# President's Report to Shareholders – Third Quarter 2016

During the quarter, the Company posted revenue of $71.9 million, up 3% from the $69.8 million recorded in Q3 last year. The increase came from the Canada-U.S. operations, offset by a slowdown in the South and Central American operations. Net loss was $15.9 million or $0.20 per share ($0.20 per share diluted) for the quarter, compared to a net loss of $19.0 million or $0. 24 per share ($0. 24 per share diluted) for the prior year quarter.

The overall gross margin percentage for the quarter was 18.1%, up from 11.2% for the corresponding 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. Quarterly earnings were also impacted by a foreign exchange loss of $1.4 million related to the devaluation of the Argentine peso following the relaxing of currency controls in that country.

Net capital expenditures were $4.1 million for the quarter ended January 31, 2016, compared to $3.5 million for the same period last year. During the quarter, the Company added one drill rig for the percussive division, while retiring or disposing of four drill rigs. This brings the total drill rig count to 696 at quarter-end.

Conditions in the mining industry continue to be extremely challenging. As expected, January had a slow start as we were still waiting on customer plans for calendar 2016. As well, due to low commodity prices, particularly for base metals, some mining companies have reduced their exploration activity levels compared to last year.

As we go through this challenging period, we continue to focus on cash preservation. Major Drilling remains net debt free, and has improved its net cash position during the quarter by $1.7 million, ending the quarter with a net cash position of $34.8 million.

The Company's Board of Directors has decided to suspend the dividend. The Company intends to use these funds to better prepare itself to adequately respond to a future upturn in the mining industry and to emerge as one of the strongest drilling companies.

It is important to note that as we started our fourth quarter, there continued to be a number of projects where contracts have not been awarded yet. This has resulted in reduced activity in February, as compared to the same period last year, and is expected to carry through into March. At the same time, the industry is facing more pricing pressure as customers are working to further reduce their costs. We remain disciplined on pricing and focused on cost control, while being mindful that cost control must also be balanced with a continued focus on safety and the need to prepare for the next upturn.

Despite an economic slowdown, worldwide consumption continues to increase. Therefore, we believe most commodities, in the long-term, will face an imbalance between supply and demand as mining reserves continue to decrease due to the lack of exploration. 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.

While we foresee difficult market conditions continuing for the first half of calendar 2016 and perhaps beyond, we continue our efforts to prepare the Company for better times. As the Company's financial strength allows it to invest in safety, to maintain its equipment in good condition, and to retain many of its skilled employees, we are strategically positioned to react quickly when the industry begins to recover.

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

Denis Larocque
President & CEO

# Management's Discussion and Analysis

# Third Quarter Fiscal 2016

# MAJOR DRILLING GROUP INTERNATIONAL INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## THIRD QUARTER FISCAL 2016

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, 2016. 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 IAS 34 Interim Financial Reporting.

This MD&A is a review of activities and results for the quarter ended January 31, 2016 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the unaudited interim condensed consolidated financial statements as at and for the three months ended January 31, 2016, 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, 2015.

This MD&A is dated February 29, 2016. 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 that 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 or fraud by employees or 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" in the Company's 2015 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 this MD&A.

Additional information relating to the Company, including the Company's Annual Information Form for the previous year and the most recently completed financial year, are available on the SEDAR website at 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, Africa and Europe. 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, underground percussive/longhole drilling and a variety of drilling-related mine services.

## 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.

The Company intends to continue modernizing its conventional fleet and expanding its footprint in strategic areas while maintaining a strong balance sheet and remaining best in class in safety and human resources. The Company will also seek to diversify by investing in energy, underground and drilling-related mine services that 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 latter stages of the mining cycle as clients develop underground mines. In the previous year, the Company entered a new type of underground service with the acquisition of the assets of Taurus Drilling Services, a provider of underground percussive/longhole drilling, which relates more to the production function of a mine. Offering both underground production drilling and 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 retain key employees and to maintain its equipment in good 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 on 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 emerging markets over the last few 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, for which the Company provides greenfield exploration drilling and/or drilling at 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 thus have slowed down their exploration efforts. Junior mining companies can account for some 50% of the 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 they had at their peak.

