President's Report to Shareholders – First Quarter 2009

For the first quarter of fiscal 2009 the Company recorded net earnings from continuing operations of $26.3 million, or $1.11 per share, compared to $18.8 million, or $0.80 per share for the first quarter of fiscal 2008. These record earnings represent an increase of nearly 40% compared to last year. Total revenue for the quarter was a record $178.2 million, up $34.8 million, or 24.3%, from the $143.4 million recorded last year. All regions contributed to the growth.

Margins for the quarter were also strong, at 35.5% compared to 33.2% last year, despite continuing pressure on labour costs and African margins lagging behind other regions. Investment in training, crucial to our ongoing growth, continued to weigh on margin growth. Availability of crews, especially in Canada, the U.S. and Australia remains our number one challenge.

The fundamental long-term drivers of our business remain unchanged. Experts are forecasting supply for most metals to tighten in the medium to long-term due to the lack of significant discoveries over the last few years. Continued growth throughout Asia, eastern Europe and Africa, and the reconstruction efforts after the earthquake in China, which is expected to cost $147 billion, should continue to drive demand.

In the short-term, we expect to see some changes in the pattern of drilling demand. Senior mining companies, which represent some 70 percent of our business, are in the process of expanding their drilling programs. We would also expect them to increase their investments in joint ventures with junior mining companies. Over the last month, we have seen a small number of junior mining companies reduce their drilling programs due to a lack of funding, but these have been limited. Gold, copper and uranium customers are expected to continue to expand their drilling programs. These commodities combined with our energy drilling currently account for some 80 percent of our revenue.

Despite recent market volatility, the Company continues to invest in its capital expenditure program. This quarter, we spent $19 million to ensure continued growth. Through these investments, we added 30 rigs during the quarter. We are maintaining our capital expenditure plans which should increase our fleet by a net 65 drills (after the retirement of several older, under-utilized rigs).

As announced on August 1st, 2008, immediately subsequent to quarter end we acquired Quebec based Forage Benoit Drilling. This acquisition provides us with additional assets, experienced drillers and existing contracts. Through this purchase, we acquired 19 drill rigs, the majority of which fit into the Company's strategic focus on specialized drilling. We anticipate that the operations of Benoit will produce additional annual revenue of approximately $26 million. We continue to seek acquisitions of this nature that either complement our specialized drilling strategy or expand our geographic footprint.

We are confident in the long-term outlook, and in the Company's ability to generate strong future cash flows sufficient to sustain our growth plans. Therefore, we believe that it is appropriate to institute a semi-annual dividend. The first dividend of $0.20 per common share will be paid on October 31, 2008 to shareholders of record as of October 10, 2008.

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

Francis P. McGuire
President & CEO

Groupe Forage

MAJOR

Drilling Group International Inc.

Management's Discussion and Analysis

First Quarter Fiscal 2009

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 2009

This Management's Discussion and Analysis ("MD&A") relates to the results of operations, financial condition and cash flows of Major Drilling Group International Inc. ("Major Drilling" or the "Company") as at and for the three-month period ended July 31, 2008. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These interim unaudited consolidated financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended April 30, 2008, except for the adoption of new accounting policies as disclosed in Note 2 of the Notes to Interim Financial Statements.

This MD&A is a review of activities and results for the quarter ended July 31, 2008 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited consolidated interim financial statements as at and for the three months ended July 31, 2008, and also in conjunction with the audited consolidated financial statements and Management's Discussion and Analysis contained in the Company's annual report for the fiscal year ended April 30, 2008.

This MD&A is dated August 31, 2008. Disclosure contained in this document is current to that date, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

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

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates and assumptions about the markets in which the Company operates, the world economic climate as it relates to the mining industry, the Canadian economic environment and the Company's ability to attract and retain customers and to manage its assets and operating costs.

Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons. Risks that could cause the Company's actual results to materially differ from its current expectations are discussed in this MD&A.

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

CORPORATE OVERVIEW

Major Drilling Group International Inc. is one of the world's largest drilling service companies primarily serving the mining industry. To support its customers' varied exploration drilling requirements, Major Drilling maintains field operations and offices in Canada, the United States, South and Central America, Australia, Indonesia, Mongolia, Armenia and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, RAB, geotechnical, environmental drilling and coal-bed methane and shallow gas.

BUSINESS STRATEGY

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

Although the Company's main focus remains specialized services, it also intends to continue to modernize its conventional fleet and expand its footprint in strategic areas while maintaining minimum debt levels and remaining best of the class in safety and human resources.

The Company therefore categorizes its drilling services into three types: specialized drilling, conventional drilling and underground drilling.

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

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

Underground drilling is as cyclical as conventional drilling activity, and takes on greater importance in the latter stages of the mining cycle as clients develop underground mines. While growth in underground drilling remains relatively flat, conventional drilling is growing in parallel with the current industry cycle, while specialized drilling is growing structurally.

INDUSTRY OVERVIEW

The metals and minerals drilling industry is reliant primarily on demand from two metal groups, gold on the one hand and base metals on the other. Each commodity group is influenced by distinct market forces. In a positive commodity pricing regime, either one of these metal groups can, by itself, bring the contract drilling sector to capacity. Worldwide mineral exploration expenditures in calendar 2007 surpassed US$10 billion, above 1997 peak levels of US$5.2 billion (nominal). In 1997, growth in mineral exploration was primarily driven by gold mining and exploration companies, but in calendar 2007, gold, base metal and uranium mining companies expanded exploration budgets.

