MAJOR Drilling Group International Inc.

Core Values

1998 Annual Report

At the root of Major Drilling's success in the global drilling services marketplace is our commitment to providing high quality, reliable, safe and timely service to our customers. We know that their significant expenditures of capital on the development of new mines and the operation of existing mines is crucially dependent upon the core-sample data our drilling services provide. To meet these customer needs, Major Drilling is committed to maintaining professionally staffed divisions in those major geographic regions of the world where mining activity is at its busiest: Canada, the United States, Central and South America, Australia, and Indonesia. Major Drilling is also committed to supporting these staffs with state-of-the-art drilling equipment, backed with a complete spare parts reserve at each branch to ensure near-continuous operation of our drilling rigs and first class service to our customers. Also at the heart of Major Drilling's philosophy is our belief in the primacy of human capital. With more than 1,000 employees world-wide, we invest heavily each year in training to improve our people's skills, abilities, and safety awareness, enabling them to skillfully guide our business on the front lines. Through our focus on the fundamentals, I am convinced that Major Drilling's position as one of the world's premier drilling service companies will be enhanced even further and that the overall objective of increasing shareholder value will be well served.

That is our vision
Ronald J. Goguen
President and CEO

Major Drilling Group International Inc.

Based in Moncton, New Brunswick, Major Drilling Group International Inc. is one of the world's largest core-sample drilling service companies. To support its customers' varied mining and mineral exploration activities, Major Drilling maintains field operations and offices in Canada and the United States, throughout Central and South America, in Australia, Indonesia, Turkey and Ghana, as well as maintaining offices for environmental and geotechnical drilling work in the United States. It also manufactures and sells state-of-the-art drills and drilling support equipment, which are used by companies around the world. Major Drilling had revenues in excess of $158 million during its most recent fiscal year and employs more than 1,000 people worldwide. Its stock trades on The Toronto Stock Exchange under the symbol "MDI".

Our Board of Directors

Standing left to right: John Schiavi, President, Schiavi Enterprises; David Tennant, Partner, McCarthy Tetrault; David Fennell, President & CEO, Golden Star Resources Ltd.; H. Lawrence Doane, former Partner, Doane Raymond; Frank McKenna, Partner, McInnes Cooper & Robertson & former Premier of New Brunswick, John Harvey, former President, Noranda Exploration Company.;

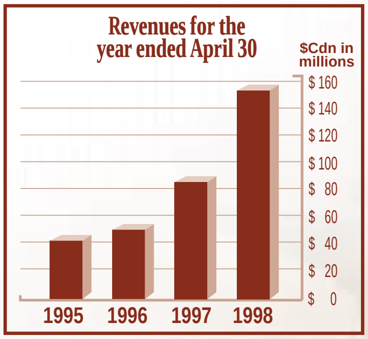
Sitting left to right: Paul E. Légère, CFO, Major Drilling Group Int. Inc.; Ronald J. Goguen, President & CEO, Major Drilling Group Int. Inc.; Robert Morgan, Vice-President of Operations, Major Drilling Group Int. Inc.

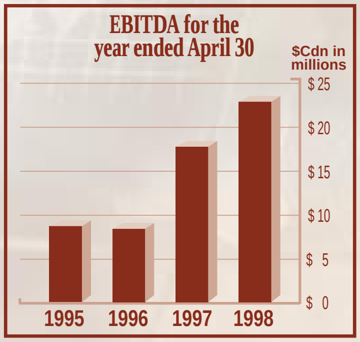
MILESTONES

- Five major acquisitions extend our presence throughout western and northern Canada, Australia, Indonesia, and into Alaska, Greenland, western Africa and Europe.
- International revenues increase 97.8% to $104 million.
- System-wide revenues increase 78.0% to $158 million.
- EBITDA* increases 28.5% to $23 million.

HIGHLIGHTS

000s (Except Earnings Per Share)	FY 1998	FY 1997
Revenues	$158,148	$ 88,855
Cash Flow (EBITDA)	$ 23,408	$ 18,221
Net Earnings	$ 9,562	$ 10,020
Earnings Per Share	$ 0.91	$ 1.51





**EBITDA refers to earnings before interest, taxes, depreciation and amortization.*

MESSAGE to SHAREHOLDERS

Major Drilling's 1998 fiscal year was one of tremendous revenue growth, but more importantly it was a year of tremendous expansion in the Company's capacity for future revenue and earnings growth, as a result of the acquisition of several key companies. Our revenue growth took place in an environment that was not without its challenges, the most significant being an unexpected downturn in South American drilling operations as a result of delays in our customers' projects, as well as from the effects of reduced metal prices and increased competition for the drilling business available.

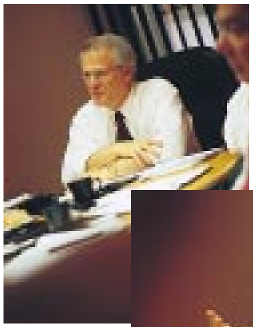
In spite of these challenges, the Company posted its best ever year-to-year revenue increase, growing to more than $158.1 million in revenues from $88.9 million; representing a 78% increase in just 12 months. Even with the difficulties in South America, the Company's earnings before taxes and non-controlling interest increased to a record $15.4 million, with earnings before income tax, depreciation, and amortization (EBITDA) on a per share basis a healthy $2.22 per share on approximately 10.5 million shares outstanding, as compared to $2.75 per share on approximately 6.6 million shares for the prior year.

The driving force behind Major Drilling's dramatic growth in revenues for the year, and increase in revenue generating capacity for future years, was the success of its acquisition program. First was the acquisition of the J.T. Thomas group of companies in May 1997, which expanded our drilling services business in the Yukon, Northwest Territories, Alaska, British Columbia, Mexico and Costa Rica. Next was Mining World Limited in June 1997, which initiated our entry into the drill and drilling equipment manufacturing business; then Pontil Pty Limited in August 1997 and Icehill Pty Limited in October 1997, with these two companies securing a solid presence for Major Drilling in Australia and Indonesia. Finally the Midwest Drilling enterprise acquisition in February 1998, strengthened our foothold in western and northern Canada, Greenland and Portugal.

These acquisitions increased the size of our drilling service operations to more than 40 sites, giving us a presence on nearly every continent and making Major Drilling one of the largest core-sample drilling companies in the world. They also firmly advanced our primary corporate objective, which is, of course, to grow profitably over time and enhance shareholder value.

The formula we followed in adding these acquisitions into our operations was simple and consistent with the approach we have taken over the past three years in other regions of the world; ensure that the best on-site talent is available; put decision-making authority squarely in the hands of local managers; cut corporate red tape; and provide material and administrative support to the field directly and rapidly.

An operating policy with this much flexibility is critical not only to our capacity to grow in the future, but also to perform successfully during times of mining industry slowdowns which periodically afflict the markets in which we operate. Of great benefit in the accomplishment of this objective is Major Drilling's favorable long-term debt-to-equity ratio of only 0.1 to 1.0, one of the lowest in the drilling industry. This ensures that the small portion of our available cash flow we must dedicate to debt



service should not jeopardize the availability of cash needed for other crucial operational and growth needs, even during difficult market conditions. Additionally, as a result of our strong financial condition, Major Drilling now commands the best financing terms in its history, with $60 million in credit lines available to the Company.

While we are bullish as to the long-term prospects for the mining industry, we are also realistic in acknowledging that mineral prices have retreated over the last year and this has affected drilling budgets for our customers. This will make the latter half of fiscal 1998 a period in which it could be misleading to evaluate Major Drilling's performance based on comparisons with the same period in fiscal 1997. Our markets are in flux and will not always fully engage the increased revenue generating capacity we gained with last year's acquisitions. To tailor our operations to better meet current market demands, and to realize the efficiencies of scale we always seek, we have introduced reductions in general and administrative expenses which will have an annualized impact of approximately $4 million, with further reductions of $2 million planned.

On a longer-term basis, we are confident that our increased resources, and the competitive advantages that they provide, will profitably capture an even larger share of future markets. As a demonstration of management's and our board of directors' belief in our long-term prospects, we have undertaken an "issuer bid" by virtue of which we are repurchasing shares of Major Drilling common stock on the open market. As of the date I write this Message to Shareholders, we do not believe we can buy another quality drilling company for the price per share at which Major Drilling's stock is now trading.

It is always rewarding to have one's plans, priorities and operating approach validated from outside sources and we were thus delighted to have our efforts recognized in November 1997, when Major Drilling was honored by Forbes Magazine as one of the 100 best small foreign companies with operations in the United States.

I want to extend my sincere appreciation to all of our employees, particularly those who worked so diligently this year to bring our new acquisitions online. I wish also to thank our board of directors for their work, and welcome its two newest members; Mr. Frank McKenna, former Premier of New Brunswick, and Mr. David Fennell, President and Chief Executive Officer of Golden Star Resources Ltd.