## OVERALL PERFORMANCE

Conditions in the mining industry continue to be extremely challenging. The third quarter is traditionally the weakest quarter of the Company's fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season. January had a slow start as the Company was still waiting on customer plans for calendar 2016. Low commodity prices, particularly for base metals, resulted in some mining companies reducing their exploration activity levels compared to last year. The Company's focus remains on cash preservation while still investing in equipment and training, which is key in the Company's plan to be ready for the next upturn.

Total revenue for the quarter was $71.9 million, up 3% from revenue of $69.8 million recorded in the same quarter last year. The increase came from the Canada-U.S. operations, offset by a slowdown in the South and Central American operations. The favorable foreign exchange translation impact for the quarter is estimated at $6 million on revenue with less than $1 million unfavorable impact on net earnings, when comparing to the effective rates for the same period last year.

The overall gross margin percentage for the quarter was 18.1%, up from 11.2% for the same period last year. Quarterly earnings were also impacted by a foreign exchange loss of $1.4 million related to the devaluation of the Argentine peso following the relaxing of currency controls in that country.

Net loss was $15.9 million or $0.20 per share ($0.20 per share diluted) for the quarter, compared to a net loss of $19.0 million or $0.24 per share ($0.24 per share diluted) for the prior year quarter.

The Company's Board of Directors has decided to suspend the dividend. The Company intends to use these funds to better prepare itself to adequately respond to a future upturn in the mining industry and to emerge as one of the strongest drilling companies.

## RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2016

Total revenue for the quarter was $71.9 million, up 3% from revenue of $69.8 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 2016 exploration drilling programs. The favorable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same period last year, is estimated at $6 million on revenue with an unfavorable impact of less than $1 million on net earnings.

Revenue for the quarter from Canada-U.S. drilling operations increased by 16% to $47.5 million compared to the same period last year. The increase relates to growth from the percussive division.

South and Central American revenue was down 23% to $13.3 million for the quarter, compared to the same quarter last year. Mexico, Chile and Argentina were affected by a reduction in work by juniors and the cancellation of certain projects.

Asian and African operations reported revenue of $11.1 million, down 3.5% from the same period last year, largely as a result of the decision to close its operations in South Africa and Namibia.

The overall gross margin percentage for the quarter was 18.1%, up from 11.2% 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.

General and administrative costs decreased 3% from the same quarter last year at $11.3 million for the quarter, despite an increase due to foreign exchange translation estimated at $0.8 million. The Company has continued to reduce its general and administrative costs by implementing cost reduction programs and restructuring certain branches.

Foreign exchange loss was $1.4 million compared to a loss of $0.8 million last year. The current quarter loss primarily relates to the devaluation of the Argentine peso.

The Company recorded a restructuring charge of $1.5 million in the quarter, relating to the decision to close its operations in South Africa and Namibia.

The income tax provision for the quarter was a recovery of $0.8 million compared to a recovery of $1.7 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 $15.9 million or $0.20 per share ($0.20 per share diluted) for the quarter, compared to a net loss of $19.0 million or $0.24 per share ($0.24 per share diluted) for the prior year quarter.

## RESULTS OF OPERATIONS – YEAR-TO-DATE ENDED JANUARY 31, 2016

Revenue for the nine months ended January 31, 2016 increased 7% to $240.5 million from $224.5 million for the corresponding period last year. The favorable foreign exchange translation impact for the year, when comparing to the effective rates for the same period last year, is estimated at $21 million on revenue with an unfavorable impact of less than $1 million on net earnings.

Revenue from Canada-U.S. drilling operations increased by 21% to $154.6 million compared to the same period last year, due mainly to growth in the percussive operations.

South and Central American revenue decreased by 7% to $50.7 million compared to the same period last year as increases in the Guiana Shield and the Mexican operations were more than offset by slowdowns in Argentina, Chile and Colombia.

Asian and African operations reported revenue of $35.2 million, down 17% from the same period last year. Revenue growth in Indonesia was more than offset by the closure of operations in South Africa and Namibia due to ongoing market difficulties, and the closure of operations in the Democratic Republic of Congo (“DRC”).

Gross margin for the year-to-date was 24.1% compared to 20.1% last year. This margin is an indication of the Company’s discipline on pricing and cost management.

