October 31, 2019, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## **OUTSTANDING SHARE DATA**

As of November 30, 2019, there were 80,634,153 common shares issued and outstanding in the Company. This represents an increase of 334,169 issued and outstanding shares, due to the issuance of shares to Norex as detailed above, as compared to the number reported in the Company's first quarter MD&A (reported as of August 31, 2019).

## **ADDITIONAL INFORMATION**

Additional information relating to the Company, including the Company's Annual Information Form, is available on the SEDAR website at [www.sedar.com](http://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 October 31		Six months ended October 31	
	2019	2018	2019	2018
<b>TOTAL REVENUE</b>	\$ 121,182	\$ 105,501	\$ 238,641	\$ 203,986
<b>DIRECT COSTS</b>	<b>87,164</b>	76,570	<b>173,933</b>	151,655
<b>GROSS PROFIT</b>	<b>34,018</b>	28,931	<b>64,708</b>	52,331
<b>OPERATING EXPENSES</b>				
General and administrative	11,466	11,244	23,235	23,642
Other expenses	1,575	1,257	2,733	2,296
Gain on disposal of property, plant and equipment	(19)	(107)	(144)	(286)
Foreign exchange loss	541	918	466	944
Finance costs	204	208	423	451
Depreciation of property, plant and equipment	9,972	10,131	19,689	21,275
	<b>23,739</b>	23,651	<b>46,402</b>	48,322
<b>EARNINGS BEFORE INCOME TAX</b>	<b>10,279</b>	5,280	<b>18,306</b>	4,009
<b>INCOME TAX - PROVISION (RECOVERY) (note 7)</b>				
Current	3,553	2,821	5,447	5,577
Deferred	(533)	(802)	(433)	(2,347)
	<b>3,020</b>	2,019	<b>5,014</b>	3,230
<b>NET EARNINGS</b>	<b>\$ 7,259</b>	\$ 3,261	<b>\$ 13,292</b>	\$ 779
<b>EARNINGS PER SHARE (note 8)</b>				
Basic	<b>\$ 0.09</b>	\$ 0.04	<b>\$ 0.17</b>	\$ 0.01
Diluted	<b>\$ 0.09</b>	\$ 0.04	<b>\$ 0.17</b>	\$ 0.01

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

	Three months ended October 31		Six months ended October 31	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>NET EARNINGS</b>	<b>\$ 7,259</b>	<b>\$ 3,261</b>	<b>\$ 13,292</b>	<b>\$ 779</b>
<b>OTHER COMPREHENSIVE EARNINGS</b>				
Items that may be reclassified subsequently to profit or loss				
Unrealized (loss) gain on foreign currency translations (net of tax)	<b>(2,383)</b>	(223)	<b>(8,139)</b>	2,304
Unrealized gain (loss) on derivatives (net of tax)	<b>768</b>	(199)	<b>936</b>	(341)
<b>COMPREHENSIVE EARNINGS</b>	<b><u>\$ 5,644</u></b>	<b><u>\$ 2,839</u></b>	<b><u>\$ 6,089</u></b>	<b><u>\$ 2,742</u></b>

**Major Drilling Group International Inc.**  
**Interim Condensed Consolidated Statements of Changes in Equity**  
For the six months ended October 31, 2019 and 2018  
(in thousands of Canadian dollars)  
(unaudited)

	Share capital	Reserves	Share-based payments reserve	Retained earnings	Foreign currency translation reserve	Total
<b>BALANCE AS AT MAY 1, 2018</b>	\$ 241,264	\$ 36	\$ 19,721	\$ 41,360	\$ 70,021	\$ 372,402
Share-based compensation	-	-	277	-	-	277
	<u>241,264</u>	<u>36</u>	<u>19,998</u>	<u>41,360</u>	<u>70,021</u>	<u>372,679</u>
<b>Comprehensive earnings:</b>						
Net earnings	-	-	-	779	-	779
Unrealized gain on foreign currency translations	-	-	-	-	2,304	2,304
Unrealized loss on derivatives	-	(341)	-	-	-	(341)
Total comprehensive earnings	<u>-</u>	<u>(341)</u>	<u>-</u>	<u>779</u>	<u>2,304</u>	<u>2,742</u>
<b>BALANCE AS AT OCTOBER 31, 2018</b>	<u>\$ 241,264</u>	<u>\$ (305)</u>	<u>\$ 19,998</u>	<u>\$ 42,139</u>	<u>\$ 72,325</u>	<u>\$ 375,421</u>
<b>BALANCE AS AT MAY 1, 2019</b>	\$ 241,264	\$ (570)	\$ 20,247	\$ 23,276	\$ 78,783	\$ 363,000
Share-based compensation	-	-	141	-	-	141
	<u>241,264</u>	<u>(570)</u>	<u>20,388</u>	<u>23,276</u>	<u>78,783</u>	<u>363,141</u>
<b>Comprehensive earnings:</b>						
Net earnings	-	-	-	13,292	-	13,292
Unrealized loss on foreign currency translations	-	-	-	-	(8,139)	(8,139)
Unrealized gain on derivatives	-	936	-	-	-	936
Total comprehensive earnings	<u>-</u>	<u>936</u>	<u>-</u>	<u>13,292</u>	<u>(8,139)</u>	<u>6,089</u>
<b>BALANCE AS AT OCTOBER 31, 2019</b>	<u>\$ 241,264</u>	<u>\$ 366</u>	<u>\$ 20,388</u>	<u>\$ 36,568</u>	<u>\$ 70,644</u>	<u>\$ 369,230</u>

