

President's Report to Shareholders – Third Quarter 2010

The quarter ended on a good note as the month of January was significantly more active than January last year, which bodes well for the upcoming fourth quarter and calendar 2010. However, November and December of 2009 were still affected by reduced levels of activity from larger mining companies when compared to November and December 2008, as in 2008 companies were still completing their exploration programs before the downturn fully took hold in January 2009, resulting in this year's comparatively weaker Q3 results.

Consequently, and as a result of the fact that mining companies shut down operations, often for extended periods, over the holidays, we had expected a loss in this quarter. Also, due to the higher startups in January, the Company incurred significant training, mobilization and setup costs in both the mineral and energy sectors, which reduced margins significantly in the third quarter. In Australia, weather delayed startups well into February further compounding margin performance.

For the third quarter of fiscal 2010, the Company had a net loss of \$4.5 million, or \$0.19 per share, compared to a net loss \$5.1 million or \$0.21 per share for the third quarter of fiscal 2009, as last year's loss included restructuring and impairment charges of \$5.6 million net of tax. Total revenue this quarter was \$72.5 million, down 17% from the \$87.4 million recorded last year. Margins for the quarter decreased to 16.5% compared to 27.6% for the same quarter last year.

Capital expenditures for the quarter were \$10.1 million. We purchased 7 additional rigs while retiring 14 rigs through our modernization program. We plan to continue our efforts to improve rig availability and reliability, and consequently we intend to upgrade part of our already modern fleet through the replacement of some 30 rigs over the next 12 months.

The Company remains in an excellent financial position following turbulent times, with total cash level, net of long-term debt standing at \$26.6 million at quarter-end.

Given the Company's continued ability to generate cash, even in difficult times, the Company is pleased to announce that today its Board of Directors declared a cash dividend of \$0.20 per common share payable on May 3, 2010 to shareholders of record as of April 9, 2010. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

Looking ahead to our fourth quarter and fiscal 2011, we have a positive but cautious view. We continue to see a noticeable increase in inquiries from intermediate and senior customers, and if customers move forward with their stated plans, we should see utilization rates gradually improve as each month goes by. This increase in utilization gives us considerable leverage to increase revenue and profits as we move forward. We expect pricing to remain competitive, at least for the first half of the calendar year. One of the challenges that is re-emerging in our sector is the shortage of experienced drill crews in the industry, a factor that will put some pressure on productivity and margins as we go forward. In Australia, we will be working our way out of some low margin contracts over the next few months while heavy rain will continue to affect our energy operations during February and March.

We would like to note that we have suffered no injuries, nor damage from the destructive earthquake in Chile. We expect to have some minor and very temporary disruptions to our operations as a result of transportation and supply challenges over the next month or so.

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

Third Quarter Fiscal 2010

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD 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 nine-month periods ended January 31, 2010. 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 nine-month periods ended January 31, 2010 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 nine months ended January 31, 2010, 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 February 28, 2010. 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, longstanding 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 recent 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 and the first half of fiscal 2010. 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 drilling, particularly on base metal projects with worldwide mineral exploration expenditures in calendar 2009 falling to US\$8 billion. Senior and intermediate base metal companies that were leveraged reduced their exploration spending in calendar 2009, in order to conserve cash. Many gold producers delayed exploration plans at that time 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.

Early indications show that most senior and intermediate mining companies' exploration budgets will increase in calendar 2010. 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 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.

Most senior and intermediate companies have increased their exploration budgets for calendar 2010, although some remain conservative. Junior mining companies with advanced gold or base metal properties continue to be active and in most cases have ramped up their efforts. However, early stage exploration companies are still experiencing difficulties in getting financing.

Looking ahead to our fourth quarter and fiscal 2011, we have a positive but cautious view. We continue to see a noticeable increase in inquiries from intermediate and senior customers, and if customers move forward with their

stated plans, we should see utilization rates gradually improve as each month goes by. This increase in utilization gives us considerable leverage to increase revenue and profits as we move forward.

Pricing is expected to remain competitive, at least for the first half of the calendar year. One of the challenges that is re-emerging in the sector is the shortage of experienced drill crews in the industry, a factor that will put some pressure on productivity and margins going forward. In Australia, we will be working our way out of some low margin contracts over the next few months while heavy rain will continue to affect our energy operations during February and March.

