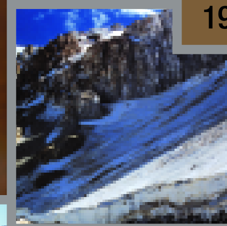
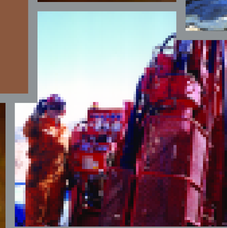
79
Au
196.967

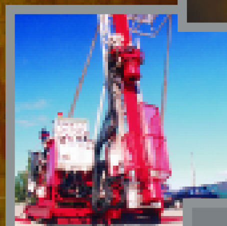


29
Cu
63.54

A World of Resources



28
Ni
58.71



47
Ag
107.870

MAJOR
Drilling Group International Inc.

2004 Annual Report

A World of Resources

Corporate profile

By consistently delivering the highest quality work in some of the world's harshest environments, Major Drilling Group International Inc. has become one of the world's largest contract drilling companies servicing the metals and minerals sector. With 32 field operations and/or offices in 20 countries around the globe, Major Drilling serves primarily the mining industry but also offers environmental and geotechnical contract drilling services.

Building the rigs of the future, Universal Drill Rigs (UDR), a Major Drilling subsidiary, is a recognized leader in the design and manufacture of state-of-the-art drill rigs and safety-related peripheral equipment.

Major Drilling is well positioned to capitalize on the sector recovery with an efficient cost structure and strong relationships with senior and junior mining companies. The Company will continue to deploy specialized equipment and innovative solutions to the mining industry's most complex and challenging drilling requirements.

Major Drilling's common shares trade on the Toronto Stock Exchange under the symbol MDI.

Table of contents

Highlights 3

Message to Shareholders 4

Report on Operations 6

Major Drilling Locations 12

Management's Discussion and Analysis 14

Management's Responsibility. 22

Auditors' Report 23

Consolidated Statements of Operations and Retained Earnings 24

Consolidated Balance Sheets 25

Consolidated Statements of Cash Flows. 26

Notes to Consolidated Financial Statements 27

Corporate Governance 34

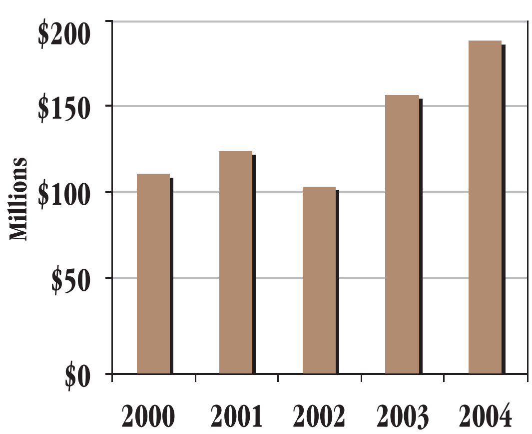
Shareholder Information 35

Highlights

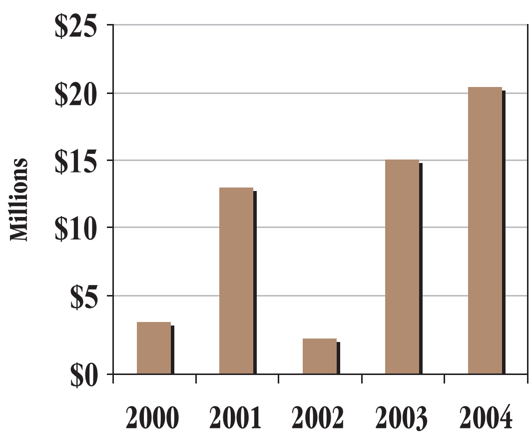
000's (Except earnings per share)	FY 2004	FY 2003
Revenues	**$ 193,832**	$ 162,168
EBITDA (Earnings before interest, taxes, depreciation and amortization)	**$ 21,145**	$ 15,760
Net earnings	**$ 5,470**	$ 2,532
Net earnings per share	**$ 0.27**	$ 0.16

- During fiscal 2004 (FY04), Major reported record annual revenues of $193.8 million, up almost 20% from the previous record in fiscal 2003 (FY03) of $162.2 million.
- Major posted record quarterly revenues every quarter in FY04, compared to the same quarters in previous years.
- On August 11, 2003, Major announced the completion of the issue of 5,000,000 common shares, by way of private placement, at a price of $5.25 per share, which raised gross proceeds of $26.3 million.
- On October 6, 2003, the Company announced a new contract with Ivanhoe Mines Mongolia for the supply of the world's largest multi-purpose drill rig, the UDR 5000, to be utilized at Ivanhoe's Turquoise Hill (Oyu Tolgoi) gold and copper discovery in southern Mongolia.
- By the end of FY04, Major had expanded its operations to include Turkey, Bolivia, Suriname, Eritrea and Nicaragua.
- On May 31, 2004, Major announced that its wholly owned Australian subsidiary, Major Pontil Pty. Ltd., had purchased the assets of Raematt Drilling, an underground drilling contractor based in Victoria, Australia.

Revenues for the year ended April 30



EBITDA for the year ended April 30



Message to Shareholders

Fiscal 2004 was a year of continued growth for the metal and mineral drilling industry and for Major Drilling. Initially, this growth was driven mainly by gold exploration by senior mining companies, but in the latter part of the year exploration by junior gold companies also increased. As our fiscal year progressed, base metal exploration companies also appeared to be gaining increased access to the financial markets, positioning them to become significant contributors to the steadily increasing level of demand as we move into fiscal 2005 (FY05).

We believe that we are still in the early stages of the cyclical upturn in the mining markets. In 1997, at the peak of the last cycle, approximately US$5 billion was spent on mineral exploration. This level of spending then decreased over the next five years and bottomed out at approximately US$1.9 billion in 2002. It increased to approximately US$2.4 billion in 2003. The need for mining companies to replenish reserves, US dollar weakness, increased demand for gold and base metals in the Far East, and the resurgence in prices for both precious and base metals support the premise that this upturn still has a long way to go.

Although our first and second quarters showed good year over year revenue growth, the highest level of growth was reserved for the fourth quarter (Q4). In that period, Major Drilling posted record revenues of $62.7 million, nearly 20% higher than our previous best quarter, and near-record earnings of $4.5 million. The result was record annual revenues of $193.8 million, and annual net earnings of $5.5 million.

FY04 was a year of significant investment in expanding our resources, as Major Drilling continued to gear up to meet the increasing demand for its services. These resources include both our people and equipment. We invested and continue to invest in the sourcing and training of people to meet the increasing demand for highly skilled crews, as we moved to resolve the issue of experienced drill crew availability head-on. We also continue to be committed to obtaining or developing the best equipment possible for the jobs that we are called on to perform. To that end, we are developing new lines of drilling equipment to improve both efficiency and safety.

Although these investments occurred throughout the year, they were heavily concentrated in the third quarter (Q3). These costs, together with high repair and refurbishment costs in that quarter and difficult climatic conditions in several of our main markets, led to a greater than expected third quarter loss, but prepared the Company for improved performance in Q4 and beyond.

Our growth has been achieved while remaining focused on our long-term objective of building a solid company for the future. As such, our strategy remains:

- to dominate specialized drilling and expand effective capacity;
- to utilize and rationalize conventional capacity while improving efficiency;
- to tactically expand underground capacity, especially in high-margin specialized services;
- to build and maintain a highly cost-effective organization and a standardized fleet while working toward reducing long-term debt as the cycle progresses.

FY04 also saw an increased focus on corporate governance from public companies, their shareholders, and regulatory bodies. During the year, and subsequent to year end, Major Drilling has continued to closely examine and augment its corporate governance processes. To name but a few, the Company:

- continued to build a long-term succession plan for directors and key officers;
- eliminated stock options for directors, and replaced this form of compensation with cash payments or deferred share units;
- implemented a level of required share ownership for directors and key officers;
- augmented its system of performance-based stock compensation by making a large component of options granted to key officers performance based;
- conducted Board and individual Board member evaluations;
- developed written charters for each of Major Drilling's four committees, together with a Board of Directors' mandate, an Auditor Policy, and a Code of Ethics.

We will continue to give corporate governance issues the attention that they rightfully deserve, in an effort to ensure that Major Drilling remains at the forefront of best practices.

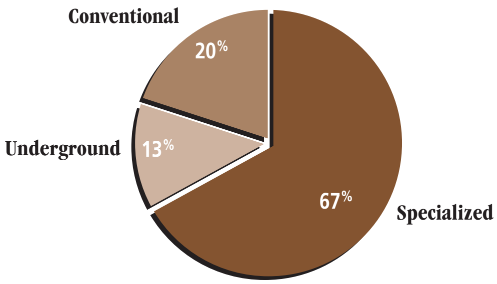
We would like to express our continuing appreciation to Major Drilling's 1,600 employees, who are integral to our success. We also thank our clients for their continued loyalty, our Board of Directors for providing invaluable advice and guidance, and our investors, whose support we look forward to rewarding with increased shareholder value in the years ahead. Your Company is truly a global operation. With the increase in exploration spending, investments in our equipment, and the wide diversity and expertise of our human resources, Major Drilling is truly capable of delivering **A World of Resources**.

