2002 ANNUAL REPORT

Ready, set...

MAJOR

Drilling Group International Inc.

Corporate Profile

Major Drilling Group International Inc. is one of the world's largest contract drilling companies, with 31 field operations and/or offices in 16 countries around the globe. The Company primarily serves the mining industry but also offers environmental and geotechnical contract drilling services. UDR, Major Drilling's subsidiary, is a recognized leader in the design and manufacture of state-of-the-art drill rigs for the mining industry.

Major Drilling is a leader in providing specialized contract drilling services in some of the world's harshest environments, consistently delivering the highest quality work, on time and on budget. The Company will continue to position itself for the future by deploying specialized and innovative solutions to the mining industry's most complex and challenging drilling requirements.

Major Drilling's common shares trade on the Toronto Stock Exchange under the symbol MDI.

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Message to Shareholders

Fiscal 2002 (FY02) continued to be challenging for Major Drilling and for the rest of the mining industry. After seeing some recovery in early fiscal 2001 (FY01), recessionary concerns led to declines in base metal prices through the latter part of that year and into the first half of fiscal 2002, with prices ultimately declining to 15-year lows in November of 2001. During this same period, gold prices continued to stagnate in the US$275 per ounce range. The deepening decline in metal prices resulted in further contraction in exploration activity from already low levels. This had a significant effect on our operations and financial performance. Nevertheless, Major Drilling continued to weather the challenge of the extended downturn in the industry. As a result of prudent financial management, a strong balance sheet, and the outstanding efforts of our employees and management team, we are now solidly positioned to participate in a substantially improved outlook for the sector.

During the year, we took the following steps to reduce costs, generate and conserve cash and ***ready*** the Company for the general recovery in the sector by:

- *Continuing to rationalize our regional infrastructures by centralizing operations in Canada and Australia, while reducing administrative staff levels of our offices in Latin America;*
- *Increasing our marketing efforts and strengthening our relationships with senior mining companies and well-funded junior companies;*
- *Placing several of our office/shop facilities up for sale and lease back, and continuing to closely monitor and control capital expenditures;*
- *Issuing 5 million common shares by way of private placement, with net proceeds of $14.6 million, to position the Company to fully participate in the recovery of the sector.*

The equity financing, combined with the sale of non-core assets, enabled us to strengthen our balance sheet by reducing our total debt levels by 33 per cent, and supplied extra working capital to grow the business.

Message to Shareholders

The outlook for the sector has improved significantly over the past several months. Gold prices have moved up steadily, and since April have pushed through, and substantially beyond, the US$300 per ounce benchmark on a sustained basis. Base metal prices, while still not strong, have also recovered from their November lows with copper prices up over 20 per cent and nickel prices up over 60 per cent. Base metal prices are expected to continue to strengthen as the global economy improves. In the past, gold related drilling has represented about 50 per cent of the Company's drilling revenues while base metal related drilling, including nickel and copper, has represented about 45 per cent of drilling revenues.

As a consequence of the improved pricing regime for base and precious metals, equity capital has begun to flow back into the sector. As this capital is put to work in increased exploration and drilling activity, we expect that both our top line and margin performance will improve through the latter half of calendar 2002.

We are ***set*** to maximize our participation in the mining upturn as we continue to focus on three key elements of our business strategy:

Dominating specialized drilling services such as deep-hole drilling, directional drilling and mobilizations to remote locations and to high altitudes. This segment of the business, which has the greatest growth potential, allows Major Drilling to exploit its primary competitive advantages – specialized equipment, skilled personnel and its global reach.

Expanding our market share of underground drilling for both definition and development drilling. Underground drilling contracts are typically of longer duration than surface drilling contracts, creating more stability in the Company's revenue stream.

Utilizing our capacity in traditional drilling, which is primarily focused on surface exploration. This business segment is typically the most affected by industry downturns and upturns and it offers significant operational leverage as the sector recovers. Traditional drilling typically commands more moderate margins since projects require less technical sophistication.

The past several years have been some of the most difficult in the history of the mining sector. Non-ferrous metals and mineral exploration expenditures worldwide are estimated to have declined by over 60 per cent since the peak of the last mining cycle in 1997. This depressed business environment has taken its toll on the mine service sector and has clearly been reflected in Major Drilling's financial results over the past few years. At the same time, this market environment has highlighted the need for cost reductions and operational rationalization. The efficiencies that have been achieved can now contribute to the Company's profitability as we move into an expected upturn in the sector.

I would like to express my sincere appreciation to Major Drilling's employees, who are an integral part of the Company's strength and expertise. I also want to acknowledge our customers' loyalty and support. We take pride in being a partner in our customers' projects by continuing to focus on high-value products and services that help them achieve their goals and grow their businesses.

Finally, I would like to express management's appreciation to you, our shareholders, for your continuing support through these difficult times. With our improved financial position, we are ***ready*** and ***set*** to take advantage of the expected recovery in the sector.

Francis P. McGuire
President and Chief Executive Officer

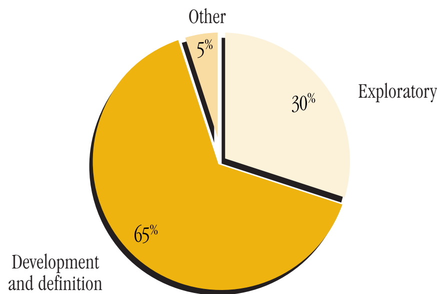
Report on Operations

Major Drilling's combination of global operating capability and strong reputation has positioned the Company as the drilling contractor of choice to many of the world's largest mining companies. The Company is service oriented, responding around the globe to meet the drilling needs of its clients.

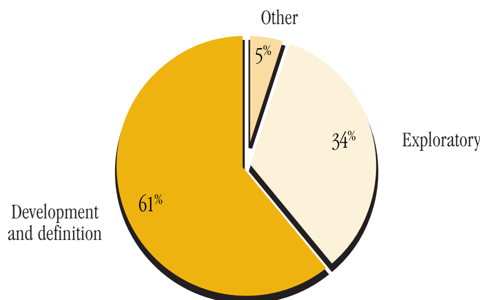
Our experienced drillers have seen it all. Whether it is high in the Andes Mountains, in the Australian desert, the Amazon jungle or the frozen tundra of the Arctic, the world is our drill site. Over the years, our team has become knowledgeable and efficient at establishing foreign operations. Familiarity with local business laws, cultures and import customs has enabled the Company to open foreign branches faster. Local management worldwide has the ability and the resources to make decisions "on the spot" to provide the assistance and the quality of service our clients deserve.

Mining companies typically progress through several drilling phases in bringing an ore body into production – from exploratory drilling to discover new deposits, to development and definition drilling at operating mines to define ore bodies and expand reserves.

Drilling Revenue Distribution FY02



Drilling Revenue Distribution FY01



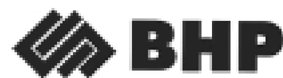
Through these phases, the most common drilling methods are reverse circulation drilling and diamond drilling.

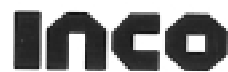
Reverse circulation drilling is primarily employed in the exploratory, and to some degree, development drilling phases. It is ideal for environments where the rock formations are either heavily oxidized or highly fractured and where water supplies are limited. This method of drilling uses a down-hole hammer driven by high-pressure air to break the rock into chips, which are then circulated through the dual wall drill pipe back to the surface for collection and analysis.

