



## President's Report to Shareholders – Third Quarter 2015

During the quarter the Company had revenue of \$69.8 million, down marginally from the \$71.8 million recorded in Q3 last year. Net loss was \$19.0 million, or \$0.24 per share, compared to \$12.8 million, or \$0.16 per share last year. Quarterly EBITDA was a loss of \$6.6 million, compared to a profit of \$0.6 million last year. The overall gross margin percentage for the quarter was 11.2%, compared to 24.7% for Q3 of the prior year. Q3 is traditionally the weakest quarter of our fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season.

Our third quarter was extremely challenging. Year-over-year revenue was relatively flat. The gains made with the addition of our new percussive drilling division were offset by the loss of revenue in our energy business and the closures of our operations in Australia and the Democratic Republic of Congo. Third quarter margins are typically impacted by a slowdown during the holiday season, but this quarter was hit particularly hard. The three main elements affecting margins were: reduced pricing; extensive mobilizations and repositioning costs; and high repair and purchasing costs in anticipation of the post-Christmas startups. We have seen a significant decrease in higher margin specialized drilling and a much greater focus on production related drilling, which generates lower revenue and has lower margins. Revenue and margins should return to their pre-holiday levels as we move forward.

As we go through this challenging period, we continue to focus on cash preservation. Major Drilling remains net debt free, with a net cash position of \$31.9 million at the end of the quarter, a decrease of \$0.4 million during the quarter. We feel this puts us in a strong position to react quickly when the industry begins to recover, as our financial strength has allowed us to invest in safety, to maintain our equipment in excellent condition, and to retain many of our skilled employees. We will continue to focus on cash management by limiting capital expenditures and by closely monitoring costs.

We will, however, react to local conditions in specific markets when necessary.

Long-term, we believe that most commodities will face an imbalance between supply and demand as mining reserves continue to decrease due to the lack of exploration, while despite an economic slowdown, worldwide consumption continues to increase. At some point in the near future, the need to develop resources in areas that are increasingly difficult to access will significantly increase, at which time we expect to see a resurgence in demand for specialized drilling.

Given the current low commodity price environment and the uncertainty over how long it will persist, the Company's Board of Directors has approved an amended dividend policy, declaring a cash dividend of \$0.02 per common share payable on May 1, 2015 to shareholders of record as of April 7, 2015. The Company believes that it is prudent to lower the amount of its semi-annual dividend to ensure that it balances its cash inflows with capital expenditure requirements, preserves its ability to adequately respond to a future upturn in the mining industry and emerge as one of the strongest drilling companies. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

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

Francis P. McGuire  
President & CEO

***MAJOR***

*Partners on the Ground*

**Management's Discussion and Analysis**

**Third Quarter Fiscal 2015**

## **MAJOR DRILLING GROUP INTERNATIONAL INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **THIRD QUARTER FISCAL 2015**

This Management's Discussion and Analysis ("MD&A") relates to the results of operations, financial condition and cash flows of Major Drilling Group International Inc. ("Major Drilling" or the "Company") as at and for the three-month period ended January 31, 2015. All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These quarterly unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A is a review of activities and results for the quarter ended January 31, 2015 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited interim condensed consolidated financial statements as at and for the three months ended January 31, 2015, 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, 2014.

This MD&A is dated February 28, 2015. Disclosure contained in this document is current to that date, unless otherwise stated.

#### **FORWARD-LOOKING STATEMENTS**

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. These forward-looking statements are typically identified by future or conditional verbs such as "outlook", "believe", "anticipate", "estimate", "project", "expect", "intend", "plan", and terms and expressions of similar import.

Such forward-looking statements are subject to a number of risks and uncertainties, which include, but are not limited to: cyclical downturn, competitive pressures, dealing with business and political systems in a variety of jurisdictions, repatriation of property in other jurisdictions, payment of taxes in various jurisdictions, exposure to currency movements, inadequate or failed internal processes, people or systems or from external events, dependence on key customers, safety performance, expansion and acquisition strategy, legal and regulatory risk, corruption, bribery and fraud by employees and agents, extreme weather conditions and the impact of natural or other disasters, specialized skills and cost of labour increases, equipment and parts availability and reputational risk. 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 also discussed in the Company's Annual Information Form.

Additional information relating to the Company, including the Company's Annual Information Form for the most recently completed financial year, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **CORPORATE OVERVIEW**

Major Drilling Group International Inc. is one of the world's largest drilling services 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, Mexico, South America, Asia, and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, sonic, geotechnical, environmental, water-well, coal-bed methane, shallow gas and underground percussive/longhole drilling.

## **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 prudent debt levels and remaining best in class in safety and human resources. The Company is also diversifying into energy and additional underground drilling services, such as percussive/longhole services, which are complementary to its skill set.

The Company categorizes its mineral 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, the Company believes these skills will be in greater and greater demand.

Conventional drilling tends to be 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 later stages of the mining cycle as clients develop underground mines. The Company recently entered a new type of underground service with the acquisition of Taurus Drilling Services, a provider of underground percussive/longhole drilling to mining companies. Percussive/longhole drilling is more related to the production function of a mine. Offering both underground production drilling and its existing underground core drilling, the Company now provides an even wider range of complementary services to its clients.

A key part of the Company's strategy is to maintain a strong balance sheet. The Company is in a unique position to react quickly when the industry begins to recover as its financial strength allows it to invest in safety and to maintain its equipment in excellent condition. The Company also has a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue, and a large part of the Company's other expenses relate to variable incentive compensation based on the Company's profitability.

## **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. Gold has always been a significant driver in the mining industry accounting for 40 to 50% of the exploration spend carried out around the world. Exploration activity generally varies up or down with the trend in gold prices.