Frank McKenna	Francis McGuire
Chairman of the Board	President and Chief Executive Officer

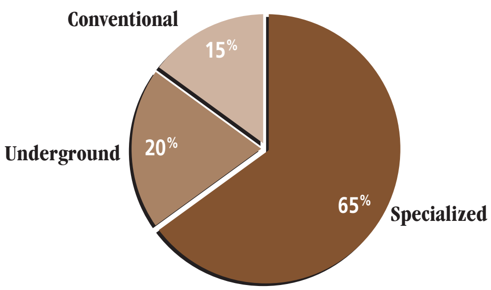
Report on Operations

Major Drilling has grown to become the drilling contractor of choice to many of the world's largest mining and exploration companies through a focus on service and responsiveness to their drilling needs around the globe. The Company has grown and built its record of success through the development of skilled and dedicated personnel and providing the staff with a growing fleet of cutting-edge specialized drilling rigs.

Drilling Revenue FY04



Drilling Revenue FY03



In recent years, the Company has focused on six key initiatives:

1. **Dominating specialized drilling services**, such as deep-hole drilling, directional drilling and mobilizations to difficult environments and remote locations. This segment of the business, which has the greatest growth potential, allows Major Drilling to exploit its primary competitive advantages – specialized equipment, skilled and innovative personnel, financial capacity and global reach, all significant barriers to entry for smaller locally based firms.

2. **Tactically expanding our underground drilling capacity** for both definition drilling (used to further define the ore body for engineering and operational mine plan purposes) and development drilling (involving extensive, systematic drilling to delineate the economic potential of an ore body). Underground drilling contracts are typically of longer duration than surface drilling contracts, providing more stability to the Company's revenue stream. They also provide a tactical point of entry that can often expand to encompass all of a client's local drilling requirements.

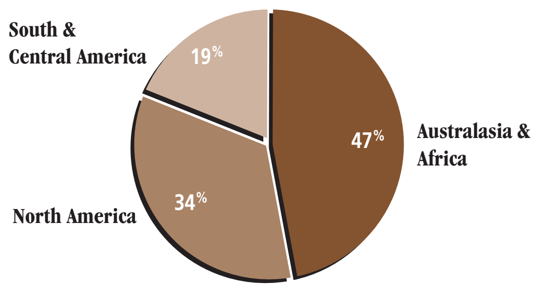
3. **Utilizing our capacity in conventional drilling**, which is primarily focused on surface exploration. With a focus on greenfield exploration, this business segment is typically the most affected by industry downturns and upturns. Therefore, it offers significant operational leverage as the sector recovers.

4. **Building a highly cost effective organization** by standardizing our fleet as the cycle progresses. The rationalization of the fleet and acquisition of new equipment, with an emphasis on state-of-the-art specialized equipment, will improve productivity and safety, and reduce operating costs and inventory requirements.

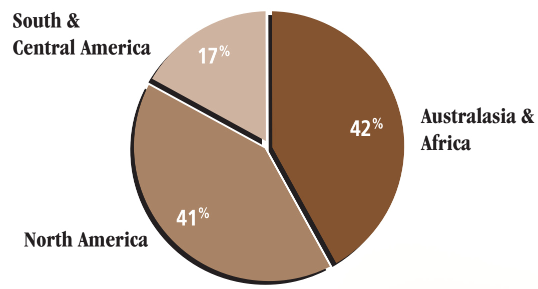
5. **Developing a global work force through extensive training and recruitment.** The Company has been successful in creating new pools of drillers in countries such as Chile, Mexico and Mongolia.

6. **Reducing long-term debt** as the cycle progresses. Although it is never easy to predict cyclical peaks, especially at this early stage, FY04 was a year in which capital and cash flow were directed at building our capacity for growth. We will continue this expansion, but at a slower pace in FY05, and will be putting greater emphasis on long-term debt reduction thereafter.

Regional Drilling Revenue FY04



Regional Drilling Revenue FY03

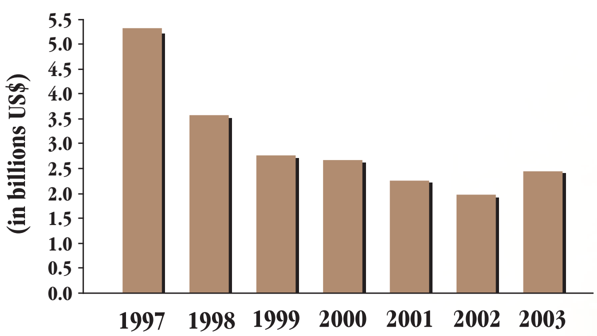


Demand for drilling services can be driven by either base metals or gold, and the Company's drilling equipment is equally suitable for drilling for any of these commodities.

As the chart below shows, we are currently very early in the cycle, with worldwide exploration expenditures for non-ferrous metals having grown from US$1.9 billion in calendar 2002 to US$2.4 billion in calendar 2003. The last cyclical peak in exploration expenditures, at some US$5 billion, occurred in 1997 and was driven primarily by gold exploration. The beginning of this cyclical recovery was again driven by gold, as prices pushed through US$300 per ounce in 2002.

However, in this recovery there has also been a strong resurgence of base metal prices in the latter half of 2003, which will add another significant layer of demand for drilling services in calendar 2004 and 2005.

Worldwide Non-Ferrous Exploration Spending



Source: Metals Economics Group

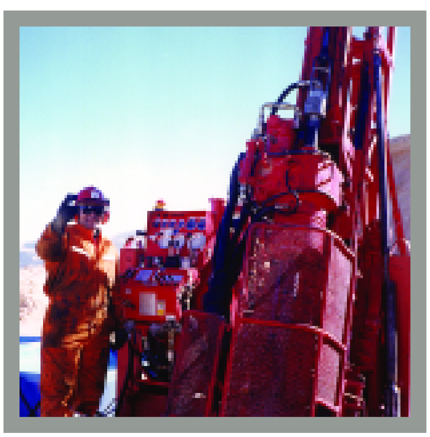
Our People

In a world where technical progress is never ending, people remain the Company's most important resource.

The skill and productivity of individual drillers is the most important determinant of success in this industry, where labour averages some 35% of direct costs.

During the year, Major Drilling made significant progress in developing a global work force. The Company invested in recruitment and training in South and Central America, Indonesia and Mongolia, and made significant investments in human resource management and training in Canada. Without these investments and people, the Company could not have shown the growth it showed in FY04.

As the level of demand for drilling services continues to expand, it is increasingly clear that the Company's ability to respond will depend less on capital or equipment, and more on the ability to expand, train and develop the Company's pool of qualified and capable drillers.



Safety

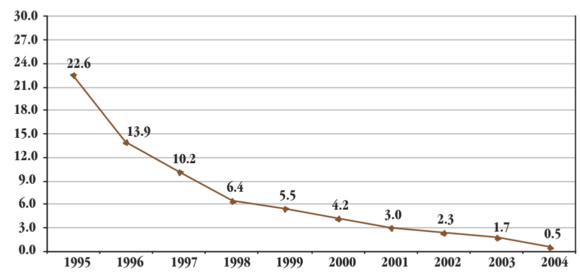
If people are the Company's most important resource, then concern for our people's safety and well-being are at the heart of our operating philosophy. In one of the most demanding and dangerous industrial sectors, Major Drilling's safety record demonstrates this commitment to our people.

Major has invested heavily over the last several years to ensure the Company is at the forefront of safety-related training and equipment development, with impressive results. This year the Company saw substantial growth as hours worked increased to 3.3 million from 2.5 million last year and, despite this 30% increase in hours worked, our total lost days dropped by nearly 40%, from 682 last year to 414 this year.

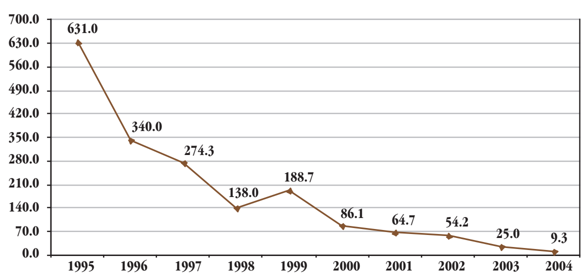
Comparing the current year's performance to the year 2000, the hours worked have gone from 1.8 million with 800 lost days to 3.3 million with 414 lost days.

This is an enviable record of continuing improvement, of which the Company is very proud.

Accident Frequency Rates



Accident Severity Rates

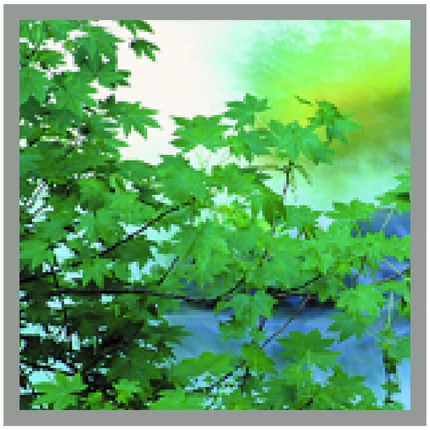


Environment

Respect for the environment is an essential part of sustainable global development. The Canadian operation has always been a leader in developing and implementing policies and procedures that meet the highest standards. Those same standards are strictly applied in all operations around the world.

The Company is particularly pleased to note that this year, the Canadian Diamond Drillers Association appointed one of our employees as the chair of the E3 working group. E3 is an industry lead effort to establish national guidelines for environmental protection in the drilling industry.