Diamond drilling enables the drilling team to collect a continuous core sample that is then analyzed to determine mineral content at precise locations. This method, which is the most accurate form of sampling, is employed extensively around the world and can be used both on the surface and in underground mines. Unlike reverse circulation, the diamond drilling method requires a constant flow of water to lubricate the drill bit, which can be difficult to supply at high altitudes, in desert environments or in fractured rock formations.

OUR CUSTOMERS

Major Drilling provides drilling services to many of the large multinational mining companies who have operations located on several continents. These customers, many of whom are well-known public companies, include, among others:





OUR OPERATIONS

North America

North America continues to represent Major Drilling's most important geographic market. Revenues for the region were $45.5 million compared to $51.1 million last year. This represented 46.2 per cent of total drilling revenues, up from 44.2 per cent last year. Central and Eastern Canada were again areas of intense competition in FY02, particularly for non-specialized drilling in and around established mining camps. This resulted in reduced revenues and decreased gross margins in these areas of Canada, and overall reduced margins for North America compared to last year. As part of its rationalization and cost reduction efforts, the Company's regional reporting structures were streamlined and flattened, head office staff levels were reduced, a branch office was eliminated in Western Canada and management of Western Canadian operations was consolidated in Winnipeg. Also, Canadian repair and maintenance infrastructure was rationalized and the Company continued to move towards fleet standardization to reduce costs and improve margins.

With intense competitive pressures in the region, the Company continues to focus its marketing efforts on its specialized services. The remote locations that typically require specialized drilling, logistics and mobilization services are areas of future growth in North America. Major Drilling is also keying in on Canadian mining regions such as Yellowknife, Flin Flon, Thompson, Sudbury, Val d'Or and Newfoundland to cover strategic mineral plays in diamonds, platinum group metals, copper, uranium, nickel and gold. With the strengthening of gold prices and the continued expansion of diamond plays and precious metals activity, it is expected that drilling activity will increase in the latter half of fiscal 2003 (FY03).

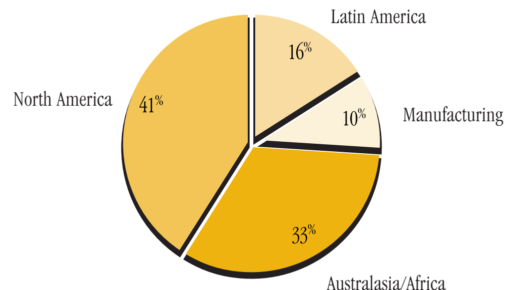
Latin America

The Company's Latin American operations are usually the most affected by volatility in exploration budgets and metal and mineral prices. Consequently, this year has been a difficult one for this region of the Company's operations. Revenues for the region were $17.4 million compared to $32.3 million last year. This represented 17.6 per cent of total drilling revenues, down from 27.9 last year.

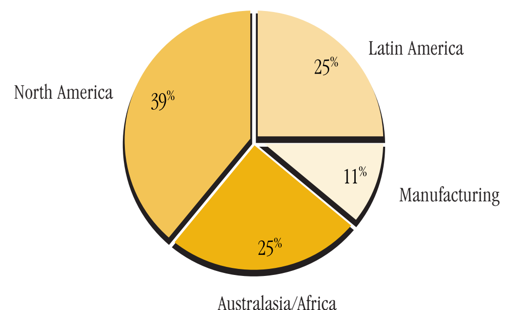
In the past, the Company has been active in several Latin American countries. This year most of the Company's activities were concentrated in Chile, and to a lesser extent, Argentina. In Chile, the completion of one large gold-based contract, which positively impacted revenues last year, and the termination or suspension of several other contracts due to low zinc and copper prices, had a negative impact on revenues and gross margins. In response to the reduction in drilling activity, the Chilean operation was restructured to reduce administrative staff and its dependence on expatriate drillers in order to improve its cost competitiveness. As a result of the financial crisis in Argentina, Argentine operations were scaled back to the minimum level required to support existing contracts.

Despite low levels of activity in recent years, the Company has maintained its presence in other countries in Latin America with excellent mining potential such as Mexico, Venezuela and the Guyana Shield region. These countries can provide strong operational leverage for the Company as the mining sector recovers and junior exploration companies regain access to capital markets to finance their exploration and drilling programs.

Drilling and Manufacturing Revenue FY02



Drilling and Manufacturing Revenue FY01



Australasia and Africa

Similar to North America, Australia has an established and diverse mining industry, where companies mine substantial quantities of gold, nickel, copper and zinc. Revenues in Australasia and Africa were $35.7 million compared to $32.3 million last year, increasing their share of the Company's drilling revenues to 36.2 per cent from 27.9 per cent in the previous year.

Continental Australia was the only region to show increased sales in the year, reflecting both the acquisition of certain Eastern Australian drilling assets effective September 14, 2001 and the expansion of contracts in that region. This increase in sales was partially offset by reduced sales in both Tanzania and Indonesia, with Indonesian revenues particularly impacted by low copper prices.

Historically, the Australian mining industry has tended to lead the sector in the business cycle and in that context, is a positive indicator for the entire sector.

Manufacturing

Through the UDR manufacturing division, Major Drilling is a leader in the manufacture of specialized combination drill rigs that are capable of both reverse circulation and diamond core drilling. UDR's combination drill rigs allow the driller to start drilling with the faster, less expensive, reverse circulation drilling method and to switch to the more accurate, solid core sample drilling once the target has been reached. Operations in Australia, Africa and Asia currently make extensive use of combination drill rigs. Reverse circulation drilling is gaining acceptance in Latin American markets, an area of significant growth potential for combination rigs.

Revenues from manufacturing, net of inter-company transactions, declined to $10.5 million compared to $14.2 million last year, reflective of the overall slowdown in the industry. UDR has added a line of ancillary safety equipment and expects these products to help increase its sales.

UDR plays an integral role in the Company's program to standardize the drill rig fleet and expand its combination drill rig capabilities.

Environment and Safety

As a mineral exploration drilling service company with operations around the world, Major Drilling acknowledges its responsibility to protect and preserve the environment. Putting its principles into practice along stringent ISO 14001 guidelines is the way the Company does business.

Hiring the best people and protecting their health and safety ensures that they will perform to the best of their abilities and to everyone's (their own, Major Drilling's and our clients') benefit. Many of our customers have reviewed Major Drilling's safety standards as part of their bidding process and the Company is consistently rated as an industry leader.

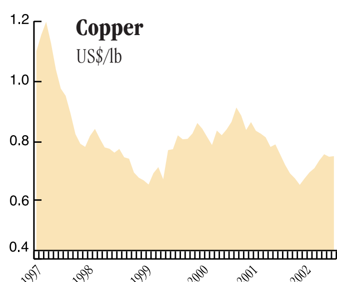
The world is our drill site.