The demand for base metals is dependent on economic activity. In the longer-term, the fundamental drivers of base metals remain positive, with worldwide supply for most metals expected to tighten and higher demand coming from the emergence of the BRIC countries (Brazil, Russia, India and China) over the last 10 years. As these countries continue to urbanize, the requirement for base metals will continue to increase at the same time as the easily accessible reserves are being depleted.

One of the realities of the mining industry is that future mineral deposits will have to come from areas difficult to access, either in remote or politically sensitive areas, deeper in the ground or at higher altitudes. This should improve demand for specialized services in the future.

In terms of customer base, the Company has two categories of customers: senior and intermediate companies with operating mines, and junior exploration companies.

The industry is currently in a cyclical downturn. At this point in time, most senior and intermediate mining companies are more cautious with their investments in exploration. Large base metal producers will eventually need to expand existing mines and develop new ones to meet the world's growth, especially in emerging markets. Activity from senior gold producers is likely to show greater volatility as gold prices vary, which will impact their exploration budgets.

Many junior mining companies continue to experience financing difficulties and thus have slowed down their exploration efforts. Junior mining companies can account for some 50% of the drilling market in cyclical upturns. While it is expected that some of the more advanced projects will be able to obtain financing as needed, it will be necessary for investors to once again support exploration projects in order for drilling activities to regain the momentum that they had at their peak.

## **BUSINESS ACQUISITION**

### *Acquisition of Taurus Drilling Services*

Effective August 1, 2014, the Company entered into the underground percussive/longhole drilling sector with its purchase of the operations of Taurus Drilling Services ("Taurus"), based in Canada and the United States. The acquisition has been accounted for using the acquisition method and the results of this operation have been included in the Interim Condensed Consolidated Statements of Operations from the closing date. Through this purchase, which fits with the Company's strategic focus on specialized drilling, the Company acquired 39 underground drill rigs, support equipment and inventory, existing contracts and receivables, the operation's management team, and other employees, including experienced drillers.

The purchase price for the transaction was \$29.5 million (consisting of \$20.7 million in cash, \$8.7 million in Major Drilling shares, and \$0.1 million in assumption of debt), and an additional maximum amount of \$11.5 million (undiscounted) tied to performance. The estimated fair value of the contingent consideration was \$10.1 million at January 31, 2015. The additional payout period extends for three years, commencing on August 1, 2014, and payments are contingent on growing EBITDA (earnings before interest, taxes, depreciation and amortization) run rates above levels at the date of acquisition.

## **OVERALL PERFORMANCE**

The current economic environment continues to impact drilling in the short to medium-term, particularly on gold projects where the Company has seen a significant slowdown in activity since calendar 2013. Sources of funding for junior mining companies are limited, and as such many of their projects, both in the base metals and gold sectors, have been delayed or cancelled. In a number of jurisdictions, uncertainty as to the policies of host governments or issues of land tenure also continue to have an impact on results.

The third quarter was extremely challenging. Year-over-year revenue was relatively flat at \$69.8 million. The gains made with the addition of the new percussive drilling division were offset by the loss of revenue in the Company's energy business and the closures of its operations in Australia and the Democratic Republic of Congo ("DRC").

Third quarter margins are typically impacted by a slowdown during the holiday season, but this quarter was hit particularly hard. The three main elements affecting margins were: reduced pricing; extensive mobilizations and

repositioning costs; and high repair and purchasing costs in anticipation of the post-Christmas startups. The Company has seen a significant decrease in higher margin specialized drilling and a much greater focus on production related drilling, which generates lower revenue and has lower margins.

Net loss was \$19.0 million or \$0.24 per share (\$0.24 per share diluted) for the quarter, compared to a net loss of \$12.8 million or \$0.16 per share (\$0.16 per share diluted) for the prior year quarter.

Given the current low commodity price environment and the uncertainty over how long it will persist, the Company's Board of Directors has approved an amended dividend policy, declaring a cash dividend of \$0.02 per common share payable on May 1, 2015 to shareholders of record as of April 7, 2015. The Company believes that it is prudent to lower the amount of its semi-annual dividend to ensure that it balances its cash inflows with capital expenditure requirements, preserves its ability to adequately respond to a future upturn in the mining industry and emerge as one of the strongest drilling companies.

## **RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2015**

Total revenue for the quarter was \$69.8 million, down 3% from revenue of \$71.8 million recorded in the same quarter last year. There have been continued delays in the decision making process on the part of many of the Company's senior customers in regards to their 2015 exploration drilling programs, and many junior customers have suspended drilling activities. The favourable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same period last year, is estimated at \$2.6 million on revenue but negligible on net earnings.

Revenue for the quarter from Canada-U.S. drilling operations increased by 27% to \$41.1 million compared to the same period last year. The increase relates to the Taurus acquisition and is somewhat offset by the slowdown in the energy sector.

South and Central American revenue was down 8% to \$17.2 million for the quarter, compared to the same quarter last year. Chile and Argentina were affected by a reduction in work by juniors and the cancellation of certain projects, while Mexico saw a slight increase in demand compared to the same period last year.

Australian, Asian and African operations reported revenue of \$11.5 million, down 45% from the same period last year. Several factors affected the region's revenue this quarter compared to last year. The Company closed its operations in Australia earlier in the year, and also closed its operations in the DRC due to ongoing administrative difficulties associated with operating in that country. Also, Mongolia continues to be affected by political uncertainty around mining laws.

The overall gross margin percentage for the quarter was 11.2%, down from 24.7% for the same period last year. Third quarter margins are typically impacted by a slowdown during the holiday season combined with higher than usual mobilizations, demobilizations and increased repairs during this period. Margins continue to be affected by reduced pricing due to increased competitive pressures. As well, customers are focusing on mine site drilling, especially underground drilling, which tends to have lower margins.