Several large mining companies have released plans to maintain or increase their exploration budgets in calendar 2008, with some releasing multi-year exploration plans showing gradual increases over the next three to five years. Also, many junior mining companies have the funds to carry out their exploration program in calendar 2008 and beyond. The Metals Economics Group ("MEG"), a recognized authority on mining industry intelligence, expects to see a continued increase in worldwide exploration spending in calendar 2008, albeit growing at a more moderate rate than seen in the past few years. Major Drilling is well positioned to benefit from the cyclical upturn for gold and base metals through its global reach, expertise and strong balance sheet.

Gold

Drilling services for gold are always affected by overall commodity prices. However, MEG is reporting that declining gold reserves replacement via exploration, since 1997, may result in gold supply shortages in the long-term. Especially evident from their analysis is that the number of recently discovered large deposits of more than 2.5 million oz. (a size senior mining companies would consider developing) is not adequate to replace the seniors' gold production. The discovery rate of major gold deposits has declined in each of the last eight years. Historically, only about half of feasibility-stage projects reach production within ten years.

Base Metals

Drilling services for base metals are always affected by overall commodity prices. However, with low levels of exploration in the recent past limiting the expansion of supply, and the emergence of China and India as major consumers of base metals, supply is expected to fall short of demand over the next several years, which should increase demand for exploration drilling services in the mining industry. MEG reports that even if the recovery in exploration spending produces a number of new large-scale projects, the time required to take a project from discovery through to production ensures that any new discoveries will not benefit global supply for years. During this time, definition drilling is required to establish mine plans in order to bring these discoveries into production. Despite recent volatility in metal markets, most observers believe that prices will remain above levels required for exploration as problems on the supply side persist even as demand from China and India moderates. Worldwide drilling demand from uranium companies is expected to continue in calendar 2008 given the number of projects moving into the pre-feasibility stage, although uranium projects in some regions might be affected by regulatory delays.

OVERALL PERFORMANCE

Revenue for the quarter was up over 24 percent compared to the same quarter last year at $178.2 million, with all of the Company’s divisions participating in this growth. Additional equipment and improved pricing contributed to the revenue growth year-over-year. The unfavourable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same period last year, is estimated at $4.7 million on revenue and $1.1 million on net earnings.

The overall gross margin was up quarter-over-quarter at 35.5 percent as compared to 33.2 percent for the same quarter last year. Overall margins showed very good improvement year-over-year despite continuing pressure on labour costs and African margins lagging behind other regions. Investment in training, which is crucial to sustaining growth, continued to affect overall margin growth as we incur both additional costs and somewhat lower productivity with newer drillers. Availability of crews, especially in Canada, the U.S. and Australia remains our number one challenge.

This revenue and margin growth produced record earnings from continuing operations of $26.3 million ($1.11 per share). This represents an increase of almost 40 percent compared to earnings from continuing operations of $18.8 million ($0.80 per share) recorded in the first quarter of fiscal 2008.

RESULTS OF OPERATIONS – FIRST QUARTER ENDED JULY 31, 2008

Total revenue from continuing operations for the quarter was $178.2 million, up $34.8 million or 24.3 percent from the $143.4 million recorded in the same quarter last year.

Revenue for the quarter from Canada-U.S. drilling operations increased by 12.8 percent to $55.6 million compared to $49.3 million for the same period last year. Additional equipment and improved pricing contributed to this growth.

South and Central American revenue was at $55.3 million for the quarter, up 30.1 percent from the $42.5 million posted for the prior year quarter. This strong quarterly growth was driven primarily by strong demand in Mexico and Chile (including the Harris acquisition) partially offset by revenue reduction in Venezuela and Ecuador, which were impacted by political decisions.

Australian, Asian and African operations reported revenue of $67.3 million, up some 30.4 percent from the $51.6 million reported in the same period last year. Australia, Mongolia and Africa accounted for most of the growth for this region.

The overall gross margin percentage for the quarter was 35.5 percent, up from 33.2 percent for the same period last year. Gross margin percentages improved year-over-year in all regions due to generally improved pricing, better equipment and improved overall productivity. In Africa, margins were still impacted by operational issues but improved from the fourth quarter of 2008. The Company has made several management and operational changes in the region and expects results to improve in the coming quarters.

General and administrative costs were $13.4 million for the quarter, compared to $10.0 million in the same period last year. The increase is primarily due to increased staffing levels and infrastructure costs to accommodate growth. The Company also added significant resources in safety and training, particularly in the second half of last year. In addition, the Company has started a new research and development program with the goal of finding new ways to enhance productivity and safety.

Other expenses for the quarter increased to $3.8 million, up from $3.5 million in the prior year quarter, due primarily to higher incentive compensation expenses given the Company's improved profitability in the current year, and write-off of disposed assets.

Foreign exchange loss in the quarter was $0.2 million compared to $1.0 million in the prior year quarter.

Short-term interest revenue was $0.1 million for the quarter compared to $0.3 million for the same quarter last year, while interest expense on long-term debt was $0.6 million compared to $0.7 million for the same quarter last year.

Amortization expense was $7.6 million for the quarter compared to $6.1 million for the same quarter last year, as a result of the increased direct investment in equipment.

The provision for income tax was $11.5 million in the quarter compared to $7.9 million for the prior year quarter, reflecting the increased profitability of the operations.