OVERALL PERFORMANCE

The quarter ended on a good note as the month of January was significantly more active than January last year, which bodes well for the upcoming fourth quarter and calendar 2010. However, November and December of 2009 were still affected by reduced levels of activity from larger mining companies when compared to November and December 2008, as in 2008 companies were still completing their exploration programs before the downturn fully took hold in January 2009. Consequently, and as a result of the fact that mining companies shut down operations, often for extended periods, over the holidays, the Company had expected a loss in this quarter. Also, due to the higher startups in January, the Company incurred significant training, mobilization and setup costs in both mineral and energy sectors, which reduced margins significantly in the third quarter. In Australia, weather delayed startups well into February further compounding margin performance.

Total revenue for the third quarter was \$72.5 million compared to \$87.4 million recorded for the prior year period. November and December revenue was down significantly, impacted by early shutdowns for the holidays from an already low level of activity compared to the same period last year. However, January revenue was significantly higher than last year as activity levels picked up. The unfavorable foreign exchange translation impact for the quarter, when compared to the effective rates for the same period last year, is estimated at \$5 million on revenue.

The overall gross margin percentage for the quarter was 16.5 percent as compared to 27.6 percent for the same period last year. Margins were considerably impacted by costs relating to the ramp up of operations as the Company was gearing up for new contracts. Higher mobilization costs combined with additional personnel being trained added a layer of costs this quarter. Also, with the low levels of activity in the past 12 months, the Company had stored several rigs that had to be re-commissioned for the upcoming quarter bringing higher repair and maintenance costs. Finally, significantly reduced pricing as compared to last year, due to competitive pressures, impacted margins.

Resulting net loss for the quarter was \$4.5 million or \$0.19 per share (\$0.19 per share diluted) compared to \$5.1 million or \$0.21 per share (\$0.21 per share diluted) for the same period last year. Last year's loss included restructuring and impairment charges of \$5.6 million net of tax.

The Company is in an excellent financial position following turbulent times, with total cash level, net of long-term debt standing at \$26.6 million at quarter-end. Despite the difficult environment, the Company continued to generate positive cash flow from operations. Capital expenditures for the quarter were \$10.1 million, as the Company purchased 3 additional rigs for its energy division as it continued to broaden its footprint in the coal and coal seam gas sector. The Company also added 4 rigs to its mineral division as certain types of rigs are in high demand in certain regions.

Given the Company's continued ability to generate cash, even in difficult times, the Company declared a cash dividend of \$0.20 per common share payable on May 3, 2010 to shareholders of record as of April 9, 2010. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

Finally, we would like to note that we have suffered no injuries, nor damage from the destructive earthquake in Chile. We expect to have some minor and very temporary disruptions to our operations as a result of transportation and supply challenges over the next month or so.

RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2010

Total revenue for the third quarter was \$72.5 million compared to \$87.4 million recorded for the prior year period. November and December revenue was down significantly, impacted by early shutdowns for the holidays from an already low level of activity compared to the same period last year. However, January revenue was significantly higher than last year as activity levels picked up. The unfavorable foreign exchange translation impact for the quarter, when compared to the effective rates for the same period last year, is estimated at \$5 million on revenue.

Revenue from Canada-U.S. drilling operations was down 23 percent to \$21.8 million for the quarter compared to \$28.4 million for the same period last year. U.S. operations continued to be significantly impacted by delays and cancellations while Canada saw an increase in revenue during the quarter.

In South and Central America, revenue for the quarter was \$26.5 million, up 13 percent from \$23.5 million recorded in the prior year quarter. Increased activity in Chile and Argentina more than offset a decrease in activity in Mexico.

Australian, Asian and African drilling operations reported revenue of \$24.2 million, down some 32 percent from \$35.5 million reported in the same period last year. All regions were still impacted by low levels of activity and pricing. Also, in Australia, heavy rain affected the startup of operations in January, mainly in our energy sector on the East coast.