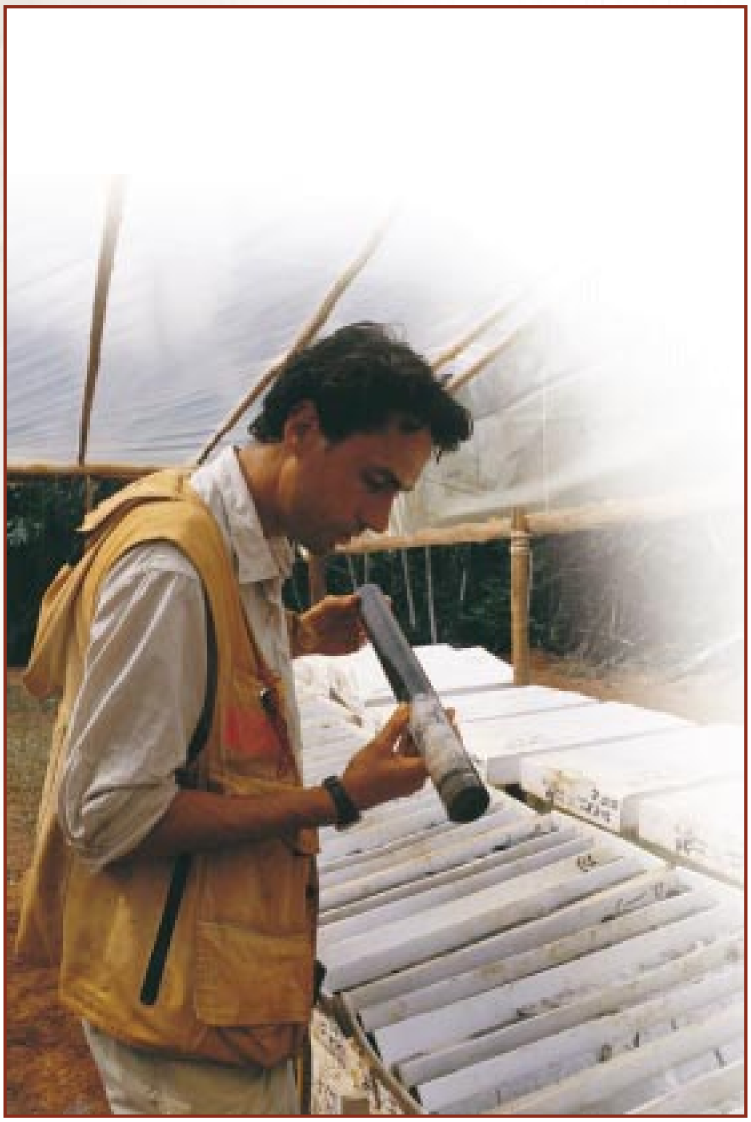
I will close by saying that Major Drilling remains a company "on the move", committed to long-term sustainable growth and profitability that build shareholder value. Major Drilling is now known the world over for the quality of our people and the drilling services they provide. Maintaining that reputation is our unwavering focus.

Ronald J. Goguen
President and CEO

Q&A ABOUT OUR BUSINESS

Who are our CUSTOMERS?

Major Drilling provides core-sample drilling services to almost all of the large multinational mining companies. Most have mining operations located on several different continents. These customers, many of which are well-known public companies, include, among others:



- NORANDA MINING AND EXPLORATION INC.
- GOLD CORP INC.
- BHP MINERALS CANADA LTD.
- TECK CORPORATION
- PLACER DOME INC.
- ASARCO INCORPORATED
- PHELPS DODGE CORPORATION
- INCO LIMITED
- BARRICK GOLD CORPORATION
- HUDSON BAY MINING AND SMELTING CO. LTD.
- RIO ALGOM LIMITED
- WESTERN MINING CORPORATION

Why do they need our DRILLING SERVICES?

Our core-sample drilling services provide mining companies with the crucial "underground eyes" they must have for the visibility needed to operate their businesses. The core-sample material retrieved from the one-to-six inch diameter drilled holes is first used to verify the presence of a target ore body during the exploration phase of establishing a new mine. Additional checkerboard drilling then quantifies the size, shape and grade of the ore body found. This information is incorporated into a feasibility study, which is a mandatory requirement in order to obtain the financing or funding commitment for the establishment of a mine and ore processing mill. Once a

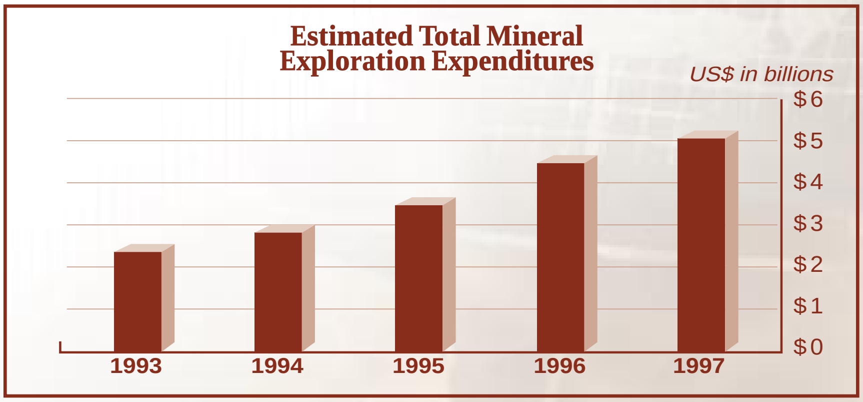
Why will our customers' needs INCREASE OVER TIME?

mine is in operation, surface or underground core-sample drilling is done on an on-going basis, which may continue for many years, to confirm the direction and slope of the underground producing ore body, and thus guide on-going production work and expansion of the mine.

In summary, the highly technical mineral core-sample drilling work done by Major Drilling provides mining companies with the objective data they must have to find new ore bodies, to quantify their size and quality, to obtain financing to establish a mine, and then to guide the operation and expansion of the mine over its many years of production.

How large is the demand for DRILLING SERVICES?

More than $4 billion (US$) was spent during 1997 on mining exploration and expansion activities by the world's 279 largest mining companies alone, according to the Metals Economics Group in its September 1997 report. Total exploration budgets for all mining companies were estimated at more than $5.1 billion for the year. A significant amount of those expenditures are for core-sample drilling work. Over recent years the trend in these expenditures has been positive, growing from $2.4 billion in 1993 to an estimated $5.1 billion for 1997, as shown in the graph below. Although we expect that the overall budgeted amount for 1998 may not match 1997's record amount, expenditures will still be significant.



Estimated Total Mineral Exploration Expenditures

Members of our board of directors

Robert H. Morgan
Vice-President of Operations
Major Drilling Group Int. Inc.

Mr. Morgan graduated in 1976 from St. Francis Xavier University with both a bachelor of science degree in geology and a degree in business administration. Mr. Morgan acted as a director of the Canadian Diamond Drilling Association (1986-89) and as vice-president (1989) of that organization. He has served as project geologist for Dominik Drilling and is currently Vice President of Operations for Major Drilling Group Int. Inc.

Paul E. Légère
CFO
Major Drilling Group Int. Inc.

Mr. Légère obtained a bachelor of business administration degree from the Université de Moncton in 1977 and a chartered accountant's designation in 1979. Prior to joining the Company in 1989 as Chief Financial Officer and a Director, Mr. Légère was the vice-president, finance and administration, for Cavendish Farms.

Q&A

What are the economic drivers behind our CUSTOMERS' BUSINESSES?

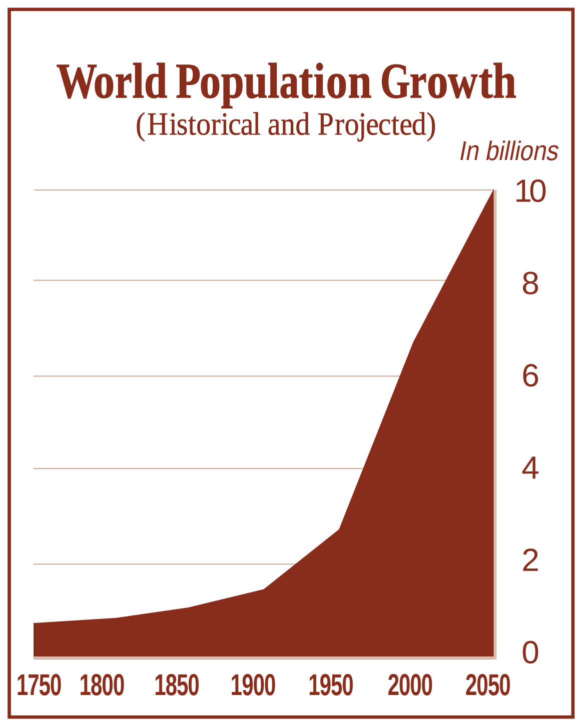
The demand for the minerals mined by our customers is tied directly to the demands created by the world's increasing population, now growing at the rate of approximately 6.5 million people *per month*. This population growth leads to an inevitable increase in demand for the consumer and industrial products that make lives more healthy, comfortable and convenient. These products invariably use mineral resources produced by the mining industry.