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

	Three months ended October 31		Six months ended October 31	
	2019	2018	2019	2018
<b>OPERATING ACTIVITIES</b>				
Earnings before income tax	\$ 10,279	\$ 5,280	\$ 18,306	\$ 4,009
Operating items not involving cash				
Depreciation of property, plant and equipment	9,972	10,131	19,689	21,275
Gain on disposal of property, plant and equipment	(19)	(107)	(144)	(286)
Share-based compensation	51	128	141	277
Finance costs recognized in earnings before income tax	204	208	423	451
	<u>20,487</u>	<u>15,640</u>	<u>38,415</u>	<u>25,726</u>
Changes in non-cash operating working capital items	982	(614)	(4,632)	(3,547)
Finance costs paid	(204)	(208)	(423)	(451)
Income taxes paid	(2,750)	(2,545)	(4,604)	(4,557)
Cash flow from operating activities	<u>18,515</u>	<u>12,273</u>	<u>28,756</u>	<u>17,171</u>
<b>FINANCING ACTIVITIES</b>				
Repayment of lease liabilities (note 3)	(544)	-	(844)	-
Repayment of long-term debt	(291)	(538)	(556)	(1,273)
Cash flow used in financing activities	<u>(835)</u>	<u>(538)</u>	<u>(1,400)</u>	<u>(1,273)</u>
<b>INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment (note 6)	(5,543)	(7,025)	(16,108)	(12,851)
Proceeds from disposal of property, plant and equipment	462	7,075	728	7,766
Cash flow (used in) from investing activities	<u>(5,081)</u>	<u>50</u>	<u>(15,380)</u>	<u>(5,085)</u>
Effect of exchange rate changes	(60)	427	38	900
<b>INCREASE IN CASH</b>	<b>12,539</b>	<b>12,212</b>	<b>12,014</b>	<b>11,713</b>
<b>CASH, BEGINNING OF THE PERIOD</b>	<b>26,841</b>	<b>20,757</b>	<b>27,366</b>	<b>21,256</b>
<b>CASH, END OF THE PERIOD</b>	<b><u>\$ 39,380</u></b>	<b><u>\$ 32,969</u></b>	<b><u>\$ 39,380</u></b>	<b><u>\$ 32,969</u></b>

# Major Drilling Group International Inc.

## Interim Condensed Consolidated Balance Sheets

As at October 31, 2019 and April 30, 2019

(in thousands of Canadian dollars)

(unaudited)

	October 31, 2019	April 30, 2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 39,380	\$ 27,366
Trade and other receivables	90,687	88,029
Note receivable	304	560
Income tax receivable	2,917	3,978
Inventories	92,291	90,325
Prepaid expenses	6,397	5,099
	231,976	215,357
<b>PROPERTY, PLANT AND EQUIPMENT (note 6)</b>	160,695	164,266
<b>DEFERRED INCOME TAX ASSETS</b>	23,053	23,374
<b>GOODWILL</b>	58,050	58,300
	\$ 473,774	\$ 461,297
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	\$ 66,352	\$ 63,376
Income tax payable	1,078	1,209
Current portion of lease liabilities (note 3)	1,614	-
Current portion of long-term debt	977	1,060
	70,021	65,645
<b>LEASE LIABILITIES (note 3)</b>	3,183	-
<b>LONG-TERM DEBT</b>	15,860	16,298
<b>DEFERRED INCOME TAX LIABILITIES</b>	15,480	16,354
	104,544	98,297
 <b>SHAREHOLDERS' EQUITY</b>		
Share capital	241,264	241,264
Reserves	366	(570)
Share-based payments reserve	20,388	20,247
Retained earnings	36,568	23,276
Foreign currency translation reserve	70,644	78,783
	369,230	363,000
	\$ 473,774	\$ 461,297

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2019 AND 2018 (UNAUDITED)**  
**(in thousands of Canadian dollars, except per share information)**

**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 has operations in Canada, the United States, Mexico, South America, Asia, Africa and Europe.