General and administrative costs decreased 3% from last year at \$11.7 million for the quarter despite an increase due to foreign exchange translation and the Taurus acquisition. With the decrease in activity, the Company has reduced its general and administrative costs by implementing reductions of salaried employees and restructuring certain branches.

Foreign exchange loss was \$0.8 million compared to a loss of \$3.3 million last year. Most of last year's quarterly loss was related to the devaluation of the Argentine peso and the Company crystallized currency losses by converting some of its Argentine pesos into U.S. dollar investments, although at a significant discount, to protect against further devaluations.

The income tax provision for the quarter was a recovery of \$1.7 million compared to a recovery of \$0.5 million for the prior year period. The tax recovery for the quarter was impacted by non-tax affected losses and non-deductible expenses.

Net loss was \$19.0 million or \$0.24 per share (\$0.24 per share diluted) for the quarter, compared to a net loss of \$12.8 million or \$0.16 per share (\$0.16 per share diluted) for the prior year quarter.



## **RESULTS OF OPERATIONS – YEAR-TO-DATE ENDED JANUARY 31, 2015**

Revenue for the nine months ended January 31, 2015 decreased 18% to \$224.5 million from \$272.3 million for the corresponding period last year.

Revenue from Canada-U.S. drilling operations decreased by 2% to \$127.3 million compared to the same period last year as both countries were affected by the slowdown in the industry, but was offset by the Taurus acquisition.

South and Central American revenue was down 6% to \$54.6 million compared to the same period last year. Chile and Argentina were affected by a reduction in work by juniors and the cancellation of projects.

Australian, Asian and African operations reported revenue of \$42.6 million, down 50% from the same period last year. Three main factors affected the region's revenue: 1) Australia, where the Company has shut down operations, 2) Mongolia, which is affected by political uncertainty around mining laws, 3) DRC, where the Company has closed its operations due to ongoing administrative difficulties associated with operating in that country.

Gross margin for the year-to-date was 20.1% compared to 30.4% last year. Margins were affected by reduced pricing due to increased competitive pressures. As well, margins were affected by higher than normal repair costs, as the Company continues to prepare rigs in order to be able to respond rapidly to any customer requests.

General and administrative expenses decreased by \$3.5 million or 9% to \$33.9 million compared to the prior year. With the decrease in activity, the Company has reduced its general and administrative costs by implementing reductions of salaried employees and restructuring certain branches. This decrease was somewhat offset by the addition of the Taurus operations.

Other expenses were \$4.0 million compared to \$2.7 million last year, due primarily to higher bad debt provisions and acquisition costs relating to the Taurus acquisition.

Foreign exchange loss was \$2.3 million compared to a loss of \$5.3 million last year. Most of last year's loss relates to the devaluation of the Argentine peso and the Company crystallized currency losses by converting some of its Argentine pesos into U.S. dollar investments at a significant discount during the year to protect against further devaluations.

The Company has recorded a restructuring charge of \$3.8 million compared to \$3.2 million last year, consisting primarily of retrenchment costs following additional staff reduction initiatives implemented during the year across the Company.

The provision for income tax year-to-date was a recovery of \$1.7 million compared to an expense of \$10.4 million for the prior year period. This year's tax recovery is impacted by non-tax affected losses and non-deductible expenses. Last year's tax expense was mostly impacted by three main factors: 1) a non-tax deductible goodwill impairment charge; 2) a combined write down and unrecognized tax losses on its Australian and Colombian deferred tax assets related to carry-forward losses given the uncertainty in the near-term outlook for adequate taxable income in Australia and Colombia; and 3) a non-tax deductible foreign exchange loss in Argentina.

Net loss was \$36.5 million or \$0.46 per share (\$0.46 per share diluted) compared to a net loss of \$30.4 million or \$0.38 per share (\$0.38 per share diluted) last year.

## SUMMARY OF QUARTERLY RESULTS

(in \$000 CAD, except per share)	Fiscal 2013	Fiscal 2014				Fiscal 2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$ 135,537	\$ 108,211	\$ 92,268	\$ 71,830	\$ 82,637	\$ 67,551	\$ 87,192	\$ 69,784
Gross profit	43,087	35,122	30,011	17,770	21,524	16,667	20,736	7,786
Gross margin	31.8%	32.5%	32.5%	24.7%	26.0%	24.7%	23.8%	11.2%
Net earnings (loss)	2,174	1,522	(19,100)	(12,797)	(24,935)	(7,331)	(10,148)	(18,999)
Per share - basic	0.03	0.02	(0.24)	(0.16)	(0.31)	(0.09)	(0.13)	(0.24)
Per share - diluted	0.03	0.02	(0.24)	(0.16)	(0.31)	(0.09)	(0.13)	(0.24)

With the exception of the third quarter, the Company does not exhibit much 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.

## LIQUIDITY AND CAPITAL RESOURCES

### *Operating Activities*

Cash flow from operations (before changes in non-cash operating working capital items, finance costs and income taxes) was an outflow of \$6.2 million for the quarter compared to an inflow of \$1.7 million generated in the same period last year.

The change in non-cash operating working capital items was an inflow of \$16.0 million for the quarter compared to an inflow of \$1.9 million for the same period last year. The inflow in non-cash operating working capital in the quarter ended January 31, 2015 was primarily impacted by:

- A decrease in accounts receivable of \$20.4 million due to decreased activity in the third quarter; offset by
- A decrease in accounts payable of \$5.5 million (net of dividend paid of \$8.0 million).

### *Financing Activities*

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.

### Operating Credit Facilities

The credit facilities related to operations total \$32.9 million (\$25.0 million from Canadian chartered banks, \$4.1 million for a Chilean pesos facility and \$3.8 million in various credit facilities) and are primarily secured by corporate guarantees of companies within the group. At January 31, 2015, the Company had utilized \$8.2 million of these lines mainly for stand-by letters of credit. The Company also has a credit facility of \$3.3 million for credit cards for which interest rate and repayment are as per cardholder agreements.