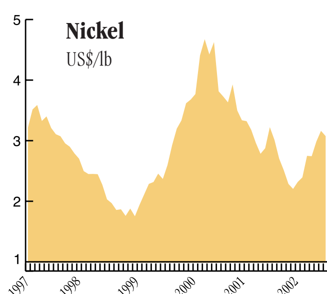
Management's Discussion and Analysis

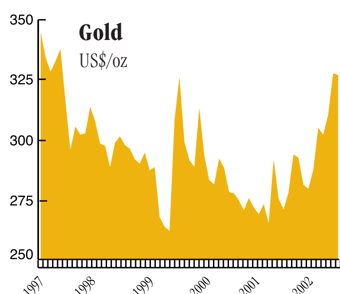
	2002	2001	2000	1999	1998
			(in thousands of Canadian dollars) (as restated)		
Revenues by region					
Canada-U.S.	$ 45,530	$ 51,078	$ 43,491	$ 57,588	$ 59,128
Latin America	17,374	32,289	29,375	23,304	28,546
Australasia and Africa	35,738	32,293	29,588	42,442	36,034
Manufacturing revenues, net of eliminations	10,468	14,233	14,128	17,438	22,833
TOTAL	**109,110**	**129,893**	**116,582**	**140,772**	**146,541**
Gross profit	**24,348**	**36,208**	**30,113**	**36,552**	**45,861**
Gross profits as a percentage of revenues	22.3%	27.9%	25.8%	26.0%	31.3%
General and administrative expenses	**20,312**	**21,721**	**26,421**	**26,251**	**25,327**
(Loss) earnings from continuing operations (before write down of investment and goodwill)	**(7,611)**	**1,483**	**(6,077)**	**(302)**	**8,466**
Write down of investment and goodwill	**2,468**	**6,928**	**-**	**-**	**-**
Net recovery (loss) from discontinued operations	**141**	**(3,823)**	**5,883**	**(13,861)**	**465**
Net (loss) profit	**(9,938)**	**(9,268)**	**(194)**	**(14,163)**	**8,931**
EBITDA from continuing operations (before write down of investment and goodwill)	**2,555**	**13,625**	**3,767**	**8,343**	**22,481**

Overview

Fiscal 2002 marked a low point in the metals and minerals sector in the face of a weakening global economy and an uncertain economic outlook. Prices for base metals, which typically represent about 45 per cent of the Company's drilling revenues, declined to 15-year lows in November 2001. Base metal prices, while still not strong, partially recovered, and by April 30, 2002 were up some 60 per cent and 20 per cent for nickel and copper respectively. Base metal prices are expected to further strengthen as the global economy improves. In addition, the price of gold, which in the past has represented about 50 per cent of the Company's revenues from drilling, has recently moved up from the depressed levels of the past several years through the important US$300 per ounce benchmark on a sustained basis.







The difficult business environment that existed, particularly in the first half of the fiscal year, led many mining companies to further scale back their exploration and drilling activities from already low levels. A number of clients, facing very weak commodity prices, suspended drilling projects in October/November and had not fully resumed their prior level of activity by the end of FY02. While the mining sector now appears to be in the early stages of a significant recovery, the drilling industry tends to lag the general sector by several months as mining company budgets are revisited and new equity capital raised by the sector works its way into drilling budgets.

While the outlook for the sector and the Company is now more positive than it has been for the past several years, the financial performance of the Company during the year was severely impacted by events in the first half of the fiscal year. With reduced overall levels of drilling activity, both revenues and margins were under significant competitive pressure during the year. Revenues contracted to $109.1 million in FY02, down some 16 per cent from $129.9 million in FY01, and gross margin percentage decreased to 22.3 per cent from 27.9 per cent. The net loss from continuing operations before goodwill charges for FY02 was $7.8 million or $0.71 per share compared to a net loss of $5.4 million or $0.50 per share in FY01. The net loss for FY02 was $9.9 million or $0.91 per share compared to a net loss of $9.3 million or $0.84 per share in FY01. EBITDA from continuing operations, before write down of investment and goodwill charges, was $2.6 million or $0.23 per share in FY02 compared to $13.6 million, or $1.24 per share in FY01.

In the face of these very difficult markets, the Company:

- *Reinforced its program of cash management, reducing its net capital expenditures to $3.7 million from $8.9 million in FY01, reducing inventory by $3.8 million to $29.2 million, and generating cash proceeds of $1.6 million from the sale and lease back of several office/shop facilities;*
- *Continued to control and reduce costs and corporate infrastructure, reducing general and administrative costs a further $1.4 million to $20.3 million from $21.7 million in FY01 and $26.4 million in FY00;*
- *Raised net proceeds of $14.6 million through the issue of 5 million common shares by way of private placement to strengthen its balance sheet and position itself to fully participate in the recovery of the sector.*

The five-year summary presented on the previous page does not include results from discontinued operations and relates only to continuing operations. Prior period information has been adjusted for comparative purposes.

Revenues

Revenues for FY02 were $109.1 million, down from $129.9 million last year. Drilling revenues declined some 15 per cent to $98.6 million from $115.7 million in FY01. Revenues from manufacturing, net of inter-company transactions, declined to $10.5 million compared to $14.2 million last year.

Definition and development contract drilling services at or around operating mines represented about 65 per cent of drilling revenues compared to 61 per cent last year. Many mines cut back their exploration budgets in response to weak demand. Therefore, revenues from exploratory drilling decreased to 30 per cent, from 34 per cent in FY01. Construction and geotechnical drilling contracts provided approximately 5 per cent of drilling revenues in both FY01 and FY02.

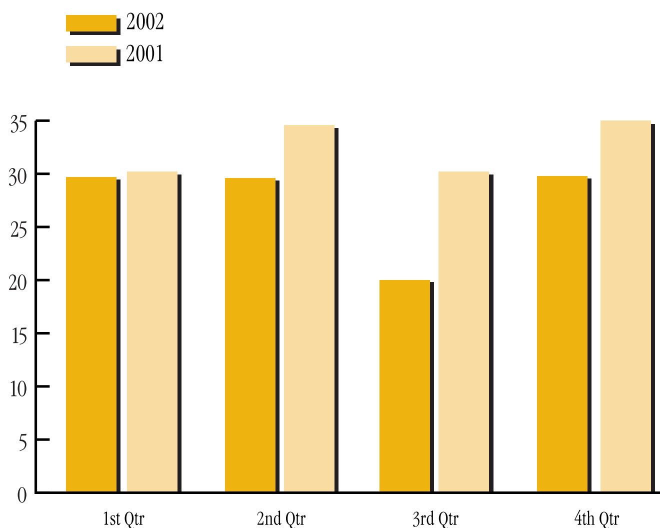
Canada-U.S. drilling revenues declined to $45.5 million compared to $51.1 million last year. This decline was due to general market conditions and historically low base metal prices. The proportion of revenues from exploratory drilling decreased to about 37 per cent of drilling revenues in the region compared to 39 per cent last year. Drilling around operating mines (development and definition drilling) increased to 53 per cent of revenues in the region, compared to 49 per cent last year. Drilling related to construction and geotechnical activity accounted for 10 per cent of revenues in the region compared to 12 per cent in FY01.

Latin American revenues suffered a more significant decline to $17.4 million from $32.3 million in the prior year as a result of the completion of one large gold-based contract, which positively impacted revenues in FY01, and the termination or suspension of several contracts due to low zinc and copper prices during FY02. Exploratory drilling represented about 14 per cent of revenues in the region in FY02 compared to 6 per cent in FY01, and development and definition drilling represented 86 per cent of revenues in FY02 compared to 94 per cent in FY01.