The overall gross margin percentage for the quarter was 16.5 percent as compared to 27.6 percent for the same period last year. Margins were considerably impacted by costs relating to the ramp up of operations as the Company was gearing up for new contracts. Higher mobilization costs combined with additional personnel being trained added a layer of costs this quarter. Also, with the low levels of activity in the past 12 months, the Company had stored several rigs that had to be re-commissioned for the upcoming quarter bringing higher repair and maintenance costs. Finally, significantly reduced pricing as compared to last year, due to competitive pressures, impacted margins.

General and administrative costs were \$7.9 million for the quarter, down 30 percent compared to \$11.3 million in the same period last year. The decrease was due to cost cutting initiatives implemented in November 2008 and February 2009.

Other expenses were \$1.8 million for the quarter compared to \$2.0 million for the same period last year. The reduction primarily relates to lower incentive compensation expenses given the Company's decreased profitability as compared to the same period last year, offset by write-downs of fixed assets.

Foreign exchange loss was \$0.2 million for the quarter compared to a gain of \$0.7 million for the prior year period. The loss was due to exchange rate variations on foreign currency monetary working capital items.

Short-term interest expense was nil for the quarter compared to nil last year, while interest on long-term debt was \$0.2 million compared to \$0.5 million for the prior year quarter.

Amortization expense decreased to \$7.3 million for the quarter compared to \$8.5 million for the same quarter last year, as a result of equipment write-downs in the previous quarters.

In last year's third quarter, the Company recorded a restructuring charge of \$6.9 million to account for retrenchment costs of \$1.7 million and asset write-downs of \$5.2 million. Also at that time, the Company recorded a non-cash goodwill and intangible asset impairment charge of \$0.7 million.

The Company's tax recovery was \$1.0 million for the quarter compared to a recovery of \$0.1 million for the same period last year. The tax recovery for this quarter was impacted by the non-recognition or reversal of tax losses in Ecuador and South Africa.

Resulting net loss for the quarter was \$4.5 million or \$0.19 per share (\$0.19 per share diluted) compared to \$5.1 million or \$0.21 per share (\$0.21 per share diluted) for the same period last year.

RESULTS OF OPERATIONS – YEAR TO DATE ENDED JANUARY 31, 2010

Revenue for the nine-month period ending January 31, 2010 decreased 54 percent to \$210.5 million from \$456.6 million for the corresponding period last year. The unfavourable foreign exchange translation impact for the year, when compared to the effective rates for the same period last year, is estimated at less than \$2 million on revenue.

Canada-U.S. revenue decreased by 55 percent to \$66.1 million compared to \$147.6 million last year with both countries affected by cancellations and decreased pricing.

Revenue in South and Central America decreased by 48 percent to \$68.9 million, compared to \$133.1 million in the prior year period. Mexico, Chile and Argentina accounted for most of the reduction.

Revenue in Australia, Asia and Africa decreased 57 percent to \$75.5 million from \$175.8 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 nine-month period were 24.7 percent compared to 34.6 percent last year due mainly to significantly reduced pricing.

General and administrative expenses decreased 34 percent to \$24.9 million compared to \$37.5 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 \$3.8 million for the nine-month period compared to \$10.7 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 \$0.7 million for the nine-month period compared to a loss of \$1.0 million in the prior year period as a result of favourable currency variations.

Short-term interest revenue was \$0.1 million for the nine-month period compared to an expense of \$0.2 million last year, while interest expense on long-term debt was \$0.8 million compared to \$1.4 million for the same period last year.

Amortization expense decreased to \$22.8 million for the nine-month period, compared to \$24.2 million for the same period last year, as a result of equipment write-downs in the previous quarters.

The provision for income tax for the nine-month period was an expense of \$0.9 million compared to \$24.6 million for the prior year period. The tax expense for the year was impacted by the non-recognition or reversal of tax losses in Ecuador and differences in tax rates between regions.

Net loss for the nine-month period was \$3.7 million or \$0.16 per share (\$0.15 per share diluted) compared to earnings of \$50.5 million or \$2.13 per share (\$2.11 per share diluted) for the same period last year.