Earnings from continuing operations for the quarter were $26.3 million or $1.11 per share ($1.10 per share on a diluted basis) compared to $18.8 million or $0.80 per share ($0.79 per share on a diluted basis) in the prior year period.

Resulting net earnings were $26.3 million or $1.11 per share ($1.10 per share on a diluted basis) compared to $18.9 million or $0.81 per share ($0.80 per share on a diluted basis) for the same period last year.

SUMMARY OF QUARTERLY RESULTS

	Fiscal 2007			Fiscal 2008				Fiscal 2009
(in $000 Cnd, except per share)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	$ 101,845	$ 90,092	$ 129,049	$ 143,420	$ 156,136	$ 120,758	$ 169,995	$ 178,215
Gross profit	33,824	25,222	43,520	47,644	54,665	33,712	59,420	63,304
Gross margin	33.2%	28.0%	33.7%	33.2%	35.0%	27.9%	35.0%	35.5%
Earnings from continuing operations	12,959	5,737	17,800	18,824	22,815	7,670	25,286	26,330
Per share - basic	0.56	0.25	0.77	0.80	0.97	0.32	1.07	1.11
Per share - diluted	0.55	0.24	0.75	0.79	0.95	0.32	1.05	1.10
Net earnings	13,109	5,002	17,809	18,935	22,563	7,236	25,361	26,330
Per share - basic	0.57	0.22	0.77	0.81	0.96	0.31	1.07	1.11
Per share - diluted	0.56	0.21	0.75	0.80	0.94	0.30	1.05	1.10

The geographic distribution of the Company's growth is having an impact on its historical seasonal patterns. With the exception of the third quarter, the Company exhibits comparatively less seasonality in quarterly revenue than in the past since a relatively higher proportion of drilling revenue is coming from regions with more temperate or tropical climates that are not impacted by winter weather conditions, and strong cyclical growth tends to mute normal seasonal patterns. The third quarter (November to January) is normally the Company's weakest quarter due to the shutdown of mining and exploration activities, often for extended periods over the holiday season, particularly in South and Central America.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Operating cash flow from continuing operations (before changes in non-cash working capital) was $36.5 million for the quarter an increase of 39.3 percent from $26.2 million generated in the same period last year.

Change in non-cash operating working capital items was an outflow of $18.4 million in the quarter compared to an outflow of $10.3 million for the same quarter last year. The change in non-cash operating working capital in the quarter was primarily impacted by:

- An increase in inventory of $2.0 million due to the increased activity;
- An increase in prepaid expenses of $4.5 million due to annual prepayment for new fiscal year;
- A decrease in accounts payable of $11.2 million primarily due to payment of annual accruals.

Financing Activities

During the quarter, total long-term debt decreased by $2.7 million with long-term debt repayments at $3.0 million during the quarter.

The credit facilities related to operations total $31.5 million ($30.0 million from a Canadian chartered bank and $1.5 million in credit facilities in Chile and Australia) and are 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 has a credit facility of $1.7 million for credit cards for which interest rate and repayment are as per cardholder agreement. At July 31, 2008, the Company had utilized $3.4 million of these lines.

A second facility is a $65.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At July 31, 2008, the Company had utilized $21.1 million of this line. Draws on this line can be amortized over five years.

The third facility is a US$3.7 million non-revolving term facility established to assist in the acquisition of Dynatec's Drilling Division, based in the United States. This facility is being amortized over a five-year period, which commenced in June 2005.

The Company also has other various loans and capital lease facilities related to equipment purchases that totaled $16.4 million at July 31, 2008, of which $12.5 million were utilized and mature through 2011.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure and debt obligations. As at July 31, 2008, the Company had unused borrowing capacity under its credit facilities of $75.9 million and cash of $16.8 million, for a total of $92.7 million in available funds.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the period, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

Investing Activities

Capital expenditures were $19.0 million ($18.9 million net of financing) for the quarter ended July 31, 2008 compared to $15.0 million ($14.5 million net of financing) for the same period last year. It is expected that net capital expenditures will grow to $80 million in fiscal 2009 as the Company continues to invest internally in the face of growing demand.

During the quarter, the Company added 26 drill rigs through its capital expenditure program while retiring or disposing of 13 rigs through its modernization program. This brings the total rig count to 547 at quarter-end. Also, immediately following quarter-end, the Company purchased an additional 19 rigs through the acquisition of Forage Benoit.

FOREIGN EXCHANGE

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar and the Australian dollar. The unfavourable impact of foreign exchange translation, for the quarter, when comparing to the effective rates for the same period last year, is estimated at $4.7 million on revenue and $1.1 million on net earnings.

OTHER COMPREHENSIVE EARNINGS

The consolidated statements of comprehensive earnings for the quarter includes $2.9 million in unrealized gains on translating the financial statements of our self-sustaining foreign operations. The change relates to translating the net assets of our foreign operations using the current rate method, given that the subsidiaries are considered self-sustaining for Canadian GAAP purposes. The Canadian dollar weakened 1% and 2% respectively against the U.S. dollar and the Australian dollar, increasing the value of our net asset position in these subsidiaries in Canadian dollar terms.

SUBSEQUENT EVENT

Acquisition of Forage Benoit

On August 1, 2008, the Company completed the purchase of the exploration drilling company Forage à Diamant Benoit Ltée (“Benoit”) based in Val-d’Or, Québec.