### Long-Term Debt

Total long-term debt decreased by \$1.5 million during the quarter to \$16.1 million at January 31, 2015. Debt repayments were \$1.7 million during the quarter.

As of January 31, 2015, the Company had the following long-term debt facilities:

- \$8.3 million non-revolving facility amortized over five years ending in September 2016.



- \$50.0 million revolving facility for financing the cost of equipment purchases or acquisition costs of related businesses. At January 31, 2015, this facility had not been utilized.
- \$6.6 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.
- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled \$1.2 million at January 31, 2015, which were fully drawn and mature through 2018.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure, dividend and debt obligations. As at January 31, 2015, the Company had unused borrowing capacity under its credit facilities of \$74.7 million and cash of \$50.7 million, for a total of \$125.4 million in available funds.

### ***Investing Activities***

Net capital expenditures were \$2.6 million for the quarter ended January 31, 2015 compared to \$5.7 million for the same period last year.

During the quarter, the Company added 2 drill rigs through its capital expenditure program while retiring or disposing of 11 drill rigs through its modernization program. This brings the total drill rig count to 711 at quarter-end.

## **OUTLOOK**

Due to the uncertainty around economic matters impacting the mining market, it is very difficult to forecast customer demand over the next twelve months, as senior customers are still very cautious about investing in future projects. In the immediate future, however, the Company is adding revenue from the Taurus acquisition, which has allowed the Company to provide an even wider range of complementary services, adding underground production drilling to existing underground core drilling. Also, the Company is in a unique position to react quickly when the industry begins to recover as the Company's financial strength has allowed it to invest in safety and to maintain its equipment in excellent condition.

In the short-term, revenue and margins should return to their pre-holiday levels as we move forward.

Long-term, the Company believes that most commodities will face an imbalance between supply and demand as mining reserves continue to decrease due to the lack of exploration, while despite an economic slowdown, worldwide consumption continues to increase. At some point in the near future, the need to develop resources in areas that are increasingly difficult to access will significantly increase, at which time a resurgence in demand for specialized drilling is expected.

## **FOREIGN EXCHANGE**

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar and other functional reporting currencies. The favourable impact of foreign exchange translation, for the quarter, when comparing to the effective rates for the same period last year, is estimated at \$2.6 million on revenue but negligible on net earnings. The favourable impact of foreign exchange translation, for the nine-month period ended January 31, 2015, is estimated at \$6.4 million on revenue and less than \$1 million on net earnings.

### ***Argentina Currency Status***

The Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authorities for the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest of non-Argentine debt and also payment of dividends to parties outside of the country). That approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars.

## **COMPREHENSIVE EARNINGS**

The consolidated statements of other comprehensive earnings for the quarter include \$37.3 million in unrealized gains on translating the financial statements of the Company's foreign operations compared to a gain of \$17.1 million for the same period last year. The change relates to translating the net assets of the Company's foreign operations, which have a functional currency other than the Canadian dollar, to the Company's Canadian dollar currency presentation.

## **GENERAL RISKS AND UNCERTAINTIES**

A complete discussion of general risks and uncertainties may be found in the Company's Annual Information Form for the fiscal year ended April 30, 2014, which can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com), and which continue to apply to the business of the Company. The Company is not aware of any significant changes to risk factors from those disclosed at that time.

## **OFF BALANCE SHEET ARRANGEMENTS**

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2014, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in the Company's disclosure and internal controls over financial reporting during the period beginning on May 1, 2014 and ended on January 31, 2015 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## **OUTSTANDING SHARE DATA**

As of February 28, 2015, there were 80,135,883 common shares issued and outstanding in the Company. This is the same number as reported in our second quarter MD&A (reported as of November 30, 2014).

## **ADDITIONAL INFORMATION**

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Major Drilling Group International Inc.**  
**Interim Condensed Consolidated Statements of Operations**

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

	Three months ended January 31		Nine months ended January 31	
	2015	2014	2015	2014
<b>TOTAL REVENUE</b>	<b>\$ 69,784</b>	\$ 71,830	<b>\$ 224,527</b>	\$ 272,309
<b>DIRECT COSTS</b>	<b>61,998</b>	54,060	<b>179,338</b>	189,406
<b>GROSS PROFIT</b>	<b>7,786</b>	17,770	<b>45,189</b>	82,903
<b>OPERATING EXPENSES</b>				
General and administrative	11,667	12,070	33,907	37,386
Other expenses	1,436	636	3,980	2,719
Loss (gain) on disposal of property, plant and equipment	469	826	(1,561)	1,259
Loss on short-term investments	-	307	-	307
Foreign exchange loss	804	3,291	2,322	5,295
Finance costs	178	198	572	736
Depreciation of property, plant and equipment	12,145	12,886	38,107	38,862
Amortization of intangible assets	1,351	343	2,199	1,027
Impairment of goodwill	-	-	-	12,057
Restructuring charge	405	508	3,826	3,220
	<b>28,455</b>	31,065	<b>83,352</b>	102,868
<b>LOSS BEFORE INCOME TAX</b>	<b>(20,669)</b>	(13,295)	<b>(38,163)</b>	(19,965)
<b>INCOME TAX - (RECOVERY) PROVISION (note 7)</b>				
Current	(195)	886	4,320	9,361
Deferred	(1,475)	(1,384)	(6,005)	1,049
	<b>(1,670)</b>	(498)	<b>(1,685)</b>	10,410
<b>NET LOSS</b>	<b>\$ (18,999)</b>	\$ (12,797)	<b>\$ (36,478)</b>	\$ (30,375)
<b>LOSS PER SHARE (note 8)</b>				
Basic	<b>\$ (0.24)</b>	\$ (0.16)	<b>\$ (0.46)</b>	\$ (0.38)
Diluted	<b>\$ (0.24)</b>	\$ (0.16)	<b>\$ (0.46)</b>	\$ (0.38)