SUMMARY OF QUARTERLY RESULTS

(in \$000 CDN, except per share)	Fiscal 2008	Fiscal 2009				Fiscal 2010		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$ 169,995	\$ 178,215	\$ 191,010	\$ 87,361	\$ 66,400	\$ 62,489	\$ 75,528	\$ 72,471
Gross profit	59,420	63,304	70,438	24,086	17,806	17,230	22,792	11,979
Gross margin	35.0%	35.5%	36.9%	27.6%	26.8%	27.6%	30.2%	16.5%
Net earnings (loss)	25,361	26,330	29,276	(5,070)	(4,601)	(3,296)	4,060	(4,453)
Per share - basic	1.07	1.11	1.23	(0.21)	(0.19)	(0.14)	0.17	(0.19)
Per share - diluted	1.05	1.10	1.22	(0.21)	(0.19)	(0.14)	0.17	(0.19)

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 \$1.3 million for the quarter compared to \$9.4 million generated in the same period last year. For the nine-month period ended January 31, 2010, cash flow from operations (before changes in non-cash working capital items) was \$21.2 million compared to \$84.9 million generated in the same period last year.

The change in non-cash operating working capital items for the quarter was an inflow of \$11.9 million compared to an inflow of \$33.6 million for the same quarter last year. The change in non-cash operating working capital in this year's quarter was primarily impacted by:

- A decrease in accounts receivable of \$8.4 million;
- An increase in inventory of \$3.0 million as a result of reduced purchasing, and;
- An increase in accounts payable of \$6.3 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 accounts receivable of \$60.2 million due to a decrease in activity as compared to the previous quarter as the Company experienced the usual seasonality with the holiday shutdowns, compounded by delays or cancellation of drilling programs in January 2009;
- A decrease in accounts payable of \$28.8 million due to a seasonal decrease in activity as compared to the previous quarter.

Financing Activities

Total long-term debt decreased by \$2.6 million during the quarter from \$29.7 million at October 31, 2009 to \$27.1 million at January 31, 2010. The decrease is due to debt repayments of \$2.6 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.

In the third quarter of the current fiscal year, the Company reviewed the available credit facilities and decided to reduce its operating facility from \$30.0 million to \$25.0 million and its facility available for financing the cost of equipment purchases or acquisition costs of related businesses from \$65.0 million to \$45.0 million. This reduction in financing facilities was made at the sole discretion of the Company in order to reduce financing costs.

The credit facilities related to operations total \$27.2 million (\$25.0 million from a Canadian chartered bank and \$2.2 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 January 31, 2010, the Company had utilized \$1.9 million of these lines for stand-by letters of credit.

The Company has a \$45.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At January 31, 2010, the Company had utilized \$22.2 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 \$11.2 million at January 31, 2010, of which \$4.9 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 January 31, 2010, the Company had unused borrowing capacity under its credit facilities of \$54.4 million and cash of \$53.7 million, for a total of \$108.1 million in available funds.

During the third quarter, the Company paid a semi-annual dividend of \$4.7 million.

Investing Activities

Capital expenditures were \$10.1 million for the quarter ended January 31, 2010 compared to \$14.3 million for the same period last year. Also, the Company sold a small amount of equipment, generating proceeds of \$0.1 million as compared to \$1.1 million the previous year.

During the quarter, the Company purchased 7 additional rigs while retiring 14 rigs through its modernization program. The Company added 3 of those new rigs to its energy division as it continues to broaden its footprint in the coal and coal seam gas sector. It also added 4 rigs to its mineral division as certain types of rigs are in high demand in certain regions. The Company plans to continue its efforts to improve rig availability and reliability, and consequently it intends to upgrade part of its already modern fleet through the replacement of some 30 rigs over the next 12 months.

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 \$5 million on revenue but less than \$0.6 million on net loss. The unfavourable impacts of foreign exchange translation for the nine-month period ended January 31, 2010, when comparing to the effective rates for the same period last year, is estimated at less than \$2 million on revenue and less than \$0.6 million on net earnings.

OTHER COMPREHENSIVE (LOSS) EARNINGS

The consolidated statements of comprehensive (loss) earnings for the quarter include \$1.0 million in unrealized losses 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 0.2 percent against the U.S. dollar but weakened 3 percent against the Australian dollar, decreasing the net value of our net asset position in these subsidiaries in Canadian dollar terms.

