President's Report to Shareholders – Second Quarter 2010

For the second quarter of fiscal 2010 the Company had net earnings before tax of $4.1 million, or $0.17 per share, down from $29.3 million, or $1.23 per share recorded for the second quarter of fiscal 2009. Total revenue this quarter was $75.5 million, down 60.5% from the $191.0 million recorded last year, but up $13 million, or 21% from Q1. Margins for the quarter decreased to 30.2% compared to 36.9% for the same quarter last year.

Recent economic conditions have continued to impact drilling. However, during the quarter we started to see a recovery, as evidenced by our increased revenue, earnings and margins as compared with Q1. Global exploration spending has improved, driven by sustained strength in key commodity prices, particularly gold and copper. Also, the financing environment has improved for mining companies over the past few months. These factors helped improve our drill utilization as we moved through the quarter, particularly the specialized rigs.

There continues to be very broad volatility in all aspects of our business and, accordingly, actual results may vary substantially from any guidance or forward-looking information in this report. Many of the supply issues that face most commodities are coming back into focus and with moderate growth in the world economy the need to explore and develop mines will increase. We believe that at that point, the need to develop resources in areas that are increasingly difficult to access will return, which should further increase demand for specialized drilling. We have seen a noticeable increase in inquiries from intermediate and senior customers, which could have a positive impact on the market by this spring. Customers, especially the large mining companies, are still formulating their plans for calendar 2010 and it is too early to anticipate the full impact of their decisions. We expect pricing to remain competitive until utilization rates pick up significantly, especially in conventional drilling.

The Company continues to be in an excellent financial position remaining debt-free, net of cash. Total cash level, net of long-term debt, improved by $8.7 million during the quarter to stand at $27.8 million at quarter-end. Despite the difficult environment, the Company generated $12.3 million from operations, reduced general and administrative costs and kept net capital expenditures to only $3.3 million during the quarter.

Finally, it is important to note that we are now in our third quarter, traditionally the weakest quarter of our fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season. At this time, most senior and intermediate companies are still working through their budget process and have yet to decide on post-holiday start up dates. Also, due to the time it takes to mobilize once contracts are awarded, we expect a slow pace of start ups in January, which will impact overall third quarter revenue.

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

Second Quarter Fiscal 2010

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER FISCAL 2010

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 and six-month periods ended October 31, 2009. 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, 2009, except for the adoption of new accounting policies as disclosed in Note 2 of the Notes to Interim Unaudited Consolidated Financial Statements.

This MD&A is a review of activities and results for the three and six-month periods ended October 31, 2009 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 and six months ended October 31, 2009, 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, 2009.

This MD&A is dated November 30, 2009. 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, assumptions, risks and uncertainties. Such statements include, but are not limited to: worldwide demand for gold and base metals and overall commodity prices, the level of activity in the minerals and metals industry and the demand for the Company's services, the Canadian and international economic environments, the Company's ability to attract and retain customers and to manage its assets and operating costs, sources of funding for its clients, particularly for junior mining companies, competitive pressures, currency movements, which can affect the Company's revenue in Canadian dollars, the geographic distribution of the Company's operations, the impact of operational changes, changes in jurisdictions in which the Company operates (including changes in regulation), failure by counterparties to fulfill contractual obligations, and other factors set forth from time to time in the Company's Annual Information Form, as such factors may be amended or updated in subsequent MD&As.

These factors and other risk factors, as described under "General Risks and Uncertainties" of the Company's Annual Information Form, represent risks the Company believes are material. Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons, except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are 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, and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, RAB, geotechnical, environmental, water-well and coal-bed methane and shallow gas.

BUSINESS STRATEGY

Major Drilling continues to base its business premise on the following: mining companies continue to deplete the more easily accessible mineral reserves around the world and attractive deposits will be in increasingly remote locations, areas difficult to access and/or deep in the ground. For this reason, Major Drilling's strategy is to focus its services on projects that have these characteristics, calling these services "specialized drilling". Over the years, the Company has positioned itself as one of the largest specialized operators in the world by leveraging its main competitive advantages: skilled personnel, specialized equipment, long standing relationships with the world's largest mining companies 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 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 be defined as any drilling project that, by virtue of its scope, technical complexity or location, creates significant barriers to entry for smaller drilling companies. This would include, for example, deep-hole drilling, directional drilling, and mobilizations to remote locations or high altitudes. Because significant ore bodies are getting more difficult to find, the Company expects specialized drilling services to continue to fuel future growth, and over the next two decades, 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 takes on greater importance in the latter stages of the mining cycle as clients develop underground mines. While growth in underground drilling is relatively flat, conventional drilling grows parallel with the industry cycle, while specialized drilling grows structurally.