Despite an unfavorable foreign exchange impact estimated at $2.3 million, general and administrative expenses decreased by $1.1 million, or 3%, to $32.8 million compared to the prior year. The Company has continued to reduce its general and administrative costs by implementing cost reduction programs and restructuring certain branches.

Foreign exchange loss was $3.1 million compared to a loss of $2.3 million last year. The current year loss relates primarily to the devaluation of the Argentine peso following the relaxing of currency controls in that country, and the strength of the US dollar against several currencies.

The Company recorded a restructuring charge of $8.0 million, primarily relating to the decision to close its operations in South Africa and Namibia. This consists mainly of a non-cash write-down of assets and close-down costs relating to severance and moving costs. The restructuring charge of $3.8 million recorded in the previous year related primarily to the closure of the Company's DRC operation.

Net loss was $32.4 million or $0.40 per share ($0.40 per share diluted) compared to a net loss of $36.5 million or $0.46 per share ($0.46 per share diluted) last year.

## SUMMARY OF QUARTERLY RESULTS

| (in $000 CAD, except per share) | Fiscal 2014 | Fiscal 2015 | | | | Fiscal 2016 | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Revenue | $ 82,637 | $ 67,551 | $ 87,192 | $ 69,784 | $ 81,191 | $ 83,934 | $ 84,667 | $ 71,887 |
| Gross profit | 21,524 | 16,667 | 20,736 | 7,786 | 20,707 | 21,617 | 23,311 | 12,982 |
| Gross margin | 26.0% | 24.7% | 23.8% | 11.2% | 25.5% | 25.8% | 27.5% | 18.1% |
| Net loss | (24,935) | (7,331) | (10,148) | (18,999) | (13,087) | (11,180) | (5,349) | (15,897) |
| Per share - basic | (0.31) | (0.09) | (0.13) | (0.24) | (0.16) | (0.14) | (0.07) | (0.20) |
| Per share - diluted | (0.31) | (0.09) | (0.13) | (0.24) | (0.16) | (0.14) | (0.07) | (0.20) |

With the exception of the third quarter, the Company exhibits comparatively less seasonality in quarterly revenue than in the past. The third quarter (November to January) is normally the Company's weakest quarter due to the shutdown of mining and exploration activities, often for extended periods over the holiday season.

## LIQUIDITY AND CAPITAL RESOURCES

***Operating Activities***

Cash flow from operations (before changes in non-cash operating working capital items, interest and income taxes) was an outflow of $1.1 million for the quarter compared to an outflow of $6.2 million in the same period last year.

The change in non-cash operating working capital items was an inflow of $7.1 million for the quarter compared to an inflow of $16.0 million for the same period last year. The inflow in non-cash operating working capital in the quarter ended January 31, 2016 was primarily impacted by:

- A decrease in accounts receivable of $8.9 million;
- A decrease in inventory of $2.0 million;
- A decrease in prepaids of $1.0 million; and
- A decrease in accounts payable of $5.1 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 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 Company has a credit facility related to operations totaling $25.0 million. This facility is from a Canadian chartered bank and is primarily secured by corporate guarantees of companies within the group. At January 31, 2016, the Company had utilized $0.5 million of this line for stand-by letters of credit. The Company also has a credit facility of $2.0 million for credit cards for which interest rate and repayment are as per cardholder agreements.

Long-Term Debt

Total long-term debt decreased by $1.9 million during the quarter to $14.6 million at January 31, 2016. The decrease is primarily due to debt repayments of $2.0 million during the quarter.

As of January 31, 2016, the Company had the following long-term debt facilities:

- $3.3 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, 2016, this facility had not been utilized.
- $5.6 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 $5.7 million at January 31, 2016, which were fully drawn and mature through 2019.

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, 2016, the Company had unused borrowing capacity under its credit facilities of $74.5 million and cash of $49.4 million, for a total of $123.9 million in available funds.

***Investing Activities***

Capital expenditures were $4.1 million for the quarter ended January 31, 2016 compared to $3.5 million (net of $0.2 million of equipment financing) for the same period last year.

The disposal of property, plant and equipment generated proceeds of $0.3 million during the quarter, compared to $1.0 million for the same period last year.