**Major Drilling Group International Inc.**  
**Interim Condensed Consolidated Statements of Comprehensive Earnings (Loss)**

(in thousands of Canadian dollars)  
(unaudited)

	Three months ended January 31		Nine months ended January 31	
	2015	2014	2015	2014
<b>NET LOSS</b>	<b>\$ (18,999)</b>	<b>\$ (12,797)</b>	<b>\$ (36,478)</b>	<b>\$ (30,375)</b>
<b>OTHER COMPREHENSIVE EARNINGS</b>				
Items that may be reclassified subsequently to profit or loss				
Unrealized gains on foreign currency translations (net of tax)	<b>37,277</b>	17,078	<b>43,623</b>	21,658
<b>COMPREHENSIVE EARNINGS (LOSS)</b>	<b>\$ 18,278</b>	<b>\$ 4,281</b>	<b>\$ 7,145</b>	<b>\$ (8,717)</b>

**Major Drilling Group International Inc.**  
**Interim Condensed Consolidated Statements of Changes in Equity**

For the nine months ended January 31, 2014 and 2015

(in thousands of Canadian dollars)

(unaudited)

	<u>Share capital</u>	<u>Share-based payments reserve</u>	<u>Retained earnings</u>	<u>Foreign currency translation reserve</u>	<u>Total</u>
<b>BALANCE AS AT MAY 1, 2013</b>	\$ 230,985	\$ 14,204	\$283,088	\$ 10,052	\$538,329
Share-based payments reserve	-	1,372	-	-	1,372
Dividends	-	-	(7,916)	-	(7,916)
	<u>230,985</u>	<u>15,576</u>	<u>275,172</u>	<u>10,052</u>	<u>531,785</u>
<b>Comprehensive loss:</b>					
Net loss	-	-	(30,375)	-	(30,375)
Unrealized gains on foreign currency translations	-	-	-	21,658	21,658
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>(30,375)</u>	<u>21,658</u>	<u>(8,717)</u>
<b>BALANCE AS AT JANUARY 31, 2014</b>	<u>\$ 230,985</u>	<u>\$ 15,576</u>	<u>\$244,797</u>	<u>\$ 31,710</u>	<u>\$523,068</u>
<b>BALANCE AS AT MAY 1, 2014</b>	<b>\$ 230,985</b>	<b>\$ 15,937</b>	<b>\$211,945</b>	<b>\$ 25,480</b>	<b>\$484,347</b>
Exercise of stock options	46	(12)	-	-	34
Share issue (note 10)	8,689	-	-	-	8,689
Share-based payments reserve	-	1,015	-	-	1,015
Dividends	-	-	(8,014)	-	(8,014)
	<u>239,720</u>	<u>16,940</u>	<u>203,931</u>	<u>25,480</u>	<u>486,071</u>
<b>Comprehensive earnings:</b>					
Net loss	-	-	(36,478)	-	(36,478)
Unrealized gains on foreign currency translations	-	-	-	43,623	43,623
Total comprehensive earnings	<u>-</u>	<u>-</u>	<u>(36,478)</u>	<u>43,623</u>	<u>7,145</u>
<b>BALANCE AS AT JANUARY 31, 2015</b>	<u><b>\$ 239,720</b></u>	<u><b>\$ 16,940</b></u>	<u><b>\$167,453</b></u>	<u><b>\$ 69,103</b></u>	<u><b>\$493,216</b></u>

**Major Drilling Group International Inc.**  
**Interim Condensed Consolidated Statements of Cash Flows**

(in thousands of Canadian dollars)  
(unaudited)

	Three months ended January 31		Nine months ended January 31	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>OPERATING ACTIVITIES</b>				
Loss before income tax	\$ (20,669)	\$ (13,295)	\$ (38,163)	\$ (19,965)
Operating items not involving cash				
Depreciation and amortization	13,496	13,229	40,306	39,889
Loss (gain) on disposal of property, plant and equipment	469	826	(1,561)	1,259
Loss on short-term investments	-	307	-	307
Share-based payments reserve	313	391	1,015	1,372
Impairment of goodwill	-	-	-	12,057
Restructuring charge	-	-	1,953	665
Finance costs recognized in loss before income tax	178	198	572	736
	<u>(6,213)</u>	1,656	<u>4,122</u>	36,320
Changes in non-cash operating working capital items	16,014	1,890	18,415	1,997
Finance costs paid	(161)	(195)	(549)	(722)
Income taxes paid	(2,730)	(2,422)	(6,939)	(11,882)
Cash flow from operating activities	<u>6,910</u>	<u>929</u>	<u>15,049</u>	<u>25,713</u>
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in demand loan	1,372	4,066	(1,324)	4,066
Repayment of long-term debt	(1,655)	(1,683)	(8,154)	(18,717)
Issuance of common shares	-	-	34	-
Dividends paid	(8,014)	(7,916)	(15,930)	(15,832)
Cash flow used in financing activities	<u>(8,297)</u>	<u>(5,533)</u>	<u>(25,374)</u>	<u>(30,483)</u>
<b>INVESTING ACTIVITIES</b>				
Business acquisition (note 10)	57	-	(20,834)	(205)
Acquisition of short-term investments	-	(3,587)	-	(3,587)
Acquisition of property, plant and equipment (net of direct financing) (note 6)	(3,536)	(6,227)	(13,593)	(17,436)
Proceeds from disposal of property, plant and equipment	962	502	16,842	3,385
Cash flow used in investing activities	<u>(2,517)</u>	<u>(9,312)</u>	<u>(17,585)</u>	<u>(17,843)</u>
Effect of exchange rate changes	<u>3,597</u>	1,203	<u>4,412</u>	2,713
<b>DECREASE IN CASH</b>	<b>(307)</b>	<b>(12,713)</b>	<b>(23,498)</b>	<b>(19,900)</b>
<b>CASH, BEGINNING OF THE PERIOD</b>	<u>51,053</u>	75,124	<u>74,244</u>	82,311
<b>CASH, END OF THE PERIOD</b>	<u>\$ 50,746</u>	<u>\$ 62,411</u>	<u>\$ 50,746</u>	<u>\$ 62,411</u>