Specialized projects tend to be more costly for customers than conventional projects. Due to the impact of the current economic environment on many of our senior customers, some of these projects were either cancelled or very heavily cut back in the second half of fiscal 2009. This quarter, general activity levels have begun to increase. However, we expect pricing to remain competitive until utilization rates pick up significantly, especially in conventional drilling. Over time, we expect that many of the supply issues that face most commodities will come back into focus and that even with moderate growth in the world economy, the need to explore and develop mines will increase. It is believed that at that point, the need to develop resources in areas that are increasingly difficult to access will return, which should increase demand for specialized drilling.

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 the last few years, historically high prices for all commodities drove the industry to record levels of activity with worldwide mineral exploration expenditures in calendar 2008 surpassing US$14 billion.

The recent economic environment has impacted, and will continue to impact, drilling in the short to medium-term, particularly on base metal projects. Senior and intermediate base metal companies that are leveraged have reduced their exploration spending for 2009, in order to conserve cash. Many gold producers delayed exploration plans due to the uncertainty in the economy. Sources of funding for junior mining companies were limited, and as such many junior projects, both in the base metals and gold sectors, were delayed or cancelled.

As the price of commodities continues to recover and the financing environment improves, the Company has seen a noticeable increase in inquiries from intermediate and senior customers, which could potentially have a positive impact on the market by this spring. In the longer-term, the fundamental drivers of the business remain positive, with worldwide supply for most metals expected to tighten due to the continuing lack of significant discoveries. The prospects for gold related drilling, which generally accounts for approximately 50 percent of the drilling market, remains positive.

Gold

Drilling services for gold are always affected by overall commodity prices. However, Metals Economics Group ("MEG") is reporting that declining gold reserves replacement via exploration, since 1997, may result in gold supply shortages in the long-term, a fact that has recently been echoed by several senior gold mining companies. 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 10 years. One of the realities is that future gold deposits will probably have to come from areas difficult to access, either in remote politically sensitive areas, deeper in the ground or in higher altitudes. This should improve demand for specialized services in the future.

Base Metals

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

OUTLOOK

Many of the supply issues that face most commodities are coming back into focus and with moderate growth in the world economy, the need to explore and develop mines will increase. At that point, it is expected that the need to develop resources in areas that are increasingly difficult to access will return, which should further increase demand for specialized drilling. The Company has seen a noticeable increase in inquiries from intermediate and senior customers, which could have a positive impact on the market by this spring. Customers, especially the large mining companies, are still formulating their plans for calendar 2010 and it is too early to anticipate the full impact of their decisions. Pricing is expected to remain competitive until utilization rates pick up significantly, especially in conventional drilling.

It is important to note that the Company is now in its third quarter, traditionally the weakest quarter of its fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season. At this time, most senior and intermediate companies are still working through their budget process and have yet to decide on post-holiday start up dates. Also, due to the time it takes to mobilize once contracts are awarded, a slow pace of start ups is expected in January, which will impact overall third quarter revenue.

While capital expenditures have been low up to this point in the current fiscal year, the Company continues to see opportunities to broaden its footprint in the coal and coal seam gas sector. The Company currently has 14 rigs in this sector but will be adding a further 6 rigs during the next few months. Three of its mineral rigs are being adapted for these purposes and 3 additional rigs will be purchased in the coming quarter. These rigs are expected to be in operation by late spring.

OVERALL PERFORMANCE

The Company started to see a recovery during the quarter as revenue was up 21 percent relative to the first quarter despite the weakening U.S. dollar. Global exploration spending continued to improve, driven by sustained strength in key commodity prices, particularly gold and copper. Also, the financing environment has improved for mining companies over the past few months. These factors helped improve our drill utilization as we moved through the quarter, particularly the specialized rigs.

In terms of regional performance, South America and Canada continued to improve both in utilization and productivity. On the other hand, areas such as Australia, U.S. and Mexico have been slower to show improvement.

Total revenue for the quarter was $75.5 million down 60.5 percent from the $191.0 million recorded in the same quarter last year. Cancellations or delays of drilling programs, combined with price reductions, significantly affected revenue in all three regions as compared to last year. As compared to the first quarter ended July 31, 2009, revenue was up 20.8 percent overall.

The overall gross margin percentage for the quarter was 30.2 percent, down from 36.9 percent for the same period last year. Reduced pricing due to increased competitive pressures and delays significantly impacted margins although the Company has been able to recapture some of this loss through productivity gains and cost cutting.

Net earnings were $4.1 million or $0.17 per share ($0.17 per share diluted) compared to $29.3 million or $1.23 per share ($1.22 per share diluted) for the same period last year.

The Company continues to be in an excellent financial position remaining debt-free, net of cash. Total cash level, net of long-term debt, increased by $8.7 million during the quarter to stand at $27.8 million at quarter-end. Despite the difficult environment, the Company generated $12.3 million from operations, reduced general and administrative costs and kept net capital expenditures at only $3.3 million during the quarter.

RESULTS OF OPERATIONS – SECOND QUARTER ENDED OCTOBER 31, 2009

Total revenue for the quarter was $75.5 million down 60.5 percent from the $191.0 million recorded in the same quarter last year. Cancellations or delays of drilling programs, combined with price reductions, significantly affected revenue in all three regions as compared to last year. However, as compared to the first quarter ended July 31, 2009, revenue was up 20.8 percent overall.