Through this purchase Major Drilling acquired 19 drill rigs, the majority of which have deep hole capacity and are fitted with rod handlers, which fits with the Company’s strategic focus on specialized drilling. In addition to the rigs, this acquisition involved support equipment and inventory, existing contracts, and personnel. Subsequent to the acquisition, Major Drilling has a total fleet of 42 mineral exploration drill rigs in Québec.

Management anticipates that the operations of Benoit will produce additional annual revenue of approximately $26 million for the twelve months subsequent to the acquisition.

The purchase price for the transaction was $21.0 million, financed with cash.

OUTLOOK

The fundamental long-term drivers of our business remain unchanged. Worldwide supply for most metals is expected to tighten in the medium to long-term due to the lack of significant discoveries. Continued growth throughout Asia, Eastern Europe and Africa and the reconstruction efforts after the earthquakes in China, which is expected to cost $147 billion, should continue to drive demand. It takes many years to bring new capacity into production and a great deal of drilling is required to do so.

In the short-term, we expect to see some changes in the pattern of drilling demand. Senior mining houses, which represent some 70 percent of our business, are in the process of expanding their drilling programs. We would also expect them to increase their investments in joint ventures with junior mining companies as we go forward. Over the last month, we have seen a small number of junior mining companies reduce their drilling programs due to lack of funding but these have been limited to date. Gold, copper and uranium customers are expected to continue to expand their drilling programs. These commodities combined with our energy drilling currently account for some 80 percent of our revenue. Zinc, and to a lesser extent nickel projects are expected to be less active, at least in the short-term, due to the current economic conditions relating to these metals. These changes in demand patterns may require some adjustments in our operations over the coming months but the fundamental demand outlook remains strong.

Despite some potential short-term volatility, the Company continues to invest in its capital expenditure program. This quarter, we spent $19 million to ensure continued growth. Through these investments, we added 26 rigs during the quarter. We are maintaining our capital expenditure plans, which should increase our fleet by a net 60 drills. During the quarter, we retired 13 older, inefficient rigs that had very low utilization.

The Company will be instituting a semi-annual dividend. The first dividend of $0.20 per common share will be paid on October 31, 2008 to shareholders of record as of October 10, 2008 and is designated as an “eligible dividend” for Canadian tax purposes.

GENERAL RISKS AND UNCERTAINTIES

The risks described below do not include all possible risks and there may be other risks of which management is currently not aware.

Cyclical Downturn

The most significant operating risk affecting the Company is the potential downturn in demand for its services due to a decrease in activity in the minerals and metals industry. In attempting to mitigate this risk, the Company is exploiting its competitive advantage in specialized drilling and continues to explore opportunities to rationalize its regional infrastructures. In the last cyclical market downturn, the Company realized that specialized services were not as affected by decreases in metal and mineral prices compared to its traditional services. Consequently, the Company's addition of rigs and acquisitions of businesses have generally been focused on specialized drilling services. At the same time, the Company continues to make progress with its initiative to standardize its fleet, which, over the next several years, will provide significant savings in repair, maintenance and inventory costs.

As the Company moves deeper into the mining cycle and activity levels increase, the requirement for working capital, particularly with respect to accounts receivable and inventory, expands. While receivables from senior and larger intermediate mining exploration companies remain a significant component of total receivables, accounts receivable from junior mining companies also have a tendency to increase. In many cases, capital markets are the only source of funds available to these juniors and any change in the outlook for the sector or the lack of success of a specific exploration program can quickly impair the ability of these juniors to raise capital to pay for their drilling programs. The Company attempts to manage this potential risk by closely monitoring accounts receivable aging and the level of junior financing activity in the capital markets, and requiring, in some instances, deposits or letters of credit, as considered appropriate.

Levels of inventory typically increase as a result of increased activity levels. In addition to direct volume related increases however, inventory levels also increase due to an expansion of activity in remote locations at the end of long supply chains where it is necessary to increase inventory to ensure an acceptable level of continuing service, which is part of the Company's competitive advantage. In the event of a sudden downturn of activities related either to a specific project or to the sector as a whole, it is more difficult and costly to redeploy this remote inventory to other regions where it can be consumed. In order to attempt to minimize its exposure to this risk, the Company works closely with its customers to anticipate and plan for scheduled reductions in their drilling programs. The Company also closely monitors its inventory levels in these remote operations and attempts to appropriately balance its exposure to inventory risk against the risk of loss of productivity as a result of insufficient drilling consumables or spares when required.

Country Risk

Major Drilling is committed to utilizing its expertise and technology in exploration areas around the world. With this comes the risk of dealing with business and political systems in a variety of jurisdictions. Unanticipated economic, political, tax related, regulatory or legal changes (or changes in interpretation) could have a material negative impact on operations and assets. The risks include, but are not limited to, military repression, extreme fluctuations in currency exchange rates and high rates of inflation, changes in mining or investment policies or shifts in political attitude that may adversely affect the business. With rising commodity prices, there is an emergence of a trend by some governments to increase their participation in the benefits of these rising prices, most notably in South America and Mongolia, through increased taxation, expropriation, or otherwise. This could negatively impact the level of foreign investment in mining and exploration activities and thus drilling demand in these regions. Such events could result in temporary reductions in revenue and transition costs as equipment is shifted to other locations. The Company continually monitors these developments and has developed contingency plans to minimize the possible negative impacts in such regions to the extent reasonably possible. Generally, country risks may become a more significant factor in the years to come.