During the quarter, the Company added one drill rig for the percussive division, while retiring or disposing of four drill rigs. This brings the total drill rig count to 696 at quarter-end.

## OUTLOOK

At the start of the fourth quarter, there continued to be a number of projects where contracts have not been awarded yet. This has resulted in reduced activity in February, as compared to the same period last year, and is expected to carry through into March. At the same time, the industry is facing more pricing pressure as customers are working to further reduce their costs. The Company remains disciplined on pricing and focused on cost control, while being mindful that cost control must also be balanced with a continued focus on safety and the need to prepare for the next upturn.

The Company foresees difficult market conditions continuing for the first half of calendar 2016 and perhaps beyond, as it continues to prepare for the market recovery. As the Company's financial strength allows it to invest in safety, to maintain its equipment in good condition, and to retain many of its skilled employees, it is strategically positioned to react quickly when the industry begins to recover.

Despite an economic slowdown, worldwide consumption continues to increase. Therefore, the Company believes most commodities, in the long-term, will face an imbalance between supply and demand as mining reserves continue to decrease due to the lack of exploration. 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 the Company expects to see a resurgence in demand for specialized drilling.

## 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 impact of foreign exchange translation for the quarter, when comparing to the effective rates for the same period last year, is estimated at a $6 million favorable impact on revenue with an unfavorable impact of less than $1 million on net earnings. The favorable impact of foreign exchange translation for the nine-month period ended January 31, 2016, is estimated at $21 million on revenue with less than $1 million unfavorable impact on net earnings.

***Argentina Currency Status***

During the quarter, the Argentine government relaxed certain measures that control and restrict the ability of companies and individuals to exchange Argentine pesos for foreign currencies, which caused a temporary devaluation of the Argentine peso. The currency has since stabilized and the government is now promoting foreign investment and allowing limited movement of foreign currency outside the country.

## COMPREHENSIVE EARNINGS

The interim condensed consolidated statements of comprehensive earnings for the quarter include $19.7 million in unrealized gains on translating the financial statements of the Company's foreign operations compared to a gain of $37.3 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, 2015, which can be found on the SEDAR website at www.sedar.com. 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, 2015, 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 November 1, 2015 and ended on January 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## OUTSTANDING SHARE DATA

As of February 29, 2016, there were 80,136,884 common shares issued and outstanding in the Company. This is the same number as reported in the Company's second quarter MD&A (reported as of November 30, 2015).

## ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at 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 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **TOTAL REVENUE** | **$ 71,887** | $ 69,784 | **$ 240,488** | $ 224,527 |
| **DIRECT COSTS** | **58,905** | 61,998 | **182,578** | 179,338 |
| **GROSS PROFIT** | **12,982** | 7,786 | **57,910** | 45,189 |
| **OPERATING EXPENSES** | | | | |
| General and administrative | **11,334** | 11,667 | **32,779** | 33,907 |
| Other expenses | **1,621** | 1,436 | **3,502** | 3,980 |
| Loss (gain) on disposal of property, plant and equipment | **158** | 469 | **(2,181)** | (1,561) |
| Foreign exchange loss | **1,421** | 804 | **3,147** | 2,322 |
| Finance costs | **290** | 178 | **441** | 572 |
| Depreciation of property, plant and equipment | **12,633** | 12,145 | **37,561** | 38,107 |
| Amortization of intangible assets | **671** | 1,351 | **2,605** | 2,199 |
| Restructuring charge (note 11) | **1,509** | 405 | **8,000** | 3,826 |
| | **29,637** | 28,455 | **85,854** | 83,352 |
| **LOSS BEFORE INCOME TAX** | **(16,655)** | (20,669) | **(27,944)** | (38,163) |
| **INCOME TAX - (RECOVERY) PROVISION (note 7)** | | | | |
| Current | **215** | (195) | **6,687** | 4,320 |
| Deferred | **(973)** | (1,475) | **(2,205)** | (6,005) |
| | **(758)** | (1,670) | **4,482** | (1,685) |
| **NET LOSS** | **$ (15,897)** | $ (18,999) | **$ (32,426)** | $ (36,478) |
| **LOSS PER SHARE (note 8)** | | | | |
| **Basic** | **$ (0.20)** | $ (0.24) | **$ (0.40)** | **$ (0.46)** |
| **Diluted** | **$ (0.20)** | $ (0.24) | **$ (0.40)** | **$ (0.46)** |