Revenue for the quarter from Canada-U.S. drilling operations decreased by 62.2 percent to $24.1 million compared to $63.7 million for the same period last year. Revenue improved 19 percent in this region as compared to the first quarter.

South and Central American revenue was at $24.2 million for the quarter, down 55.4 percent from the $54.3 million posted for the prior year quarter. As compared to the first quarter, revenue was up 33 percent with Chile and Argentina accounting for three-quarters of that increase as that region was the first to begin to recover.

Australian, Asian and African operations reported revenue of $27.3 million, down some 62.6 percent from the $73.0 million reported in the same period last year. Cancellation of drilling programs and decreased pricing impacted all regions. Revenue increased 13 percent as compared to the first quarter as increases in Mongolia and Africa were somewhat mitigated by reductions in Australia and Indonesia.

The overall gross margin percentage for the quarter was 30.2 percent, down from 36.9 percent for the same period last year. Reduced pricing due to increased competitive pressures and delays significantly impacted margins although the Company has been able to recapture some of this loss through productivity gains and cost cutting.

General and administrative costs were $8.1 million for the quarter, down 36.7 percent compared to $12.8 million in the same period last year. The decrease was due to cost cutting initiatives implemented in November 2008 and February 2009.

Other expenses for the quarter were $1.1 million, down from $4.9 million in the prior year quarter, due primarily to lower incentive compensation expenses given the Company's decreased profitability in the current year.

Foreign exchange gain in the quarter was $0.1 million compared to a loss of $1.5 million in the prior year quarter.

Short-term interest revenue was nil this quarter compared to an expense of $0.2 million for the same quarter last year, while interest expense on long-term debt was down to $0.3 million compared to $0.5 million for the same quarter last year due to lower debt levels.

Amortization expense was $7.7 million for the quarter compared to $8.2 million for the same quarter last year, a result of equipment write-downs in the previous quarters.

Income tax expense was $1.7 million in the quarter compared to $13.3 million for the prior year quarter as a result of reduced earnings.

Net earnings were $4.1 million or $0.17 per share ($0.17 per share diluted) compared to $29.3 million or $1.23 per share ($1.22 per share diluted) for the same period last year.

RESULTS OF OPERATIONS – YEAR TO DATE ENDED OCTOBER 31, 2009

Revenue for the six months ended October 31, 2009 decreased 62.6 percent to $138.0 million from $369.2 million for the corresponding period last year.

Canada-U.S. revenue decreased by 62.9 percent or $75.0 million to $44.3 million compared to $119.3 million last year with cancellations and decreased pricing impacting both countries.

Revenue in South and Central America decreased by 61.3 percent to $42.4 million, compared to $109.6 million in the prior year period. Mexico, Chile and Argentina accounted for all of the reduction while shutdowns in Venezuela and Ecuador were offset by a new operation in Colombia where the Company moved much of its Venezuelan and Ecuadorian equipment.

Revenue in Australia, Asia and Africa decreased 63.4 percent to $51.3 million from $140.3 million in the prior year period. Every country in this segment was affected by reduced pricing and utilization due to cancellation of drilling programs.

Gross margins for the year to date were 29.0 percent compared to 36.2 percent last year, due mainly to significantly decreased pricing, which was somewhat offset by improvements in drillers' productivity.

General and administrative expenses decreased to $17.0 million compared to $26.2 million for the same period last year. The decrease was due to cost cutting initiatives implemented in November 2008 and February 2009.

Other expenses were $2.0 million for the year compared to $8.7 million for the same period last year due primarily to lower incentive compensation expenses given the Company's decreased profitability in the current year.

Foreign exchange gain was $0.8 million compared to a loss of $1.6 million in the prior year period.

Short-term interest was a revenue of $0.1 million for the year compared to an expense of $0.2 million last year, while interest expense on long-term debt was $0.6 million compared to $0.9 million last year due to lower debt levels.

Amortization expense decreased to $15.4 million compared to $15.8 million in the previous period, as a result of equipment write-downs in the previous quarters.

The provision for income tax for the year was $1.9 million compared to $24.7 million for the prior year reflecting the decreased profitability of the operations. This year's provision is also impacted by the non-recognition or reversal of tax losses in Ecuador and losses in Tanzania.

Net earnings were $0.8 million or $0.03 per share ($0.03 per share diluted) compared to $55.6 million or $2.35 per share ($2.32 per share diluted) last year.