**Major Drilling Group International Inc.**  
**Interim Condensed Consolidated Balance Sheets**

As at January 31, 2015 and April 30, 2014

(in thousands of Canadian dollars)

(unaudited)

	January 31, 2015	April 30, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 50,746	\$ 74,244
Trade and other receivables	56,639	66,211
Income tax receivable	14,263	12,179
Inventories	85,262	81,308
Prepaid expenses	4,253	4,690
	211,163	238,632
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>300,319</b>	<b>307,288</b>
<b>DEFERRED INCOME TAX ASSETS</b>	<b>8,782</b>	<b>5,825</b>
<b>GOODWILL</b>	<b>57,764</b>	<b>38,056</b>
<b>INTANGIBLE ASSETS</b>	<b>7,394</b>	<b>1,923</b>
	<b>\$ 585,422</b>	<b>\$ 591,724</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Demand loan	\$ 2,735	\$ 3,909
Trade and other payables	38,026	52,155
Income tax payable	1,772	3,416
Current portion of long-term debt	6,502	9,655
	49,035	69,135
<b>CONTINGENT CONSIDERATION (note 10)</b>	<b>10,130</b>	<b>-</b>
<b>LONG-TERM DEBT</b>	<b>9,612</b>	<b>14,187</b>
<b>DEFERRED INCOME TAX LIABILITIES</b>	<b>23,429</b>	<b>24,055</b>
	<b>92,206</b>	<b>107,377</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	239,720	230,985
Share-based payments reserve	16,940	15,937
Retained earnings	167,453	211,945
Foreign currency translation reserve	69,103	25,480
	<b>493,216</b>	<b>484,347</b>
	<b>\$ 585,422</b>	<b>\$ 591,724</b>

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2015 AND 2014 (UNAUDITED)**  
**(in thousands of Canadian dollars, except per share information)**

**1. NATURE OF ACTIVITIES**

Major Drilling Group International Inc. (the “Company” or “Major Drilling”) is incorporated under the Canada Business Corporations Act and has its head office at 111 St. George Street, Suite 100, Moncton, NB, Canada. The Company’s common shares are listed on the Toronto Stock Exchange (“TSX”). The principal source of revenue consists of contract drilling for companies primarily involved in mining and mineral exploration. The Company has operations in Canada, the United States, Mexico, South America, Asia and Africa.

**2. BASIS OF PRESENTATION**

***Statement of compliance***

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies as outlined in the Company’s annual Consolidated Financial Statements for the year ended April 30, 2014, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which were applicable for fiscal years beginning on or after January 1, 2014.

On March 2, 2015 the Board of Directors authorized the financial statements for issue.

***Basis of consolidation***

These Interim Condensed Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statements of Operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intra-group transactions, balances, income and expenses are eliminated on consolidation, where appropriate.

***Basis of preparation***

These Interim Condensed Consolidated Financial Statements have been prepared based on the historical cost basis except for certain financial instruments that are measured at fair value, using the same accounting policies and methods of computation as presented in the Company’s annual Consolidated Financial Statements for the year ended April 30, 2014.

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
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**(in thousands of Canadian dollars, except per share information)**

**3. APPLICATION OF NEW AND REVISED IFRS**

The following IASB standards, now in effect, have had no significant impact on the Company's Consolidated Financial Statements:

IAS 32 (*amended*) *Financial Instruments: Presentation*  
IAS 36 (*amended*) *Impairment of Assets*  
IAS 39 (*amended*) *Financial Instruments: Recognition and Measurement*  
IFRIC 21 *Levies*

The Company has not applied the following revised IASB standards that have been issued, but are not yet effective:

IFRS 9 (*as amended in 2014*) *Financial Instruments*  
IFRS 10 (*amended*) *Consolidated Financial Statements*  
IFRS 11 (*amended*) *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*  
IFRS 15 *Revenue from Contracts with Customers*  
IAS 1 (*amended*) *Presentation of Financial Statements*  
IAS 16 (*amended*) *Property, Plant and Equipment*  
IAS 27 (*amended*) *Separate Financial Statements*  
IAS 28 (*amended*) *Investments in Associates and Joint Ventures*  
IAS 38 (*amended*) *Intangible Assets*

The Company is currently in the process of assessing the impact of the adoption of these standards on the Consolidated Financial Statements.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS**

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment for amortization purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, assumptions used in compilation of share-based payments, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities and contingent considerations, and impairment testing of goodwill and intangible assets.

The Company applied judgment in determining the functional currency of the Company and its subsidiaries, the determination of cash generating units ("CGUs"), the degree of componentization of property, plant and equipment, and the recognition of provisions and accrued liabilities.

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
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**5. SEASONALITY OF OPERATIONS**

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.

**6. PROPERTY, PLANT AND EQUIPMENT**

Capital expenditures for the three months ended January 31, 2015 were \$3,759 (2014 - \$6,227) and for the nine months ended January 31, 2015 were \$14,028 (2014 - \$17,436). The Company obtained direct financing of \$223 for the three months ended January 31, 2015 (2014 - nil) and of \$435 for the nine months ended January 31, 2015 (2014 - nil).