RESTRUCTURING CHARGE

For the nine-month period ended January 31, 2010, the Company took 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 the first quarter of the year. No further restructuring charges were incurred during the quarter ended January 31, 2010.

During the third quarter of fiscal 2009, the Company initiated a restructuring plan to standardize the drilling equipment fleet and reduce operating costs by rationalizing the workforce and business locations. These initiatives generated a total restructuring charge of \$6.9 million and \$2.1 million in the third and fourth quarters respectively.

GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT

For the nine-month period ended January 31, 2010, 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.

For the nine-month period ended January 31, 2009, the Company recorded an impairment charge of \$0.7 million. Of this amount, \$0.3 million relates to the value attributed to the acquired contracts and recorded as intangible assets from the Forage à Diamant Benoît Ltée acquisition. This impairment was required as the majority of these contracts were completed early due to the current economic conditions. Goodwill of \$0.4 million from the Longstaff Group of Companies purchased in the third quarter of 2007 was also impaired due to the economic downturn and 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 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 became generally scarce under recent 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 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, Tanzania 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, 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 recent economic conditions, the Company re-examined its significant management estimates. Except for the goodwill impairment charge in the first quarter, there have been no new material changes this year 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 January 31, 2010, 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 completed the scoping and planning phase. We are now engaged in the detailed assessment phase ("phase 2"), this 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 February 28, 2010, there were 23,747,573 common shares issued and outstanding in the Company. This represents an increase of 25,000 issued and outstanding shares as compared to the number reported in our second quarter MD&A (reported as of November 30, 2009).

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

	Nine months ended January 31		Three months ended January 31	
	<u>2010</u>	2009	<u>2010</u>	2009
TOTAL REVENUE	\$ 210,488	\$ 456,586	\$ 72,471	\$ 87,361
DIRECT COSTS	158,487	298,758	60,492	63,275
GROSS PROFIT	<u>52,001</u>	<u>157,828</u>	<u>11,979</u>	<u>24,086</u>
OPERATING EXPENSES				
General and administrative	24,930	37,472	7,932	11,300
Other expenses	3,828	10,739	1,796	2,043
Foreign exchange (gain) loss	(663)	954	166	(674)
Interest (revenue) expense	(128)	220	(33)	13
Interest expense on long-term debt	813	1,415	239	471
Amortization	22,783	24,216	7,343	8,463
Restructuring charge (note 5)	1,220	6,919	-	6,919
Goodwill and intangible assets impairment (note 6)	2,032	732	-	732
	<u>54,815</u>	<u>82,667</u>	<u>17,443</u>	<u>29,267</u>
(LOSS) EARNINGS BEFORE INCOME TAX	<u>(2,814)</u>	<u>75,161</u>	<u>(5,464)</u>	<u>(5,181)</u>
INCOME TAX - PROVISION (RECOVERY)				
Current	3,214	22,677	1,912	(230)
Future	(2,339)	1,948	(2,923)	119
	<u>875</u>	<u>24,625</u>	<u>(1,011)</u>	<u>(111)</u>
NET (LOSS) EARNINGS	<u>\$ (3,689)</u>	<u>\$ 50,536</u>	<u>\$ (4,453)</u>	<u>\$ (5,070)</u>
<u>(LOSS) EARNINGS PER SHARE</u>				
Basic *	<u>\$ (0.16)</u>	<u>\$ 2.13</u>	<u>\$ (0.19)</u>	<u>\$ (0.21)</u>
Diluted **	<u>\$ (0.15)</u>	<u>\$ 2.11</u>	<u>\$ (0.19)</u>	<u>\$ (0.21)</u>

*Based on 23,719,622 and 23,709,136 daily weighted average shares outstanding for the fiscal year to date 2010 and 2009, respectively and on 23,723,932 and 23,711,073 daily weighted average shares for the quarter ended January 31, 2010 and 2009, respectively. The total number of shares outstanding on January 31, 2010 was 23,747,573.

**Based on 23,874,652 and 23,945,107 daily weighted average shares outstanding for the fiscal year to date 2010 and 2009, respectively and on 23,938,688 and 23,812,526 daily weighted average shares outstanding for the third quarter ended January 31, 2010 and 2009, respectively.