Revenues from drilling in Australasia and Africa increased 11 per cent to $35.7 million from $32.3 million in fiscal 2001 as a result of both the acquisition of certain drilling assets in mid-September 2001 and a generally more positive market in continental Australia, which more than offset reductions in revenues in Africa and Indonesia. Exploratory drilling represented about 31 per cent of revenues for the year compared to 18 per cent last year. Drilling at operating mines provided 69 per cent of revenues in the region compared to 82 per cent in FY01.

Major Drilling's operations exhibit a seasonal pattern that reflects the current geographic distribution of its operations. Although this seasonality was somewhat overwhelmed this year by the deep downturn in the sector in the latter half of the fiscal year, typically, the Company's fourth quarter (February to April) is its strongest. Activity increases in Northern and Central Canada where winter roads permit access to remote exploration sites. During this same period of time, South America is in the summer season, which provides the best drilling conditions and the greatest activity levels for high altitude drilling in that region. The third quarter (November to January) is normally Major Drilling's weakest quarter due to the shutdown of mining and exploration activities for extended periods over the holiday season, particularly in Latin America.

Quarterly Sales ($ millions)



Gross Profit

The Company's gross profit was $24.3 million for FY02, down 33 per cent from $36.2 million last year. This decrease resulted from lower revenue levels, compounded by weak gross margin percentages. Gross margins expressed as a percentage of sales were 22.3 per cent in FY02 compared to 27.9 per cent in FY01. Gross margin percentages for manufacturing were down to 23.4 per cent in FY02 from 26.8 per cent last year, reflecting the general downturn in the industry.

Gross profit percentage for drilling was down to 20.8 per cent in FY02 from 25.8 per cent in FY01. North American drilling gross profit percentage decreased, reflecting intensified competitive pressures, particularly in and around established mining centres. In Latin America, the decline in drilling activity had a significant negative impact on gross margins. Australasian and African gross profit remained relatively stable year over year.

Generally, higher margins are available where more challenging drilling requirements, such as deep-hole surface or underground drilling, directional drilling, or mobilizations to remote or difficult locations create significant barriers to entry for small, local contract drilling operations. These types of specialized drilling services represented 66 per cent of Major Drilling's metals and minerals drilling revenues in FY02, up slightly from 65 per cent last year. Underground drilling contracts are typically longer term because of the cost and logistical difficulties of replacing drilling equipment in an underground environment, but also attract lower margins than specialized services. Underground drilling contracts represented about 25 per cent of drilling revenues in FY02 compared to 20 per cent in FY01.

Standard surface drilling in and around established mining camps is highly competitive since there are few barriers to entry for small, local contract drillers. This type of drilling decreased to about 9 per cent of drilling revenues in FY02 compared to 15 per cent in FY01.

As part of its longer term, strategic direction, Major Drilling is focusing its development efforts primarily on the specialized services sector as one of the Company's objectives is to dominate these specialized drilling markets.

Operations

During the year, the Company continued to rationalize operations in both its contract drilling and manufacturing divisions in response to changing market conditions and mining companies' shifting focus on different geographic regions.

In the contract drilling division, operations were scaled down in Tanzania, a region that had been active in recent years, but experienced reduced levels of activity in FY02. In Chile, the operation was restructured to increase the participation of Chilean drillers and improve our cost competitiveness. As a result of the financial crisis in Argentina, operations there were scaled back to the minimum level required to support existing contracts. The Company took a charge of $1.3 million related to restructuring of Argentine operations and the write off of tax-affected Argentine losses. In Western Canada, the Smithers, B.C. office was closed and administrative functions were consolidated in Winnipeg. In Eastern Australia, administrative offices were centralized in Brisbane, with the closure of the Dubbo office.

General and Administrative

General and administrative expenses were reduced by $1.4 million to $20.3 million in FY02 from $21.7 million in FY01. As part of Major Drilling's ongoing focus on cost reduction, the head office function was scaled back and the Company continued to rationalize regional infrastructures, consolidating operations in Western Canada and Eastern Australia, reducing the size of offices in Chile and Tanzania, and scaling back operations in Argentina.

Other expenses

Other expenses increased $0.6 million in FY02 compared to the prior year, primarily due to restructuring costs incurred in Canada and Australia.

Write down of Investment

In FY01, following a strategic review of the Company's investment in Ausdrill, management concluded that integration of Ausdrill's operations was unlikely. Consequently, the carrying value of Major Drilling's investment in Ausdrill was restated to its estimated net realizable value of $1.7 million. This resulted in a non-cash charge to operations of $6.9 million in FY01.

Income Taxes

Income tax expense for the year was nil, compared to a tax expense of $1.7 million in FY01, reflecting the year-over-year decrease in pre-tax income from continuing operations, partially offset by non-tax affected losses.

Write down of Goodwill

The Company incurred a one-time loss of $2.3 million in FY02 for the write down of goodwill associated with the acquisitions of J.T. Thomas and UDR Group Limited. The Company assessed the recoverability of the carrying value of goodwill associated with these acquisitions in light of the downturn experienced in the sector and the restructuring of its Canadian operations.

Liquidity and Capital Resources

The Company's ongoing requirements for cash consist principally of amounts required for working capital, to finance capital expenditures and to fund debt service requirements. Cash flow from continuing operations for fiscal 2002 was $2.8 million compared to $11.0 million last year. The Company issued 5 million common shares in April 2002 by way of private placement to raise net proceeds of $14.6 million to partially pay down long-term debt and free up the Company's operating lines. In addition, the Company sold and leased back its Winnipeg office and shop facilities. A sale and lease back of US-based facilities was also completed in June 2002. These sale/lease back transactions will provide total proceeds of $4.2 million.

Working Capital

Working capital requirements are determined primarily by drilling activity levels, and the resulting levels and rates of turnover of accounts receivable and inventories. With the highest level of sales typically in the fourth quarter, accounts receivable normally peak at year-end. Accounts receivable were $23.4 million at April 30, 2002, about the same level as at the prior year-end. Inventories have been reduced to $29.2 million from the prior year-end level of $33.0 million. Working capital was $30.5 million at April 30, 2002 compared to $29.4 million at April 30, 2001.

Capital Expenditures

Although contract drilling is not considered capital intensive, there is an ongoing requirement to refurbish and replace drill rigs and related equipment. With the current softness in the marketplace, management continues to closely monitor and control capital expenditures. Net capital expenditures (capital expenditures net of proceeds on sale of capital assets) were $3.7 million for the year compared to $8.9 million for the same period last year.

Credit Facilities

A Canadian chartered bank has made available three credit facilities to the Company. The maximum amount available under these facilities is $34.9 million and is available subject to the Company meeting certain covenants relating primarily to its financial position.

The first facility is a $16.0 million operating line secured by the Company's trade accounts receivable and inventories. At April 30, 2002, the Company had utilized $7.4 million of this line compared to $10.5 million at April 30, 2001.

The second facility is a $2.1 million non-revolving term line for equipment acquisition in Canada. At April 30, 2002, this equipment line was fully drawn. This facility is amortized over a five-year period, commencing in FY03.