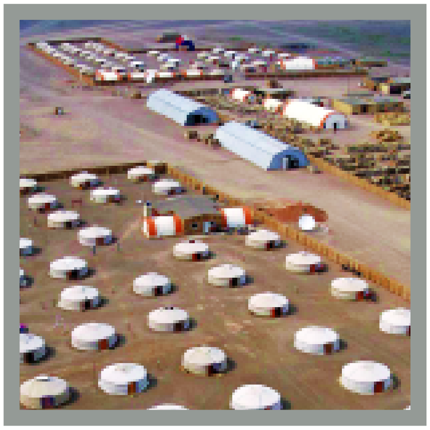
The Company is pleased that the CDDA voted unanimously, in May of 2004, to adopt these guidelines.



Australasia and Africa

Australasia and Africa includes operations in Australia, Indonesia, Mongolia and Africa. This region produced the greatest revenue growth for the Company again this year, with revenue increasing by 37% to $82.5 million from $60.0 million last year.

This increase was driven primarily by the significant expansion of activity in Mongolia, and to a lesser extent the expansion of a large five-year contract in Indonesia, where the Company is drilling world-class gold/copper deposits providing both revenue growth and stable cash flow. Revenues in continental Australia were essentially flat year over year as a portion of the branch's deep hole surface fleet was redeployed to Mongolia.



Report on Operations

North America

North American revenues stayed relatively flat at $60.8 million versus $59.4 million. The large number of competitors makes Canada, in particular, one of the more price-competitive markets in the world. Our strategy for this year was to focus our resources on those segments of the market where we have the greatest competitive advantage. The goal was to increase profitability rather than to grow in this market place. Although more work remains to be done, by the fourth quarter of this year our strategy began to pay off.

As the Canadian region represents a relatively larger component of base-metal-related drilling for the Company, the recent increases in base metal prices should increase demand for drilling services in the region.

South and Central America

After a slow start at the beginning of the year, South and Central America saw strong growth in the fourth quarter of FY04, driven by increased demand from intermediate and junior gold mining and exploration companies, particularly in Mexico and Venezuela.

Revenues grew to $32.6 million compared to $25.1 million in the previous year.

Activity in Chile and Argentina also picked up towards year end, and the outlook for Chile, a copper-based mining country, looks positive in the coming year. In March, the Company also opened a new office in Suriname to support operations related to a three-year drilling contract in that country.

Manufacturing

UDR, the manufacturing division of Major Drilling, is a leader in the manufacture and design of specialized combination drill rigs that are capable of both reverse circulation and diamond core drilling. UDR's safety equipment product line has helped increase sales even further, as Australia has become increasingly stringent on mine safety issues. Products such as rod handlers, rod spinners and breakers are becoming the norm, not only in Australia but in many other regions around the globe.

Third-party sales remained essentially flat at $17.9 million compared to $17.7 million as a large portion of the Company's manufacturing capacity was directed at inter-company sales. In FY04, inter-company rig sales increased by $5.2 million compared to FY03.

During the course of this year, UDR introduced three new models of specialized drill rigs. It introduced the UDR 10, a light man-portable diamond drill rig; the UDR 100, the world's first heli-portable combination rig; and the UDR 300, a very compact, transportable and user-friendly deep-hole diamond drill rig. These new models will contribute to UDR's ongoing success as it moves forward.

UDR also continued to expand the scope of its safety products. In October 2003, UDR announced that it had entered into an agreement with United States-based drill rig manufacturer Schramm Inc. for the sale and distribution of the UDR-KL Rod Handling system in the United States.


Greenland
Canada
USA
Mexico
Dominican Republic
Honduras
Barbados
Nicaragua
Venezuela
Suriname
French Guiana
Bolivia
Chile
Argentina

Shaded areas represent Major's field operations.

29	28	79	47
Cu	Ni	Au	Ag
63.54	58.71	196.967	107.870

MAJOR
Drilling Group International Inc.

Financial Summary

	2004	2003	2002	2001	2000	1999	1998
	(in thousands of Canadian dollars)						
Revenue by region							
Canada - U.S.	$ 60,825	$ 59,360	$ 45,530	$ 51,078	$ 43,491	$ 57,588	$ 59,128
South and Central America	32,551	25,119	17,374	32,289	29,375	23,304	28,546
Australasia and Africa	82,537	60,033	35,738	32,293	29,588	42,442	36,034
Manufacturing net of eliminations	17,919	17,656	10,468	14,233	14,128	17,438	22,833
Total	**193,832**	**162,168**	**109,110**	**129,893**	**116,582**	**140,772**	**146,541**
Gross profit	**46,718**	**39,571**	**24,348**	**36,208**	**30,113**	**36,552**	**45,861**
Gross profit as a percentage of revenue	24.1%	24.4%	22.3%	27.9%	25.8%	26.0%	31.3%
General and administrative expenses	**24,065**	**21,360**	**20,312**	**21,721**	**26,421**	**26,251**	**25,327**
G & A as a percentage of revenue	12.4%	13.2%	18.6%	16.7%	22.7%	18.6%	17.3%
Earnings (Loss) from continuing operations*	**5,564**	**2,982**	**(7,611)**	**1,483**	**(6,077)**	**(302)**	**8,466**
Write down of investment and goodwill	**-**	**-**	**(2,468)**	**(6,928)**	**-**	**-**	**-**
Net (loss) recovery from discontinued operations	**-**	**(450)**	**141**	**(3,823)**	**5,883**	**(13,861)**	**465**
Net earnings (loss)	**5,470**	**2,532**	**(9,938)**	**(9,268)**	**(194)**	**(14,163)**	**8,931**
EBITDA from continuing operations*	**21,145**	**15,760**	**2,555**	**13,625**	**3,767**	**8,343**	**22,481**

*before write down of investment, goodwill and non-controlling interest

This discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with its consolidated financial statements and accompanying notes from fiscal 2004 and 2003.

This annual report may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. By their nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management's Discussion and Analysis and as discussed in public disclosure documents filed with Canadian regulatory authorities.

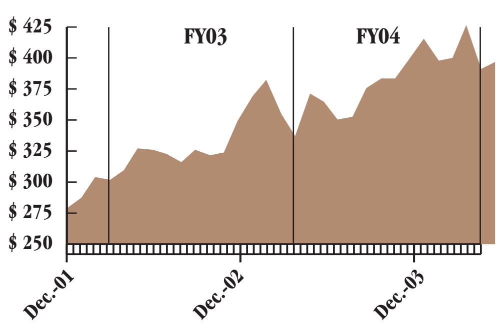
Major Drilling disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Corporate overview

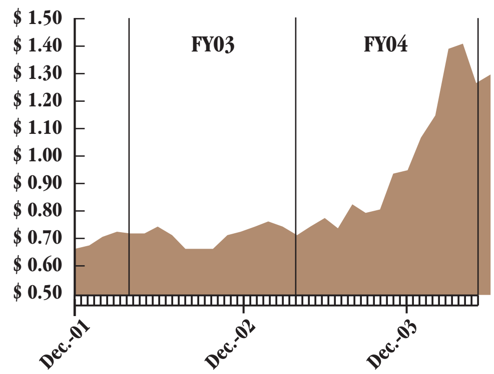
The metals and minerals drilling industry is reliant on demand from two primary categories of commodities: gold and base metals. In a positive commodity pricing regime, either one of these metal groups can, by itself, bring the contract drilling sector to capacity.

Over the past several years, the outlook for the metals and minerals sector has improved significantly. With gold prices moving up from a low of US$250 per ounce in mid-2001 through the important US$300 per ounce level in April 2002, the senior gold mining companies, and to a lesser extent, the intermediate gold producers moved back into exploration and development early in FY03. Base metal prices remained relatively low throughout the fiscal year, and consequently the increased demand for drilling services came mainly from gold-related exploration.

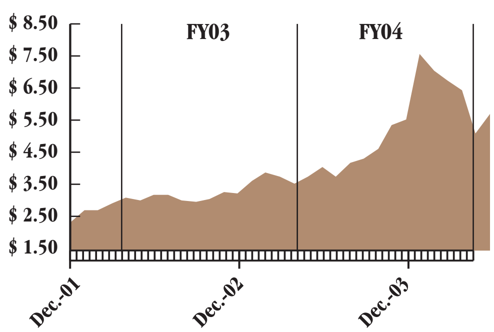
Gold Prices (US$/oz)



Copper Prices (US$/lb)

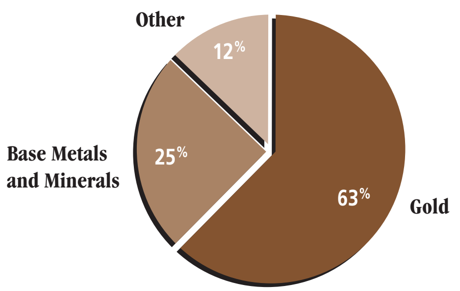


Nickel Prices (US$/lb)

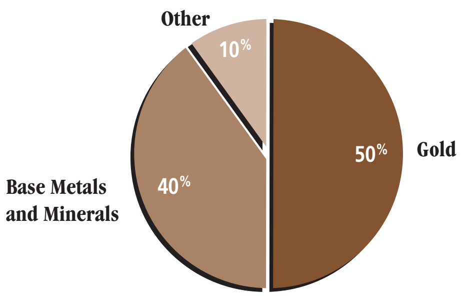


In FY04, gold prices continued to strengthen, bringing junior gold exploration companies into action and contributing to demand during FY04, particularly in the fourth quarter.

Drilling Revenue by Commodity FY04



Drilling Revenue by Commodity FY03



Base metal prices began to recover in the latter half of calendar 2003, providing intermediate and junior base metal exploration companies access to capital markets. It typically takes six to nine months before the expenditure of this capital begins to impact the demand for drilling services and consequently there was not a meaningful increase in base-metal-related drilling demand in FY04.