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

	Nine months ended January 31		Three months ended January 31	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NET (LOSS) EARNINGS	\$ (3,689)	\$ 50,536	\$ (4,453)	\$ (5,070)
OTHER COMPREHENSIVE (LOSS) EARNINGS				
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	<u>(24,975)</u>	<u>38,476</u>	<u>(959)</u>	<u>4,123</u>
COMPREHENSIVE (LOSS) EARNINGS	<u>\$ (28,664)</u>	<u>\$ 89,012</u>	<u>\$ (5,412)</u>	<u>\$ (947)</u>

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

	Nine months ended January 31	
	<u>2010</u>	<u>2009</u>
RETAINED EARNINGS, BEGINNING OF THE PERIOD	\$ 218,983	\$ 182,533
Net (loss) earnings	(3,689)	50,536
Dividend	(4,745)	(4,742)
RETAINED EARNINGS, END OF THE PERIOD	<u>\$ 210,549</u>	<u>\$ 228,327</u>

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

	Nine months ended January 31	
	<u>2010</u>	<u>2009</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE PERIOD	\$ (5,079)	\$ (44,552)
Unrealized (losses) gains on translating financial statements of self-sustaining foreign operations	<u>(24,975)</u>	<u>38,476</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF THE PERIOD	<u>\$ (30,054)</u>	<u>\$ (6,076)</u>

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

	Nine months ended January 31		Three months ended January 31	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES				
Net (loss) earnings	\$ (3,689)	\$ 50,536	\$ (4,453)	\$ (5,070)
Operating items not involving cash				
Amortization	22,783	24,216	7,343	8,463
Restructuring charge	-	5,194	-	5,194
Loss (gain) on disposal of property, plant and equipment	934	961	933	(203)
Future income tax	(2,339)	1,948	(2,923)	119
Stock-based compensation	1,485	1,273	441	175
Goodwill and intangible assets impairment (note 6)	2,032	732	-	732
	<u>21,206</u>	<u>84,860</u>	<u>1,341</u>	<u>9,410</u>
Changes in non-cash operating working capital items	<u>11,562</u>	<u>31,152</u>	<u>11,887</u>	<u>33,604</u>
	<u>32,768</u>	<u>116,012</u>	<u>13,228</u>	<u>43,014</u>
Changes in non-cash operating working capital items from discontinued operations	-	(1,898)	-	(1,898)
Cash flow from operating activities	<u>32,768</u>	<u>114,114</u>	<u>13,228</u>	<u>41,116</u>
FINANCING ACTIVITIES				
Repayment of long-term debt	(9,026)	(9,094)	(2,557)	(3,171)
Acquisition of long-term debt	-	10,000	-	-
Repayment of demand credit facilities	-	(2,179)	-	-
Issuance of common shares	28	28	-	-
Dividend paid	(9,488)	(4,742)	(4,745)	-
Cash flow used in financing activities	<u>(18,486)</u>	<u>(5,987)</u>	<u>(7,302)</u>	<u>(3,171)</u>
INVESTING ACTIVITIES				
Business acquisition	-	(21,867)	-	(62)
Acquisition of property, plant and equipment, net of direct financing	(17,282)	(48,288)	(10,074)	(14,324)
Proceeds from disposal of property, plant and equipment	1,610	3,040	113	1,147
Cash flow used in investing activities	<u>(15,672)</u>	<u>(67,115)</u>	<u>(9,961)</u>	<u>(13,239)</u>
OTHER ACTIVITIES				
Foreign exchange translation adjustment	<u>(2,954)</u>	<u>5,052</u>	<u>203</u>	<u>3,027</u>
(DECREASE) INCREASE IN CASH	(4,344)	46,064	(3,832)	27,733
CASH POSITION, BEGINNING OF THE PERIOD	58,035	20,695	57,523	39,026
CASH POSITION, END OF THE PERIOD	<u>\$ 53,691</u>	<u>\$ 66,759</u>	<u>\$ 53,691</u>	<u>\$ 66,759</u>