COMMITMENT TO SAFETY

Mineral exploration drilling is, by any measure, a physically and technically demanding undertaking. The rewards are great, but the risks are often significant. That is why Major Drilling places a premium on the safety and well-being of our employees in the field.

Complying with safety standards is no inconvenience. It is a prerequisite of doing business. Good safety is good business, and at Major Drilling, our standards are second to none. Our full-time safety engineers enforce the mandates of the Canadian Diamond Drill Association, the Ontario Safety and Health Act and the Mine Health and Safety Administration.

At the same time, our drill site operators receive advanced training in first aid, high-altitude work, jungle and malaria precautions and chemical handling in conditions of extreme heat and cold.



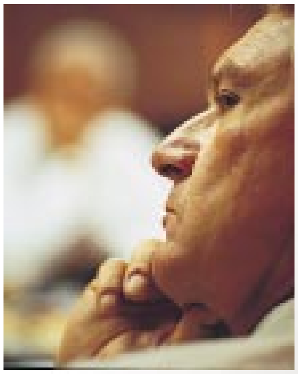
Sources: United Nations Population Division and Population Reference Bureau, 1993.

What is the effect of a decrease in MINERAL PRICES?

It is intuitively obvious that an increase in mineral prices will stimulate more exploration activity, which requires more core-sample drilling. A decrease in mineral prices, however, increases the importance of high quality core-sample drilling services. Why? Because lower mineral prices make the accurate assessment of the mineral-bearing content of any ore body crucially important, both to determine the feasibility of establishing a new mine and also to precisely define the direction in which an existing mine should be operated or expanded so as to minimize the extraction of rock with a mineral content below the level needed to be economical.

What differentiates Major Drilling from ITS COMPETITORS?

Bringing a new mine site to the point of a completed feasibility study as quickly and reliably as possible is extremely important to our customers, as this study enables them to obtain the financing or funding needed to commence operations and thus start delivering profits to the mining company's operating bottom line. Major Drilling prides itself on performing core-sample drilling jobs that successfully reach the target depth, provide quality samples for analysis, and are completed on time or ahead of schedule. To do this, we have well-trained and experienced drillers backed by a fully equipped local operating branch near each of our larger job sites. Our personnel have had extensive experience drilling in a wide range of geographic locations and operating environments, including high altitude, desert, arctic, tropical and underground, in temperatures that can range from -40°C to +40°C. Our customers take comfort in knowing that no matter what challenge the job site may present, our people will know how to handle it successfully. Experience has also shown us that the sophisticated drilling equipment used for this work, operating in the difficult environments described above, is subject to mechanical breakdowns. Unlike many of our competitors, we maintain a complete inventory of drilling rig spare parts near each job site, no matter how remote. Any breakdown can thus be promptly repaired and the drilling work completed with a minimum of delay. A competitor without the financial capacity, or commitment, to maintain such spare parts reserves may sit idle on a customer's job site for many weeks while needed replacement parts are shipped in from another part of the world. Major Drilling's customers are protected against such costly delays by our commitment to preparedness.



John D. Harvey
former President
Noranda Exploration Company

Mr. Harvey graduated with a bachelor of science degree in geology from the University of New Brunswick in 1959. He served as president and chief executive officer of Hemlo Gold Mines Inc. from 1989 to 1991. He also held the position of president of Noranda Exploration Company Limited from May 1982 to October 1994. Mr. Harvey is currently a member of the Canadian Institute of Mining and Metallurgy and the Professional Engineers of Ontario.

David B. Tennant
Partner
McCarthy Tétrault

David Tennant is a partner with McCarthy Tétrault, Canada's largest law firm, and serves as legal counsel to the Company from time to time. Mr. Tennant specializes in corporate finance and mergers and acquisitions, and is a former lecturer at Osgoode Hall Law School in Toronto. He is a director of several corporations.

Values

A Philosophy of Geographic Diversification

Since we first drew corporate breath in 1980, Major Drilling has pursued growth with single-minded determination. This emphasis on geographic expansion and diversification has, in less than 18 years, put us on nearly every continent, with operations spanning more than 25 countries, and has made Major Drilling one of the largest core-sample drilling companies in the world.

Such global reach is crucial to Major Drilling's ability to compete and succeed in an industry whose conditions can vary widely from location to location. It also provides us with a sturdy platform on which to build diversity, operational integrity and expertise; all keys to our continuing and profitable growth in domestic and world markets.

ENVIRONMENTAL *RESPONSIBILITY*

As a mineral exploration drilling service company with operations around the world, we accept a special responsibility to protect and preserve the environmental integrity of the regions in which we do business.

Our guiding principle is not to force irreparable change, but rather to understand local needs, conditions and realities. In this light, we pool strategic planning, operational expertise, cutting-edge technology and innovative processes in an effort to manage the impact we make on the environment.

This commitment is grounded in a clear moral imperative. Protecting the earth's natural resources is a practical endowment to the future of social and economic development in nations around the world.

Business Activities

Our business covers the segments of mineral exploration core-sample drilling business, environmental and geotechnical drilling business, and now the manufacture of state-of-the-art drills and drilling support equipment for sale in domestic and international markets.

In Canada, we operate branches from coast to coast including the Territories. In the United States, Major Drilling's business consists of operations in the eastern, western and northern part of the country. Fully staffed branch offices are maintained in Central and South America, Australia, Indonesia and western Africa. Field operations are maintained in Greenland, Europe and Turkey.

Over the past few years, Major Drilling's revenue mix has become truly international, with more than 60% of revenues now derived from offshore business.

Expansion Accomplishments

For Major Drilling, the most significant development of the past year has been the expansion of our business into entirely new geographic markets. We completed a number of acquisitions of drilling service companies, as well as mining equipment manufacturing companies, at an aggregate cost of $56.9 million (Cdn$), as follows:

In May 1997, Major Drilling completed the purchase, for $13.6 million, of a group of companies under the J.T. Thomas corporate banner:

J.T. Thomas Diamond Drilling (1980) Ltd.
J.T. Thomas Diamond Drilling Ltd.
J.T. Thomas Canadian Drilling Ltd.
J.T. Thomas de Mexico S.A. de C.V.
J.T. Thomas Perforaciones Canadienses Limitada.

These companies, which enjoy sparkling reputations for quality work, provide Major Drilling with strong footholds in British Columbia, the Yukon and the Northwest Territories, as well as expanding our business in Central America.

In June 1997, Major Drilling acquired control of *Mining World Limited (now UDR Group Limited)*, an Australian company which leads the world in the manufacture of the specialized "universal drilling rig" (UDR). UDRs are capable of switching mid-job from the faster "reverse circulation" drilling method to the more accurate solid core-sample drilling when the target ore body is reached. The purchase, for $14.7 million (prior to the disposition, in February 1998, of the Rubicon division), gives us a superb platform from which to compete more aggressively in world markets and to vertically integrate our business.

In August 1997, Major Drilling purchased, for $10.9 million, the Australian mineral exploration drilling company *Pontil Pty Limited*, which maintains drilling operations in Australia, Ghana and Indonesia.

In October 1997, we acquired another Australian mineral drilling service company, *Icehill Pty Limited*, conducting business under the name of *Wilson Drilling*. The purchase, for approximately $4.7 million, provides us with additional depth on the eastern part of the Australian continent.

Finally, in February 1998, Major Drilling completed the acquisition, for $13 million, of a number of operating assets doing business under the names of:

Midwest Drilling:
Wescore Drilling
R.M. McIsaac Drilling

These operations give us a solid presence in Manitoba, Saskatchewan, Ontario, the Northwest Territories, Greenland and Portugal.

David Fennell
President & CEO
Golden Star Resources Ltd.

Mr. Fennell is President and Chief Executive Officer of Golden Star Resources Ltd., a Denver-based gold and diamond exploration company. Mr. Fennell founded the company in 1984 to explore the opportunities identified in the emerging nation of Guyana. After graduating from the University of North Dakota in 1974, Mr. Fennell combined a career as a professional football player with a career in law. He graduated from the University of Alberta in 1978 and was called to the bar in 1979. He practiced law primarily in the natural resources area until 1984, when he founded Golden Star.

H. Lawrence Doane
former Partner
Doane Raymond

Dr. Doane is a retired partner and former chairperson of Doane Raymond, Chartered Accountants, and continues as a consultant for that firm. He currently serves as chairperson of the Halifax-Dartmouth Bridge Commission and has served as chairperson of the Canadian Institute of Chartered Accountants and the Canadian Tax Foundation.