SUMMARY OF QUARTERLY RESULTS

	Fiscal 2008		Fiscal 2009				Fiscal 2010	
(in $000 CDN, except per share)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	$ 120,758	$ 169,995	$ 178,215	$ 191,010	$ 87,361	$ 66,400	$ 62,489	$ 75,528
Gross profit	33,712	59,420	63,304	70,438	24,086	17,806	17,230	22,792
Gross margin	27.9%	35.0%	35.5%	36.9%	27.6%	26.8%	27.6%	30.2%
Earnings (loss) from continuing operations	7,670	25,286	26,330	29,276	(5,070)	(4,601)	(3,296)	4,060
Per share - basic	0.32	1.07	1.11	1.23	(0.21)	(0.19)	(0.14)	0.17
Per share - diluted	0.32	1.05	1.10	1.22	(0.21)	(0.19)	(0.14)	0.17
Net earnings (loss)	7,236	25,361	26,330	29,276	(5,070)	(4,601)	(3,296)	4,060
Per share - basic	0.31	1.07	1.11	1.23	(0.21)	(0.19)	(0.14)	0.17
Per share - diluted	0.30	1.05	1.10	1.22	(0.21)	(0.19)	(0.14)	0.17

The geographic distribution of the Company’s operations, as well as the timing of the recent economic downturn, has impacted its historical seasonal revenue patterns. Historically, the Company’s fourth quarter was its strongest, followed by its second and first quarters. 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. With the exception of the third quarter, the Company has, over the past several years, exhibited comparatively less seasonality in quarterly revenue, since a relatively higher proportion of drilling revenue was generated in regions with more temperate or tropical climates that were not impacted by winter weather conditions. Additionally, strong cyclical growth had tended to mute normal seasonal patterns. With the recent economic and industry downturn, it is not yet clear whether or not the Company’s revenue will return to more historical seasonal patterns, or whether a recent lack of seasonality will continue.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations (before changes in non-cash working capital items) was $12.3 million for the quarter compared to $38.9 million generated in the same period last year. For the six-month period ended October 31, 2009, cash flow from operations (before changes in non-cash working capital items) was $19.9 million compared to $75.5 million generated in the same period last year.

The change in non-cash operating working capital items for the quarter was an inflow of $0.2 million compared to an inflow of $15.9 million for the same quarter last year. The change in non-cash operating working capital in this year’s quarter was primarily impacted by:

- An increase in accounts receivable of $5.9 million;
- A decrease in inventory of $2.9 million as a result of reduced purchasing, and;
- An increase in accounts payable of $3.4 million due to recent increased activity but also as a result of more stringent cash management policies.

The change in non-cash operating working capital in the prior year quarter was primarily impacted by:

- A decrease in inventory of $8.4 million as a result of reduced purchasing, and;
- An increase in accounts payable of $6.5 million due to recent increased activity but also as a result of more stringent cash management policies.

Financing Activities

Total long-term debt decreased by $3.3 million during the quarter from $33.0 million at July 31, 2009 to $29.7 million at October 31, 2009. The decrease is primarily due to debt repayments of $3.4 million during the quarter.

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.

The credit facilities related to operations total $31.3 million ($30.0 million from a Canadian chartered bank and $1.3 million in credit facilities in Chile and Australia) and are primarily secured by 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 agreements. At October 31, 2009, the Company had utilized $0.9 million of these lines for stand-by letters of credit.

The Company has a $65.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At October 31, 2009, the Company had utilized $23.8 million of this line. Draws on this line can be amortized over five years.

The Company also has other various loans and capital lease facilities related to equipment purchases that totaled $12.0 million at October 31, 2009, of which $5.9 million was utilized and matures 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 October 31, 2009, the Company had unused borrowing capacity under its credit facilities of $77.7 million and cash of $57.5 million, for a total of $135.2 million in available funds.

Investing Activities

Capital expenditures were $3.9 million for the quarter ended October 31, 2009 compared to $15.3 million ($15.1 million net of financing) for the same period last year. Also, the Company sold a small amount of equipment, generating proceeds of $0.6 million as compared to $1.4 million the previous year.

During the quarter, the Company added 1 drill rigs through its capital expenditure program, while selling 5 non-efficient rigs to areas where the Company does not operate, and disposing of 3 rigs that were no longer functional. This brings the total rig count to 532 at quarter-end.

As the difficulty in accessing ore bodies continues to increase, the Company continues to see opportunities to invest in specialized drilling, but given the recent economic climate, will do so at a slower pace than in fiscal 2008 and the first half of fiscal 2009. While acquisitions remain a possibility, we continue to be focused on prudent cash management and maintaining minimal debt. It is expected that capital expenditures will be reduced to $25 million in fiscal 2010.

FOREIGN EXCHANGE

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

OTHER COMPREHENSIVE (LOSS) EARNINGS

The consolidated statements of comprehensive (loss) earnings for the quarter include $0.4 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. During the quarter, the Canadian dollar strengthened 1 percent against the U.S. dollar but weakened 9 percent against the Australian dollar, increasing the net value of our net asset position in these subsidiaries in Canadian dollar terms.

RESTRUCTURING CHARGE

During the previous quarter, the Company took further actions in Australia to restructure the operations by closing down two offices and reducing personnel. As such, the Company recorded a restructuring charge of $1.2 million during that quarter. No further restructuring charges were incurred during the quarter ended October 31, 2009.