The third facility is a $16.8 million non-revolving term line established to assist in the acquisitions of similar businesses. At April 30, 2002, this line was fully drawn. Of this facility, $7.8 million will be amortized over a four-year period, commencing in FY03. The $9 million balance of this facility will be amortized over a five-year period, commencing in fiscal year 2004.

In addition, Major Drilling's Australian operations have total operating lines of $1.7 million with $1.3 million drawn at April 30, 2002.

Risks and Uncertainties

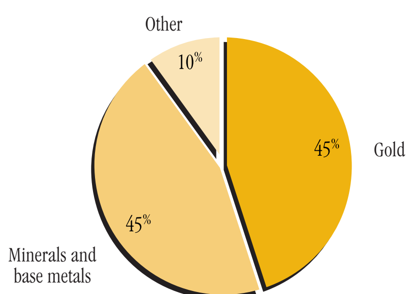
The most significant operating risk affecting the Company is the downturn in demand for its services due to decreased activity in the metals and minerals industry. Industry sources indicate that calendar 2001 marked the fourth consecutive year of declining exploration and development budgets for non-ferrous metals in the mining industry. This downward trend extended into 2002.

To mitigate the risks involved in the market down cycle, the Company is continuing to exploit its competitive advantage in specialized drilling and aggressively rationalizing its regional infrastructures and standardizing its fleet over the next several years, which will provide significant savings in repair, maintenance and inventory costs.

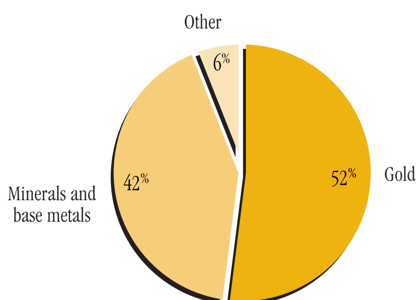
A substantial portion of the Company's business is conducted in foreign markets. The Company reduces its exposure to foreign exchange risks associated with the currencies of developing countries through a policy of contracting in US dollars where legally permitted. In addition, in Australia and several countries in Latin America, the operations are self-sustaining operations, which minimizes the accounting impact of foreign currency exposure.

From time to time, a significant portion of the Company's overall revenues and net income may be dependent on a few key contracts. There can be no guarantee that, upon the expiration or termination of a key contract, the Company will obtain sufficient replacement contracts to maintain the existing revenue and income levels. The Company does provide specialized drilling services that can be difficult to replace. In addition, the Company continues to work to expand its client base and geographic field of operations to mitigate its exposure to any single client, commodity or mining region.

Revenue by Commodity FY02



Revenue by Commodity FY01



Outlook

Major Drilling's performance is strongly tied to the financial performance of the metals and minerals sector. Looking forward, the outlook for the mining sector has improved significantly over the past several months. Base metal prices have recovered from their November 2001 lows with copper prices up 20 per cent and nickel prices up 60 per cent at April 2002, and while pricing is still low, it is expected to continue to strengthen as the global economy improves. More importantly, gold prices, while continuing to be volatile, have trended up over the past year and since April have pushed through the US$300 per ounce benchmark on a sustained basis. As a consequence of the improved pricing regime for base and precious metals, equity capital has begun to flow back into the sector. Canadian financings for junior and mid-tier mining companies have more than doubled in the first five months of 2002 compared to all of last year. As this capital is put to work in increased exploration and drilling activity, it is expected that both revenue and margin performance will improve through the second half of calendar 2002.

This discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with its consolidated financial statements and accompanying notes from fiscal 2002 and 2001.

This annual report may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By their nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management's Discussion and Analysis and as discussed in public disclosure documents filed with Canadian regulatory authorities.

Major Drilling disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Responsibility

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected, Canadian generally accepted accounting principles and policies, consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to May 31, 2002. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

The consolidated financial statements have been examined by Deloitte & Touche LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the appointment of the external auditors. The external auditors have full and free access to the Audit Committee.

Francis P. McGuire
President and Chief Executive Officer

Michael A. Pavey
Chief Financial Officer

May 31, 2002

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, 2002 and 2001 and the consolidated statements of operations and (deficit) retained earnings and of cash flows 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 financial statements based on our audits.

We conducted our audits in accordance with Canadian 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 misstatements. 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants
Halifax, Nova Scotia

May 31, 2002

Consolidated Statements of Operations and (Deficit) Retained Earnings

Years ended April 30, 2002 and 2001

(in thousands of Canadian dollars, except per share information)

	2002	2001
TOTAL REVENUE	**$ 109,110**	$ 129,893
DIRECT COSTS	**84,762**	93,685
GROSS PROFIT	**24,348**	36,208
OPERATING EXPENSES		
General and administrative	**20,312**	21,721
Other expenses	**1,481**	862
Interest	**2,992**	3,433
Amortization	**7,155**	7,005
	31,940	33,021
OPERATING (LOSS) INCOME	**(7,592)**	3,187
WRITE DOWN OF INVESTMENT	**218**	6,928
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND GOODWILL CHARGES	**(7,810)**	(3,741)
INCOME TAXES - PROVISION (RECOVERY) (note 15)		
Current	**1,262**	1,877
Future	**(1,243)**	(173)
	19	1,704
LOSS FROM CONTINUING OPERATIONS BEFORE GOODWILL CHARGES	**(7,829)**	(5,445)
WRITE DOWN OF GOODWILL (note 6)	**(2,250)**	-
RECOVERY (LOSS) FROM DISCONTINUED OPERATIONS (note 11)	**141**	(3,823)
NET LOSS	**(9,938)**	(9,268)
RETAINED EARNINGS, BEGINNING OF THE YEAR	**8,170**	17,438
(DEFICIT) RETAINED EARNINGS, END OF THE YEAR	**$ (1,768)**	$ 8,170
EARNINGS (LOSS) PER SHARE (basic and diluted) (note 16)		
Loss from continuing operations before goodwill charges	**$ (0.71)**	$ (0.50)
Recovery (loss) from discontinued operations	**$ 0.01**	$ (0.34)
Net loss	**$ (0.91)**	$ (0.84)

Consolidated Balance Sheets

As at April 30, 2002 and 2001
(in thousands of Canadian dollars)

	2002	2001
ASSETS		
CURRENT ASSETS		
Cash	**$ 2,498**	$ 2,538
Marketable securities	**1,028**	1,057
Accounts receivable	**23,434**	23,024
Income taxes recoverable	**460**	1,460
Inventories	**29,218**	32,973
Prepaid expenses	**1,480**	1,930
	58,118	62,982
CAPITAL ASSETS (note 4)	**76,332**	74,983
LONG-TERM INVESTMENTS (note 5)	**-**	1,859
FUTURE INCOME TAX ASSETS (note 15)	**3,703**	2,072
GOODWILL AND OTHER (note 6)	**303**	4,137
	$ 138,456	$ 146,033
LIABILITIES		
CURRENT LIABILITIES		
Demand loans (note 7)	**$ 8,689**	$ 11,615
Accounts payable and accrued charges	**15,826**	16,534
Current portion of long-term debt (note 8)	**3,054**	5,425
	27,569	33,574
LONG-TERM DEBT (note 8)	**18,624**	27,974
NOTE PAYABLE (note 3)	**748**	-
	46,941	61,548
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**97,724**	82,780
Contributed surplus	**1,388**	1,388
(Deficit) retained earnings	**(1,768)**	8,170
Cumulative translation adjustments	**(5,829)**	(7,853)
	91,515	84,485
	$ 138,456	$ 146,033