Reach

North American Operations

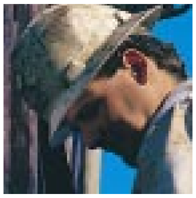
Bishop's Falls, Newfoundland
Bathurst, New Brunswick
Thetford Mines, Quebec
Val D'Or, Quebec
Porcupine, Ontario
North Bay, Ontario
Winnipeg, Manitoba
Flin Flon, Manitoba
Thompson, Manitoba
Smithers, British Columbia
Yellowknife, Northwest Territories
North Pole, Alaska
Ashland, Maine
Rocklin, California

South & Central American Operations

Hermosillo, Mexico
Iguala, Mexico
Coquimbo, Chile
Lima, Peru
Puerto Ordaz, Venezuela
Mendoza, Argentina
Georgetown, Guyana
Cayenne, French Guiana
Belo Horizonte, Brazil
Tegucigalpa, Honduras
Uruguay
Colombia
Panama
Costa Rica
Nicaragua
El Salvador
Guatamala
Dominican Republic

Other Operations

Barbados
Greenland
Turkey
Indonesia



AFRICAN OPERATIONS

Obuasi, Ghana

AUSTRALIAN MANUFACTURING OPERATIONS

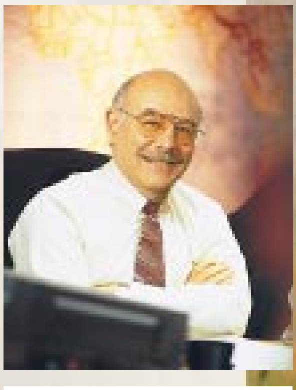
Brisbane, Queensland
Mt Isa, Queensland
Perth, Western Australia
Kalgoorlie,Western Australia

AUSTRALIAN DRILLING OPERATIONS

Dubbo, New South Wales
Cobar, New South Wales
Mt Isa, Queensland
Rosebery, Tasmania
Kambalda West, Western Australia

Frank McKenna
former Premier
Province of New Brunswick

Mr. McKenna served as Premier of New Brunswick from October 1987 to October 1997. A lawyer specializing in trial law, he was first elected to the New Brunswick legislature in 1982 and became leader of the Liberal Party in 1985. His term as Premier was marked by the rejuvenation and diversification of the New Brunswick economy, a much improved fiscal picture and considerable gains in job creation.



John H. Schiavi
President
Schiavi Enterprises

Mr. Schiavi obtained a Bachelor of Business Administration degree from Babson College in 1961 and a master's degree in business administration from New York University in 1962. He is President of Schiavi Enterprises, a diversified real estate holding company based in Oxford, Maine. In addition to his directorship in Major Drilling, Mr. Schiavi is a director of Roycefield Resources Ltd., Consumers Water Co., an investor-owned water utility operating in seven states, and Northeast Bancorp of Maine.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and Notes. The Company divides its operations into three geographic segments, being (1) Canada-U.S., (2) Latin America, and (3) Australia and Other. The Company defines a New Operation as any location that has not been operating for 24 months as of April 30, 1998.

The following table presents selected financial information for the Company for each of the last five fiscal years:

	Year ended April 30				
	1998	1997	1996 (thousands)	1995	1994
Contract Revenues by Region					
Canada-U.S.	$58,557	$36.377	$25,852	$25,804	$26,359
Latin America	40,681	52,478	26,916	19,852	10,153
Australia & Other	63,095	-	-	-	-
	162,333	88,855	52,768	45,656	36,512
Eliminations	(4,185)	-	-	-	-
Total	$158,148	$88,855	$52,768	$45,656	$36,512
Gross Profits as a Percentage of Contract Revenues	31.5%	35.4%	34.1%	37.1%	34.3%
General and Administrative Expenses					
Total	$26,226	$13,266	$8,877	$7,678	$6,294
As a percentage of contract revenues	16.6%	14.9%	16.8%	16.8%	17.2%
Interest	$1,476	$611	$1,102	$970	$1,108
Depreciation and Amortization	$6,726	$2,751	$2,138	$2,178	$1,805
Cash Flow (EBITDA) (1)	$23,408	$18,221	$9,115	$9,247	$6,236
Net Earnings (Net Loss)	$9,562	$10,020	$4,049	$4,567	$2,267

(1) Earnings before interest, income taxes, depreciation and amortization.

1998 Fiscal Year Compared with 1997 Fiscal Year

Overview

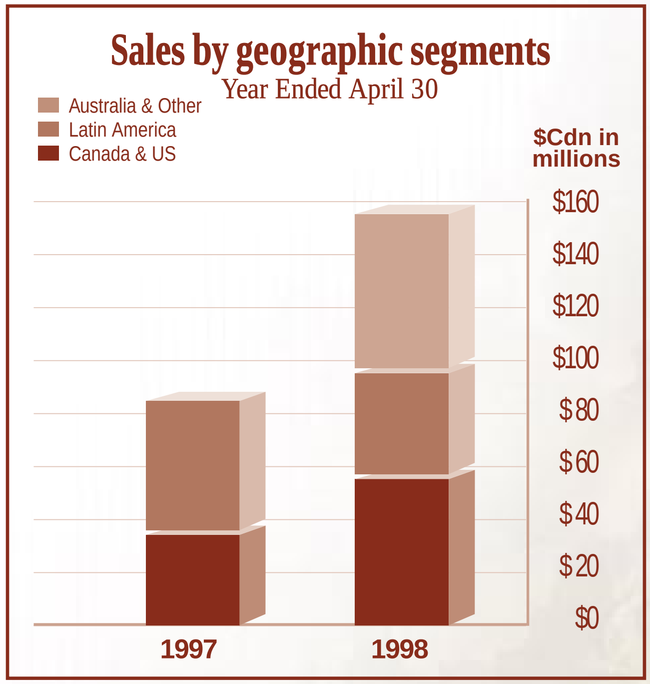
In fiscal year ("FY") 1998 the Company experienced substantial growth coming primarily from acquisitions. The four major businesses acquired during the year, two in Canada and two in Australia, accounted for most of the increase in Revenues in Canada-U.S. and Australia.

Revenues

In FY 1998 total contract revenues increased by 78% over FY1997 to $158.1 million. In Canada-US, the revenue increase (61%) came from the two acquisitions (JT Thomas and Midwest). The existing Canadian and US operations showed a slight increase (excluding Montana operations which were sold during the year). The new businesses acquired in Australia brought in $63.1 million, all of which were new revenues, since the Company was not operating in Australia in FY1997. In Latin America, established operations had decreased revenues of $20.0 million for the year, due primarily to lower exploration activities and weather problems in the region during the last half of the fiscal year. New operations in that region contributed $4.7 million in revenues.

Gross Profits

Gross profits as a percentage of revenues for the FY1998 decreased over FY1997 (31.5% compared to 35.4%). The reduction was due primarily to two factors; a change in the proportion of regional revenues, and, as anticipated, slightly lower margins in the newly acquired businesses. Existing North and Latin American operations maintained their respective gross margins, but the mix changed with lower volume in the usually higher margin Latin American businesses.



General & Administrative Expenses

Reflecting the increased level of activities as a result of the FY1998 acquisitions, general & administrative expenses were $26.2 million as compared to $13.3 million for the previous year. Acquisitions and startups represented increases to G&A costs of $12.2 million and $1.8 million respectively. Expenses for established operations were down slightly from $13.2 million to $12.2 million.

In FY1998 the Company introduced reductions in G&A with an annualized impact of approximately $4.0 million. Additional annualized reductions of $2.0 million are targeted for FY1999.

Income Taxes

The change in the proportion of regional earnings had a substantial effect on the effective income tax rate of the Company. In FY1998, the tax rate was 36.6% compared to 32.6% in FY1997. Higher earnings combined with a higher effective income tax rate in Canada accounted for a large portion of the increase. Also, due to the timing of the Company's acquisitions in Australia, and the requirements of Australian tax law, losses in the Company's Australian distribution business could not be used in the current year as an offset against taxes due on its profitable Australian drilling operations during the same period.

Liquidity and Capital Resources

The Company's ongoing requirements for cash consist principally of amounts required for working capital, to finance capital expenditures, to fund debt service obligations, and to fund the Company's "normal course issue bid" to purchase shares of its own stock on the open market. The Company expects to rely upon internally generated cash flow and available credit facilities to satisfy such cash requirements. The Company will consider issuing additional capital stock, if needed, to take advantage of acquisition or other investment opportunities that could emerge.

Working Capital

The working capital needs of the Company to finance its operations are principally determined by the levels and turnover of its inventory (primarily spare parts) and accounts receivable. It is the Company's assessment that the year end levels of inventory and accounts receivable were too high and that significant cash can be generated by reducing the levels during FY1999.