Results of operations

Total revenue for the fiscal year ended April 30, 2004 was $193.8 million, up almost 20% over the $162.2 million reported last year. Drilling revenues increased by $31.4 million to $175.9 million from $144.5 million in FY03. Third-party sales from manufacturing were essentially flat at $17.9 million compared to $17.7 million last year as a significant portion of the Company's manufacturing capacity was directed at inter-company sales to the drilling division. Inter-company rig sales were $5.2 million higher in FY04 compared to FY03.

With the increased level of sales in FY04, gross profit was $46.7 million compared to $39.6 million in FY03. Gross margin percentage for the year was basically flat at 24.1% compared to 24.4% last year.

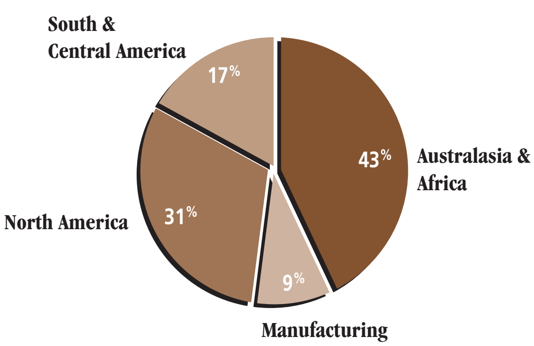
Demand from both senior and junior gold companies was strong in the second half of the fiscal year, putting a strain on operations in both the third and fourth quarters. In the third quarter of FY04, the Company prepared a record number of drills to respond to increased demand in the fourth quarter and beyond. A number of "mothballed" drill rigs were brought back into service, significantly increasing repair and mobilization costs in that quarter. This increased level of demand also created pressure on the availability of experienced drill crews, and less experienced drillers were pressed into service, resulting in lower labour productivity and negatively impacting margins.

While the increased demand allowed the Company to increase prices, gross margin percentages in all regions were impacted by labour availability and productivity issues, and the costs of reconditioning previously idle rigs. Costs associated with recruitment, training and safety also increased year over year. To some extent, the Company sacrificed productivity for growth in FY04. As the new crews settle in, productivity is expected to improve over the next several quarters.

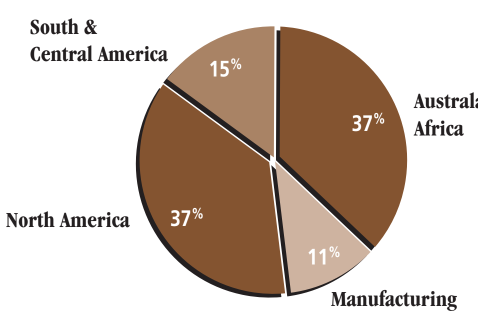
Canada-U.S. drilling revenues were relatively flat at $60.8 million compared to $59.4 million last year, reflecting a relatively larger dependence on base-metal-related drilling, where recent price increases in these commodities have just begun to affect drilling demand in the region.

Canada-U.S. drilling gross profit percentage decreased marginally in FY04 compared to FY03, as a large, higher margin contract carried out in the U.S. in FY03 was not replaced. In addition, expected margin improvements resulting from staff training programs and the deployment of new equipment on a number of low priced, longer-term Canadian drilling contracts did not fully materialize. All of these lower priced contracts will expire by the end of the 2004 calendar year.

Revenue Distribution
FY04



Revenue Distribution
FY03



Revenues from drilling in Australasia and Africa increased over 37% to $82.5 million from $60.0 million in FY03. This increase was driven primarily by the significant expansion of activity in Mongolia, and to a lesser extent, the expansion of the Indonesian contract. Revenues in continental Australia were essentially flat year over year as a portion of the branch's deep hole surface fleet was redeployed to Mongolia.

Australasian and African gross profit percentage decreased slightly compared to the previous year.

In Australia, operational factors relating to the return of seasonal rains in the northern regions after a hiatus of several years, and single shifting due to a major customer re-working its drill programs depressed margins.

In Indonesia, increased material costs compared to the prior year, when lower cost inventory from the Indonesian acquisition was being consumed, contributed to reduced, but still strong, margins in that region.

In South and Central America, revenues increased $7.5 million to $32.6 million compared to $25.1 million in the prior year. This increase was driven by very strong growth in activity by junior gold exploration companies in Venezuela and Mexico, which more than offset reduced levels of activity in Chile and Argentina.

Gross margin percentages in the South and Central American region increased slightly. This region was the most affected by increased mobilization and repair costs in FY04 as at the end of January some 43 rigs had been prepared and committed to projects, compared to 23 rigs at the same time last year. Since the costs to bring "mothballed" rigs back into service will not reoccur on the same scale, going forward margins should continue to improve as the Company moves forward in the cycle.

It is clear, as the Company continues to manage growth as it moves deeper into the cycle, that developing its human resources will be its biggest challenge. Over the past two years, the Company has developed and trained new local drillers in South America and Asia. As well, this year, the Company made significant investments in recruitment and training in Australia and Canada. Major will continue these efforts to ensure the Company is able to meet future growth requirements and also improve operating performance and productivity.

General and administrative expenses increased to $24.1 million compared to $21.4 million last year due to the establishment of branches in Turkey, Suriname and Nicaragua, expansion of the Mongolian and Indonesian branches and volume-related cost increases in the Company's overall operations. Although a marginal increase in G&A expenses is expected in FY05, the Company now has the infrastructure in place to accommodate significant future growth.

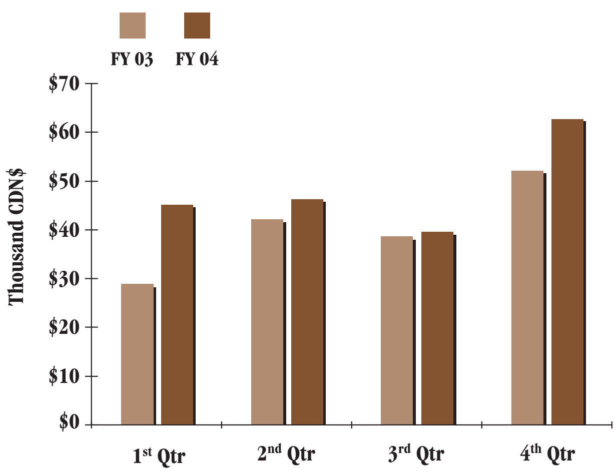
Other expenses remained relatively flat at $2.0 million compared to $2.1 million last year. Increased costs due to training and productivity improvement programs and increased bonus provisions related to the Company's improved profitability, were offset by gains on sales of temporary investments.

The income tax provision for FY04 was $3.2 million compared to $1.9 million for last year as a result of the increased profitability of the Company. The utilization of previously unrecognized losses in regions where the profit outlook has improved, and lower effective foreign tax rates tended to offset the impact of non-recognition of tax benefits related to losses in non-profitable regions, with the result that the effective tax rate in FY04 was 36.8% compared to 43.5% in FY03.

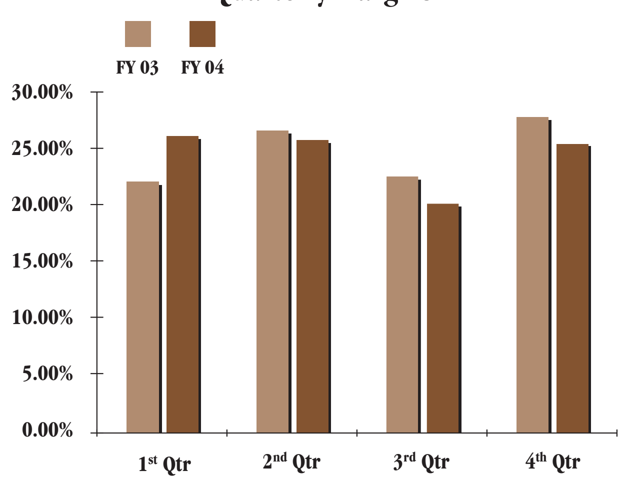
Seasonality

Major Drilling's operations exhibit a seasonal pattern that reflects the current geographic distribution of its operations. The Company's fourth quarter (February to April) is its strongest as activity increases in Northern and Central Canada, where winter roads permit access to remote exploration sites. During this period of time, South America is in the summer season, which provides the best drilling conditions and the greatest activity levels for high altitude drilling in that region. The third quarter (November to January) is normally Major Drilling's weakest quarter due to the shutdown of mining and exploration activities for extended periods over the holiday season, particularly in South and Central America.

Quarterly Revenues



Quarterly Margins



With the exception of the third quarter, the Company expects FY05 to exhibit comparatively less seasonality in quarterly revenues, since a relatively higher proportion of drilling revenues will be coming from regions with more temperate or tropical climates that are not impacted by winter weather conditions.

Liquidity and capital resources

The Company's ongoing requirements for cash consist principally of amounts required for working capital, to finance capital expenditures and to fund debt service requirements. Cash flow used in continuing operations for FY04 was $1.0 million compared to cash flow from continuing operations of $12.8 million in FY03 as increased demand resulted in an expansion of inventory levels, particularly in Mongolia and Indonesia, and increased receivables.

In August 2003, the Company issued 5 million common shares by way of private placement, to raise net proceeds of $24.9 million to finance growth, for repayment of debt and for general corporate purposes, including working capital.