GOODWILL IMPAIRMENT

In the previous quarter, the Company recorded a net non-cash goodwill impairment charge of $2.0 million. This charge eliminates the goodwill of $3.7 million recorded on the Paragon del Ecuador S.A. acquisition offset by a reduction of a holdback of $1.7 million, which was a contingent consideration and dependant on the political situation in Ecuador.

The goodwill impairment charge resulted from political issues and uncertainty still affecting the mining industry in Ecuador and therefore the inability of this region to generate the expected revenue.

GENERAL RISKS AND UNCERTAINTIES

The risks described below and elsewhere in this MD&A 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 continuing or further 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. The impact on the Company of a severe and persistent downturn in the minerals and metals industry (a possible outcome of the current global economic conditions) may not be fully mitigated by the foregoing measures.

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 during a cyclical downturn. 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. Also, both credit and capital markets financing have become generally scarce under current global economic conditions, which could adversely impact the exploration programs of all mining exploration companies, irrespective of size.

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.

Competitive Pressures

Pressures from existing competitors, in particular in current global economic conditions, could intensify and impose decreased contract prices and put a strain on current growth rates. There can be no assurance that the Company's competitors will not be successful in capturing a share of the Company's present or potential customer base.

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, and changes in mining or investment policies or shifts in political attitude that may adversely affect the business. There has been an emergence of a trend by some governments to increase their participation in the benefits of rising commodity 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 reductions in revenue and transition costs as equipment is shifted to other locations.

Repatriation of Funds or Property

There is no assurance that any of the countries in which the Company operates or may operate in the future will not impose restrictions on the repatriation of funds or property to other jurisdictions.

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 fluctuation in the 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 periods, 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 and insurance coverage.

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 in training to improve skills, abilities and safety awareness.

Expansion and Acquisition Strategy

The Company intends to remain vigilant with regard to potentially strategic future 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.

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. During periods of increased activity, which occurred as the industry last transitioned from a cyclical downturn to a cyclical upturn, a limiting factor in this industry is a shortage of qualified drillers. The Company addresses 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, African, Mongolian and Indonesian operations, and is expected to continue to play an important role.

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.

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 provide reliable service is dependent upon timely delivery of equipment and replacement parts from fabricators and suppliers. Any factor that substantially increases the order time on equipment and increases uncertainty surrounding final delivery dates may constrain future growth, existing operations, and the financial performance of the Company.

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.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective May 1, 2009 the Company adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous CICA Handbook Section 3062. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

In light of the current economic conditions, the Company has re-examined its significant management estimates. Except for the goodwill impairment charge in the last quarter, there have been no new material changes in this quarter to these estimates, as presented in the Company's annual MD&A for the year ended April 30, 2009.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2009, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer "CEO" and Chief Financial Officer "CFO" are responsible for designing internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") or causing them to be designed under their supervision. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparations of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Company's DC&P are designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding financial disclosure.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected. Therefore, no matter how well designed, ICFR and DC&P have inherent limitations and may not prevent or detect all misstatements.

For the three months ended October 31, 2009, there have been no significant changes to the ICFR and no change in the assessment of the effectiveness of the Company’s ICFR and DC&P. Accordingly, the CEO and CFO have concluded that the design and operation were effective at a reasonable assurance level as of the end of the period covered by this report.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standards Board (“AcSB”) 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. The Company will begin issuing interim and annual financial statements under IFRS for the fiscal year beginning May 1, 2011. The transition date of May 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011.

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 Company has commenced the scoping and planning phase of its changeover plan. The Company has designated the appropriate resources to the project to develop an effective plan and will continue to assess resource and training requirements as the project progresses. The Company has identified the following four phases of its conversion plan: i) scoping and planning, ii) detailed assessment, iii) operations implementation and iv) post implementation. The scoping and planning phase involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing a project charter, implementation plan and communication strategy.

The Company has substantially completed the scoping and planning phase. The detailed assessment phase (“phase 2”), which has been commenced, will result in accounting policies and transitional exemption decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted.

The operations implementation phase (“phase 3”) includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at May 1, 2010, fiscal 2011 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures.

Post implementation (“phase 4”) will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The Company will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impacts on the Company and its reporting.

OUTSTANDING SHARE DATA

As of November 30, 2009, there were 23,722,573 common shares issued and outstanding in the Company. This represents an increase of 6,500 issued and outstanding shares as compared to the number reported in our first quarter MD&A (reported as of August 31, 2009).