The Company's working capital ratio (current assets to current liabilities) was 1.59 at April 30, 1996; 2.67 at April 30, 1997; and 2.27 at April 30, 1998.

Capital Expenditures and Depreciation

The Company's business is not capital intensive, although there is a continuing need to purchase, refurbish and replace drilling rigs and related equipment. The majority of capital expenditures over the last few years have been focused on expanding operations. It is anticipated that capital expenditures will be significantly lower in FY1999. Any future acquisitions and capital spending will be funded primarily from operations and available credit facilities.

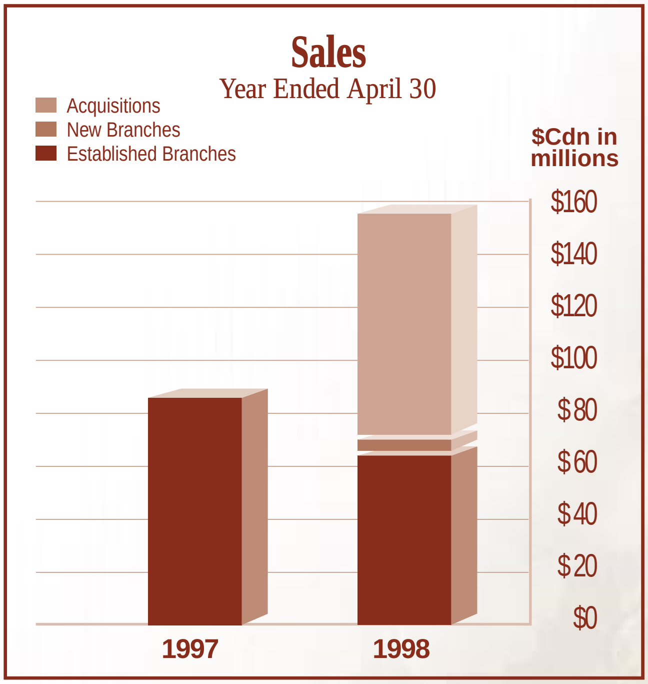
Borrowing Capacity

A Canadian chartered bank has made available three credit facilities to the Company. The maximum amount available under these facilities is $60.0 million. The first facility is a $16.0 million operating line secured by the Company's trade accounts receivable and Canadian inventory up to $7.5 million. The second facility is a $4.0 million revolving term line that can be divided into term loans with amortization of up to five years. The third facility is a $40.0 million revolving term line established to assist in acquisitions of similar businesses. Outstanding balances on this third line may be carved out in $1.0 million increments into separate term loans with amortization of up to five years, or remain revolving with a 366 day term and no set principal repayment requirements. The Company had utilized $2.0 million of its $16.0 million operating line, $1.8 million of its $4.0 million revolving term line, and $7.0 million of its $40.0 million acquisition line at April 30, 1998.

Year 2000 Compliance

Year 2000 (Y2K) compliance refers to the risk that computers and other devices may fail to recognize the year 2000 if their program logic uses two digits to represent the year. The Company has conducted a review of critical financial and management information systems and is in the process of upgrading these systems to address identified Y2K risks. The upgrades to the systems are scheduled to be completed by the end of the 1998 calender year. The Company does not anticipate that the costs associated with upgrading financial and management information systems for Y2K compliance will have a material earnings impact.

The Company has initiated formal communications with significant suppliers to determine the extent to which it is vulnerable to those third parties' failure to properly address the Y2K issue. The Company is still assessing the effect the Y2K issue will have on its suppliers and, at this time, cannot determine the impact it will have.



Growth Strategy

The strong growth experienced in FY1998 through the acquisitions has enabled the Company to equalize its geographic segments by strengthening its Canada-U.S. base and expanding into other parts of the world: Australia, western Africa, and Asia. Management believes that this strategy will help the Company when facing a downturn in any one of its geographic segments, as it experienced at the end of FY1998 in Latin America. The value of this strategy was demonstrated by the fact that the drilling businesses acquired this year contributed immediately to the results of the Company by dampening the decrease in revenues in Latin America, as follows:

The J.T. Thomas Group of companies contributed $14.6 million in Revenues and $5.0 million in earnings before interest, taxes, depreciation and amortization (EBITDA) for the full year of FY1998. For the 10-month period ended April 30, 1998, the two Australian acquisitions, Pontil Pty Limited and UDR Group Limited, made a vital contribution to the results of the Company. Revenues for the period were $36.0 million for Pontil and $22.9 million for Mining World, and EBITDA were $6.8 million and a loss of $0.7 million respectively. Finally, Midwest Drilling, acquired effectively as of February 1, 1998, contributed $12.4 million in revenues and $2.4 million in EBITDA for the three-month period ended April 30, 1998.

The Company's new operations in Brazil, Chile and Colombia brought in $4.7 million in revenues, but had a loss in EBITDA of $0.8 million due to the overall slowdown experienced in Latin America, and to startup costs.

Should the opportunity arise, management believes that the Company continues to be in a good financial position to make additional acquisitions.

AUDITORS' REPORT

To the Shareholders of
Major Drilling Group International Inc.

We have audited the consolidated balance sheets of Major Drilling Group International Inc. as at April 30, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

LeBlanc Nadeau Bujold

LeBlanc Nadeau Bujold
Chartered Accountants

Moncton, New Brunswick
June 19, 1998
(except with respect to note 11 as to which the date is July 30, 1998)

Consolidated Statement of Earnings

Year ended April 30, 1998 (in thousands of Canadian dollars, except per share information)

	(Note)	1998	1997
CONTRACT REVENUE		$158,148	$88,855
DIRECT CONTRACT COSTS		108,301	57,368
GROSS PROFIT		49,847	31,487
OPERATING EXPENSES			
General and administrative		26,226	13,266
Interest		1,476	611
Depreciation and amortization		6,726	2,751
		34,428	16,628
EARNINGS BEFORE INCOME TAXES		15,419	14,859
INCOME TAXES	(15)		
Current		5,747	3,774
Deferred		(103)	1,065
		5,644	4,839
EARNINGS BEFORE NON-CONTROLLING INTEREST		9,775	10,020
NON-CONTROLLING INTEREST		(213)	-
NET EARNINGS		$9,562	$10,020
EARNINGS PER SHARE	(16)	$0.91	$1.51

Consolidated Statement of Retained Earnings

Year ended April 30, 1998 (in thousands of Canadian dollars)

	1998	1997
BALANCE AT BEGINNING	$23,659	$13,639
Net earnings	9,562	10,020
BALANCE AT END	$33,221	$23,659

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

As at April 30, 1998 (in thousands of Canadian dollars)

	(Note)	1998	1997
ASSETS			
CURRENT ASSETS			
Cash		$-	$15,738
Temporary investments		3,876	598
Accounts receivable	(4)	37,256	21,828
Inventories		40,934	12,881
Prepaid expenses		2,143	1,413
		84,209	52,458
LONG-TERM INVESTMENT		-	2,151
CAPITAL ASSETS	(5)	74,285	26,559
GOODWILL AND OTHER ASSETS		9,736	-
		$168,230	$81,168
LIABILITIES			
CURRENT LIABILITIES			
Demand loans	(6)	$1,219	$-
Accounts payable		28,444	14,846
Income taxes payable		4,002	2,174
Deferred income taxes		406	565
Current portion of long-term debt	(7)	3,008	2,040
		37,079	19,625
LONG-TERM DEBT	(7)	12,447	3,162
DEFERRED INCOME TAXES		1,439	944
NON-CONTROLLING INTEREST	(8)	625	-
		51,590	23,731
SHAREHOLDERS' INTERESTS			
Capital stock and warrants	(9)	86,536	33,451
Retained earnings		33,221	23,659
Cumulative translation adjustment	(10)	(3,117)	327
		116,640	57,437
		$168,230	$81,168
Contingencies and contractual agreements	(11&12)		

APPROVED BY THE BOARD OF DIRECTORS

(signed) Ronald J. Goguen, Director

Paul E. Légère, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended April 30, 1998 (in thousands of Canadian dollars)

	(Note)	1998	1997
OPERATING ACTIVITIES			
Net earnings		$9,562	$10,020
Operating items not involving cash and cash equivalents:			
Depreciation and amortization		6,726	2,751
Gain on disposal of capital assets		(1,026)	(67)
Deferred income taxes		(103)	996
Non-controlling interest		213	-
		15,372	13,700
Changes in non-cash operating working capital items	(13)	(15,972)	(7,079)
		(600)	6,621
FINANCING ACTIVITIES			
Additional long-term financing		20,507	389
Repayment of long-term debt		(24,960)	(2,185)
Issuance of common shares and warrants		53,085	26,664
Increase in non-controlling interest		198	-
		48,830	24,868
INVESTING ACTIVITIES			
Business acquisitions, excluding cash acquired		(46,957)	-
Acquisition of capital assets		(19,227)	(11,435)
Proceeds from disposal of capital assets		2,560	208
Acquisition of long-term investment		-	(2,151)
Acquisition of goodwill and other assets		(290)	-
		(63,914)	(13,378)
OTHER ACTIVITIES			
Foreign exchange translation adjustment		(1,273)	98
CASH AND CASH EQUIVALENTS INCREASE (DECREASE)		(16,957)	18,209
CASH AND CASH EQUIVALENTS POSITION AT BEGINNING		15,738	(2,471)
CASH AND CASH EQUIVALENTS POSITION AT END	(14)	($1,219)	$15,738