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Comprehensive Earnings

**(in thousands of Canadian dollars)**

**(unaudited)**

| | Three months ended January 31 | | Nine months ended January 31 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **NET LOSS** | **$ (15,897)** | $ (18,999) | **$ (32,426)** | $ (36,478) |
| **OTHER COMPREHENSIVE EARNINGS** | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Unrealized gains on foreign currency translations (net of tax) | **19,692** | 37,277 | **39,993** | 43,623 |
| **COMPREHENSIVE EARNINGS** | **$ 3,795** | $ 18,278 | **$ 7,567** | $ 7,145 |

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Changes in Equity
**For the nine months ended January 31, 2015 and 2016**
**(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 | 46 | (12) | - | - | 34 |
| Share issue | 8,689 | - | - | - | 8,689 |
| Share-based payments reserve | - | 1,015 | - | - | 1,015 |
| Dividends | - | - | (8,014) | - | (8,014) |
| | 239,720 | 16,940 | 203,931 | 25,480 | 486,071 |
| **Comprehensive earnings:** | | | | | |
| Net loss | - | - | (36,478) | - | (36,478) |
| Unrealized gains on foreign currency translations | - | - | - | 43,623 | 43,623 |
| Total comprehensive earnings | - | - | (36,478) | 43,623 | 7,145 |
| **BALANCE AS AT JANUARY 31, 2015** | $ 239,720 | $ 16,940 | $167,453 | $ 69,103 | $493,216 |
| **BALANCE AS AT MAY 1, 2015** | **$ 239,726** | **$ 17,234** | **$152,764** | **$ 50,668** | **$460,392** |
| Share-based payments reserve | **-** | **807** | **-** | **-** | **807** |
| Dividends | **-** | **-** | **(1,603)** | **-** | **(1,603)** |
| | **239,726** | **18,041** | **151,161** | **50,668** | **459,596** |
| **Comprehensive earnings:** | | | | | |
| Net loss | **-** | **-** | **(32,426)** | **-** | **(32,426)** |
| Unrealized gains on foreign currency translations | **-** | **-** | **-** | **39,993** | **39,993** |
| Total comprehensive earnings | **-** | **-** | **(32,426)** | **39,993** | **7,567** |
| **BALANCE AS AT JANUARY 31, 2016** | **$ 239,726** | **$ 18,041** | **$118,735** | **$ 90,661** | **$467,163** |

# 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 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **OPERATING ACTIVITIES** | | | | |
| Loss before income tax | **$ (16,655)** | $ (20,669) | **$ (27,944)** | $ (38,163) |
| Operating items not involving cash | | | | |
| Depreciation and amortization | **13,304** | 13,496 | **40,166** | 40,306 |
| Loss (gain) on disposal of property, plant and equipment | **158** | 469 | **(2,181)** | (1,561) |
| Share-based payments reserve | **279** | 313 | **807** | 1,015 |
| Restructuring charge | **1,509** | - | **6,554** | 1,953 |
| Finance costs recognized in loss before income tax | **290** | 178 | **441** | 572 |
| | **(1,115)** | (6,213) | **17,843** | 4,122 |
| Changes in non-cash operating working capital items | **7,106** | 16,014 | **4,236** | 18,415 |
| Finance costs paid | **(290)** | (161) | **(441)** | (549) |
| Income taxes paid | **173** | (2,730) | **(5,359)** | (6,939) |
| Cash flow from operating activities | **5,874** | 6,910 | **16,279** | 15,049 |
| **FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in demand loan | **-** | 1,372 | **-** | (1,324) |
| Repayment of long-term debt | **(2,089)** | (1,655) | **(5,770)** | (8,154) |
| Issuance of common shares | **-** | - | **-** | 34 |
| Dividends paid | **(1,603)** | (8,014) | **(3,206)** | (15,930) |
| Cash flow used in financing activities | **(3,692)** | (8,297) | **(8,976)** | (25,374) |
| **INVESTING ACTIVITIES** | | | | |
| Business acquisition (note 10) | **-** | 57 | **(1,783)** | (20,834) |
| Acquisition of property, plant and equipment (net of direct financing) (note 6) | **(4,057)** | (3,536) | **(11,152)** | (13,593) |
| Proceeds from disposal of property, plant and equipment | **317** | 962 | **6,337** | 16,842 |
| Cash flow used in investing activities | **(3,740)** | (2,517) | **(6,598)** | (17,585) |
| Effect of exchange rate changes | **1,340** | 3,597 | **3,758** | 4,412 |
| **(DECREASE) INCREASE IN CASH** | **(218)** | (307) | **4,463** | (23,498) |
| **CASH, BEGINNING OF THE PERIOD** | **49,578** | 51,053 | **44,897** | 74,244 |
| **CASH, END OF THE PERIOD** | **$ 49,360** | $ 50,746 | **$ 49,360** | $ 50,746 |

