

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

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

	Three months ended July 31	
	2015	2014
TOTAL REVENUE	\$ 83,934	\$ 67,551
DIRECT COSTS	62,317	50,884
GROSS PROFIT	21,617	16,667
OPERATING EXPENSES		
General and administrative	10,640	10,979
Other expenses	1,068	871
Gain on disposal of property, plant and equipment	(2,624)	(15)
Foreign exchange loss	1,168	73
Finance costs	70	204
Depreciation of property, plant and equipment	12,258	13,353
Amortization of intangible assets	958	321
Restructuring charge (note 10)	6,432	591
	29,970	26,377
LOSS BEFORE INCOME TAX	(8,353)	(9,710)
INCOME TAX - PROVISION (RECOVERY) (note 7)		
Current	2,884	328
Deferred	(57)	(2,707)
	2,827	(2,379)
NET LOSS	\$ (11,180)	\$ (7,331)
<u>LOSS PER SHARE (note 8)</u>		
Basic	\$ (0.14)	\$ (0.09)
Diluted	\$ (0.14)	\$ (0.09)

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

(in thousands of Canadian dollars)
(unaudited)

	Three months ended July 31	
	<u>2015</u>	<u>2014</u>
NET LOSS	\$ (11,180)	\$ (7,331)
OTHER COMPREHENSIVE EARNINGS (LOSS)		
Items that may be reclassified subsequently to profit or loss		
Unrealized gains (loss) on foreign currency translations (net of tax)	<u>20,965</u>	<u>(2,500)</u>
COMPREHENSIVE EARNINGS (LOSS)	<u>\$ 9,785</u>	<u>\$ (9,831)</u>

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

For the three months ended July 31, 2014 and 2015

(in thousands of Canadian dollars)

(unaudited)

	Share capital	Share-based payments reserve	Retained earnings	Foreign currency translation reserve	Total
BALANCE AS AT MAY 1, 2014	\$ 230,985	\$ 15,937	\$ 211,945	\$ 25,480	\$ 484,347
Exercise of stock options	12	(3)	-	-	9
Share-based payments reserve	-	355	-	-	355
	<u>230,997</u>	<u>16,289</u>	<u>211,945</u>	<u>25,480</u>	<u>484,711</u>
Comprehensive loss:					
Net loss	-	-	(7,331)	-	(7,331)
Unrealized loss on foreign currency translations	-	-	-	(2,500)	(2,500)
Total comprehensive loss	<u>-</u>	<u>-</u>	<u>(7,331)</u>	<u>(2,500)</u>	<u>(9,831)</u>
BALANCE AS AT JULY 31, 2014	<u>\$ 230,997</u>	<u>\$ 16,289</u>	<u>\$ 204,614</u>	<u>\$ 22,980</u>	<u>\$ 474,880</u>
BALANCE AS AT MAY 1, 2015	\$ 239,726	\$ 17,234	\$ 152,764	\$ 50,668	\$ 460,392
Share-based payments reserve	-	263	-	-	263
	<u>239,726</u>	<u>17,497</u>	<u>152,764</u>	<u>50,668</u>	<u>460,655</u>
Comprehensive earnings:					
Net loss	-	-	(11,180)	-	(11,180)
Unrealized gains on foreign currency translations	-	-	-	20,965	20,965
Total comprehensive earnings	<u>-</u>	<u>-</u>	<u>(11,180)</u>	<u>20,965</u>	<u>9,785</u>
BALANCE AS AT JULY 31, 2015	<u>\$ 239,726</u>	<u>\$ 17,497</u>	<u>\$ 141,584</u>	<u>\$ 71,633</u>	<u>\$ 470,440</u>

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

(in thousands of Canadian dollars)
(unaudited)

	Three months ended July 31	
	2015	2014
OPERATING ACTIVITIES		
Loss before income tax	\$ (8,353)	\$ (9,710)
Operating items not involving cash		
Depreciation and amortization	13,216	13,674
Gain on disposal of property, plant and equipment	(2,624)	(15)
Share-based payments reserve	263	355
Restructuring charge	5,045	-
Finance costs recognized in loss before income tax	70	204
	7,617	4,508
Changes in non-cash operating working capital items	(1,096)	(1,195)
Finance costs paid	(72)	(201)
Income taxes paid	(4,118)	(2,200)
Cash flow from operating activities	2,331	912
FINANCING ACTIVITIES		
Repayment of demand loan	-	(3,354)
Repayment of long-term debt	(1,784)	(1,739)
Issuance of common shares	-	9
Dividends paid	(1,603)	(7,916)
Cash flow used in financing activities	(3,387)	(13,000)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment (net of direct financing) (note 6)	(3,265)	(7,145)
Proceeds from disposal of property, plant and equipment	5,869	10,634
Cash flow from investing activities	2,604	3,489
Effect of exchange rate changes	2,131	(170)
INCREASE (DECREASE) IN CASH	3,679	(8,769)
CASH, BEGINNING OF THE PERIOD	44,897	74,244
CASH, END OF THE PERIOD	\$ 48,576	\$ 65,475