Notes to Consolidated Financial Statements

Year ended April 30, 1998 (in thousands of Canadian dollars)

1. STATUS AND NATURE OF ACTIVITIES

The Company is incorporated under the Canada Business Corporations Act. The principal sources of revenue consist of drilling for mineral exploration and the manufacturing and distribution of operating supplies and drill rigs. The Company has operations in Canada, Argentina, Australia, Brazil, Chile, Costa Rica, Dominican Republic, French Guiana, Guyana, Honduras, Indonesia, Mexico, Nicaragua, Panama, Peru, Surinam, Turkey, United States, Uruguay and Venezuela.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the following subsidiaries:

Forage Major Kennebec Drilling Ltd.
Forage Major Ideal Drilling (Nfld.) Ltd.
J.T. Thomas Diamond Drilling (1980) Ltd.
J.T. Thomas Diamond Drilling Ltd.
J.T. Thomas Canadian Drilling Ltd.
Universal Drill Rigs Inc. (Canada)
Maine Diamond Drilling, Inc.
PC Exploration, Inc.
Coates Drilling Inc.
Major Drilling International Inc.
Major Perforaciones Nicaraguenses, S.A.
Majortec Perforaciones, S.A. (Venezuela)
Major Drilling de Mexico, S.A. de C.V.
Servicios Profesionales del Desertio, S.C.
UDR Group Limited
(formerly Mining World Limited)
UDR Equipment Pty. Ltd.
(formerly Universal Drilling Systems (Aust) Pty. Ltd.)
Major Peru S.A.
Major Drilling Chile S.A.
Major Drilling Honduras, S.A.
Major Drilling Dominicana, S.A.
Major Drilling Guyana Limited
Major Perforaciones S.A. (Argentina)
Perfoeste S.A. (Argentina)
Forage Major Guyane S.A.R.L.
Major Drilling do Brasil Ltda.
Elbinur S.A. (Uruguay)
J.T. Thomas de Mexico, S.A. de C.V.
J.T. Thomas Perforaciones Canadienses Ltda.
Major Drilling Australia Pty. Ltd.
Pontil Pty. Limited
UDR Consumables Pty. Ltd.
(formerly Mining World Group Pty. Ltd.)
UDR-Rockmore Pty. Ltd.
(formerly Mining World Drill and Blast Pty. Ltd.)

Certain subsidiaries included in these financial statements have a different year end than Major Drilling Group International Inc. Accordingly, adjustments were made to reflect the operations on an April 30th year-end basis.

Recognition of revenue

Revenues from drilling contracts are recognized on the basis of actual footage drilled for each contract. Revenue from ancillary services normally arise when the services are rendered.

Earnings per share

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

Temporary investments

Temporary investments are valued at the lower of cost and fair market value.

Inventories

The Company maintains an inventory of operating supplies, drilling rods and drill bits. The inventories are valued at the lower of cost and replacement cost.

Depreciation of capital assets

Capital assets are stated at cost. Depreciation, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable asset. The following rates apply to those assets being depreciated on the straight line method:

	Residual value	Useful life
Buildings	-	15 - 20 years
Drilling equipment	0 - 15 %	5 - 15 years
Automotive and off-road equipment	0 - 10 %	5 - 10 years
Other	-	5 - 15 years

Costs for repairs and maintenance are charged to expense as incurred. Significant improvements are capitalized and depreciated over the useful life of the asset.

Accounting for goodwill

Goodwill is accounted for at cost and is amortized using the straight-line method over a period of 25 years. The amortization period of 25 years is based on management's evaluation of the estimated economic life of the goodwill and the proper matching of costs against revenues. Management periodically evaluates the carrying value of the goodwill to determine if a permanent impairment has occurred. Management's evaluation is based upon a comparison of the discounted expected future operating cashflows with the unamortized value of its goodwill. Based on its evaluation, management does not believe that its goodwill is impaired.

Deferred income taxes

The Company follows the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates. Deferred taxes result from potential tax reductions available through the application of losses and from various timing differences between allowable deductions for tax reporting and book purposes. The primary timing differences are between capital cost allowance claimed and depreciation charged, and inventory allowances for tax purposes of a foreign subsidiary.

Translation of foreign currency

All amounts are represented in Canadian dollars. The financial statements include companies that have operations in the United States and Australia which are classified as self-sustaining foreign operations. The assets and liabilities of self-sustaining foreign operations are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items of such corporations are translated at average rates of exchange for the year. The resulting foreign currency translation gain or loss is reported as a separate component of shareholders' interests.

Latin American subsidiaries are classified as integrated foreign operations. The financial statements of integrated foreign operations are translated as follows: monetary items are translated at the rate of exchange in effect at the balance sheet date; non-monetary items are translated at historical rates; revenue and expense items are translated at the average rate of exchange for the year; and depreciation is translated at historical rates. Gains or losses resulting from these translations are accounted for in net earnings.

3. BUSINESS ACQUISITIONS

i) Prior acquisition purchase price adjustment

Perfoeste S.A.

On February 9, 1997, the Company acquired all of the issued and outstanding shares of Perfoeste S.A., an Argentinean mineral exploration drilling company, together with certain drilling assets of Perfoeste's Chilean parent company. The acquisition included a condition that the purchase price would be adjusted to the extent the working capital of Perfoeste S.A. was less than US$500,000. Following closing and in the year ended April 30, 1998, it was determined that an adjustment to the purchase price by C$599,415 was required, resulting in a reduction in the original price allocation to capital assets. This adjustment is reflected in the current year by the reduction in other liabilities assumed of $511,860 and a cash refund of $87,555.

ii) New acquisitions

J.T. Thomas Enterprises Ltd.

Effective May 1, 1997, the Company acquired the drilling rigs and related equipment owned by J.T. Thomas Enterprises Ltd. and the shares in several subsidiaries of that company whose assets consisted of drilling contracts and inventory. The subsidiary, J.T. Thomas Diamond Drilling (1980) Ltd., carries on business in British Columbia and the Yukon. J.T. Thomas Diamond Drilling Ltd. carries on business in Ontario and the Northwest Territories and J.T. Thomas Canadian Drilling Ltd. carries on business through its wholly owned subsidiaries J.T. Thomas de Mexico, S.A. de C.V., which conducts drilling in Mexico, and J.T. Thomas Perforaciones Canadienses Ltda., which conducts drilling in Costa Rica.

The purchase price was $13,500,000, paid by way of the issuance of 148,148 Common shares in the Company at a deemed price of $13.50 per share, and the payment of $11,500,000 in cash. In addition, the Company incurred $71,349 in expenses relating to the acquisition. The acquisition was accounted for using the purchase method of accounting and the results of operations were consolidated from May 1, 1997. Net assets acquired at fair market value at acquisition are as follows:

Assets acquired	
Inventory	$3,070
Capital assets	8,430
Goodwill	2,071
Net assets	$13,571
Consideration	
Cash	$11,571
Common shares	2,000
	$13,571

The Company also issued 100,000 stock options to Jean Marc Thomas. These options were exercised in August 1997 at a price of $13.50 per share.

UDR Group Limited (formerly Mining World Limited)

Effective July 4, 1997, the Company acquired control of Mining World Limited, an Australian publicly listed company, by virtue of acquiring in excess of 50% of the issued and outstanding ordinary shares in that company. The acquisition was made through a takeover bid launched on May 9, 1997, at a price of A$0.85 in cash for each of the ordinary shares of Mining World not already held by the Company. The Company subsequently met all the conditions of delisting the shares of Mining World Limited from the Australian Stock Exchange, thereby entitling the Company to acquire the remaining shares at $0.85 per share. During the year, Mining World Limited changed its name to UDR Group Limited. Its subsidiaries also adopted the UDR name.

UDR Group Limited conducts, through its subsidiaries, two main businesses: the manufacturing and marketing of drill rigs and the marketing of drilling rods (through its subsidiary UDR Equipment Pty. Ltd.) and the distribution of drill and blast bits, consumable bits, drill steel, couplings and adapters, drill rods and wireline consumables to the mining and drilling industries (through its UDR Consumables Pty. Ltd. and UDR-Rockmore Pty. Ltd. subsidiaries).