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

	Six months ended October 31		Three months ended October 31	
	2009	2008	**2009**	2008
TOTAL REVENUE	**$ 138,017**	$ 369,225	**$ 75,528**	$ 191,010
DIRECT COSTS	**97,995**	235,483	**52,736**	120,572
GROSS PROFIT	**40,022**	133,742	**22,792**	70,438
OPERATING EXPENSES				
General and administrative	**16,998**	26,172	**8,126**	12,794
Other expenses	**2,032**	8,696	**1,147**	4,871
Foreign exchange (gain) loss	**(829)**	1,628	**(149)**	1,461
Interest (revenue) expense	**(95)**	207	**(26)**	173
Interest expense on long-term debt	**574**	944	**271**	452
Amortization	**15,440**	15,753	**7,713**	8,157
Restructuring charge (note 5)	**1,220**	-	**-**	-
Goodwill impairment (note 6)	**2,032**	-	**-**	-
	37,372	53,400	**17,082**	27,908
EARNINGS BEFORE INCOME TAX	**2,650**	80,342	**5,710**	42,530
INCOME TAX - PROVISION				
Current	**1,302**	22,907	**1,587**	12,799
Future	**584**	1,829	**63**	455
	1,886	24,736	**1,650**	13,254
NET EARNINGS	**$ 764**	$ 55,606	**$ 4,060**	$ 29,276
EARNINGS PER SHARE				
Basic *	**$ 0.03**	$ 2.35	**$ 0.17**	$ 1.23
Diluted **	**$ 0.03**	$ 2.32	**$ 0.17**	$ 1.22

*Based on 23,717,467 and 23,708,168 daily weighted average shares outstanding for the fiscal year to date 2010 and 2009, respectively and on 23,718,861 and 23,709,293 daily weighted average shares for the quarter ended October 31, 2009 and 2008, respectively. The total number of shares outstanding on October 31, 2009 was 23,722,573.

**Based on 24,025,755 and 23,987,920 daily weighted average shares outstanding for the fiscal year to date 2010 and 2009, respectively and on 23,894,788 and 23,940,827 daily weighted average shares outstanding for the quarter ended October 31, 2009 and 2008, respectively.

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

	Six months ended October 31		Three months ended October 31	
	2009	2008	**2009**	2008
NET EARNINGS	**$ 764**	$ 55,606	**$ 4,060**	$ 29,276
OTHER COMPREHENSIVE (LOSS) EARNINGS				
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	**(24,016)**	34,353	**412**	31,453
COMPREHENSIVE (LOSS) EARNINGS	**$ (23,252)**	$ 89,959	**$ 4,472**	$ 60,729

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

	Six months ended October 31	
	2009	2008
RETAINED EARNINGS, BEGINNING OF THE PERIOD	**$ 218,983**	$ 182,533
Net earnings	**764**	55,606
Dividends	**(4,745)**	(4,742)
RETAINED EARNINGS, END OF THE PERIOD	**$ 215,002**	$ 233,397

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

	Six months ended October 31	
	2009	2008
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE PERIOD	**$ (5,079)**	$ (44,552)
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	**(24,016)**	34,353
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF THE PERIOD	**$ (29,095)**	$ (10,199)

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

	Six months ended October 31		Three months ended October 31	
	2009	2008	**2009**	2008
OPERATING ACTIVITIES				
Net earnings	**$ 764**	$ 55,606	**$ 4,060**	$ 29,276
Operating items not involving cash				
Amortization	**15,440**	15,753	**7,713**	8,157
Loss (gain) on disposal of property, plant and equipment	**1**	1,164	**(66)**	352
Future income tax	**584**	1,829	**63**	455
Stock-based compensation	**1,044**	1,098	**539**	700
Goodwill impairment (note 6)	**2,032**	-	**-**	-
	19,865	75,450	**12,309**	38,940
Changes in non-cash operating working capital items	**(325)**	(2,452)	**213**	15,949
Cash flow from operating activities	**19,540**	72,998	**12,522**	54,889
FINANCING ACTIVITIES				
Repayment of long-term debt	**(6,469)**	(5,923)	**(3,393)**	(2,881)
Additional long-term debt	**-**	10,000	**-**	10,000
Repayment of demand credit facilities	**-**	(2,179)	**-**	(1,596)
Issuance of common shares	**28**	28	**28**	21
Dividend paid	**(4,743)**	(4,742)	**-**	(4,742)
Cash flow (used in) from financing activities	**(11,184)**	(2,816)	**(3,365)**	802
INVESTING ACTIVITIES				
Business acquisition	**-**	(21,805)	**-**	(21,805)
Acquisition of property, plant and equipment, net of direct financing	**(7,208)**	(33,964)	**(3,904)**	(15,073)
Proceeds from disposal of property, plant and equipment	**1,497**	1,893	**602**	1,421
Cash flow used in investing activities	**(5,711)**	(53,876)	**(3,302)**	(35,457)
OTHER ACTIVITIES				
Foreign exchange translation adjustment	**(3,157)**	2,025	**(484)**	2,021
(DECREASE) INCREASE IN CASH	**(512)**	18,331	**5,371**	22,255
CASH POSITION, BEGINNING OF THE PERIOD	**58,035**	20,695	**52,152**	16,771
CASH POSITION, END OF THE PERIOD	**$ 57,523**	$ 39,026	**$ 57,523**	$ 39,026

Major Drilling Group International Inc.
Consolidated Balance Sheets

As at October 31, 2009 and April 30, 2009

(in thousands of Canadian dollars)