The Company employs individuals who have experience working in the international arena, and attempts to assess the current and potential risks, at the time and into the near future, before commencing operations in a new jurisdiction. Because our assets are mobile, management attempts to mitigate this risk by deciding when and where to locate and relocate its assets.

Taxes

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

Tax law and administration is extremely complex and often requires us to make subjective determinations. The computation of income, payroll and other taxes involves many factors, including the interpretation of tax legislation in various jurisdictions in which we are subject to ongoing tax assessments. Our estimate of tax related assets, liabilities, recoveries and expenses incorporates significant assumptions. These assumptions include, but are not limited to, the tax rates in various jurisdictions, the effect of tax treaties between jurisdictions and taxable income projections. To the extent that such assumptions differ from actual results, we may have to record additional tax expenses and liabilities, including interest and penalties.

Foreign Currency

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

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

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and/or systems or from external events. Operational risk is present in all of the Company's business activities, and incorporates exposure relating to fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, technology failures, processing errors, business integration, theft and fraud, damage to physical assets and employee safety. The Company manages operational risk by attempting to ensure that effective infrastructure, controls, systems and individuals are in place. This is supported by strong principles of governance, an employee code of ethics and business conduct, audits, and other compliance related activities.

Dependence on Key Customers

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

Safety

Failure to maintain a record of acceptable safety performance may have an adverse impact on the Company's ability to attract and retain customers. Most of the Company's customers consider safety and reliability two primary attributes when selecting a provider of drilling services. The Company continues to invest heavily in training to improve skills, abilities and safety awareness.

Expansion and Acquisition Strategy

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

Legal and Regulatory Risk

Regulatory risk incorporates exposure relating to the risk of non-compliance with applicable legislation and regulatory directives. Legal risk incorporates non-compliance with legal requirements, including the effectiveness of preventing or handling litigation. Local management is responsible for managing day-to-day regulatory risk. In meeting this responsibility, local management receives advice and assistance from such corporate oversight functions as legal, compliance and internal audit. Compliance and internal audit test the extent to which operations meet regulatory requirements, as well as the effectiveness of internal controls. Internal and external counsel work with local management to identify areas of potential legal risk. The General Counsel is involved in the management of any significant litigation matters.

Extreme Weather Conditions and the Impact of Natural or Other Disasters

The Company operates in a variety of locations, some of which are prone to extreme weather conditions. From time to time these conditions, as well as natural or other disasters, could have an adverse financial impact on operations located in the regions where these conditions occur.

Specialized Skills and Cost of Labour Increases

Generally speaking, drilling activity related to metals and minerals is broadly linked to price trends in the metals and minerals sector. One limiting factor in this industry, which has occurred as the industry has transitioned from a cyclical downturn to a cyclical upturn, is a shortage of qualified drillers. The Company is addressing this issue by attempting to become the “employer of choice” for drillers in the industry, as well as hiring and training more locally-based drillers. Historically, most of the Company’s drillers have been Australian or Canadian. Development of local drillers has already had a positive impact in South American and Indonesian operations, and is expected to continue to play an important role in alleviating this factor.

The Company also relies on an experienced management team across the Company to carry on its business. A departure of several members of the management team at one time could have an adverse financial impact on operations. The Company is addressing this issue by remaining a leader on compensation, which is designed to attract, motivate, reward, and retain the broad-based management talent critical to the Company's achievement of its objectives.

A material increase in the cost of labour could materially affect gross margins and therefore the Company’s financial performance.

Equipment and Parts Availability

The Company’s ability to expand its operations and provide reliable service is dependant upon timely delivery of new equipment and replacement parts from fabricators and suppliers. A lack of skilled labour to build equipment, combined with new competitors entering the mineral drilling sector, is placing a strain on some manufacturers. This has substantially increased the order time on new equipment and increased uncertainty surrounding final delivery dates. Significant delays in the arrival of new equipment from expected dates may constrain future growth and the financial performance of the Company. The Company attempts to mitigate this risk by maintaining strong relations with key fabricators and suppliers.

Reputational Risk

Negative publicity, whether true or not, regarding practices, actions or inactions, could cause a decline in the Company’s value, liquidity, or customer base. Reputational risk cannot be managed in isolation from other types of risk, since all risks can have an impact on reputation. Every employee and representative of the Company has a responsibility to contribute positively to the Company’s reputation. This means that ethical practices are to be followed at all times, that interaction with the Company’s stakeholders is positive, and that the Company complies with applicable policies, legislation, and regulations.

CHANGES IN ACCOUNTING POLICIES

Inventories

In June 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning May 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this Section did not have a material effect on the unaudited interim consolidated financial statements.

Financial Instruments

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, and Section 1535, Capital Disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company adopted the new standards for its fiscal year beginning May 1, 2008. Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. As the standards relate only to disclosure requirements, they did not have any effect on financial results.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes in this quarter to the accounting estimates presented in the Company’s annual MD&A for the year ended April 30, 2008.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2008, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the three months ended July 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems.

The change-over date to IFRS is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. On that date in 2011, IFRS will replace current Canadian Generally Accepted Accounting Principles for Publicly Accountable Enterprises.

Major Drilling has not completed its quantification of the effects of adopting IFRS. The financial performance and financial position as disclosed in our GAAP financial statements may be significantly different when presented in accordance with IFRS. The potential impacts on our consolidated financial statements from the adoption of IFRS will depend on the particular circumstances prevailing at the adoption date and IFRS accounting policy choices made by Major Drilling.