Mining World also had another subsidiary, Rubicon Industrial Australia Pty. Ltd. ("Rubicon"), which manufactured and distributed PVC and rubber hoses and related products to the mining and agricultural industries. As the Company was planning to sell Rubicon within one year, its net assets were accounted for as a temporary investment. The temporary investment had initially been evaluated at $12,000,000, however the final proceeds of disposal were $8,504,000, thereby resulting in $3,496,000 being reallocated to goodwill. Rubicon's operating loss for the period ($295,000) has been excluded from the consolidated earnings and has also been reallocated to the cost of acquisition.

The acquisition of UDR Group Limited (formerly Mining World Limited) was accounted for using the purchase method of accounting and the results of operations were consolidated from July 4, 1997. The final purchase price allocation for the net assets acquired are as follows:

Assets acquired	
Cash	$2,179
Temporary investment	
- affiliate held for resale	8,504
Other current assets	19,616
Capital assets	1,090
Goodwill	7,815
	39,204
Liabilities assumed	
Current liabilities	13,164
Long-term debt	10,864
Deferred credits	179
Non-controlling interest	258
	24,465
Net assets on acquisition	14,739
Less: proceeds from disposal of Rubicon during the year	(8,504)
Net value	$6,235
Consideration	
Cash	$6,235

Pontil Pty. Limited

On June 17, 1997, the Company agreed to acquire all of the issued and outstanding shares of Australia based Pontil Pty. Limited, a privately held mineral exploration drilling company conducting business both in Australia and Africa. The purchase price for the transaction was $10,912,000 plus acquisition costs of $19,000, consisting of the issuance of 205,385 Common shares in the Company at a deemed price of $18.75 per share together with cash of $7,080,000.

Additionally, in consideration of one of the previous shareholders entering into an employment contract and remaining as an employee of Pontil and, at the discretion of MDGI, as an officer of Pontil, MDGI agreed to grant him stock options exercisable into 100,000 Common shares of MDGI, such options to be exercisable at a price of $18.75 per share for a period of three years. The transaction closed on August 28, 1997.

The acquisition was accounted for using the purchase method of accounting effective July 1, 1997 and the results of operations of Pontil were consolidated from that date on. Final details of the acquisition follow:

Assets acquired	
Current assets	$8,628
Capital assets	13,860
	22,488
Liabilities assumed	
Bank overdraft	125
Other current liabilities	5,655
Long-term debt	5,471
Deferred credits	306
	11,557
Net assets	$10,931
Consideration	
Cash	$7,080
Common shares	3,851
	$10,931

Icehill Pty. Limited

On October 17, 1997, the Company acquired, through its wholly owned subsidiary Pontil Pty. Limited, the drilling rigs and related equipment of Australian based Icehill Pty. Limited, a privately held mineral exploration company. The consideration paid was $4,730,000 in cash. The acquisition was accounted for using the purchase method of accounting effective October 1, 1997 and the results of operations were included in the Company's financial results from that date on. Details of the acquisition are as follows:

Assets acquired	
Capital assets	$4,730
Consideration	
Cash	$4,730

Germac Enterprises Ltd. (Midwest Drilling)

Effective February 1, 1998, the Company acquired the drilling equipment and related assets owned by Germac Enterprises Ltd., a company operating a mineral drilling exploration business mainly in Manitoba, Saskatchewan and the Northwest Territories. As consideration for this acquisition, the Company paid $13,017,000 in cash including sales tax and acquisition expenses of $515,000.

In addition, the Company has accrued $1,800,000 in transaction and restructuring costs associated with this purchase. The acquisition was accounted for using the purchase method of accounting and the results of operations were included in the Company's financial results from February 1, 1998. Net assets acquired at fair market value at acquisition are as follows:

Assets acquired	
Current assets	$9,703
Capital assets	10,707
Goodwill	625
	21,035
Liabilities assumed	
Bank overdraft	1,477
Other current liabilities	4,272
Long-term debt	469
	6,218
Net assets	$14,817
Consideration	
Cash	$13,017
Accrued liabilities	1,800
	$14,817

4. ACCOUNTS RECEIVABLE

	1998	1997
Trade	$31,640	$20,953
Other	5,616	875
	$37,256	$21,828

5. CAPITAL ASSETS

	1998			1997
	Cost	Accumulated depreciation	Net value	Net value
Land	$1,420	$-	$1,420	$584
Buildings	6,371	586	5,785	1,504
Drilling equipment	65,241	14,847	50,394	18,358
Automotive and off-road equipment	18,089	6,545	11,544	4,896
Other	7,072	1,930	5,142	1,217
	$98,193	$23,908	$74,285	$26,559

6. DEMAND LOANS

The Company's demand loans (maximum authorized of $16,000,000) bear interest at the lower of the bank's prime lending rate and the bank's Corporate Bankers' Acceptance rate.

The demand loans are secured by a deed of moveable hypothecation (Québec), a registered Province of Newfoundland demand debenture, a general assignment of book debts and/or Uniform Customs Code filings in the applicable Canadian and U.S. jurisdictions, and security under section 427 of the Bank Act (Canada) with replacement cost fire insurance coverage on inventory and equipment.

7. LONG-TERM DEBT

	1998	1997
Acquisition loan (maximum authorized of $40,000,000), no set terms of repayment, bearing interest at the lower of the bank's prime rate plus 0.5% and the bank's bankers acceptance rate plus 0.5%, secured by the shares of two wholly owned subsidiaries.	$7,000	$-
Term loans, bearing interest at rates ranging from prime to 10%, payable in monthly installments of $61,264, maturing between the years 1998 and 2012, secured by capital assets.	1,711	1,822
Term loans-US$821,253 (1997-US$449,463), with interest at rates ranging from prime plus 2.75% to 21%, payable in monthly installments of US$26,652, secured by equipment, maturing through 2003.	1,177	628
Term loan-US$373,478 (1997-US$437,363), payable in monthly installments of US$6,876 including principal and interest at rates from 8% to prime, secured by deeds of trust and security agreements, maturing in 2004.	563	611
Term loan, repaid during the year.	-	189
Loan, repaid during the year.	-	1,952
Term loans-A$5,367,896, payable in semi-monthly and monthly installments of A$318,591 including principal and interest at rates from 4.34% to 14%, secured by mortgage debentures over land, buildings and other assets, maturing in 2002.	5,004	-
	15,455	5,202
Current portion	3,008	2,040
	$12,447	$3,162

The above loans are secured by various debentures and mortgages which limit the Company from incurring additional debt and disposing of certain assets based on certain covenants. The security for the debentures and mortgages include fixed and floating charges against the assets, assignments of book debts, section 427 Bank Act (Canada) security on inventories, life insurance proceeds and a pledge of common shares of PC Exploration, Inc.

The annual principal installments on long-term debt over the next five years are as follows:

1999 - $3,008
2000 - $2,766
2001 - $1,307
2002 - $ 623
2003 - $ 457

8. NON-CONTROLLING INTEREST

The non-controlling interest represents a minority interest in UDR Equipment Pty. Limited.

9. CAPITAL STOCK AND WARRANTS

Authorized

Unlimited number of Common shares, without nominal or par value.

Issued and fully paid	1998	1997
11,819,073 Common shares (1997 - 8,501,582)	$86,078	$32,817
764,700 Warrants (1997 - 1,057,150)	458	634
	$86,536	$33,451

Common shares

During the year, the Company issued 3,317,491 Common shares under an October 1996 and a June 1997 issue, as part of business acquisitions (described in note 3), and under the Company stock option and compensation option plans. The company received net proceeds of $53,085,272. The capital stock of the company is shown net of issue costs and underwriters' commissions of $5,518,929.

Stock options - employees and directors

The Company has issued stock options under its employee incentive compensation plan. Issuance of options under the plan is determined annually by the compensation committee appointed by the Company's Board of Directors.

The option groups issued and/or outstanding at April 30, 1998 and related price and life information follows:

Grant date	Options granted	Vested options	Options outstanding	Exercise price	Remaining life (years)
Nov. 23, 1994	54,250	54,250	7,900	$ 6.50	6
August 8, 1996	199,900	132,866	136,167	$ 7.04	8
June 25, 1997	81,450	27,150	76,950	$ 18.65	9
Sept. 4, 1997	4,200	1,400	4,200	$ 26.50	9
Jan. 16, 1998	6,000	2,000	6,000	$ 20.32	9

All of these stock options expire on the first of any of the following:

- ten years from the date of the grant,
- three months after the termination of an optionee's employment, due to death, disability or normal early retirement,
- immediately on termination for cause,
- one month in the event of termination for any other reason or,
- thirty days within closure of the business.

One-third of the options vested when they were granted, one-third will vest on the first anniversary date and the remaining third will vest on the second anniversary date.