Major Drilling Group International Inc.
Interim Condensed Consolidated Balance Sheets

As at July 31, 2015 and April 30, 2015

(in thousands of Canadian dollars)

(unaudited)

	July 31, 2015	April 30, 2015
ASSETS		
CURRENT ASSETS		
Cash	\$ 48,576	\$ 44,897
Trade and other receivables	66,550	58,559
Note receivable	439	-
Income tax receivable	12,543	12,182
Inventories	81,566	79,248
Prepaid expenses	5,507	2,968
	215,181	197,854
NOTE RECEIVABLE	1,900	-
PROPERTY, PLANT AND EQUIPMENT	274,871	276,594
DEFERRED INCOME TAX ASSETS	5,283	4,722
GOODWILL	57,983	57,274
INTANGIBLE ASSETS	5,535	6,260
	\$ 560,753	\$ 542,704
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	\$ 41,390	\$ 33,820
Income tax payable	841	2,388
Current portion of contingent consideration	1,600	2,735
Current portion of long-term debt	7,445	6,776
	51,276	45,719
CONTINGENT CONSIDERATION	8,530	7,395
LONG-TERM DEBT	8,200	8,569
DEFERRED INCOME TAX LIABILITIES	22,307	20,629
	90,313	82,312
SHAREHOLDERS' EQUITY		
Share capital	239,726	239,726
Share-based payments reserve	17,497	17,234
Retained earnings	141,584	152,764
Foreign currency translation reserve	71,633	50,668
	470,440	460,392
	\$ 560,753	\$ 542,704

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JULY 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, 2015.

On September 10, 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, 2015.

MAJOR DRILLING GROUP INTERNATIONAL INC.
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3. APPLICATION OF NEW AND REVISED IFRS

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 - effective date January 1, 2018*
- IFRS 10 (amended) Consolidated Financial Statements - effective date January 1, 2016*
- IFRS 11 (amended) Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations - effective date January 1, 2016*
- IFRS 15 Revenue from Contracts with Customers - effective date January 1, 2018*
- IAS 1 (amended) Presentation of Financial Statements - effective date January 1, 2016*
- IAS 16 (amended) Property, Plant and Equipment - effective date January 1, 2016*
- IAS 28 (amended) Investments in Associates and Joint Ventures - effective date January 1, 2016*
- IAS 38 (amended) Intangible Assets - effective date January 1, 2016*

The adoption of the above standards is not expected to have a significant impact on the Company's 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 depreciation purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, assumptions used in the 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.

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.

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6. PROPERTY, PLANT AND EQUIPMENT

Capital expenditures for the three months ended July 31, 2015 were \$5,236 (2014 - \$7,145). The Company obtained direct financing of \$1,971 in the current quarter (2014 - nil).

7. INCOME TAXES

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

	<u>Q1 2016</u>	<u>Q1 2015</u>
Loss before income tax	<u>\$ (8,353)</u>	<u>\$(9,710)</u>
Statutory Canadian corporate income tax rate	27%	27%
Expected income tax recovery based on statutory rate	(2,255)	(2,622)
Non-recognition of tax benefits related to losses	3,281	750
Other foreign taxes paid	453	94
Rate variances in foreign jurisdictions	(306)	(257)
Permanent differences	1,546	-
Other	<u>108</u>	<u>(344)</u>
Income tax expense (recovery) recognized in net loss	<u>\$ 2,827</u>	<u>\$(2,379)</u>

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.

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8. LOSS PER SHARE

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

	<u>Q1 2016</u>	<u>Q1 2015</u>
Net loss	<u>\$ (11,180)</u>	<u>\$ (7,331)</u>
Weighted average shares outstanding – basic (000's)	80,137	79,162
Net effect of dilutive securities:		
Stock options (000's)	<u>-</u>	<u>-</u>
Weighted average shares – diluted (000's)	<u>80,137</u>	<u>79,162</u>
Loss per share:		
Basic	\$ (0.14)	\$ (0.09)
Diluted	\$ (0.14)	\$ (0.09)

The calculation of diluted loss per share for the three months ended July 31, 2015 excludes the effect of 3,921,796 options (2014 - 1,956,271) as they were anti-dilutive.

The total number of shares outstanding on July 31, 2015 was 80,136,884 (2014 - 79,163,388).

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 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, 2015. Management evaluates performance based on 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:

	<u>Q1 2016</u>	<u>Q1 2015</u>
Revenue		
Canada - U.S.	\$ 51,031	\$ 36,419
South and Central America	20,481	14,105
Asia and Africa	12,422	17,027
	<u>\$ 83,934</u>	<u>\$ 67,551</u>

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9. SEGMENTED INFORMATION (Continued)

	<u>Q1 2016</u>	<u>Q1 2015</u>
(Loss) earnings from operations		
Canada - U.S.*	\$ 826	\$ (613)
South and Central America	1,205	(4,718)
Asia and Africa	<u>(8,505)</u>	<u>(2,282)</u>
	<u>(6,474)</u>	<u>(7,613)</u>
Finance costs	70	204
General corporate expenses**	1,809	1,893
Income tax	<u>2,827</u>	<u>(2,379)</u>
Net loss	<u>\$ (11,180)</u>	<u>\$ (7,331)</u>

*Canada - U.S. includes revenue of \$31,672 and \$22,450 for Canadian operations for the three months ended July 31, 2015 and 2014, respectively.