**2. BASIS OF PRESENTATION**

***Statement of compliance***

These Interim Condensed Consolidated 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 as outlined in the Company’s annual Consolidated Financial Statements for the year ended April 30, 2019, except as described in note 3.

On December 4, 2019, the Board of Directors authorized the financial statements for issue.

***Basis of consolidation***

These Interim Condensed Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the period are included in the Interim Condensed Consolidated Statements 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***

These Interim Condensed Consolidated Financial Statements have been prepared based on the historical cost basis except for certain financial instruments that are measured at fair value, using the same accounting policies and methods of computation as presented in the Company’s annual Consolidated Financial Statements for the year ended April 30, 2019, except as described in note 3.

**3. ADOPTION OF NEW IFRS**

The Company adopted IFRS 16 Leases (“IFRS 16”), which replaces IAS 17 Leases, for its annual period beginning May 1, 2019 using the modified retrospective approach whereby no restatement of comparative periods is required. Under IAS 17, leases of property, plant and equipment were recognized as finance leases when substantially all the risks and rewards of ownership of the underlying assets were transferred. All other leases were classified as operating leases. IFRS 16 requires lessees to recognize right-of-use assets, representing its right to use the underlying asset, and lease liabilities, representing its obligation to make payments. Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made on or before the commencement date and any initial direct costs. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the re-measurement of related lease liabilities. Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method and adjusted for interest and lease payments.



**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**3. ADOPTION OF NEW IFRS (Continued)**

On transition, the Company recognized lease liabilities and right-of-use assets for 14 leases, previously classified as operating leases, in the amount of \$2,903. As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases (lease term of 12 months or less) and leases of low-value assets. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at the transition date.

<b>Operating lease commitments disclosed as at April 30, 2019</b>	\$	4,147
Less: short-term operating lease commitments		<u>(1,006)</u>
		3,141
Discounted using the incremental borrowing rate		<u>(238)</u>
<b>Lease liabilities recognized as at May 1, 2019</b>		<b>2,903</b>
Add: additional lease liabilities recognized during the period		<b>2,671</b>
Finance costs		<b>67</b>
Repayment of lease liabilities		<u><b>(844)</b></u>
		<b>4,797</b>
Current portion		<u><b>1,614</b></u>
<b>Balance as at October 31, 2019</b>	<b>\$</b>	<u><u><b>3,183</b></u></u>

In prior periods presented, before the adoption of IFRS 16, expenses for lease liabilities were included with general and administrative expenses on the Company's Statement of Operations.

***Right-of-use assets***

The recognized right-of-use assets are included in property, plant and equipment on the Company's Interim Condensed Consolidated Balance Sheet.

<b>Balance as at May 1, 2019</b>	\$	2,903
Add: additional right-of-use assets recognized during the period		2,671
Depreciation		<u>(777)</u>
<b>Balance as at October 31, 2019</b>	<b>\$</b>	<u><u><b>4,797</b></u></u>

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS**

The preparation of financial statements, in conformity with International Financial Reporting Standards ("IFRS"), requires management to make judgments, estimates and assumptions that are not readily apparent from other sources, which 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 depreciation purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, assumptions used in the compilation of share-based payments, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities and allowance for doubtful accounts, and impairment testing of goodwill.

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS (Continued)**

The Company applied judgment in determining the functional currency of the Company and its subsidiaries, the determination of cash-generating units (“CGUs”), the degree of componentization of property, plant and equipment, the recognition of provisions and accrued liabilities, and the determination of the probability that deferred income tax assets will be realized from future taxable earnings.

**5. SEASONALITY OF OPERATIONS**

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.

**6. PROPERTY, PLANT AND EQUIPMENT**

Capital expenditures for the three and six months ended October 31, 2019 were \$5,543 (2018 - \$7,025) and \$16,108 (2018 - \$12,851).