A Canadian chartered bank has made three credit facilities available to the Company. The maximum amount available under these facilities is $32.2 million and is available subject to the Company meeting certain covenants relating primarily to its financial position. The Company also has credit facilities available in Chile and Australia amounting to $1.7 million.

The operating lines total $21.7 million ($20.0 million from the Canadian chartered bank) and are secured by the Company's trade accounts receivable and inventories. At April 30, 2004, the Company had utilized $10.5 million of these lines, compared to $10.8 million at April 30, 2003.

The second facility is a $5.0 million non-revolving term line for equipment acquisitions. At April 30, 2004, the Company had utilized $2.2 million of this line. Draws on this line are amortized over five years.

The third facility is a $7.2 million non-revolving term line established to assist in the acquisitions of similar businesses. At April 30, 2004, this line was fully drawn. This facility is being amortized over a four-year period which commenced in FY03.

Working capital

Working capital requirements are determined primarily by drilling activity levels, and the resulting levels and rates of turnover of accounts receivable and inventories. With the highest level of sales typically in the fourth quarter, accounts receivable normally peak at year end. With the increased sales in the year, accounts receivable were $36.8 million at April 30, 2004, compared to $30.1 million at the prior year end. Inventories have increased to $46.0 million from the prior year-end level of $32.9 million, due principally to the increase in activity levels primarily in the Mongolian, Indonesian, Venezuelan and Central American operations. Working capital was $38.2 million at April 30, 2004 compared to $25.2 million at April 30, 2003.

Capital expenditures

In order to respond to increased demand for drilling services in FY04, net capital expenditures (capital expenditures net of proceeds on sale of capital assets) were $25.7 million for the year compared to $15.1 million for the same period last year. It is expected that this level of expenditure will decrease to the $15 to $20 million range in FY05 and then return to a maintenance level of expenditure that allows the Company to replace and sustain its fleet of drill rigs and related equipment at the current levels.

Subsequent event

Effective May 15, 2004, the Company purchased the assets of Raematt Drilling, an underground drilling contractor based in Victoria, Australia. Through this purchase, Major acquired not only a number of specialized deep-hole underground drill rigs, together with support equipment and inventory, but also several highly skilled drill crews.

In this transaction, contracts valued in excess of $14 million per year have been assumed by the Company. The purchase price for the transaction was A$5.0 million plus the assumption of some A$1.75 million in equipment leases.

Risks and uncertainties

The most significant operating risk affecting the Company is the potential downturn in demand for its services due to a decrease in activity in the minerals and metals industry.

To mitigate this risk, the Company is aggressively exploiting its competitive advantage in specialized drilling and continues to explore opportunities to rationalize its regional infrastructures. In the last cyclical market downturn, the Company realized that specialized services were not as affected by decreases in metal and mineral prices compared to its traditional services. Consequently, a key element of the Company's business strategy is to focus on specialized drilling services. At the same time, the Company continues to make progress with its initiative to standardize its fleet over the next several years, which will provide significant savings in repair, maintenance and inventory costs.

The Company conducts a significant proportion of its business outside of Canada and consequently has exposure to currency movements, principally in U.S. and Australian dollars. In order to reduce its exposure to foreign exchange risks associated with the currencies of developing countries, where a substantial portion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where legally permitted. In previous years, in Australia and in several countries in South and Central America, the operations have been treated as self-sustaining and as a result of changes in the economic performance of Tanzania and all other South and Central American subsidiaries, it was determined effective May 1, 2003, that all of these branches commenced operating as self-sustaining foreign operations. This change in method of translation has been applied prospectively and the resulting translation gains (losses) have been recorded as a separate component of shareholders' equity.

The impact of the Company's exposure to U.S.-dollar-denominated revenue, which typically represents about 40% of total revenue, is partially mitigated by offsetting U.S.-dollar-based labour and material costs. In FY04 the strengthening of the Australian dollar, which typically represents about 30% of total revenues against the Canadian dollar served to offset U.S. dollar exchange losses.

From time to time, the Company may be dependent on a small number of customers for a significant portion of overall revenue and net income. In FY04, five of the Company's largest customers generated 32% of its total revenues with 15% of the Company's revenues derived from a single customer in Mongolia. Upon the expiration or termination of such contracts, there can be no guarantee that the Company will obtain sufficient replacement contracts to maintain the existing revenue and income levels. Consequently, the Company continues to work to expand its client base and geographic field of operations to mitigate its exposure to any single client, commodity or mining region.

As the Company moves deeper into the mining cycle and activity levels increase, the requirement for working capital expands, particularly with respect to accounts receivable and inventory. While receivables from senior and larger intermediate mining exploration companies remain a significant component of total receivables, accounts receivable from junior mining companies increase as a proportion of total receivables. In many cases, capital markets are the only source of funds available to these juniors and any change in the outlook of the sector or the lack of success of a specific exploration program can quickly impair the ability of these juniors to raise capital to pay for their drilling programs. The Company manages their potential risk by closely monitoring the aging of receivables as well as the level of junior financing activity in the capital markets, and requiring, in some instances, deposits or letters of credit, as considered appropriate.

In terms of inventory levels, they also increase as a result of increased activity levels. In addition to direct volume-related increases, however, inventory levels also increase due to an expansion of activity in remote locations at the end of long supply chains where it is necessary to increase inventory levels to ensure an acceptable level of continuing service, which is part of our competitive advantage. In the event of a sudden downturn of activities related either to a specific project or to the sector as a whole, it is more difficult and costly to redeploy this remote inventory to other regions where it can be consumed. In order to minimize its exposure to this risk, the Company works closely with its customers to anticipate and plan for scheduled reductions in their drilling programs and with its suppliers to set up consignment arrangements where possible. The Company also closely monitors its inventory levels in these remote operations and attempts to appropriately balance its exposure to inventory risk against the risk of loss of productivity as a result of insufficient drilling consumables or spares when required.

Outlook

Major Drilling's financial performance is strongly tied to the financial performances of the global gold and base metals sectors. In FY04, about 63% of the Company's drilling revenue was related to gold, 25% to base metals and the balance to geotechnical and construction drilling.

With the recent firming and retracement of gold and base metal prices, the underlying strength in revenues and improvement in earnings is expected to continue throughout FY05 in all regions. This will be achieved with new projects in South America, which are well underway, and with the addition of Raematt in Australia.

In Mongolia, revenue levels are expected to moderate somewhat as the drilling requirements of the Company's largest customer are scaled back and rigs are redeployed to our expanding client base in that region. In Canada, although prices are rising and productivity is expected to improve, the Company will continue to service several longer term, low-margin contracts, representing approximately 25% of Canadian revenues, until the end of the calendar year.

As discussed earlier, with the new crews gaining experience going forward, the Company expects its margins to improve gradually during FY05 in all regions. Also, with strong demand created by both commodity groups, prices should continue to improve during the year.

Major remains committed to reducing long-term debt and will be starting to moderate its capital expenditures during FY05 as it optimizes equipment utilization and labour capacity. The Company's balance sheet remains strong and should continue to improve in the future.

Management's Responsibility

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected, Canadian generally accepted accounting principles and policies, consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to May 28, 2004. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

The consolidated financial statements have been examined by Deloitte & Touche LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the appointment of the external auditors. The external auditors have full and free access to the Audit Committee.

Francis P. McGuire	Michael A. Pavey
President & Chief Executive Officer	Chief Financial Officer

May 28, 2004

Auditors' Report

To the Shareholders of

Major Drilling Group International Inc.

We have audited the consolidated balance sheets of Major Drilling Group International Inc. as at April 30, 2004 and 2003 and the consolidated statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants

Saint John, New Brunswick

May 28, 2004

Consolidated Statements of Operations and Retained Earnings

Years ended April 30, 2004 and 2003

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

	2004	2003
TOTAL REVENUE	**$ 193,832**	$ 162,168
DIRECT COSTS	**147,114**	122,597
GROSS PROFIT	**46,718**	39,571
OPERATING EXPENSES		
General and administrative	**24,065**	21,360
Other expenses	**2,030**	2,093
Foreign exchange (gain) loss	**(522)**	358
Interest	**1,888**	2,207
Amortization	**10,511**	8,622
	37,972	34,640
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	**8,746**	4,931
INCOME TAXES - PROVISION (RECOVERY) (note 14)		
Current	**5,130**	2,169
Future	**(1,948)**	(220)
	3,182	1,949
EARNINGS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTEREST	**5,564**	2,982
NON-CONTROLLING INTEREST	**94**	–
EARNINGS FROM CONTINUING OPERATIONS	**5,470**	2,982
LOSS FROM DISCONTINUED OPERATIONS (note 10)	**-**	(450)
NET EARNINGS	**5,470**	2,532
RETAINED EARNINGS (DEFICIT), BEGINNING OF THE YEAR	**764**	(1,768)
RETAINED EARNINGS, END OF THE YEAR	**$ 6,234**	$ 764
EARNINGS PER SHARE (note 15)		
Earnings from continuing operations	**$ 0.27**	$ 0.19
Net earnings	**$ 0.27**	$ 0.16
Diluted EPS from continuing operations	**$ 0.27**	$ 0.18
Diluted EPS on net earnings	**$ 0.27**	$ 0.16

Consolidated Balance Sheets

Years ended April 30, 2004 and 2003

(in thousands of Canadian dollars)