Contingencies and commitments (notes 12 and 13)

APPROVED BY THE BOARD OF DIRECTORS

Ronald J. Goguen
Director

H. Lawrence Doane
Director

Consolidated Statements of Cash Flows

Years ended April 30, 2002 and 2001
(in thousands of Canadian dollars)

	2002	2001
OPERATING ACTIVITIES		
Loss from continuing operations before goodwill charges	**$ (7,829)**	$ (5,445)
Operating items not involving cash		
Amortization	**7,155**	7,005
(Gain) loss on disposal of assets	**(116)**	97
Write down of investment	**218**	6,928
Future income taxes	**(1,243)**	(173)
	(1,815)	8,412
Changes in non-cash operating working capital items (note 10)	**4,630**	2,602
Cash flow from continuing operations	**2,815**	11,014
Recovery (loss) from discontinued operations	**141**	(3,823)
Discontinued items not involving cash	**454**	1,026
Cash flow from operating activities	**3,410**	8,217
FINANCING ACTIVITIES		
Additional long-term financing	**-**	1,370
Repayment of long-term debt	**(14,808)**	(2,678)
Repayment of demand loans	**(2,926)**	(1,382)
Issuance of common shares	**14,574**	-
Repurchase of common shares	**-**	(221)
Cash flow used in financing activities	**(3,160)**	(2,911)
INVESTING ACTIVITIES		
Business acquisition (note 3)	**(249)**	-
Acquisition of long-term investments	**-**	(1,133)
Acquisition of capital assets	**(4,980)**	(10,791)
Proceeds from disposal of capital assets	**4,128**	3,440
Other - repayment of loan receivable	**1,214**	-
Cash flow from (used in) investing activities	**113**	(8,484)
OTHER ACTIVITIES		
Foreign exchange translation adjustment	**(403)**	(197)
DECREASE IN CASH	**(40)**	(3,375)
CASH POSITION, BEGINNING OF THE YEAR	**2,538**	5,913
CASH POSITION, END OF THE YEAR	**$ 2,498**	$ 2,538

Years ended April 30, 2002 and 2001
(in thousands of Canadian dollars, except per share information)

1. NATURE OF ACTIVITIES

The Company is incorporated under the Canada Business Corporations Act. The principal sources of revenue consist of contract drilling for companies involved in mining and mineral exploration and the manufacturing and distribution of operating supplies and drill rigs. The Company has operations in Canada, the United States, Mexico, South America, Australia, Europe, Asia and Africa.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation
The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its subsidiaries. Certain subsidiaries have been accounted for as discontinued operations (note 11).

Measurement uncertainty
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

Revenue recognition
Revenues from drilling contracts are recognized on the basis of actual footage drilled for each contract. Revenues for manufacturing under contract are recognized on a percentage of completion basis. Other revenues from manufacturing and distribution are recognized as the goods are shipped. Revenues from ancillary services are recorded when the services are rendered.

Earnings (loss) per share
Earnings (loss) per share are calculated using the weighted daily average number of shares outstanding during the year.

Effective May 1, 2001, the Company adopted the new Canadian GAAP standard for calculating earnings per share as recommended by the Canadian Institute of Chartered Accountants. Among other things, the new standard requires use of the treasury stock method for computing diluted earnings per share, which assumes that any proceeds obtained upon exercise of options would be used to purchase common shares at the average market price during the period. The adoption of this method did not have a material impact on the historical earnings per share.

Marketable securities
Marketable securities are valued at the lower of cost and fair market value.

Inventories
The Company maintains an inventory of operating supplies, drill rods, drill bits, raw materials for manufacturing, and work in progress. Inventories are valued at the lower of cost and replacement cost, primarily using FIFO. Used inventory items are not valued, except for drill rods, which are valued at 50% of cost, if still considered usable.

Capital assets
Capital assets are stated at cost. Amortization, 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 amortized on the straight-line method:

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

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

Long-term investments
Long-term investments are accounted for using the cost method and are written down to reflect any non-temporary impairment in values.

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 cash flows with the carrying value of goodwill.

Future income taxes
The Company follows the liability method for corporate income taxes. This method takes a balance sheet approach and focuses on the amount of income taxes payable or receivable that will arise if an asset is realized or a liability is settled for its carrying amount. These resulting assets and liabilities, referred to as "future income tax assets and liabilities", are computed based on differences between the carrying amount of balance sheet items and their corresponding tax values using the enacted, or substantively enacted income tax rate in effect at the balance sheet date. The Company's primary differences arise between capital cost allowance claimed and amortization charged, and the tax benefit of non-capital losses carried forward.

Translation of foreign currencies

All amounts are presented in Canadian dollars. The Company has operations in the United States, Mexico, Venezuela, Chile, Australia and Indonesia, 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 operations 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' equity. The change in the amount during each year primarily reflects the relative strength of the Australian dollar against the Canadian dollar and the change in the net investment in Australia.

Tanzania and all other 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, other than depreciation, 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 operations.

Stock-based compensation

The Company has a stock option plan (the Plan) described in note 9. No compensation expense is recognized in respect of this plan when stock options are issued to employees or directors as the exercise price for an option issued under the Plan is the fair market value of the common share on the grant date of the option. Any consideration paid by employees or directors on exercise of stock options is credited to share capital.

2001 figures

Certain of the 2001 figures have been reclassified to conform with the 2002 presentation.

3. BUSINESS ACQUISITION

Effective September 14, 2001, the Company acquired the exploration drilling assets of the Queensland, Australia and New Zealand operations of Ausdrill Limited (Ausdrill). These assets include drilling equipment of $3,257 and inventory of $986.

Total consideration for the acquisition was $4.2 million as follows. All common and converting preference shares in Ausdrill that were owned by the Company subsidiaries were surrendered by way of an Ausdrill share re-purchase, at the Company's carrying value of approximately $1.6 million. Equipment leases and bank loans in the amount of $1.0 million relating to the purchased assets were assumed by the Company. The Company will pay Ausdrill approximately $1.4 million in 48 equal monthly payments without interest. Finally, a cash consideration of $0.2 million was paid. The results of operations were consolidated from September 14, 2001.

4. CAPITAL ASSETS

			2002			2001
	Cost	**Accumulated amortization**	**Net value**	Cost	Accumulated amortization	Net value
Land	**$ 1,756**	**$ -**	**$ 1,756**	$ 1,673	$ -	$ 1,673
Buildings	**7,130**	**958**	**6,172**	8,246	847	7,399
Drilling equipment	**76,987**	**23,253**	**53,734**	72,088	21,681	50,407
Automotive and off-road equipment	**17,094**	**8,983**	**8,111**	17,030	8,771	8,259
Other	**13,273**	**6,714**	**6,559**	12,994	5,749	7,245
	$ 116,240	**$ 39,908**	**$ 76,332**	$ 112,031	$ 37,048	$ 74,983

5. LONG-TERM INVESTMENTS

	2002	2001
Ausdrill Limited (note 3)	**$ -**	$ 1,651
Other	**-**	208
	$ -	$ 1,859

6. GOODWILL AND OTHER

During the year ended April 30, 2002, the Company assessed the recoverability of the carrying value of goodwill associated with its acquisition of J.T. Thomas and UDR Group Limited and determined there was a permanent impairment to the asset resulting in a write down of $2,250 after $83 of amortization had been charged to operations for the year. Determination and measurement of the impairment was made in light of the downturn experienced in the sector and the restructuring of the operations. The remaining balance of $182 relates to net research and development costs, patents and trademarks.