# Major Drilling Group International Inc.
# Interim Condensed Consolidated Balance Sheets
**As at January 31, 2016 and April 30, 2015**
**(in thousands of Canadian dollars)**
**(unaudited)**

| | January 31, 2016 | April 30, 2015 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 49,360 | $ 44,897 |
| Trade and other receivables | 61,522 | 58,559 |
| Note receivable | 453 | - |
| Income tax receivable | 11,134 | 12,182 |
| Inventories | 81,360 | 79,248 |
| Prepaid expenses | 3,680 | 2,968 |
| | 207,509 | 197,854 |
| **NOTE RECEIVABLE** | 1,603 | - |
| **PROPERTY, PLANT AND EQUIPMENT** | 269,826 | 276,594 |
| **DEFERRED INCOME TAX ASSETS** | 7,441 | 4,722 |
| **GOODWILL** | 58,668 | 57,274 |
| **INTANGIBLE ASSETS** | 4,071 | 6,260 |
| | $ 549,118 | $ 542,704 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | $ 34,239 | $ 33,820 |
| Income tax payable | 1,402 | 2,388 |
| Current portion of contingent consideration | 3,000 | 2,735 |
| Current portion of long-term debt | 6,707 | 6,776 |
| | 45,348 | 45,719 |
| **CONTINGENT CONSIDERATION** | 5,347 | 7,395 |
| **LONG-TERM DEBT** | 7,856 | 8,569 |
| **DEFERRED INCOME TAX LIABILITIES** | 23,404 | 20,629 |
| | 81,955 | 82,312 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 239,726 | 239,726 |
| Share-based payments reserve | 18,041 | 17,234 |
| Retained earnings | 118,735 | 152,764 |
| Foreign currency translation reserve | 90,661 | 50,668 |
| | 467,163 | 460,392 |
| | $ 549,118 | $ 542,704 |

## 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, Africa and Europe.

## 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 March 2, 2016, 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.

## 3. APPLICATION OF NEW AND REVISED IFRS

The Company has not applied the following new and 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**
IFRS 16 *Leases****
IAS 1 *(amended) Presentation of Financial Statements***
IAS 7 *(amended) Statement of Cash Flows*****
IAS 12 *(amended) Income Taxes*****
IAS 16 *(amended) Property, Plant and Equipment***
IAS 28 *(amended) Investments in Associates and Joint Ventures***
IAS 38 *(amended) Intangible Assets***

**Effective for annual periods beginning on or after January 1, 2018*
***Effective for annual periods beginning on or after January 1, 2016*
****Effective for annual periods beginning on or after January 1, 2019*
*****Effective for annual periods beginning on or after January 1, 2017*

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, contingent consideration and allowance for doubtful accounts, 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.

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

## 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, 2016 were $4,057 (2015 - $3,759) and for the nine months ended January 31, 2016 were $15,816 (2015 - $14,028). The Company obtained direct financing of $4,664 for the nine months ended January 31, 2016 and $223 and $435, respectively, for the three and nine months ended January 31, 2015.