ASSETS

	2004	2003
CURRENT ASSETS		
Cash	**$ 3,089**	$ 4,788
Marketable securities	**794**	745
Accounts receivable	**36,750**	30,079
Inventories (note 3)	**45,955**	32,874
Prepaid expenses	**3,708**	1,886
	90,296	70,372
CAPITAL ASSETS (note 4)	**99,614**	83,442
FUTURE INCOME TAX ASSETS (note 14)	**6,154**	3,911
OTHER ASSETS	**359**	194
	$ 196,423	$ 157,919

LIABILITIES

	2004	2003
CURRENT LIABILITIES		
Demand loans (note 5)	**$ 10,520**	$ 10,837
Accounts payable and accrued charges	**33,605**	26,931
Income taxes payable	**2,197**	1,389
Current portion of long-term debt (note 6)	**5,807**	5,991
	52,129	45,148
LONG-TERM DEBT (note 6)	**18,745**	19,976
NOTE PAYABLE	**203**	491
DEFERRED GAIN (note 7)	**979**	1,147
NON-CONTROLLING INTEREST	**130**	–
	72,186	66,762
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**124,841**	97,476
Contributed surplus	**1,388**	1,388
Retained earnings	**6,234**	764
Cumulative translation adjustments	**(8,226)**	(8,471)
	124,237	91,157
	$ 196,423	$ 157,919

Contingencies and commitments (notes 11 and 12)

APPROVED BY THE BOARD OF DIRECTORS

H L Doane

Jonathan Goodman, Director

H. Lawrence Doane, Director

Consolidated Statements of Cash Flows

Years ended April 30, 2004 and 2003

(in thousands of Canadian dollars)

	2004	2003
OPERATING ACTIVITIES		
Earnings from continuing operations	**$ 5,470**	$ 2,982
Operating items not involving cash		
Amortization	**10,511**	8,622
Loss on disposal of assets	**75**	32
Non-controlling interest	**94**	–
Future income taxes	**(1,948)**	(220)
	14,202	11,416
Changes in non-cash operating working capital items (note 9)	**(15,178)**	1,356
Cash flow (used in) from continuing operations	**(976)**	12,772
Loss from discontinued operations	**–**	(450)
Cash flow (used in) from operating activities	**(976)**	12,322
FINANCING ACTIVITIES		
Repayment of long-term debt	**(14,051)**	(4,929)
Additional long-term financing	**1,550**	2,000
(Repayment of) increase in demand loans	**(317)**	2,148
Issuance of common shares	**27,365**	(248)
Cash flow from (used in) financing activities	**14,547**	(1,029)
INVESTING ACTIVITIES		
Acquisition of capital assets	**(17,319)**	(12,925)
Proceeds from disposal of capital assets	**2,696**	5,489
Other	**(194)**	92
Cash flow used in investing activities	**(14,817)**	(7,344)
OTHER ACTIVITIES		
Foreign exchange translation adjustment	**(453)**	(1,659)
(DECREASE) INCREASE IN CASH	**(1,699)**	2,290
CASH POSITION, BEGINNING OF THE YEAR	**4,788**	2,498
CASH POSITION, END OF THE YEAR	**$ 3,089**	$ 4,788

Years ended April 30, 2004 and 2003

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

1. NATURE OF ACTIVITIES

The Company is incorporated under the Canada Business Corporations Act. The principal sources of revenue consist of contract drilling for companies involved in mining and mineral exploration and the manufacturing and distribution of operating supplies and drill rigs. The Company has operations in Canada, the United States, Mexico, South and Central America, Australia, Europe, Asia and Africa.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its subsidiaries.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates relate to the useful lives of capital assets for amortization purposes, amounts recorded as accrued liabilities, and the valuation of work in progress.

Revenue recognition

Revenues from drilling contracts are recognized on the basis of actual footage drilled for each contract. Revenues for manufacturing under contract are recognized on a percentage of completion basis using a standard markup on cost incurred to date. Other revenues from manufacturing and distribution are recognized as the goods are shipped. Revenues from ancillary services are recorded when the services are rendered.

Earnings per share

Earnings per share are calculated using the weighted daily average number of shares outstanding during the year.

Diluted earnings per share are determined as net earnings divided by the weighted average number of diluted common shares outstanding for the period. Diluted common shares reflect the potential dilutive effect of exercising the stock options based on the treasury stock method.

Marketable securities

Marketable securities are valued at the lower of cost and fair market value.

Inventories

The Company maintains an inventory of operating supplies, drill rods, drill bits, raw materials for manufacturing, and work in progress. Inventories are valued at the lower of cost and replacement cost, primarily using FIFO. The value of used inventory items is considered minimal, therefore they are not valued, except for drill rods, which, if still considered usable, are valued at 50% of cost.

Capital assets

Capital assets are valued at cost. Amortization, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable asset. The following rates apply to those assets being amortized on the straight-line method:

	Residual value (%)	Useful life (years)
Buildings	0	15-20
Drilling equipment	0-15	5-15
Automotive and off-road equipment	0-10	5-10
Other (office, computer and shop equipment)	0	5-15

Costs for repairs and maintenance are charged to operations as incurred. Significant improvements are capitalized and amortized over the useful life of the asset.

Asset valuation

The Company assesses long-lived assets for recoverability whenever indications of impairment exist. When the carrying value of a long-lived asset is less than its net recoverable value, as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset (when quoted market prices are not readily available), is below the asset's carrying value.

Future income taxes

The Company follows the liability method for corporate income taxes. This method takes a balance sheet approach and focuses on the amount of income taxes payable or receivable that will arise if an asset is realized or a liability is settled for its carrying amount. These resulting assets and liabilities, referred to as "future income tax assets and liabilities", are computed based on differences between the carrying amount of balance sheet items and their corresponding tax values using the enacted, or substantively enacted, income tax rate in effect when the differences are expected to reverse.

The Company's primary differences arise between the tax carrying value and net book value of capital assets and finance costs, and the tax benefit of non-capital losses carried forward.

Translation of foreign currencies

All amounts are presented in Canadian dollars. The Company has operations in the United States, Mexico, Venezuela, Chile, Australia, Indonesia, Mongolia and Turkey, which are classified as self-sustaining foreign operations. The assets and liabilities of self-sustaining foreign operations are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items of such operations are translated at average rates of exchange for the year. The resulting foreign currency translation gain or loss is reported as a separate component of shareholders' equity. The change in the amount primarily reflects the relative strength of the Australian and U.S. dollars against the Canadian dollar and the change in the net investment in the self-sustaining foreign operations.

As a result of changes in the economic performance of Tanzania and all other South and Central American subsidiaries, it was determined effective May 1, 2003, that all of these branches commenced operating as self-sustaining foreign operations. Accordingly, the accounts of these subsidiaries have been translated using the method outlined above for self-sustaining operations. This change in method of translation has been applied prospectively and the resulting translation gains (losses) have been recorded as a separate component of shareholders' equity.

Stock-based compensation

The Company has a stock option plan (the Plan) described in note 8. No compensation expense has been recognized in respect of the Plan when stock options were issued to employees or directors, as the exercise price for an option issued under the Plan is the fair market value of the common share on the grant date of the option. Any consideration paid by employees or directors on exercise of stock options was credited to share capital.

2003 figures

Certain of the 2003 figures have been reclassified to conform with the 2004 presentation.

3. INVENTORIES

	2004	2003
Drilling parts and supplies	**$ 36,203**	$ 23,960
Manufacturing materials and work in progress	**9,752**	8,914
	$ 45,955	$ 32,874

4. CAPITAL ASSETS

	2004 Cost	2004 Accumulated amortization	2004 Net value	2003 Cost	2003 Accumulated amortization	2003 Net value
Land	**$ 1,288**	**$ -**	**$ 1,288**	$ 1,489	$ -	$ 1,489
Buildings	**3,839**	**603**	**3,236**	5,093	884	4,209
Drilling equipment	**93,898**	**23,289**	**70,609**	87,139	25,031	62,108
Automotive and off-road equipment	**26,534**	**9,384**	**17,150**	18,778	9,168	9,610
Other	**15,427**	**8,096**	**7,331**	12,962	6,936	6,026
	$ 140,986	**$ 41,372**	**$ 99,614**	$ 125,461	$ 42,019	$ 83,442

5. DEMAND CREDIT FACILITIES

The Company has credit facilities available in Canada of $20,000 bearing interest at the bank's prime lending rate or the bankers' acceptance rate plus 1.50%. The demand loans are primarily secured by fixed and floating charges on selected Canadian capital assets, a general assignment of book debts, inventories and corporate guarantees of companies within the group.

The Company also has credit facilities in Australia and Chile amounting to $1,657 (2003 - $1,219) bearing interest at rates ranging from 0.5% to 8.45% secured by accounts receivable, and selected land and buildings in Australia.

There was $10,520 (2003 - $10,837) drawn on these facilities as at April 30, 2004.

6. LONG-TERM DEBT

	2004	2003
Non-revolving acquisition loan, payable in quarterly installments of $401 and maturing through 2009, bearing interest at either the bank's prime rate plus 0.5% or the bankers' acceptance rate plus 2.0%.	**$ 7,225**	$ 14,813
Revolving equipment loan (authorized $5,000), bearing interest at either the bank's prime rate plus 0.5% or the bankers' acceptance rate plus 2.0%, payable in monthly installments of $43, maturing through 2009, secured by certain capital assets.	**2,152**	841
Term loans bearing interest at rates ranging from 0% to 8.5%, payable in monthly installments of $89, secured by certain equipment, primarily maturing through 2008.	**3,435**	2,481
Term loans - A$9,819 (2003 – A$6,469), payable in monthly installments of A$284, interest included, at rates ranging from 5.33% to 8.39%, secured by mortgage debentures over land, buildings and other assets, maturing in 2009.	**9,740**	5,832
Term loan, bearing interest at prime less 1%, maturing in fiscal 2007.	**2,000**	2,000
	24,552	25,967
Current portion	**5,807**	5,991
	$ 18,745	$ 19,976

The required annual principal repayments on long-term debt are as follows:

2005	$ 5,807	2008	$ 4,540
2006	5,388	2009	1,287
2007	7,399	Thereafter	131
			$ 24,552

7. DEFERRED GAIN

In April 2002, the Company sold one of its buildings as part of a sale/lease back arrangement. The net proceeds on sale were $1,400, resulting in a gain on sale of $180. The resultant gain has been deferred and is being amortized over 10 years, the length of the lease.