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

Restructuring charges, as detailed in note 10, for the current quarter are included in above figures as follows: Canada - U.S. \$43 (2015 - \$217); South and Central America \$136 (2015 - \$296); Asia and Africa \$6,243 (2015 - \$78); General and Corporate expenses \$10 (2015 - nil).

Capital expenditures for the current quarter are as follows: Canada - U.S. \$4,036 (2014 - \$3,465); South and Central America \$687 (2014 - \$3,027); Asia and Africa \$513 (2014 - \$639) and Corporate nil (2014 - \$14).

	<u>Q1 2016</u>	<u>Q1 2015</u>
Depreciation and amortization		
Canada - U.S.	\$ 6,724	\$ 6,043
South and Central America	3,515	3,654
Asia and Africa	2,604	3,605
Unallocated corporate assets	<u>373</u>	<u>372</u>
Total depreciation and amortization	<u>\$ 13,216</u>	<u>\$ 13,674</u>

	<u>July 31, 2015</u>	<u>April 30, 2015</u>
Identifiable assets		
Canada - U.S.	\$ 238,183	\$ 226,919
South and Central America	162,675	163,539
Asia and Africa	104,017	109,791
Unallocated and corporate assets	<u>55,878</u>	<u>42,455</u>
Total identifiable assets	<u>\$ 560,753</u>	<u>\$ 542,704</u>

Canada - U.S. includes property, plant and equipment at July 31, 2015 of \$78,357 (April 30, 2015 - \$84,115) for Canadian operations.

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10. RESTRUCTURING CHARGE

During the year, the Company continued to rationalize certain operations, and due to ongoing market difficulties in the Republic of South Africa and Namibia, the Company decided to close its operations in those countries.

These restructuring initiatives generated impairment losses calculated based on the determination of the fair value of assets less cost of disposal. Fair value was determined through the use of industry knowledge and specialists.

The costs related to these initiatives are recorded as part of the restructuring charge for a total of \$6,432 (2015 - \$591). This amount consists of an impairment charge of \$3,479 (2015 - nil) relating to property, plant and equipment, a write-down of \$1,304 (2015 - nil) to reduce inventory to net realizable value, employee severance charges of \$387 (2015 - \$591) incurred to rationalize the workforce, and other non-cash charges of \$262 (2015 - nil). The remaining charge of \$1,000 (2015 - nil) relates to the cost of winding down operations. The unpaid portion of these charges, totaling \$1,130, is recorded in trade and other payables.

11. FINANCIAL INSTRUMENTS

Fair value

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

	<u>July 31, 2015</u>	<u>April 30, 2015</u>
Contingent consideration	\$ 10,130	\$ 10,130
Long-term debt	15,645	15,345

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

Credit risk

As at July 31, 2015, 72.9% (April 30, 2015 - 89.0%) of the Company's trade receivables were aged as current and 7.4% (April 30, 2015 - 8.2%) of the trade receivables were impaired.

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

11. FINANCIAL INSTRUMENTS (Continued)

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

	<u>July 31, 2015</u>	<u>July 31, 2014</u>
Opening balance	\$ 4,204	\$ 3,016
Increase in impairment allowance	440	588
Recovery of amounts previously impaired	(155)	(742)
Write-off charged against allowance	(192)	-
Foreign exchange translation differences	109	4
Ending balance	<u>\$ 4,406</u>	<u>\$ 2,866</u>

Foreign currency risk

As at July 31, 2015, the most significant carrying amounts of net monetary assets that: (i) are denominated in currencies other than the functional currency of the respective Company subsidiary; (ii) cause foreign exchange rate exposure; and (iii) may include intercompany balances with other subsidiaries, including the impact on earnings before income taxes ("EBIT"), if the corresponding rate changes by 10%, are as follows:

	Rate							
	Variance	ARP/USD	CFA/USD	COP/USD	ZAR/USD	USD/AUD	USD/ZAR	Other
Exposure		\$ 4,728	\$ 2,407	\$ 2,381	\$ 1,216	\$ (2,152)	\$ (5,771)	\$ 51
EBIT impact	+10%	525	267	265	135	(239)	(641)	6

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>
Trade and other payables	\$ 41,390	\$ -	\$ -	\$ -	\$ 41,390
Contingent consideration	1,600	8,530	-	-	10,130
Long-term debt	<u>7,826</u>	<u>5,270</u>	<u>2,202</u>	<u>1,147</u>	<u>16,445</u>
	<u>\$ 50,816</u>	<u>\$ 13,800</u>	<u>\$ 2,202</u>	<u>\$ 1,147</u>	<u>\$ 67,965</u>