## 7. INCOME TAXES

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

| | **Q3 2016** | Q3 2015 | **YTD 2016** | YTD 2015 |
|---|---|---|---|---|
| Loss before income tax | **$ (16,655)** | $(20,669) | **$ (27,944)** | $ (38,163) |
| Statutory Canadian corporate income tax rate | **27%** | 27% | **27%** | 27% |
| Expected income tax recovery based on statutory rate | **(4,497)** | (5,581) | **(7,545)** | (10,304) |
| Non-recognition of tax benefits related to losses | **1,686** | 1,994 | **6,359** | 5,558 |
| Other foreign taxes paid | **185** | 408 | **817** | 579 |
| Rate variances in foreign jurisdictions | **758** | (351) | **837** | (627) |
| Permanent differences | **942** | 876 | **3,497** | 1,310 |
| Other | **168** | 984 | **517** | 1,799 |
| Income tax (recovery) expense recognized in net loss | **$ (758)** | $ (1,670) | **$ 4,482** | $ (1,685) |

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.

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

## 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.

| | **Q3 2016** | Q3 2015 | **YTD 2016** | YTD 2015 |
|---|---|---|---|---|
| Net loss | **$ (15,897)** | $ (18,999) | **$ (32,426)** | $ (36,478) |
| Weighted average number of shares – basic and diluted (000's) | **80,137** | 80,136 | **80,137** | 79,807 |
| **Loss per share:** | | | | |
| Basic | **$ (0.20)** | $ (0.24) | **$ (0.40)** | $ (0.46) |
| Diluted | **$ (0.20)** | $ (0.24) | **$ (0.40)** | $ (0.46) |

There were no anti-dilutive options for the three and nine months ended January 31, 2016 and 2015.

The total number of shares outstanding on January 31, 2016 was 80,136,884 (2015 - 80,135,883).

## 9. SEGMENTED INFORMATION

The Company's operations are divided into the following 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:

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

## 9. SEGMENTED INFORMATION (Continued)

| | **Q3 2016** | Q3 2015 | **YTD 2016** | YTD 2015 |
|---|---|---|---|---|
| Revenue | | | | |
| Canada - U.S.* | **$ 47,516** | $ 41,115 | **$ 154,603** | $ 127,347 |
| South and Central America | **13,291** | 17,179 | **50,696** | 54,615 |
| Asia and Africa | **11,080** | 11,490 | **35,189** | 42,565 |
| | **$ 71,887** | $ 69,784 | **$ 240,488** | $ 224,527 |
| Earnings (loss) from operations | | | | |
| Canada - U.S. | **$ (4,162)** | $ (7,533) | **$ 175** | $ (5,566) |
| South and Central America | **(6,158)** | (5,288) | **(6,876)** | (10,800) |
| Asia and Africa | **(3,160)** | (5,211) | **(14,034)** | (14,021) |
| | **(13,480)** | (18,032) | **(20,735)** | (30,387) |
| Finance costs | **290** | 178 | **441** | 572 |
| General corporate expenses** | **2,885** | 2,459 | **6,768** | 7,204 |
| Income tax | **(758)** | (1,670) | **4,482** | (1,685) |
| Net loss | **$ (15,897)** | $ (18,999) | **$(32,426)** | $ (36,478) |

*Canada - U.S. includes revenue of $25,574 and $22,423 for Canadian operations for the three months ended January 31, 2016 and 2015, respectively, and $87,794 and $74,060 for the nine months ended January 31, 2016 and 2015, respectively.

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

| | **Q3 2016** | Q3 2015 | **YTD 2016** | YTD 2015 |
|---|---|---|---|---|
| Capital expenditures | | | | |
| Canada - U.S. | **$ 2,493** | $ 2,843 | **$ 12,152** | $ 9,460 |
| South and Central America | **505** | 115 | **1,928** | 2,148 |
| Asia and Africa | **1,059** | 801 | **1,736** | 2,420 |
| Total capital expenditures | **$ 4,057** | $ 3,759 | **$ 15,816** | $ 14,028 |
| Depreciation and amortization | | | | |
| Canada - U.S. | **$ 7,321** | $ 7,213 | **$ 20,970** | $ 19,697 |
| South and Central America | **3,133** | 3,027 | **9,572** | 9,611 |
| Asia and Africa | **2,804** | 2,861 | **8,830** | 9,856 |
| Unallocated and corporate assets | **46** | 395 | **794** | 1,142 |
| Total depreciation and amortization | **$ 13,304** | $ 13,496 | **$ 40,166** | $ 40,306 |