In fiscal 1999, the Company made a loan to a company controlled by the former President and Chief Executive Officer of which $121 (2001 - $1,620) including interest was outstanding at April 30, 2002 and will be repaid in the coming fiscal year. The loan bears interest at 1.5% over the prime rate. In April 2002, the Company purchased land and a building for $285 from a company controlled by the former President, financed by assuming a mortgage on the building of $41, and the remaining balance being applied to the loan. The Company had previously rented this building. During the year, the Company received a cash payment of $1,181 and consulting services valued at $125, which were applied against this loan. These transactions were recorded at their exchange amount, which was estimated to approximate market value.

7. DEMAND CREDIT FACILITIES

The Company has credit facilities available in Canada of $16,000 bearing interest at the bank's prime lending rate plus 0.75% or the bankers' acceptance rate plus 1.875%. The demand loans are primarily secured by fixed and floating charges on selected Canadian capital assets, a general assignment of book debts, inventories and corporate guarantees of companies within the group.

The company also has credit facilities in Australia amounting to $1,730 (2001 - $2,078) bearing interest at rates ranging from 6.70% to 9.85% secured by Australian accounts receivable, and selected land and buildings in Australia.

8. LONG-TERM DEBT

	2002	2001
Non-revolving acquisition loan of which $7,750 is due in quarterly installments of $484 through 2006, and $9,000 is due in quarterly installments of $450 commencing February 1, 2004 through 2009, bearing interest at the lower of the bank's prime rate plus 2.25% or the bankers' acceptance rate plus 3.875%.	**$ 16,750**	$ 28,000
Term loans, bearing interest at rates ranging from 1.3% to 9.0%, payable in monthly installments of $42 maturing through 2013, secured by certain capital assets.	**2,754**	2,759
Term loans - US$115 (2001 - US$347), bearing interest at rates ranging from 9.29% to 11.40%, payable in monthly installments of US$3, secured by certain equipment, maturing through 2007.	**180**	535
Term loan - (2001 - US$235), payable in monthly installments of US$7 including principal and interest at US prime plus 1%, secured by deeds of trust and security agreements, repaid during the year.	**-**	362
Term loans - A$2,363 (2001 – A$2,221), payable in monthly installments of A$64, interest included, at rates ranging from 6.95% to 10.68%, secured by mortgage debentures over land, buildings and other assets, maturing in 2007.	**1,994**	1,743
	21,678	33,399
Current portion	**3,054**	5,425
	$ 18,624	$ 27,974

These loans are secured by various debentures and mortgages, which are based on certain covenants primarily relating to the financial position of the Company. The security for the debentures and mortgages include fixed and floating charges against the assets, assignments of book debts and inventories. The required annual principal repayments on long-term debt are as follows:

2003	$ 3,054
2004	3,556
2005	4,896
2006	4,398
2007	2,293
Thereafter	3,481
	$ 21,678

9. SHARE CAPITAL

Authorized

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

Issued and fully paid

	2002	2001
15,974,873 common shares (2001 - 10,974,873)	**$ 97,724**	$ 82,780

Common shares

On April 30, 2002, the Company issued 5,000,000 common shares by way of private placement at a price of $3.10 per share. The Company received net cash proceeds of $14,574 net of issue costs and underwriters' commissions of $927 (excluding income tax benefit of $370).

During 2001, the Company repurchased 65,200 of its common shares on the open market. The excess of the stated capital of the shares repurchased over the cost of repurchase was credited to contributed surplus ($323).

Stock option plan

On November 21, 1994, the Company established a Stock Option Plan for directors, executive officers and other employees of the Company. The Plan provides that the Board of Directors of the Company, on the recommendation of the Compensation Committee, may grant options to purchase common shares on terms determined within the limitations of the Plan. The aggregate number of common shares reserved for issuance under the Plan is limited to 2,000,000 common shares. The exercise price for an option issued under the Plan is the fair market value of the common shares on the grant date of the option. Options are exercisable for a maximum period of ten years from the date of grant, subject to earlier termination if the optionee ceases to be a director or employee of the Company for any reason. The Plan also provides that no options may be issued to insiders (directors and officers) of the Company if to do so would result in the number of shares reserved for issuance pursuant to stock options granted to insiders exceeding 10% of the outstanding number of common shares. The Board of Directors, on the recommendation of the Compensation Committee, determines vesting requirements.

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. A summary of the status of the Company's stock option plan, as at April 30, 2002 and 2001, and of changes during the years ending on those dates, is presented below:

	2002		2001	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,175,617**	**$ 5.80**	797,417	$ 8.73
Options granted	**741,800**	**$ 3.33**	478,200	$ 3.60
Options cancelled	**(234,450)**	**$ 6.34**	(100,000)	$ 18.75
Outstanding at end of year	**1,682,967**	**$ 4.63**	1,175,617	$ 5.80

The following table summarizes information on stock options outstanding at April 30, 2002:

Range of exercise prices	**Outstanding at April 30, 2002**	**Weighted average remaining life (years)**	**Weighted average exercise price**	**Exercisable at April 30, 2002**	**Weighted average exercise price**
$ 1.86 - $ 4.28	**860,500**	**9.0**	**$ 2.81**	**525,833**	**$ 2.55**
$ 4.78 - $ 7.04	**763,067**	**7.3**	**$ 5.57**	**566,200**	**$ 5.65**
$ 18.65 - $ 26.50	**59,400**	**5.2**	**$ 18.92**	**59,400**	**$ 18.92**
	1,682,967	**8.1**	**$ 4.63**	**1,151,433**	**$ 4.92**

10. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital

	2002	2001
Accounts receivable	**$ 213**	$ 2,934
Inventories	**4,635**	(135)
Accounts payable and accrued charges	**(1,685)**	(1,392)
Income taxes	**994**	601
Other items	**473**	594
	$ 4,630	$ 2,602

Interest and income taxes paid

	2002	2001
Interest paid	**$ 2,927**	$ 3,431
Income taxes paid	**$ 262**	$ 1,323

11. DISCONTINUED OPERATIONS

In January 2001, the Company decided to close down its drilling operations in Central America and Peru due to poor results and business conditions in those countries.

The loss from operations of the discontinued operations amounted to $2,937 prior to measurement date including write down of future tax benefits of $746. Transaction and disposition costs amounted to an additional $1,000. Most assets in these operations were transferred to other subsidiaries. The net loss from discontinued operations of 2001 includes a recovery of $114 of the original provision related to UDR, recorded in 1999.

Revenues for Central American and Peruvian operations were $396 for the fiscal year ended April 30, 2001.