In June 2002, the Company completed a transaction to sell one of its buildings as part of a sale/lease back arrangement. The net proceeds on sale were $2,600, resulting in a gain on sale of $1,100. The resultant gain has been deferred and is being amortized over 10 years, the length of the lease.

8. SHARE CAPITAL

Authorized

Unlimited number of common shares, without nominal or par value.

	2004	2003
21,635,535 common shares (2003-15,983,673)	**$ 124,841**	$ 97,476

Common shares

On August 11, 2003, the Company issued 5,000,000 common shares by way of private placement at a price of $5.25 per share and generated cash proceeds of $24,882, net of issue costs and underwriters' commission of $1,368.

Stock option plan

The Company has a Stock Option Plan for directors, executive officers and other employees of the Company. The Plan provides that the Board of Directors of the Company, on the recommendation of the Compensation Committee, may grant options to purchase common shares on terms determined within the limitations of the Plan. The aggregate number of common shares reserved for issuance under the Plan is limited to 3,000,000 common shares, provided that no options be issued if to do so would result in the number of outstanding stock options exceeding 15% of the total issued and outstanding shares of the Company. The exercise price for an option issued under the Plan is the fair market value of the common shares on the grant date of the option. Options are exercisable for a maximum period of ten years from the date of grant, subject to earlier termination if the optionee ceases to be a director or employee of the Company for any reason. The Plan also provides that no options may be issued to insiders (directors and officers) of the Company if to do so would result in the number of shares reserved for issuance pursuant to stock options granted to insiders exceeding 10% of the outstanding number of common shares. The Board of Directors, on the recommendation of the Compensation Committee, determines vesting requirements.

Stock option – employees and directors

The Company has issued stock options under its employee incentive compensation plan. Issuance of options under the Plan is determined annually by the Compensation Committee appointed by the Company's Board of Directors. A summary of the status of the Company's stock option plan, as at April 30, 2004 and 2003, and of changes during the years ending on those dates, is presented below:

	2004		2003	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,846,233**	**$ 4.40**	1,682,967	$ 4.63
Options granted	**247,000**	**$ 8.05**	328,666	$ 3.34
Options cancelled	**(51,918)**	**$ 5.22**	(156,600)	$ 4.62
Options exercised	**(651,862)**	**$ 4.01**	(8,800)	$ 3.00
Outstanding at end of year	**1,389,453**	**$ 5.21**	1,846,233	$ 4.40

The following table summarizes information on stock options outstanding at April 30, 2004:

Range of exercise prices	**Outstanding at April 30, 2004**	**Weighted average remaining life (years)**	**Weighted average exercise price**	**Exercisable at April 30, 2004**	**Weighted average exercise price**
$ 1.86 - $ 5.00	**831,952**	**7.48**	**$ 3.25**	**763,479**	**$ 3.26**
$ 5.25 - $ 8.23	**504,151**	**6.71**	**$ 6.98**	**340,706**	**$ 6.47**
$ 18.65 - $ 26.50	**53,350**	**3.22**	**$ 18.95**	**53,350**	**$ 18.95**
	1,389,453	**7.04**	**$ 5.21**	**1,157,535**	**$ 4.93**

Effective May 1, 2002, the Company adopted the new CICA Handbook Section 3870, which establishes a fair-value-based method of accounting for certain stock-based payments. Section 3870 does not require the expensing of stock options provided additional pro forma information is provided in the notes to the financial statements. The Company has chosen to continue its existing policy of not recording compensation cost on the grant of stock options with the additional disclosure of pro forma information in the notes to the financial statements. The Company has applied the pro forma information on a prospective basis for all awards granted on or after May 1, 2002.

Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method at the grant dates of the awards, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated as follows:

	2004	2003
Net earnings		
As reported	**$ 5,470**	$ 2,532
Pro forma	**5,096**	2,422
Earnings per share		
Net earnings per share as reported	**0.27**	0.16
Pro forma net earnings per share	**0.26**	0.15
Diluted earnings per share as reported	**0.27**	0.16
Pro forma diluted earnings per share	**0.25**	0.15

The Company's calculations for options granted were made using the Black Scholes option-pricing model with weighted average assumptions as follows:

	2004	2003
Risk-free interest rate	**3.56%**	3.83%
Expected life (years)	**3 years**	3 years
Expected volatility	**57%**	62%
Expected dividend yield	**0%**	0%

9. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital

	2004	2003
Accounts receivable	**$ (6,167)**	$ (6,787)
Inventories	**(13,383)**	(4,647)
Accounts payable and accrued charges	**5,520**	11,057
Income taxes	**839**	1,913
Other items	**(1,987)**	(180)
	$(15,178)	$ 1,356

Interest and income taxes paid

	2004	2003
Interest paid	**$ 1,887**	$ 2,226
Income taxes paid	**4,322**	320

10. DISCONTINUED OPERATIONS

Brazilian operations were discontinued in 1999. In 2003, the Company received a notice that a previously granted exemption of import duties in Brazil, amounting to $450, had been revoked. The Company is disputing this action.

11. CONTINGENCIES

The Company is involved in various legal claims and legal notices arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. Any amounts awarded as a result of these actions will be reflected in the year settled.

12. COMMITMENTS

The Company has various commitments, primarily for rental of premises, with arms-length parties as follows: 2005 - $1,757; 2006 - $1,202; 2007 - $844; 2008 - $507; 2009 - $492.

13. RELATED PARTY TRANSACTIONS

During the year, the Company carried out a number of transactions with various Directors in the normal course of business and these transactions were recorded at their exchange amount, which was estimated to approximate market value. These transactions were for legal, consulting and prepaid consulting services in the amount of $511 (2003 - $233).

14. INCOME TAXES

Income taxes vary from the amount that would be determined by applying the combined statutory Canadian corporate income tax rate to earnings from continuing operations before income taxes and non-controlling interest, with details as follows:

	2004	2003
Earnings from continuing operations before income taxes and non-controlling interest	**$ 8,746**	$ 4,931
Statutory Canadian corporate income tax rate	**36%**	36%
Expected income tax expense based on statutory rates	**$ 3,149**	$ 1,775
Non-recognition of tax benefits related to losses	**385**	2,693
Utilization of previously unrecognized losses	**(1,727)**	(2,244)
Lower effective foreign tax rates and other	**1,375**	(275)
Total income tax provision	**$ 3,182**	$ 1,949

Significant components of the Company's future income tax assets and liabilities are as follows:

	2004	2003
Assets:		
Loss carry forwards tax affected	**$ 13,198**	$ 12,550
Finance costs	**685**	347
Deferred gain	**370**	484
Other	**648**	423
	14,901	13,804
Valuation allowance	**(6,986)**	(6,789)
	7,915	7,015
Liabilities:		
Property and equipment	**(1,761)**	(3,104)
Net future income tax assets	**$ 6,154**	$ 3,911

Management reduced the carrying value of the future income tax assets by a valuation allowance as it is more likely than not that some portion of the asset will not be realized.

The recognition and measurement of the current and future tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions and in the assessment of the recoverability of future tax assets. Potential liabilities are recognized for anticipated tax audit issues in various tax jurisdictions based on the Company's estimate of whether, and the extent to which, additional taxes will be due. If payment of the accrued amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense will result. In addition, a valuation allowance has been provided against a portion of the Company's future tax assets based on a current assessment of recoverability of these future tax assets. If the Company's assessment changes, any increases or decreases in the valuation allowance will result in decreases or increases in net earnings, respectively.

The Company has accumulated approximately $38,600 in non-capital losses, of which $19,850 is available to reduce future Canadian income taxes otherwise payable and $18,750 is available to reduce future income taxes otherwise payable in foreign jurisdictions. These losses, if unused, will expire as follows:

Date	Amount	Date	Amount
2006	$ 72	2010	$ 2,653
2007	6,170	2011	3,863
2008	6,565	2013	1,125
2009	5,753	2024	660
		Indefinite	11,739
			$ 38,600

15. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding of 19,938,206 for 2004 and 15,979,086 for 2003.

Diluted earnings from continuing operations and net earnings per share figures for fiscal 2004, based on 20,492,734 weighted average number of diluted common shares, would have been $0.27 and $0.27, and for 2003, based on 16,170,378 weighted average number of diluted common shares, $0.18 and $0.16 respectively.

16. SUBSEQUENT EVENT

Effective May 14, 2004, the Company acquired the drilling rigs, related equipment, inventory and drilling contracts owned by Raematt Drilling Pty. Ltd. Total consideration for the acquisition was $6.8 million consisting of a cash consideration of $3.0 million paid on closing with further cash payments of $1.0 million due on May 14, 2005 and $1.0 million due on May 14, 2006. Equipment leases and bank loans in the amount of $1.8 million relating to the purchased assets were assumed by the Company. In addition to the purchase price, the Company incurred stamp duty and acquisition expenses totaling $400.