**7. INCOME TAXES**

The income tax provision for the period can be reconciled to accounting earnings before income tax as follows:

	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>YTD 2020</u>	<u>YTD 2019</u>
Earnings before income tax	\$ 10,279	\$ 5,280	\$ 18,306	\$ 4,009
Statutory Canadian corporate income tax rate	27%	27%	27%	27%
Expected income tax provision based on statutory rate	2,775	1,426	4,942	1,083
Non-recognition of tax benefits related to losses	277	489	372	1,516
Utilization of previously unrecognized losses	(238)	(24)	(583)	(72)
Other foreign taxes paid	154	178	322	294
Rate variances in foreign jurisdictions	(143)	(9)	(161)	(61)
Permanent differences and other	195	(41)	122	470
Income tax provision recognized in net earnings	<u>\$ 3,020</u>	<u>\$ 2,019</u>	<u>\$ 5,014</u>	<u>\$ 3,230</u>

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 records 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 favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the statutes of limitations lapse.

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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(in thousands of Canadian dollars, except per share information)

**8. EARNINGS PER SHARE**

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

	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>YTD 2020</u>	<u>YTD 2019</u>
Net earnings	\$ 7,259	\$ 3,261	\$ 13,292	\$ 779
Weighted average number of shares:				
Basic (000s)	<b>80,300</b>	80,300	<b>80,300</b>	80,300
Diluted (000s)	<b>80,330</b>	80,311	<b>80,308</b>	80,323
Earnings per share				
Basic	\$ 0.09	\$ 0.04	\$ 0.17	\$ 0.01
Diluted	\$ 0.09	\$ 0.04	\$ 0.17	\$ 0.01

The calculation of diluted earnings per share for the three and six months ended October 31, 2019 excludes the effect of 2,696,237 and 2,961,091 options, respectively (2018 - 3,495,854 and 3,530,102) as they were anti-dilutive.

The total number of shares outstanding on October 31, 2019 was 80,299,984 (2018 - 80,299,984).

**9. SEGMENTED INFORMATION**

The Company's operations are divided into the following three geographic segments, corresponding to its management structure: Canada - U.S.; South and Central America; and Asia and Africa. The services provided in each of the reportable segments are essentially the same. The accounting policies of the segments are the same as those described in the Company's annual Consolidated Financial Statements for the year ended April 30, 2019, except as described in note 3. Management evaluates performance based on earnings from operations in these three geographic segments before finance costs, general corporate expenses and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>YTD 2020</u>	<u>YTD 2019</u>
<b>Revenue</b>				
Canada - U.S.*	\$ 65,337	\$ 56,493	\$ 126,294	\$ 107,806
South and Central America	<b>29,785</b>	29,173	<b>62,471</b>	55,913
Asia and Africa	<b>26,060</b>	19,835	<b>49,876</b>	40,267
	<u>\$ 121,182</u>	<u>\$ 105,501</u>	<u>\$ 238,641</u>	<u>\$ 203,986</u>

\*Canada - U.S. includes revenue of \$26,902 and \$26,349 for Canadian operations for the three months ended October 31, 2019 and 2018, respectively and \$53,867 and \$51,003 for the six months ended October 31, 2019 and 2018, respectively.

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2019 AND 2018 (UNAUDITED)**  
(in thousands of Canadian dollars, except per share information)

**9. SEGMENTED INFORMATION (Continued)**

	<u>Q2 2020</u>	<u>Q2 2019</u>	<u>YTD 2020</u>	<u>YTD 2019</u>
<b>Earnings (loss) from operations</b>				
Canada - U.S.	\$ 7,078	\$ 6,732	\$ 12,416	\$ 8,047
South and Central America	1,128	(620)	2,986	(1,358)
Asia and Africa	5,085	823	8,897	1,694
	<u>13,291</u>	<u>6,935</u>	<u>24,299</u>	<u>8,383</u>
<b>Finance costs</b>	204	208	423	451
<b>General corporate expenses*</b>	2,808	1,447	5,570	3,923
<b>Income tax</b>	3,020	2,019	5,014	3,230
	<u>6,032</u>	<u>3,674</u>	<u>11,007</u>	<u>7,604</u>
<b>Net earnings</b>	<u>\$ 7,259</u>	<u>\$ 3,261</u>	<u>\$ 13,292</u>	<u>\$ 779</u>

\*General corporate expenses include expenses for corporate offices and stock options.