Major Drilling Group International Inc.
Consolidated Balance Sheets

As at January 31, 2010 and April 30, 2009

(in thousands of Canadian dollars)

(unaudited)

ASSETS	January	April
	2010	2009
CURRENT ASSETS		
Cash	\$ 53,691	\$ 58,035
Accounts receivable	42,761	52,538
Income tax receivable	9,025	6,014
Inventories	65,349	72,764
Prepaid expenses	4,332	3,478
Future income tax assets	839	2,644
	<u>175,997</u>	<u>195,473</u>
PROPERTY, PLANT AND EQUIPMENT	218,797	240,224
FUTURE INCOME TAX ASSETS	7,103	1,403
GOODWILL AND INTANGIBLE ASSETS (note 9)	26,137	32,072
	<u>\$ 428,034</u>	<u>\$ 469,172</u>
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 49,185	\$ 47,691
Income tax payable	1,633	1,719
Current portion of long-term debt	10,218	15,049
Future income tax liabilities	717	1,071
	<u>61,753</u>	<u>65,530</u>
LONG-TERM DEBT	16,903	23,507
FUTURE INCOME TAX LIABILITIES	15,928	14,789
	<u>94,584</u>	<u>103,826</u>
SHAREHOLDERS' EQUITY		
Share capital	142,261	142,233
Contributed surplus	10,694	9,209
Retained earnings	210,549	218,983
Accumulated other comprehensive loss	(30,054)	(5,079)
	<u>333,450</u>	<u>365,346</u>
	<u>\$ 428,034</u>	<u>\$ 469,172</u>

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

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

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

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 \$6,919 and \$2,124 were expensed in the third and fourth quarters respectively of fiscal year 2009 and \$1,220 was expensed in the first quarter of the current fiscal year.

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 January 31, 2010, these charges had been fully paid.

6. GOODWILL AND INTANGIBLE ASSETS 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.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

6. GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT (Continued)

In the third quarter of fiscal year 2009, the Company recorded an impairment charge of \$732. Of this amount, \$350 relates to the value attributed to the acquired contracts, and recorded as intangible assets, from the Forage à Diamant Benoît Ltée purchase in the second quarter of fiscal year 2009. This impairment was required as the majority of these contracts have been completed early due to the current economic conditions. Goodwill of \$382 from the Longstaff Group of Companies, purchased in the third quarter of 2007, has also been impaired due to the economic downturn and the inability of this region to generate the expected revenue.

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	<u>\$ 23,117</u>

Consideration	
Cash	\$ 21,867
Accounts payable	500
Long-term debt	750
	<u>\$ 23,117</u>

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

8. INVENTORY

The cost of inventory recognized as an expense and included in direct costs for the nine and three months ended January 31, 2010 was \$44,526 and \$17,436 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

	<u>January 2010</u>	<u>April 2009</u>
Goodwill	\$ 24,959	\$ 30,470
Intangible assets	<u>1,178</u>	<u>1,602</u>
	<u>\$ 26,137</u>	<u>\$ 32,072</u>

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 nine and three months ending January 31, 2010:

	<u>2010 YTD</u>	<u>2009 YTD</u>	<u>2010 Q3</u>	<u>2009 Q3</u>
Balance at beginning of the period	\$ 32,072	\$ 14,837	\$ 26,297	\$ 32,354
Amortization of intangible assets	(396)	(30)	(132)	(30)
Goodwill adjustment (note 6)	(1,690)	-	-	-
Goodwill impairment (note 6)	(2,032)	(732)	-	(732)
Goodwill and intangible assets acquired	-	14,931	-	174
Effect of foreign currency exchange rate changes	<u>(1,817)</u>	<u>3,081</u>	<u>(28)</u>	<u>321</u>
	<u>\$ 26,137</u>	<u>\$ 32,087</u>	<u>\$ 26,137</u>	<u>\$ 32,087</u>

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.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

10. CAPITAL MANAGEMENT (Continued)

Total managed capital was as follows:

	<u>January 2010</u>	<u>April 2009</u>
Long-term debt	\$ 27,121	\$ 38,556
Share capital	142,261	142,233
Contributed surplus	10,694	9,209
Retained earnings	210,549	218,983
Cash	<u>(53,691)</u>	<u>(58,035)</u>
	<u>\$ 336,934</u>	<u>\$ 350,946</u>

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.