17. FINANCIAL INSTRUMENTS

Recognized financial instruments

The carrying values of cash, marketable securities, accounts receivable, demand loans and accounts payable approximate their fair value due to the relatively short period to maturity of the instruments. The book value of long-term debt approximates its fair market value. The fair market value was established using discounted cash flow analysis, based on current borrowing rates for similar types of financing arrangements.

Concentration of credit risk

The Company provides credit to its customers in the normal course of its operations. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. The Company also minimizes its credit risk by dealing with a large number of customers in various countries. Demand for the Company's drilling services depends upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold, nickel and copper. The Company has one customer which represents 15% of its revenues. The five largest customers account for 32% of the total revenues.

Currency risk

A significant portion of the Company's operations are located outside of Canada. The accounting impact of foreign currency exposure is minimized since the operations are classified as self-sustaining operations.

In certain developing countries, the Company mitigates its risk of large exchange rate fluctuations by conducting business primarily in U.S. dollars. U.S. dollar revenue exposure is partially mitigated by offsetting U.S. dollar labour and material expenses. Monetary assets denominated in foreign currencies are exposed to foreign currency fluctuations.

Interest rate risk

The long-term debt of the Company generally bears a floating rate of interest, which exposes the Company to interest rate fluctuations.

18. SEGMENTED INFORMATION

The Company has two reportable business segments, drilling and manufacturing. The Company's drilling operations are divided into three geographic segments. The reportable geographic segments are Canada - U.S., South and Central America, Australasia and Africa. The services provided in each of the reportable drilling segments are essentially the same. The accounting policies of the segments are the same as those described in note 2. Management evaluates performance based on profit or loss from operations in these four segments before interest and income taxes. Presented as follows is data relating to each of the Company's reportable segments.

	2004	2003
Revenues – drilling		
Canada - U.S.	**$ 60,825**	$ 59,360
South and Central America	**32,551**	25,119
Australasia and Africa	**82,537**	60,033
	175,913	144,512
Revenues – manufacturing	**29,435**	28,754
	205,348	173,266
Eliminations	**(11,516)**	(11,098)
	$ 193,832	$ 162,168
Earnings (loss) from operations – drilling		
Canada - U.S.	**$ (2,175)**	$ 1,048
South and Central America	**3,070**	848
Australasia and Africa	**10,663**	7,807
Earnings from operations – manufacturing	**3,605**	2,898
	15,163	12,601
Eliminations	**(495)**	(545)
	14,668	12,056
Interest expense, net	**1,888**	2,207
General corporate expenses	**4,034**	4,918
Income taxes	**3,182**	1,949
Non-controlling interest	**94**	-
Earnings from continuing operations	**$ 5,470**	$ 2,982

	2004	2003
Identifiable assets – drilling		
Canada - U.S.	**$ 40,055**	$ 36,069
South and Central America	**52,262**	36,589
Australasia and Africa	**79,159**	61,479
Identifiable assets – manufacturing	**13,951**	13,862
	185,427	147,999
Eliminations	**(3,469)**	(2,982)
Unallocated and corporate assets	**14,465**	12,902
	$ 196,423	$ 157,919
Amortization – drilling		
Canada - U.S.	**$ 2,306**	$ 1,864
South and Central America	**1,716**	1,623
Australasia and Africa	**5,200**	3,640
Amortization – manufacturing	**307**	375
	9,529	7,502
Unallocated and corporate assets	**982**	1,120
	$ 10,511	$ 8,622

Canada - U.S. and manufacturing amounts include revenues in 2004 of $56,134 (2003-$55,470) for Canadian operations and capital assets at April 30, 2004 of $25,462 (2003-$24,868).

Australasian and African amounts include drilling revenues in 2004 of $37,883 (2003-$35,439) for Australian operations and capital assets as at April 30, 2004 of $24,459 (2003-$16,517).

Corporate Governance

The Major Drilling Board of Directors (the Board) consists of eight members, only one of which is an employee of the Corporation. The number of directors is being expanded to ten as of September 9, 2004, and the two additional nominees for the Board, to be put forth to shareholders at the Corporation's Annual General Meeting, are also not employees of the Corporation. Additionally, to further ensure Board independence, the Board has an independent Chairman, Mr. Frank McKenna. In fiscal 2004 the Board held six meetings. The activities of the Board are supported by four committees, as more particularly set out below.

Audit committee

The Audit Committee, during fiscal 2004, was comprised of David Tennant, Chairman, H. Lawrence Doane, and Jonathan Goodman. To ensure that this Committee complied with new Audit Committee independence standards, David Tennant, whose law firm supplies services to the Corporation, left the Committee on June 2, 2004. The Committee is now comprised of Jonathan Goodman, Chairman, H. Lawrence Doane, and David Fennell, all of whom meet the new Audit Committee independence standards. The Committee meets with the Corporation's financial management personnel and with its external auditors, separately, at least four times per year, in order to assist the Board of Directors in, among other duties, (i) its oversight of the integrity of the financial statements of the Corporation, (ii) its management of the effectiveness of the financial aspects of the governance structure of the Corporation, (iii) its oversight of adherence to requisite legal and regulatory requirements and (iv) its oversight of the performance of the Corporation's internal and external audit function. In the discharge of its duties the Committee reviews, among other things, the Corporation's financial reporting practices and procedures, the Corporation's quarterly and annual financial statements prior to their release and filing with appropriate regulatory agencies, actual and prospective changes in significant accounting policies and their impact on the Corporation, and the adequacy of internal accounting and other control systems. The Committee is also responsible for the scope of pre-approved audit and non-audit services to be provided by the external auditors, ensuring external auditor independence, and, subject to shareholder approval, the appointment of, and remuneration for, the external auditors. The Committee held six meetings during fiscal 2004.

Compensation committee

The Compensation Committee, during fiscal 2004, was comprised of H. Lawrence Doane, Chairman and David Fennell, both independent directors. As of June 2, 2004, David Fennell left the Committee and David Tennant and John Schiavi, both independent directors, joined. As such, the Committee is now comprised of H. Lawrence Doane, Chairman, David Tennant, and John Schiavi. The Committee is responsible for approving the compensation programs and individual salaries for the Corporation's executive officers. This responsibility includes approval of any employment contracts with, and salaries of, senior officers of the Corporation, bonuses, other payments, pension or benefit plans or programs, to or of such officers, and any action that would materially increase or decrease a benefit to any such officer as well as responsibility for the administration and interpretation of the stock option plan or any other similar plan applicable to directors or officers. The Committee held three meetings during fiscal 2004.

Corporate governance and nominating committee

The Corporate Governance and Nominating Committee, during fiscal 2004, was comprised of Frank McKenna, Chairman, David Tennant, and, until his resignation on September 12, 2003, Harry Steele, all three of which were independent directors. Mr. McKenna and Mr. Tennant remain on the Committee, and will be joined by Terrance MacGibbon, should he be elected to the Board at the Annual General Meeting of the Corporation. Mr. MacGibbon will also be an independent director. The Committee is responsible for assisting the Board in identifying qualified individuals to become Directors, determining the composition of the Board and its various committees, monitoring a process to assess Board and individual directors' effectiveness and developing and implementing the Corporation's corporate governance guidelines. The Committee held three meetings during fiscal 2004.

Environment health and safety committee

The Environment, Health and Safety Committee, during fiscal 2004, was comprised of John Harvey, Chairman, John Schiavi, and, until his resignation on March 1, 2004, Ronald Goguen, all three of which were independent directors. As of June 2, 2004 John Schiavi left the Committee and David Fennell, also an independent director, joined. These two members will be joined by Colin Benner, should he be elected to the Board at the Annual General Meeting of the Corporation. Mr. Benner will also be an independent director. The Committee is responsible for assisting the Board in matters of the Corporation related to environment, health and safety matters. As such, the Committee is mandated to satisfy itself that the Corporation has developed, is implementing, and is maintaining policies, practices and procedures that will ensure its compliance with legislation regulating health and safety, and the environment, in the various jurisdictions in which it conducts its business. The Committee held three meetings during fiscal 2004.

Directors

H. Lawrence Doane

David Fennell

Jonathan Goodman

John Harvey

Francis McGuire

Frank McKenna

John Schiavi

David Tennant

Officers

Francis McGuire
President and Chief Executive Officer

Michael Pavey
Chief Financial Officer

Robert Morgan
Vice-President – Business Development

James Gibson
General Counsel and Secretary

Transfer agent

CIBC Mellon Trust Company

Auditors

Deloitte & Touche LLP

CORPORATE OFFICE

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ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Major Drilling Group International Inc. will be held at:

The Ontario Club

Engineers' Room

Commerce Court South

30 Wellington Street West – 5th Floor

Toronto, Ontario

September 9, 2004 at 11:00 am Eastern

Worldwide Operations of Major Drilling Group International Inc.

North American Drilling Operations

Canada

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Fax: 819-824-4217

Sudbury, ON
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Fax: 705-560-0402

Winnipeg, MB
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Flin Flon, MB
Tel: 204-687-3483
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Thompson, MB
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Chehalis, WA
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South and Central American Drilling Operations

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Fax: 52-662-251-0262

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Nicaragua

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Suriname

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Dominican Republic

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Bolivia

Office situated in Argentina

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Kalgoorlie, WA
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Ulaanbaatar
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Tanzania

Mwanza
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MAJOR
Drilling Group International Inc.