(unaudited)

ASSETS	October 2009	April 2009
CURRENT ASSETS		
Cash	**$ 57,523**	$ 58,035
Accounts receivable	**51,561**	52,538
Income tax receivable	**8,814**	6,014
Inventories	**62,508**	72,764
Prepaid expenses	**6,126**	3,478
Future income tax assets	**822**	2,644
	187,354	195,473
PROPERTY, PLANT AND EQUIPMENT	**217,724**	240,224
FUTURE INCOME TAX ASSETS	**4,108**	1,403
GOODWILL AND INTANGIBLE ASSETS (note 9)	**26,297**	32,072
	$ 435,483	$ 469,172

LIABILITIES	October 2009	April 2009
CURRENT LIABILITIES		
Accounts payable and accrued charges	**$ 47,823**	$ 47,691
Income tax payable	**2,947**	1,719
Current portion of long-term debt	**11,976**	15,049
Future income tax liabilities	**1,148**	1,071
	63,894	65,530
LONG-TERM DEBT	**17,761**	23,507
FUTURE INCOME TAX LIABILITIES	**15,407**	14,789
	97,062	103,826
SHAREHOLDERS' EQUITY		
Share capital	**142,261**	142,233
Contributed surplus	**10,253**	9,209
Retained earnings	**215,002**	218,983
Accumulated other comprehensive loss	**(29,095)**	(5,079)
	338,421	365,346
	$ 435,483	$ 469,172

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, 2009, 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, 2009 contained in the Company's 2009 annual report.

2. CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets
Effective May 1, 2009 the Company adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous CICA Handbook Section 3062. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

3. FUTURE ACCOUNTING CHANGES

Business combinations
In January 2009, the CICA issued Section 1582, Business Combinations, which replaces Section 1581 of the same title. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for accounting for a business combination.

Consolidated financial statements and non-controlling interests
In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. They establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")
In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure draft proposing that publicly accountable enterprises be required to apply

3. FUTURE ACCOUNTING CHANGES (Continued)

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 in the process of developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Company.

4. SEASONALITY OF OPERATIONS

The Company's operations tended to exhibit a seasonal pattern whereby its fourth quarter (February to April) was its strongest. With the exception of the third quarter, the Company has, over the past several years, exhibited comparatively less seasonality in quarterly revenue. 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. With the recent economic and industry downturn, it is not yet clear whether or not the Company's revenue will return to more historical seasonal patterns, or whether a recent lack of seasonality will continue.

5. RESTRUCTURING CHARGE

The Company initiated a restructuring plan in fiscal year 2009 to standardize the drilling equipment fleet and reduce operating costs by rationalizing the workforce and business locations. These initiatives have generated a total restructuring charge of $10,263, of which $1,220 was expensed in the first quarter of the current fiscal year, the balance having been previously expensed.

The current fiscal year charges include $594 for severance, $204 for lease terminations and $422 for other relocation expenses mainly relating to the closure of two regional offices in Australia.

As of October 31, 2009, these charges had been fully paid.

6. GOODWILL IMPAIRMENT

In the first quarter of the current fiscal year, the Company recorded a net non-cash goodwill impairment charge of $2,032. This eliminated goodwill of $3,722 recorded on the Paragon del Ecuador S.A. acquisition offset by a reduction of a holdback of $1,690, which was a contingent consideration to the purchase price and dependant on the political situation in Ecuador. The goodwill impairment charge resulted from political issues and uncertainty still affecting the mining industry in Ecuador and therefore the inability of this region to generate the expected revenue.

(in thousands of Canadian dollars)

7. BUSINESS ACQUISITION

Effective August 1, 2008 the Company acquired the assets of the exploration drilling company Forage à Diamant Benoît Ltée ("Benoît") based in Val-d'Or, Québec. Through this purchase, Major Drilling acquired 19 drill rigs, support equipment and inventory, existing contracts and personnel. The purchase price for the transaction was $23,117, including customary working capital adjustments, financed by cash and debt.

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

Assets acquired and liabilities assumed		
Accounts receivable	**$**	**5,055**
Prepaid expenses		**241**
Inventories		**533**
Property, plant and equipment		**7,489**
Intangible assets		**2,350**
Goodwill (not tax deductible)		**13,223**
Accounts payable		**(884)**
Income tax payable		**(2,842)**
Future income tax liability		**(2,048)**
Net assets	**$**	**23,117**
Consideration		
Cash	**$**	**21,867**
Accounts payable		**500**
Long-term debt		**750**
	$	**23,117**

8. INVENTORY

The cost of inventory recognized as an expense and included in direct costs for the six and three months ended October 31, 2009 was $17,598 and $9,493 respectively. 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.

9. GOODWILL AND INTANGIBLE ASSETS

	October 2009	April 2009
Goodwill	**$ 24,959**	$ 30,470
Intangible assets	**1,338**	1,602
	$ 26,297	$ 32,072

(in thousands of Canadian dollars)

9. GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible assets include the carrying value of customer relationships and a non-compete agreement, which are amortized on a straight-line basis over four and three years respectively.