In the third quarter of the current fiscal year, the Company reviewed the available credit facilities and decided to reduce its operating facility from \$30.0 million to \$25.0 million and its facility available for financing the cost of equipment purchases or acquisition costs of related businesses from \$65.0 million to \$45.0 million. This reduction in total available funds of \$25.0 million was made at the sole discretion of the Company in order to reduce financing costs.

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 \$27,121 as at January 31, 2010 (April 30, 2009 - \$38,556) and also approximates its fair market value.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

11. FINANCIAL INSTRUMENTS (Continued)

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 22 percent (28 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 aged analyses 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 January 31, 2010, 76.4 percent of the Company's trade receivables are aged as current (less than 30 days) and 4.7 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.

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 January 31, 2010 the Company has estimated that a one percentage point increase in interest rates would have caused a quarterly decrease in net income of approximately \$58 and a one percentage decrease in interest rates would have caused a quarterly increase in net income of \$58.

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.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

11. FINANCIAL INSTRUMENTS (Continued)

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 January 31, 2010, 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:

	<u>Increase (decrease) in net earnings</u>	
	<u>Canadian dollar appreciates 10%</u>	<u>Canadian dollar depreciates 10%</u>
US Dollar	\$ 359	\$ (359)
Indonesian Rupiah	(196)	196
Mexican Peso	(409)	409
Chilean Peso	340	(340)

	<u>Increase (decrease) in comprehensive earnings</u>	
	<u>Canadian dollar appreciates 10%</u>	<u>Canadian dollar depreciates 10%</u>
Australian Dollar	\$ (1,362)	\$ 1,362
US Dollar	(25,059)	25,059

Liquidity risk

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

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 January 31, 2010 are as follows:

	<u>Total</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>5+ years</u>
Accounts payable & accrued charges	\$ 49,185	\$ 49,185	\$ -	\$ -	\$ -
Long-term debt	27,121	10,218	12,852	4,051	-
	<u>\$ 76,306</u>	<u>\$ 59,403</u>	<u>\$ 12,852</u>	<u>\$ 4,051</u>	<u>\$ -</u>

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED JANUARY 31, 2010 AND 2009
(in thousands of Canadian dollars)

12. SEGMENTED INFORMATION

	<u>2010 YTD</u>	<u>2009 YTD</u>	<u>2010 Q3</u>	<u>2009 Q3</u>
Revenue				
Canada - U.S.	\$ 66,081	\$ 147,647	\$ 21,802	\$ 28,376
South and Central America	68,889	133,119	26,486	23,515
Australia, Asia and Africa	75,518	175,820	24,183	35,470
	<u>\$ 210,488</u>	<u>\$ 456,586</u>	<u>\$ 72,471</u>	<u>\$ 87,361</u>
Earnings (loss) from operations				
Canada - U.S.	\$ 5,394	\$ 38,142	\$ 13	\$ 3,286
South and Central America	5,400	32,591	132	2,778
Australia, Asia and Africa	(2,317)	27,562	(2,883)	124
	<u>8,477</u>	<u>98,295</u>	<u>(2,738)</u>	<u>6,188</u>
Eliminations	<u>(1,024)</u>	<u>(916)</u>	<u>(367)</u>	<u>(313)</u>
	<u>7,453</u>	<u>97,379</u>	<u>(3,105)</u>	<u>5,875</u>
Interest expense, net	685	1,635	206	484
General corporate expenses	6,330	12,932	2,153	2,921
Restructuring charge	1,220	6,919	-	6,919
Goodwill and intangible assets impairment	2,032	732	-	732
Income tax	875	24,625	(1,011)	(111)
Net (loss) earnings	<u>\$ (3,689)</u>	<u>\$ 50,536</u>	<u>\$ (4,453)</u>	<u>\$ (5,070)</u>

Goodwill and intangible assets impairment relates to the South and Central American segment for the current fiscal year and Canada – U.S. for the 2009 year (see Note 6 – Goodwill and Intangible Assets Impairment).