12. CONTINGENCIES

The Minister of Revenue for the Province of Quebec has issued a reassessment for $855, 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 appealed this reassessment and no liability has been recorded in these financial statements as management, based on the advice and information provided by legal counsel, is of the opinion that the Company has a strong defense. A decision from the court is imminent. Until such time as the dispute is settled, the Minister of Revenue is withholding a $500 tax refund, which has been accrued.

The Company is involved in various legal 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, results of operations, or cash flows. Any amounts awarded as a result of these actions will be reflected in the year settled.

13. COMMITMENTS

The Company has various commitments, primarily for rental of premises, with arms-length parties as follows: 2003 - $933, 2004 - $599, 2005 - $286, 2006 - $102, 2007 - $95.

On March 19, 2002, the Company accepted an offer to purchase one of its buildings as part of a sale/lease back arrangement. This transaction is expected to close in June 2002. The net proceeds on sale were $2.6 million, resulting in a gain on sale of $1.1 million, which will be deferred and amortized over the length of the lease.

14. RELATED PARTY TRANSACTIONS

During the year, the Company carried out a number of transactions with related parties in the normal course of business and these transactions were recorded at their exchange amount, which was estimated to approximate market value. These transactions were for legal and consulting services in the amount of $224 (2001 - $170).

15. INCOME TAXES

Income taxes vary from the amount that would be determined by applying the combined statutory Canadian corporate income tax rate to losses from continuing operations before income taxes and goodwill charges, with details as follows:

	2002	2001
Loss from continuing operations before income taxes and goodwill charges	$ (7,810)	$ (3,741)
Statutory Canadian corporate income tax rate	37%	44%
Expected income tax recoveries based on statutory rates	$ (2,890)	$ (1,646)
Non-recognition of tax benefits related to losses	4,138	1,570
Non-recognition of tax benefits related to write down of investments	-	3,048
Lower effective foreign tax rates and other	(1,229)	(1,268)
Total income tax provision	$ 19	$ 1,704

Significant components of the Company's future income tax assets and liabilities are as follows:

	2002	2001
Loss carry forwards tax affected	$ 6,532	$ 6,004
Carrying value of assets in excess of their tax value	(2,829)	(3,932)
Net future income tax assets	$ 3,703	$ 2,072

16. EARNINGS (LOSS) PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding of 10,974,873 for 2002 and 10,994,750 for 2001.

Diluted earnings per share figures for 2002 and 2001 exclude the impact of stock options because they are anti-dilutive.

17. FINANCIAL INSTRUMENTS

Recognized financial instruments

The carrying values of cash, marketable securities, accounts receivable, demand loans 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 its 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 provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. The Company also minimizes its credit risk by dealing with a large number of customers in various countries. In 2001, the Company had one customer, which represented greater than 10% of its revenues. Demand for the Company's drilling services depends upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold and copper.

Currency risk

A significant portion of the Company's operations are located outside of Canada. In several countries, foreign currency exposure is minimized by operating as a self-sustaining operation. In certain developing countries, the Company mitigates its risk of large foreign currency fluctuations by conducting business primarily in US dollars. Monetary assets denominated in foreign currencies are exposed to foreign currency fluctuations.

Interest rate risk

The long-term debt of the Company generally bears a floating rate of interest, which exposes the Company to interest rate fluctuations. The Company has partially mitigated this risk through utilization of a $9,000 interest rate swap fixed at 6.43%, which matures in 2004.

18. SEGMENTED INFORMATION

The Company has two reportable business segments, drilling and manufacturing. The Company's drilling operations are divided into three geographic segments. The reportable geographic segments are Canada - U.S., Latin America, Australasia and Africa. The services provided in each of the reportable drilling segments are essentially the same. The accounting policies of the segments are the same as those described in note 2. Management evaluates performance based on profit or loss from operations in these four segments before interest and income taxes. Presented below is data relating to each of the Company's reportable segments.

	2002	2001
Revenues - drilling		
Canada - U.S.	**$ 45,530**	$ 51,078
Latin America	**17,374**	32,289
Australasia and Africa	**35,738**	32,293
	98,642	115,660
Revenues - manufacturing	**17,538**	26,323
	116,180	141,983
Eliminations	**(7,070)**	(12,090)
	$ 109,110	$ 129,893
(Loss) earnings from operations - drilling		
Canada - U.S.	**$ (550)**	$ 3,753
Latin America	**(3,092)**	490
Australasia and Africa	**3,675**	4,838
(Loss) earnings from operations - manufacturing	**(669)**	1,695
	(636)	10,776
Eliminations	**1,310**	100
	674	10,876
Interest expense, net	**2,992**	3,433
General corporate expenses	**5,274**	4,256
Write down of investment	**218**	6,928
Income taxes	**19**	1,704
Loss from continuing operations before goodwill charges	**$ (7,829)**	$ (5,445)
Identifiable assets - drilling		
Canada - U.S.	**$ 36,032**	$ 39,752
Latin America	**38,334**	40,404
Australasia and Africa	**37,373**	32,459
Identifiable assets - manufacturing	**16,539**	18,791
	128,278	131,406
Eliminations	**(2,806)**	(3,210)
Unallocated and corporate assets	**12,984**	17,837
	$ 138,456	$ 146,033
Amortization – drilling		
Canada - U.S.	**$ 2,108**	$ 2,395
Latin America	**1,410**	2,038
Australasia and Africa	**2,275**	1,766
Amortization - manufacturing	**548**	469
	6,341	6,668
Unallocated and corporate assets	**814**	337
	$ 7,155	$ 7,005

Canada - U.S. and manufacturing amounts include revenues in 2002 of $43,874 (2001 - $58,084) for Canadian operations and capital assets at April 30, 2002 of $27,718 (2001 - $30,068 and $1,743 in goodwill).

Latin American amounts include drilling revenues in 2002 of $10,499 (2001 - $24,816) for Chilean operations and capital assets as at April 30, 2002 of $5,486 (2001 - $5,121).

Australasian and African amounts include drilling revenues in 2002 of $22,824 (2001 - $17,489) for Australian operations and capital assets as at April 30, 2002 of $13,166 (2001 - $10,128).

Shareholder Information

DIRECTORS

Frank McKenna

Ronald J. Goguen

John H. Schiavi

John D. Harvey

H. Lawrence Doane

David B. Tennant

David A. Fennell

Harry R. Steele

Jonathan Goodman

Francis P. McGuire

OFFICERS

Francis P. McGuire
President and Chief Executive Officer

Robert H. Morgan
Vice-President of Operations

Michael A. Pavey
Chief Financial Officer

James A. Gibson
General Counsel and Secretary

TRANSFER AGENT

CIBC Mellon Trust Company

AUDITORS

Deloitte & Touche LLP

CORPORATE OFFICE

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ANNUAL GENERAL MEETING

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

Delta Beauséjour
Shediac C
750 Main Street
Moncton, New Brunswick

September 10, 2002 at 11:30 a.m.

MAJOR
Drilling Group International Inc.

MAJOR
Drilling Group International Inc.

WORLDWIDE OPERATIONS OF MAJOR DRILLING GROUP INTERNATIONAL INC.

NORTH AMERICAN DRILLING OPERATIONS

Groupe Forage Major Drilling Group International Inc.

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Flin Flon, MB
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Portugal

Turkey

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