**7. INCOME TAXES**

The income tax expense for the period can be reconciled to accounting loss as follows:

	<u>Q3 2015</u>	<u>Q3 2014</u>	<u>YTD 2015</u>	<u>YTD 2014</u>
Loss before income tax	<u>\$ (20,669)</u>	<u>\$(13,295)</u>	<u>\$ (38,163)</u>	<u>\$ (19,965)</u>
Statutory Canadian corporate income tax rate	27%	28%	27%	28%
Expected income tax recovery based on statutory rate	(5,581)	(3,723)	(10,304)	(5,590)
Non-recognition of tax benefits related to losses	1,994	1,275	5,558	2,356
Other foreign taxes paid	408	71	579	273
Rate variances in foreign jurisdictions	(351)	(854)	(627)	990
Permanent differences	876	1,726	1,310	5,394
De-recognition of previously recognized tax losses	-	-	-	4,536
Other	984	1,007	1,799	2,451
Income tax (recovery) expense recognized in net loss	<u>\$ (1,670)</u>	<u>\$ (498)</u>	<u>\$ (1,685)</u>	<u>\$ 10,410</u>

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. INCOME TAXES (Continued)**

The Company periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Company records its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. While management believes they have adequately provided for the probable outcome of these matters, future results may include favorable or unfavorable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the statutes of limitations lapse.

**8. LOSS PER SHARE**

All of the Company's earnings are attributable to common shares therefore net earnings are used in determining earnings per share.

	<u>Q3 2015</u>	<u>Q3 2014</u>	<u>YTD 2015</u>	<u>YTD 2014</u>
Net loss	<u>\$ (18,999)</u>	<u>\$ (12,797)</u>	<u>\$ (36,478)</u>	<u>\$ (30,375)</u>
Weighted average shares outstanding – basic (000's)	<u>80,136</u>	<u>79,161</u>	<u>79,807</u>	<u>79,161</u>
<b>Net effect of dilutive securities:</b>				
Stock options (000's)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Weighted average number of shares – diluted (000's)	<u>80,136</u>	<u>79,161</u>	<u>79,807</u>	<u>79,161</u>
<b>Loss per share:</b>				
Basic	<u>\$ (0.24)</u>	<u>\$ (0.16)</u>	<u>\$ (0.46)</u>	<u>\$ (0.38)</u>
Diluted	<u>\$ (0.24)</u>	<u>\$ (0.16)</u>	<u>\$ (0.46)</u>	<u>\$ (0.38)</u>

There were no anti-dilutive options for the three and nine months ended January 31, 2015 and 2014.

The total number of shares outstanding on January 31, 2015 was 80,135,883 (2014 - 79,161,378).

**9. SEGMENTED INFORMATION**

The Company's operations are divided into three geographic segments corresponding to its management structure, Canada - U.S., South and Central America, and Australia, Asia and Africa. The services provided in each of the reportable segments are essentially the same. The accounting policies of the segments are the same as those described in the Company's annual Consolidated Financial Statements for the year ended April 30, 2014. Management evaluates performance based on (loss) earnings from operations in these three geographic segments before finance costs, general corporate expenses and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
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**9. SEGMENTED INFORMATION (Continued)**

	<u>Q3 2015</u>	<u>Q3 2014</u>	<u>YTD 2015</u>	<u>YTD 2014</u>
Revenue				
Canada – U.S.	\$ 41,115	\$ 32,389	\$ 127,347	\$ 129,421
South and Central America	17,179	18,633	54,615	57,895
Australia, Asia and Africa	11,490	20,808	42,565	84,993
	<u>\$ 69,784</u>	<u>\$ 71,830</u>	<u>\$ 224,527</u>	<u>\$ 272,309</u>
(Loss) earnings from operations				
Canada – U.S.	\$ (7,533)	\$ (4,278)	\$ (5,566)	\$ 7,246
South and Central America*	(5,288)	(5,731)	(10,800)	(22,304)
Australia, Asia and Africa	(5,211)	(1,934)	(14,021)	1,763
	<u>(18,032)</u>	<u>(11,943)</u>	<u>(30,387)</u>	<u>(13,295)</u>
Eliminations	-	(135)	-	(419)
	<u>(18,032)</u>	<u>(12,078)</u>	<u>(30,387)</u>	<u>(13,714)</u>
Finance costs	178	198	572	736
General corporate expenses**	2,459	1,019	7,204	5,515
Income tax	(1,670)	(498)	(1,685)	10,410
Net loss	<u>\$ (18,999)</u>	<u>\$ (12,797)</u>	<u>\$ (36,478)</u>	<u>\$ (30,375)</u>

\* Loss from South and Central American operations includes an impairment of goodwill totaling \$12,057 for the nine-month period ended January 31, 2014.

\*\* General corporate expenses include expenses for corporate offices and stock options.

Canada – U.S. includes revenue of \$22,423 and \$18,627 for Canadian operations for the three months ended January 31, 2015 and 2014, respectively, and \$74,060 and \$81,413 for the nine months ended January 31, 2015 and 2014, respectively.

	<u>Q3 2015</u>	<u>Q3 2014</u>	<u>YTD 2015</u>	<u>YTD 2014</u>
Depreciation and amortization				
Canada – U.S.	\$ 7,213	\$ 5,727	\$ 19,697	\$ 17,199
South and Central America	3,027	2,929	9,611	8,923
Australia, Asia and Africa	2,861	4,053	9,856	12,146
Unallocated corporate assets	395	520	1,142	1,621
Total depreciation and amortization	<u>\$ 13,496</u>	<u>\$ 13,229</u>	<u>\$ 40,306</u>	<u>\$ 39,889</u>

	<u>January 31, 2015</u>	<u>April 30, 2014</u>
Identifiable assets		
Canada – U.S.	\$ 232,498	\$ 197,673
South and Central America	175,716	178,026
Australia, Asia and Africa	126,338	148,806
	<u>534,552</u>	<u>524,505</u>
Unallocated and corporate assets	50,870	67,219
	<u>\$ 585,422</u>	<u>\$ 591,724</u>

Canada – U.S. includes property, plant and equipment at January 31, 2015 of \$86,293 (April 30, 2014 - \$88,347) for Canadian operations.