**Capital expenditures**

Canada - U.S.	\$ 3,459	\$ 3,054	\$ 11,923	\$ 6,897
South and Central America	831	1,677	1,573	3,451
Asia and Africa	374	2,294	1,580	2,503
Unallocated and corporate assets	879	-	1,032	-
<b>Total capital expenditures</b>	<u>\$ 5,543</u>	<u>\$ 7,025</u>	<u>\$ 16,108</u>	<u>\$ 12,851</u>

**Depreciation**

Canada - U.S.	\$ 4,530	\$ 4,823	\$ 8,985	\$ 10,170
South and Central America	3,762	3,019	7,439	6,254
Asia and Africa	1,647	2,200	3,204	4,697
Unallocated and corporate assets	33	89	61	154
<b>Total depreciation</b>	<u>\$ 9,972</u>	<u>\$ 10,131</u>	<u>\$ 19,689</u>	<u>\$ 21,275</u>

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
<b>Identifiable assets</b>		
Canada - U.S.*	\$ 224,774	\$ 205,871
South and Central America**	134,884	138,605
Asia and Africa	110,728	104,173
Unallocated and corporate assets**	3,388	12,648
<b>Total identifiable assets</b>	<u>\$ 473,774</u>	<u>\$ 461,297</u>

\*Canada - U.S. includes property, plant and equipment at October 31, 2019 of \$32,311 (April 30, 2019 - \$31,573) for Canadian operations.

\*\*Amounts presented in comparative period under unallocated and corporate assets have been allocated to other segments consistent with current year presentation.

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2019 AND 2018 (UNAUDITED)**  
(in thousands of Canadian dollars, except per share information)

**10. FINANCIAL INSTRUMENTS**

**Fair value**

The carrying values of cash, trade and other receivables, demand credit facilities and trade and other payables approximate their fair value due to the relatively short period to maturity of the instruments. The carrying value of long-term debt approximates its fair value.

Financial assets and liabilities measured at fair value are classified and disclosed in one of the following categories:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Company's derivatives are classified as level 2 financial instruments. There were no transfers of amounts between level 1, level 2 and level 3 financial instruments for the quarter ended October 31, 2019.

**Credit risk**

As at October 31, 2019, 87.3% (April 30, 2019 - 85.6%) of the Company's trade receivables were aged as current and 1.3% (April 30, 2019 - 1.1%) of the trade receivables were impaired.

The movements in the allowance for impairment of trade receivables during the six and twelve month periods were as follows:

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
<b>Opening balance</b>	\$ 863	\$ 928
Increase in impairment allowance	263	919
Recovery of amounts previously impaired	-	(207)
Write-off charged against allowance	-	(760)
Foreign exchange translation differences	(45)	(17)
<b>Ending balance</b>	<u>\$ 1,081</u>	<u>\$ 863</u>

**Foreign currency risk**

As at October 31, 2019, 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:

	<u>Rate variance</u>	<u>IDR/USD</u>	<u>MNT/USD</u>	<u>USD/AUD</u>	<u>USD/CLP</u>	<u>MZN/USD</u>	<u>COP/USD</u>	<u>USD/ZAR</u>
Net exposure on monetary assets		\$ 8,754	\$ 3,644	\$ 3,184	\$ 2,736	\$ 1,801	\$ 1,662	\$ (5,263)
EBIT impact	+/-10%	973	405	354	304	200	185	585
	<u>Rate variance</u>	<u>USD/CAD</u>	<u>MXP/USD</u>	<u>Other</u>				
Net exposure on monetary assets		\$ (6,278)	\$ (1,370)	\$ (503)				
EBIT impact	+/-10%	698	152	56				

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2019 AND 2018 (UNAUDITED)**  
(in thousands of Canadian dollars, except per share information)

**10. FINANCIAL INSTRUMENTS (Continued)**

***Liquidity risk***

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

	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Total</u>
Trade and other payables	\$ 66,352	\$ -	\$ -	\$ 66,352
Lease liabilities (interest included)	1,681	2,592	995	5,268
Long-term debt (interest included)	1,630	2,037	15,705	19,372
	<u>\$ 69,663</u>	<u>\$ 4,629</u>	<u>\$ 16,700</u>	<u>\$ 90,992</u>

**11. SUBSEQUENT EVENT**

On November 1, 2019, the Company acquired all of the issued and outstanding shares of privately-held Norex Drilling Limited ("Norex"), a family-owned drilling and exploration drilling contractor based in Timmins, Ontario, Canada. The purchase price for the acquisition is valued at \$19.7 million, consisting of a cash payment of \$15.2 million payable on closing (subject to post-closing debt, working capital adjustments, and holdbacks) and the issuance of 334,169 common shares of the Company, valued on the closing of the transaction by the volume weighted average price of the shares on the TSX for the 10 trading days before the closing date and an earn-out of up to \$2.5 million, payable in cash following the third anniversary of the closing, subject to certain conditions.