Other stock options

During the year, the Company issued the following stock options as part of business acquisitions:

Grant date	Options granted	Options outstanding	Exercise price	Remaining life (years)
May 21, 1997	100,000	-	$ 13.50	-
August 28, 1997	100,000	100,000	$ 18.75	2

Warrants

October 1996 issue

On October 3, 1996, 2,564,300 Special Warrants were issued under a Special Warrant Indenture. Each Special Warrant was issued at $9.75, other than the 30,800 Special Warrants issued at $10.00 and sold to two Executive Officers. The portion of the issue price of each Special Warrant allocated to the Common shares issuable upon the exercise of the Special Warrants was $9.45 per Common share. In December 1996, each Special Warrant was exercised into one Common share of MDGI and one-half of a Common share purchase warrant (a whole Common share purchase warrant being referred to as a "Warrant"). Each of the 1,282,150 Warrants entitles the holder to purchase one Common share at a price of $10.50 at any time on or before March 30, 1999. The aggregate number of outstanding Warrants as at April 30, 1998 was 764,700.

June 1997 issue

On June 24, 1997, 2,500,000 Special Warrants were issued under a Special Warrant Indenture. Each Special Warrant was issued at $18.00. In September 1997, each Special Warrant was exercised into one Common share of MDGI, without payment of any additional consideration. There were no outstanding Special Warrants as at April 30, 1998.

10. CUMULATIVE TRANSLATION ADJUSTMENT

Cumulative translation adjustment represents deferred foreign exchange gains (losses) on the translation of the accounts of self-sustaining foreign operations in the United States and Australia.

11. CONTINGENCIES

The Minister of Revenue for the Province of Québec has issued a reassessment for $855,000 including interest relating to the reasonableness of management fees paid by a predecessor company to a related party for the years 1987, 1988 and 1989. Management is appealing this reassessment and no liability has been recorded. It is not possible at this time to determine the amount of taxes, if any, that may become payable.

Forage Major Kennebec Drilling Ltd. ("Kennebec"), a subsidiary, is a co-defendant in a negligence action brought in Québec. The plaintiffs in the action, Hydro Québec and others, are seeking $789,000 in respect of alleged damages resulting in connection with work performed by Kennebec when acting as a subcontractor under the direction of the contractor. Management believes that the Company has a good defense to the claim and that, even if the claim is successful, the amount claimed will be covered by insurance.

The Company is also involved in various other claims and legal notices arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's financial position.

Any amounts awarded as a result of these actions will be reflected in the year incurred.

12. CONTRACTUAL AGREEMENTS

The Company is committed to two lease agreements with a company controlled by the President and Chief Executive Officer to pay annual rents of $45,000 and $47,000 until the years 2000 and 2002 respectively. The Company also has various commitments with arms-length parties as follows: 1999 - $1,211,000, 2000 - $1,023,000, 2001 - $652,000, 2002 - $377,000 and 2003 - $100,000.

13. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	1998	1997
Accounts receivable	$1,502	($11,174)
Inventories	(7,432)	(4,234)
Accounts payable	(7,780)	7,421
Income taxes payable	990	1,772
Other items	(3,252)	(864)
	($15,972)	($7,079)

14. CASH AND CASH EQUIVALENTS

	1998	1997
Cash	$-	$15,738
Demand loans	($1,219)	-
	($1,219)	$15,738

15. INCOME TAXES

The Company's effective tax rate for 1998 is 36.60% (1997 - 32.56%). This tax rate differs from the combined Canadian corporate tax rate of approximately 45.3% due principally to lower effective income tax rates on earnings of foreign subsidiaries, permanent timing differences and unrecorded income tax benefits arising from losses of subsidiaries.

16. EARNINGS PER SHARE

Fully diluted earnings per share

Fully diluted earnings per share figures for the current year would have been $0.80 for 1998 had all outstanding stock options, compensation options and warrants outstanding as at April 30, 1998 been exercised into Common shares when granted or issued.

For the purposes of this calculation, the earnings applicable to common shares was increased by the interest, after income taxes ($442,000), calculated at 3% of the exercise price on the above instruments, and the number of common shares adjusted to reflect the additional weighted daily average that would have resulted on exercise (1,939,575 shares).

17. RESTRUCTURING CHARGES

During 1998, the Company incurred costs associated with a plan to close branches in certain subsidiary operations in the United States and Australia. As a result, restructuring costs totaling $1,088,000 were charged against earnings, of which $605,000 has been accrued at year end. The restructuring costs consist primarily of lease terminations and severance allowances. The exit plan should be completed during the 1999 financial year. The Company has also recognized a gain of $1,165,000 from the disposal of capital assets as a result of branch closures in the United States.

18. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

19. FINANCIAL INSTRUMENTS

Recognized financial instruments

The carrying values of cash, accounts receivable and accounts payable approximate their fair value due to the relatively short period to maturity of the instruments.

The book value of long-term debt approximates their fair market value. The fair market value was established using discounted cash flow analysis, based on current borrowing rates for similar types of financing arrangements.

Concentration of credit risk

The Company minimizes concentration of credit risk in relation to accounts receivable by undertaking transactions with a large number of customers within the specified industries.

20. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments and two business segments. The geographic segments are Canada - U.S., Latin America, and Australia and other. The business segments are drilling, and manufacturing and distribution. The accounting policies of the segments are the same as those described in note 2. Management evaluates performance based on profit or loss from operations before interest and income taxes.

Presented below is data relating to each of the Company's geographic and business segments.

	1998	1997
Geographic segments		
Revenues		
Canada - U.S.	$58,557	$36,377
Latin America	40,681	52,478
Australia and other	63,095	-
	162,333	88,855
Eliminations	(4,185)	-
	$158,148	$88,855
Earnings (loss) from operations		
Canada - U.S.	$10,102	$3,816
Latin America	6,121	14,046
Australia and other	4,198	-
	20,421	17,862
Eliminations	(337)	275
	20,084	18,137
Interest expense, net	(1,476)	(611)
General corporate expenses and unallocated gain, net	(3,402)	(2,667)
Income taxes	(5,644)	(4,839)
Net earnings	$9,562	$10,020
Identifiable assets		
Canada - U.S.	$58,640	$25,401
Latin America	43,031	40,731
Australia and other	57,752	-
	159,423	66,132
Eliminations	(16,005)	(10,792)
Non-identifiable and corporate assets	24,812	25,828
	$168,230	$81,168

	1998	1997
Business segments		
Revenues		
Drilling	$135,315	$88,855
Manufacturing and distribution	28,080	-
	163,395	88,855
Eliminations	(5,247)	-
	$158,148	$88,855
Earnings (loss) from operations		
Drilling	$21,238	$18,137
Manufacturing and distribution	(468)	-
	20,770	18,137
Eliminations	(686)	-
	20,084	18,137
Interest expense, net	(1,476)	(611)
General corporate expenses and unallocated gain, net	(3,402)	(2,667)
Income taxes	(5,644)	(4,839)
Net earnings	$9,562	$10,020
Identifiable assets		
Drilling	$129,947	$55,340
Manufacturing and distribution	29,173	-
	159,120	55,340
Eliminations	(15,702)	-
Non-identifiable and corporate assets	24,812	25,828
	$168,230	$81,168
Capital expenditures		
Drilling	$17,849	$11,274
Manufacturing and distribution	309	-
	18,158	11,274
Eliminations	(461)	-
Non-identifiable and corporate assets	1,530	161
	$19,227	$11,435
Depreciation		
Drilling	$5,960	$2,674
Manufacturing and distribution	606	-
	6,566	2,674
Non-identifiable and corporate assets	160	77
	$6,726	$2,751

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Shareholder Information

Directors

Ronald J. Goguen

Paul E. Légère

Robert H. Morgan

H. Lawrence Doane (1) (2)

John H. Schiavi (1) (2)

John D. Harvey (2)

David B. Tennant(1)

Frank McKenna

David A. Fennell

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Officers

Ronald J. Goguen
Director, President
and Chief Executive Officer

Paul E. Légère
Director, Chief Financial Officer

Robert H. Morgan
Director, Vice President of Operations

James A. Gibson
General Counsel and Secretary

Transfer Agent

CIBC Mellon Trust Company

Auditors

LeBlanc Nadeau Bujold
Moncton, New Brunswick

Head Office

Major Drilling Group International Inc.
111 St. George Street, Suite 200
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Tel: 506-857-8636 Fax: 506-857-9211

Annual General Meeting

The Annual General Meeting of the shareholders of Major Drilling Group International Inc. will be held at

The Ontario Club, Commerce Court South
Toronto, Ontario
on the 26th day of October, 1998
at 11:00 a.m.

Operations & Offices of Major Drilling Group International Inc. Worldwide

Canadian Operations

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Midwest Drilling
Flin Flon, MB
Tel: 204-687-3483
Fax: 204-687-5739

Midwest Drilling
Thompson, MB
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El Salvador
OFFICE SITUATED IN HONDURAS

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Dominican Republic
OFFICE SITUATED IN PERU

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