We are currently in the process of evaluating the potential impact of the IFRS standards to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board (IASB) and the Accounting Standards Board (AcSB).

OUTSTANDING SHARE DATA

As of August 31, 2008, there were 23,707,173 common shares issued and outstanding in the Company. This is the same number of issued and outstanding shares as reported in our fourth quarter MD&A (reported as of June 30, 2008).

Major Drilling Group International Inc.
Consolidated Statements of Operations

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

	Three months ended July 31	
	2008	2007
TOTAL REVENUE	**$ 178,215**	$ 143,420
DIRECT COSTS	**114,911**	95,776
GROSS PROFIT	**63,304**	47,644
OPERATING EXPENSES		
General and administrative	**13,378**	10,026
Other expenses	**3,825**	3,527
Foreign exchange loss	**167**	979
Interest revenue	**(75)**	(348)
Interest expense on long-term debt	**601**	724
Amortization	**7,596**	6,059
	25,492	20,967
EARNINGS BEFORE INCOME TAX AND DISCONTINUED OPERATIONS	**37,812**	26,677
INCOME TAX - PROVISION		
Current	**10,108**	7,570
Future	**1,374**	283
	11,482	7,853
EARNINGS FROM CONTINUING OPERATIONS	**26,330**	18,824
GAIN FROM DISCONTINUED OPERATIONS	**-**	111
NET EARNINGS	**$ 26,330**	$ 18,935
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
Basic *	**$ 1.11**	$ 0.80
Diluted **	**$ 1.10**	$ 0.79
EARNINGS PER SHARE		
Basic *	**$ 1.11**	$ 0.81
Diluted **	**$ 1.10**	$ 0.80

*Based on 23,707,043 and 23,433,503 daily weighted average shares outstanding for the fiscal year to date 2009 and 2008, respectively. The total number of shares outstanding on July 31, 2008 was 23,707,173.

**Based on 24,026,276 and 23,806,479 daily weighted average shares outstanding for the fiscal year to date 2009 and 2008, respectively.

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

	Three months ended July 31	
	2008	2007
NET EARNINGS	**$ 26,330**	$ 18,935
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	**2,900**	(7,131)
COMPREHENSIVE EARNINGS	**$ 29,230**	$ 11,804

Consolidated Statements of Retained Earnings
(in thousands of Canadian dollars)
(unaudited)

	Three months ended July 31	
	2008	2007
RETAINED EARNINGS, BEGINNING OF THE PERIOD	**$ 182,533**	$ 108,438
Net earnings	**26,330**	18,935
RETAINED EARNINGS, END OF THE PERIOD	**$ 208,863**	$ 127,373

Consolidated Statements of Accumulated Other Comprehensive Loss
(in thousands of Canadian dollars)
(unaudited)

	Three months ended July 31	
	2008	2007
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE PERIOD	**$ (44,552)**	$ (30,383)
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	**2,900**	(7,131)
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF THE PERIOD	**$ (41,652)**	$ (37,514)

Major Drilling Group International Inc.
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)
(unaudited)

	Three months ended July 31	
	2008	2007
OPERATING ACTIVITIES		
Earnings from continuing operations	**$ 26,330**	$ 18,824
Operating items not involving cash		
Amortization	**7,596**	6,059
Loss on disposal of capital assets	**812**	104
Future income tax	**1,374**	283
Stock-based compensation	**398**	921
	36,510	26,191
Changes in non-cash operating working capital items	**(18,401)**	(10,337)
Cash flow from operating activities	**18,109**	15,854
FINANCING ACTIVITIES		
Repayment of long-term debt	**(3,042)**	(5,159)
Repayment of demand loans	**(583)**	-
Issuance of common shares	**7**	1,863
Discontinued operations	**-**	(3,096)
Cash flow used in financing activities	**(3,618)**	(6,392)
INVESTING ACTIVITIES		
Acquisition of capital assets, net of direct financing	**(18,891)**	(14,531)
Proceeds from disposal of capital assets	**472**	720
Cash flow used in investing activities	**(18,419)**	(13,811)
OTHER ACTIVITIES		
Foreign exchange translation adjustment	**4**	(92)
DECREASE IN CASH	**(3,924)**	(4,441)
CASH POSITION, BEGINNING OF THE PERIOD	**20,695**	25,022
CASH POSITION, END OF THE PERIOD	**$ 16,771**	$ 20,581

Major Drilling Group International Inc.
Consolidated Balance Sheets

As at July 31, 2008 and April 30, 2008

(in thousands of Canadian dollars)

(unaudited)

ASSETS	July 2008	April 2008
CURRENT ASSETS		
Cash	$ 16,771	$ 20,695
Accounts receivable	104,018	103,555
Income tax receivable	4,206	3,218
Inventories (note 6)	77,987	75,094
Prepaid expenses	10,859	6,280
Future income tax assets	2,349	3,948
	216,190	212,790
CAPITAL ASSETS	210,918	199,007
FUTURE INCOME TAX ASSETS	1,414	334
GOODWILL	15,316	14,837
	$ 443,838	$ 426,968

LIABILITIES	July 2008	April 2008
CURRENT LIABILITIES		
Demand loan	$ 1,596	$ 2,179
Accounts payable and accrued charges	63,258	73,870
Income tax payable	9,985	10,541
Current portion of long-term debt	11,998	11,798
Future income tax liabilities	1,106	1,177
Liabilities of discontinued operations (note 7)	1,953	2,028
	89,896	101,593
LONG-TERM DEBT	25,379	28,317
FUTURE INCOME TAX LIABILITIES	11,022	9,152
	126,297	139,062
SHAREHOLDERS' EQUITY		
Share capital	142,147	142,140
Contributed surplus	8,183	7,785
Retained earnings	208,863	182,533
Accumulated other comprehensive loss	(41,652)	(44,552)
	317,541	287,906
	$ 443,838	$ 426,968

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended April 30, 2008, except for the adoption of new accounting policies as disclosed in Note 2 below. These interim consolidated financial statements conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements, with the exception of certain note disclosures. As a result, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended April 30, 2008 contained in the Company's 2008 annual report.