Changes in the goodwill and intangible assets balance were as follows for the six and three months ending October 31, 2009:

	2010 YTD	2009 YTD	**2010 Q2**	2009 Q2
Balance at beginning of the period	**$ 32,072**	$ 14,837	**$ 26,692**	$ 15,316
Amortization of intangible assets	**(264)**	-	**(132)**	-
Goodwill adjustment (note 6)	**(1,690)**	-	**-**	-
Goodwill impairment (note 6)	**(2,032)**	-	**-**	-
Goodwill and intangible assets acquired	**-**	14,757	**-**	14,757
Effect of foreign currency exchange rate changes	**(1,789)**	2,760	**(263)**	2,281
	$ 26,297	$ 32,354	**$ 26,297**	$ 32,354

10. CAPITAL MANAGEMENT

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

Total managed capital was as follows:

	October 2009	April 2009
Long-term debt	**$ 29,737**	$ 38,556
Share capital	**142,261**	142,233
Contributed surplus	**10,253**	9,209
Retained earnings	**215,002**	218,983
Cash	**(57,523)**	(58,035)
	$ 339,730	$ 350,946

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.

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.

10. CAPITAL MANAGEMENT (Continued)

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 fiscal 2009.

11. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash, accounts receivable and accounts payable and accrued charges approximate their fair value due to the relatively short period to maturity of the instruments. Long-term debt has a carrying value of $29,737 as at October 31, 2009 (April 30, 2009 - $38,556) 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 dealing only 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 25 percent (26 percent in 2009) of total quarterly revenue, with no one customer representing more than 10 percent of its revenue for 2010 or 2009.

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.

As at October 31, 2009, 74.5 percent of the Company's trade receivables are aged as current (less than 30 days) and 4.0 percent of the trade 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.

(in thousands of Canadian dollars)

11. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

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

As at October 31, 2009 the Company has estimated that a one percentage point increase in interest rates would have caused a quarterly decrease in net income of approximately $64 and a one percentage decrease in interest rates would have caused a quarterly increase in net income of $64.

Foreign currency risk

Foreign currency 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.

Based on the Company's foreign currency net monetary exposures and net assets as at October 31, 2009, and assuming that all other variables remain constant, a 10 percent rise or fall in the Canadian dollar against the other foreign currencies would have resulted in increases (decreases) in the net earnings and comprehensive earnings as follows:

	Increase (decrease) in net earnings	
	Canadian dollar appreciates 10%	Canadian dollar depreciates 10%
US Dollar	**$ (11)**	**$ 11**
Indonesian Rupiah	**(196)**	**196**
Tanzanian Shilling	**164**	**(164)**
Chilean Peso	**277**	**(277)**

	Increase (decrease) in comprehensive earnings	
	Canadian dollar appreciates 10%	Canadian dollar depreciates 10%
Australian Dollar	**$ (1,698)**	**$ 1,698**
US Dollar	**(24,678)**	**24,678**

Liquidity risk

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

(in thousands of Canadian dollars)

11. FINANCIAL INSTRUMENTS (Continued)

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.

Total financial liabilities, by due date, as at October 31, 2009 are as follows:

	Total	1 year	2-3 years	4-5 years	5+ years
Accounts payable & accrued charges	**$ 47,823**	**$ 47,823**	**$ -**	**$ -**	**$ -**
Long-term debt	**29,737**	**11,976**	**12,733**	**5,028**	**-**
	$ 77,560	**$ 59,799**	**$ 12,733**	**$ 5,028**	**$ -**

12. SEGMENTED INFORMATION

	2010 YTD	2009 YTD	**2010 Q2**	2009 Q2
Revenue				
Canada - U.S.	**$ 44,279**	$ 119,271	**$ 24,091**	$ 63,703
South and Central America	**42,403**	109,604	**24,160**	54,316
Australia, Asia and Africa	**51,335**	140,350	**27,277**	72,991
	$ 138,017	$ 369,225	**$ 75,528**	$ 191,010
Earnings from operations				
Canada - U.S.	**$ 5,381**	$ 34,856	**$ 3,768**	$ 19,858
South and Central America	**5,268**	29,813	**3,362**	13,968
Australia, Asia and Africa	**566**	27,438	**1,270**	15,172
	11,215	92,107	**8,400**	48,998
Eliminations	**(657)**	(603)	**(333)**	(301)
	10,558	91,504	**8,067**	48,697
Interest expense, net	**479**	1,151	**245**	625
General corporate expenses	**4,177**	10,011	**2,112**	5,542
Restructuring charge	**1,220**	-	**-**	-
Goodwill impairment	**2,032**	-	**-**	-
Income tax	**1,886**	24,736	**1,650**	13,254
Net earnings	**$ 764**	$ 55,606	**$ 4,060**	$ 29,276

Goodwill impairment relates to the South and Central American segment (see Note 6 - Goodwill Impairment).