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

## 9. SEGMENTED INFORMATION (Continued)

| | January 31, 2016 | April 30, 2015 |
|---|---|---|
| Identifiable assets | | |
| Canada - U.S.* | **$ 239,948** | $ 226,919 |
| South and Central America | **151,088** | 163,539 |
| Asia and Africa | **108,470** | 109,791 |
| Unallocated and corporate assets | **49,612** | 42,455 |
| Total identifiable assets | **$ 549,118** | $ 542,704 |

*Canada - U.S. includes property, plant and equipment at January 31, 2016 of $74,685 (April 30, 2015 - $84,115) for Canadian operations.

## 10. BUSINESS ACQUISITION

The Company has finalized the valuation of assets for Taurus Drilling Services, acquired August 1, 2014. There were no material adjustments required to values allocated to net tangible and intangible assets presented in the annual Consolidated Financial Statements for the year ended April 30, 2015. The Company made the first payment of $1,783 on the contingent consideration during the previous quarter.

## 11. 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. During the previous year, due to ongoing administrative difficulties to operate in the Democratic Republic of Congo ("DRC"), the Company closed its operation in that country.

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.

For the three and nine months ended January 31, 2016, respectively, the restructuring charge was $1,509 (2015 - $405) and $8,000 (2015 - $3,826), which includes an impairment charge of $900 (2015 – nil) and $4,379 (2015 – $1,953) relating to property, plant and equipment; a write-down of $609 (2015 – nil) and $1,913 (2015 – $1,628) to reduce inventory to net realizable value; employee severance charges of nil (2015 – $350) and $446 (2015 - $1,025); other non-cash charges of nil (2015 – nil) and $262 (2015 – nil); and a charge of nil (2015 - $55) and $1,000 (2015 – recovery of $780) relating to the cost of winding down operations. The unpaid portion of these charges, totaling $85, is recorded in trade and other payables.

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

## 12. 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.

| | **January 31, 2016** | April 30, 2015 |
|---|---|---|
| Contingent consideration | **$ 8,347** | $ 10,130 |
| Long-term debt | **14,563** | 15,345 |

The Company is in compliance with all covenants and other conditions imposed by its debt agreements.

***Credit risk***

As at January 31, 2016, 81.4% (April 30, 2015 - 89.0%) of the Company's trade receivables were aged as current and 9.2% (April 30, 2015 - 8.2%) of the trade receivables were impaired.

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

| | **January 31, 2016** | January 31, 2015 |
|---|---|---|
| **Opening balance** | **$ 4,204** | $ 3,016 |
| Increase in impairment allowance | **1,177** | 1,769 |
| Recovery of amounts previously impaired | **(191)** | (186) |
| Write-off charged against allowance | **(206)** | (811) |
| Foreign exchange translation differences | **236** | (144) |
| **Ending balance** | **$ 5,220** | $ 3,644 |

***Foreign currency risk***

As at January 31, 2016, 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** | **USD/CLP** | **USD/CAD** | **MNT/USD** |
|---|---|---|---|---|---|---|---|
| Exposure | | $ 868 | $ 1,903 | $ 2,173 | $ 670 | $ 1,222 | $ 857 |
| EBIT impact | +10% | 96 | 211 | 241 | 74 | 136 | 95 |

| | **Rate Variance** | **IDR/USD** | **Other** |
|---|---|---|---|
| Exposure | | $ (1,055) | $ 215 |
| EBIT impact | +10% | (117) | 8 |

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

## 12. FINANCIAL INSTRUMENTS (Continued)

***Liquidity risk***

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

| | 1 year | 2-3 years | 4-5 years | thereafter | Total |
|---|---|---|---|---|---|
| Trade and other payables | $ 34,239 | $ - | $ - | $ - | $ 34,239 |
| Contingent consideration | 3,000 | 5,347 | - | - | 8,347 |
| Long-term debt (interest included) | 7,060 | 5,427 | 2,186 | 618 | 15,291 |
| | **$ 44,299** | **$ 10,774** | **$ 2,186** | **$ 618** | **$ 57,877** |