**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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(in thousands of Canadian dollars, except per share information)

**10. BUSINESS ACQUISITION**

***Taurus Drilling Services***

Effective August 1, 2014, the Company entered into the underground percussive/longhole drilling sector with its purchase of the operations of Taurus Drilling Services (“Taurus”), based in Canada and the United States.

The acquisition has been accounted for using the acquisition method and the results of this operation have been included in the Interim Condensed Consolidated Statements of Operations from the closing date. Through this purchase, which fits with the Company’s strategic focus on specialized drilling, the Company acquired 39 underground drill rigs, support equipment and inventory, existing contracts and receivables, the operation’s management team, and other employees, including experienced drillers.

The purchase price for the transaction was \$29.5 million (consisting of \$20.7 million in cash, \$8.7 million in Major Drilling shares, and \$0.1 million in assumption of debt), and an additional maximum amount of \$11.5 million (undiscounted) tied to performance. The estimated fair value of the contingent consideration was \$10.1 million at January 31, 2015. The additional payout period extends for three years, commencing on August 1, 2014, and payments are contingent on growing EBITDA (earnings before interest, taxes, depreciation and amortization) run rates above levels at the date of acquisition.

The Company is in the process of finalizing the valuation of assets. As at January 31, 2015, the values allocated to net tangible and intangible assets are preliminary and are subject to adjustments as additional information is obtained. Changes during the current quarter relate to fair value assessments of goodwill and intangible assets.

Trade and other receivables are recorded at fair value. Goodwill arising from this acquisition will represent the excess of the total consideration paid over the fair value of the net assets acquired and the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Taurus and Major Drilling.

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

**Assets acquired:**

Trade and other receivables	\$ 5,500
Inventories	606
Prepaid expenses	40
Property, plant and equipment	9,268
Goodwill	18,367
Intangible assets	7,095
Trade and other payables	(1,223)
Total assets	<u>\$ 39,653</u>

**Consideration:**

Cash	\$ 20,683
Trade and other payable	151
Contingent consideration	10,130
Shares of Major Drilling	8,689
	<u>\$ 39,653</u>

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2015 AND 2014 (UNAUDITED)**  
(in thousands of Canadian dollars, except per share information)

**10. BUSINESS ACQUISITION (Continued)**

The above consideration includes non-cash investing activities, which are not reflected in the Interim Condensed Consolidated Statements of Cash Flows, including the issuance of 966,495 shares of Major Drilling at \$8.99 for a total of \$8,689 and contingent consideration of \$10,130.

The Company incurred acquisition-related costs of \$343 relating to external legal fees and due diligence costs. These acquisition costs have been included in the other expenses line of the Interim Condensed Consolidated Statements of Operations.

Revenue since the date of acquisition attributable to the additional business generated by Taurus was \$22,090. Due to the integration of the Taurus acquisition with existing operations, it is impracticable to estimate the revenue and net income of the combined entity for the year as though the acquisition date was May 1, 2014.

**11. FINANCIAL INSTRUMENTS**

***Fair value***

The carrying values of cash, trade and other receivables, demand credit facility, demand loan and trade and other payables approximate their fair value due to the relatively short period to maturity of the instruments. The following table shows the carrying value of long-term debt, which approximates its fair value, as most debts carry variable interest rates and the remaining fixed rate debts continue to reflect fair value. The fair value of the interest rate swap included in long-term debt is measured using quoted interest rates.

	<u>January 31, 2015</u>	<u>April 30, 2014</u>
Long-term debt	\$ 16,114	\$ 23,842

During the quarter, the Company was in compliance with all covenants and other conditions imposed by its debt agreements.

***Credit risk***

As at January 31, 2015, 76.4% of the Company's trade receivables were aged as current (April 30, 2014 - 79.8%) and 7.7% of the trade receivables were impaired (April 30, 2014 - 5.1%).

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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(in thousands of Canadian dollars, except per share information)

**11. FINANCIAL INSTRUMENTS (Continued)**

The movement in the allowance for impairment of trade receivables during the nine-month periods were as follows:

	<u>January 31, 2015</u>	<u>January 31, 2014</u>
<b>Opening balance</b>	<b>\$ 3,016</b>	<b>\$ 2,790</b>
Increase in impairment allowance	<b>1,769</b>	744
Recovery of amounts previously impaired	<b>(186)</b>	-
Write-off charged against allowance	<b>(811)</b>	(844)
Foreign exchange translation differences	<b>(144)</b>	10
<b>Ending balance</b>	<b><u>\$ 3,644</u></b>	<b><u>\$ 2,700</u></b>

***Foreign currency risk***

The carrying amounts of net monetary assets in Canadian subsidiaries, which are denominated in United States dollars and that may include intercompany balances with other subsidiaries, is US \$298 as of January 31, 2015.

If the Canadian dollar moved by plus or minus 10% against the United States dollar at January 31, 2015, the unrealized foreign exchange gain or loss recognized in net loss would move by approximately US \$30.

***Liquidity risk***

The following table details contractual maturities for the Company's financial liabilities.

	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>thereafter</u>	<u>Total</u>
Demand loan	\$ 2,735	\$ -	\$ -	\$ -	\$ 2,735
Trade and other payables	38,026	-	-	-	38,026
Long-term debt	6,807	6,066	2,244	1,790	16,907
	<b><u>\$ 47,568</u></b>	<b><u>\$ 6,066</u></b>	<b><u>\$ 2,244</u></b>	<b><u>\$ 1,790</u></b>	<b><u>\$ 57,668</u></b>