2. CHANGES IN ACCOUNTING POLICIES

The Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventories, replacing Section 3030, Inventories, Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, and Section 1535, Capital Disclosures, on May 1, 2008.

Section 3031, Inventories, provides more guidance on the determination of the cost of inventory and the subsequent recognition of inventory as an expense, as well as requiring additional associated disclosures. The new standard also allows for the reversal of any write-down's previously recognized. The adoption of this policy had no material effect on the Company's consolidated financial statements. (see Note 6 – Inventory)

Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. As the standards relate only to disclosure requirements, they have had no effect on financial results. (see Note 8 – Capital Management and Note 9 – Financial Instruments)

3. FUTURE ACCOUNTING CHANGES

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning May 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

IFRS

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that the use of IFRS will be required in 2011 for publically accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure draft proposing that publically accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011 for companies with a calendar year end, therefore the transition date for the Company is May 1, 2011. This will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended April 30, 2011, and of the opening balance sheet as at May 1, 2010. The Company is currently assessing the effect that this transition will have on its operations and financial reporting.

4. SEASONALITY OF OPERATIONS

The Company’s operations tended to exhibit a seasonal pattern whereby its fourth quarter (February to April) was it’s strongest. With the exception of the third quarter, the Company now exhibits comparatively less seasonality in quarterly revenue than in the past. The third quarter (November to January) is normally the Company’s weakest quarter due to the shutdown of mining and exploration activities, often for extended periods, over the holiday season, particularly in South and Central America.

5. BUSINESS ACQUISITIONS

Effective September 1, 2007 the Company acquired the exploration drilling company Harris y Cia Ltda. (“Harris”) in Chile. Through this purchase, Major Drilling acquired 11 drill rigs, support equipment, inventory, an office and repair facilities. As part of this acquisition, the Company also acquired Harris’ existing contracts and retained key management personnel, as well as the other employees, including a number of experienced drillers. The purchase price for the transaction was US$23,934 (C$25,203), including customary working capital adjustments, financed with cash.

(in thousands of Canadian dollars)

5. BUSINESS ACQUISITIONS (Continued)

Net assets acquired at fair market value at acquisition are as follows:

Assets & liabilities acquired	
Cash	$ 1,149
Accounts receivable	631
Inventories	1,060
Capital assets	9,621
Future income tax assets	2,328
Goodwill	11,570
Accounts payable	(1,156)
Net assets	$ 25,203
Consideration	
Cash	$ 25,203

Effective October 25, 2007 the Company acquired the assets of the exploration drilling company Paragon del Ecuador S.A. (“Paragon”) in Ecuador. Through this purchase, Major Drilling acquired 7 drill rigs, support equipment and inventory, existing contracts and personnel. The purchase price for the transaction was US$5,999 (C$5,805), subject to various holdbacks, financed by cash and debt.

Net assets acquired at fair market value at acquisition are as follows:

Assets acquired	
Inventories	$ 586
Capital assets	2,023
Goodwill	3,196
Net assets	$ 5,805
Consideration	
Cash	$ 3,871
Long-term debt	1,934
	$ 5,805

6. INVENTORY

The cost of inventory recognized as an expense and included in cost of goods sold for the three months ended July 31, 2008 was $37,450. During the period, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

The Company’s credit facility related to operations is in part secured by a general assignment of the Company’s inventory.

(in thousands of Canadian dollars)

7. DISCONTINUED OPERATIONS

On June 7, 2006, the Company sold its manufacturing subsidiary ("UDR") for A$46.8 million (C$39.2 million). The consideration for the sale was A$43.3 million (C$36.2 million) cash and a holdback paid in December 2007 in the amount of A$3.5 million (C$3.2 million). The net gain before income taxes was C$22.2 million. UDR previously constituted the Company's entire manufacturing segment. The Company made the strategic decision to focus its corporate resources on the mineral drilling business, where it competes as one of the world's largest contract drillers.

The gain from discontinued operations was nil for the quarter (2008 - $111). Current liabilities from discontinued operations consists of income tax payable for $1,953 as at July 31, 2008 ($2,028 as at April 30, 2008).

8. CAPITAL MANAGEMENT

The Company includes shareholders' equity (excluding accumulated other comprehensive loss), long-term borrowings and demand loan net of cash in the definition of capital.

Total managed capital was as follows:

	July 2008	April 2008
Demand loan	**$ 1,596**	$ 2,179
Long-term debt	**37,377**	40,115
Share capital	**142,147**	142,140
Contributed surplus	**8,183**	7,785
Retained earnings	**208,863**	182,533
Cash	**(16,771)**	(20,695)
	$ 381,395	$ 354,057

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: i) preserve access to capital markets; ii) meet financial obligations and iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

8. CAPITAL MANAGEMENT (Continued)

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the period, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from 2008.

9. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash, accounts receivable, demand loans and accounts payable approximate their fair value due to the relatively short period to maturity of the instruments. Long-term debt has a carrying value of $37,377 as at July 31, 2008 (April 30, 2008 - $40,115) and also approximates its fair market value.

Risk management

The Company is exposed to various risks related to its financial assets and liabilities. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them, from previous periods, unless otherwise stated in this note.

Credit risk

The Company is exposed to credit risk from its accounts receivable. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. The Company also diversifies its credit risk by dealing with a large number of customers in various countries. 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, nickel and copper. The Company's five largest customers account for 22% (18% in 2008) of total revenue, with no one customer representing more than 10% of its revenue for 2009 or 2008.

The carrying amounts for accounts receivable are net of allowances for doubtful accounts, which are estimated based on aging analysis of receivables, past experience, specific risks associated with the customer and other relevant information. The maximum exposure to credit risk is the carrying value of the financial assets.

9. FINANCIAL INSTRUMENTS (Continued)

As at July 31, 2008, 95.4% of the Company's trade receivables are aged as current and 1% of the receivables are impaired.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Company does not enter into derivatives to manage credit risk.

Interest rate risk

The demand loan and long-term debt of the Company bears a floating rate of interest, which exposes the Company to interest rate fluctuations.

As at July 31, 2008 the Company has estimated that a one percentage point increase or decrease in interest rates would have caused a corresponding quarterly increase or decrease in net income of approximately $59.

Foreign currency risk

Foreign exchange risk arises as the Company has operations located internationally where local operational currency is not the same as the functional currency of the Company.

A significant portion of the Company's operations are located outside of Canada. The accounting impact of foreign currency exposure is minimized since the operations are classified as self-sustaining operations. In certain developing countries, the Company mitigates its risk of large exchange rate fluctuations by conducting business primarily in U.S. dollars. U.S. dollar revenue exposure is partially mitigated by offsetting U.S. dollar labour and material expenses. Monetary assets denominated in foreign currencies are exposed to foreign currency fluctuations.

(in thousands of Canadian dollars)

9. FINANCIAL INSTRUMENTS (Continued)

Based on the Company's foreign currency net exposures as at July 31, 2008, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the other foreign currencies would have resulted in increases (decreases) in the net income and comprehensive earnings as follows:

	Increase (decrease) in net income	
	Canadian dollar appreciates 10%	Canadian dollar depreciates 10%
Argentine Peso	**$ 163**	**$ (163)**
Australian Dollar	**(190)**	**190**
Chilean Peso	**(744)**	**744**
Mexican Peso	**451**	**(451)**
US Dollar	**(526)**	**526**

	Increase (decrease) in comprehensive earnings	
	Canadian dollar appreciates 10%	Canadian dollar depreciates 10%
Australian Dollar	**$ (4,376)**	**$ 4,376**
US Dollar	**(19,548)**	**19,548**

Liquidity risk

Liquidity risk arises from the Company's management of working capital, the finance charges and principal repayments on its debt instruments. It is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 8 – Demand Credit Facilities, of the Company's 2008 annual report, are details of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

(in thousands of Canadian dollars)

9. FINANCIAL INSTRUMENTS (Continued)

Total financial liabilities, by due date, as at July 31, 2008 are as follows:

	Total	0-1 year	2-3 years	4-5 years	5 + years
Demand loan	$ 1,596	$ 1,596	$ -	$ -	$ -
Accounts payable & accrued charges	63,258	63,258	-	-	-
Long-term debt	37,377	11,998	16,083	8,130	1,166
	$ 102,231	$ 76,852	$ 16,083	$ 8,130	$ 1,166

10. SEGMENTED INFORMATION

	2009 YTD	2008 YTD
Revenue		
Canada - U.S.	$ 55,568	$ 49,337
South and Central America	55,288	42,461
Australia, Asia and Africa	67,359	51,622
	$ 178,215	$ 143,420
Earnings from operations		
Canada - U.S.	$ 14,998	$ 11,190
South and Central America	15,845	11,875
Australia, Asia and Africa	12,266	9,789
	43,109	32,854
Eliminations	(302)	(292)
	42,807	32,562
Interest expense, net	526	376
General corporate expenses	4,469	5,509
Income tax	11,482	7,853
Earnings from continuing operations	26,330	18,824
Gain from discontinued operations	-	111
Net earnings	$ 26,330	$ 18,935

11. SUBSEQUENT EVENT

On August 1, 2008, the Company completed the purchase of the exploration drilling company Forage à Diamant Benoit Ltée ("Benoit") based in Val-d'Or, Québec.

Through this purchase Major Drilling acquired 19 drill rigs, the majority of which have deep hole capacity and are fitted with rod handlers, which fits with the Company's strategic focus on specialized drilling. In addition to the rigs, this acquisition involved support equipment and inventory, existing contracts, and personnel, including a number of experienced drillers. Subsequent to the acquisition, Major Drilling has a total fleet of 42 mineral exploration drill rigs in Québec.

Management anticipates that the operations of Benoit will produce additional annual revenue of approximately $26 million for the twelve months subsequent to the acquisition.

The purchase price for the transaction was $21.0 million, financed with cash.

The transaction closed on August 1, 2008.