









V=QR<sup>2</sup> continues to identify our business approach with customers. The value we provide is made up of quality, relationships and results. We focus on quality through our safety practices, equipment, people and drilling services. Our relationships with our customers are of the utmost importance to us. Major Drilling works as an extension of our customers' teams, and we do what it takes to get the job done!

Major Drilling is one of Canada's most successful international businesses with operations in 22 countries, employing over 5,400 employees worldwide. We would all like to thank our customers and shareholders around the world for your ongoing support. The unparalleled skill and loyalty that our employees demonstrate, and the quality results delivered to our customers truly represents our greatest competitive strength.

David Tennant  
Chairman of the Board

Francis McGuire  
President and Chief Executive Officer

# Report on Operations



## OUR CUSTOMERS

Major Drilling is committed to meeting the needs of every one of our customers. "We pride ourselves on being a specialized drilling company that delivers on even the toughest sites," says Francis McGuire, President & CEO of Major Drilling. "Using our knowledge, extensive experience, focus on safety, the best people on the ground and a modern, diversified drilling fleet, we partner with our customers and local communities for outstanding results".

## OUR SERVICES

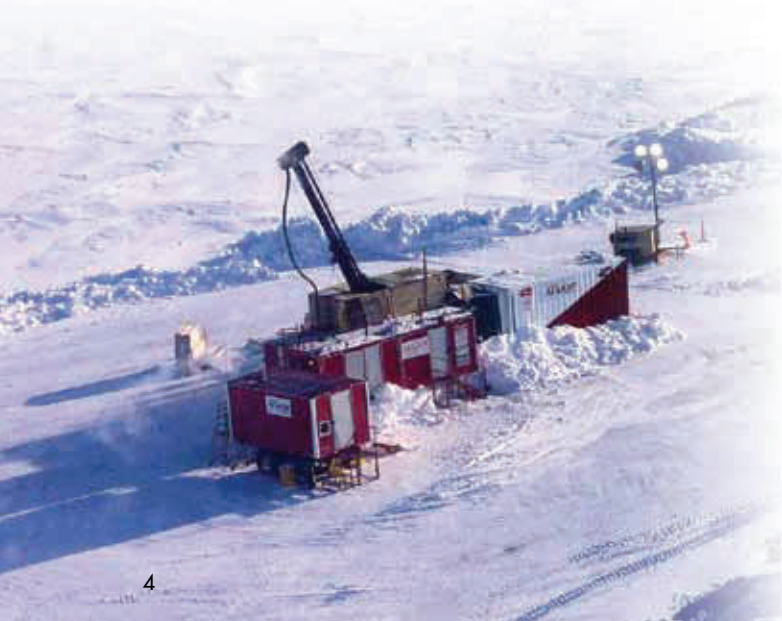
Our focus continues to be on specialized drilling, and to manage this we continue to modernize our fleet of rigs. In order to meet customer demand, this past year alone we have increased our specialized fleet by 85 rigs. Specialized drilling currently represents 70% of our business.

Drilling for gold represents 51% of our revenue, and drilling for copper 17%. Over the last year and a half we have begun servicing a new group of commodities, in relation to which demand for drilling services was previously low. Now, coal, iron ore, energy and other make up approximately 20% of our revenue, helping our diversification between commodities.

## OUR SAFETY

At Major Drilling our global safety culture is guided by our Health, Safety and Environmental Committee, which is chaired by our CEO, and includes our Executive Vice President - Australian, Asian and African operations, our Vice President - North American operations, our Vice President - Latin American operations, and our Global Safety Director.

Major Drilling requires total and full disclosure of incidents large and small. If we know the problems, we can work on solving them. Over the past year our lost time incidents and severity rates are down. Major Drilling invests very heavily in having the most up-to-date and safe equipment. We also focus on the human side of safety. This is why our TAKE 5 program is so important. TAKE 5 is our global safety program that encourages all of our employees to go through five steps before starting a job: think through the task, look for the exposure, assess the risk, take precautions and remove the risk.





## OUR PEOPLE

As demand expands, we have seen rapid growth from internal hiring and training, as well as from acquisitions. Due to our continued investments in training, we have seen a decrease in our employee turnover rates, fewer injuries among new employees, and an increase in the number of driller trainees. As we continue to invest in our employees, we are confident that we will continue to attract and retain the best drilling crews in the industry.

Major Drilling employees are committed to the communities where we work and live, and we invest in those communities every day. Major Drilling has made donations to support orphanages in Suriname, Mongolia and Argentina, purchased an ambulance in Mexico, supported The Road Home shelter in the United States, sponsored a girls football team in Colombia, provided bursaries for geology students in Namibia, and sponsored various sports teams in Canada, just to name a few.

We focus on continual improvement in every aspect of Major Drilling's work – safety, equipment, specialized services, relationships, etc. This commitment drives the long and successful relationships Major Drilling has developed with customers. The quality services that we provide are at the core of our business.

We live in the countries where we work, and develop relationships with our customers. All of our employees see themselves as working in collaboration with customers, functioning not as a "supplier", but as an extension of our customers' teams.

We will make every effort to complete every contract, regardless of the obstacles encountered in the execution of that contract. This resolve is company-wide and a key element of our corporate culture. Major Drilling is tenacious in working to solve whatever problems may be faced on a job through innovation, hard work, sheer determination and empowerment of our local people "on the ground".

## OUR COMMITMENT

$$V=QR^2$$

"I sincerely believe and stand behind our V=QR<sup>2</sup> philosophy," says Mr. McGuire. "The Value that we provide to clients is made up of Quality, Relationships and Results".



# Management's Discussion and Analysis

The following management's discussion and analysis "MD&A", prepared as of June 8, 2012, should be read together with the audited financial statements for the year ended April 30, 2012 and related notes attached thereto, which are prepared in accordance with International Financial Reporting Standards. All amounts are stated in Canadian dollars unless otherwise indicated.

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. For a full discussion of forward-looking statements, see the forward-looking statements section of this report.

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates, assumptions, risks and uncertainties. These forward-looking statements are typically identified by future or conditional verbs such as "outlook", "believe", "anticipate", "estimate", "project", "expect", "intend", "plan", and terms and expressions of similar import.

Such forward-looking statements are subject to a number of risks and uncertainties which include, but are not limited to: cyclical downturn, competitive pressures, dealing with business and political systems in a variety of jurisdictions, repatriation of property in other jurisdictions, payment of taxes in various jurisdictions, exposure to currency movements, inadequate or failed internal processes, people or systems or from external events, dependence on key customers, safety performance, expansion and acquisition strategy, legal and regulatory risk, extreme weather conditions and the impact of natural or other disasters, specialized skills and cost of labour increases, equipment and parts availability and reputational risk. These factors and other risk factors, as described under "General Risks and Uncertainties" of the Company's Annual Information Form, represent risks the Company believes are material. Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate.

The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons, except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are also discussed in 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, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **CORPORATE OVERVIEW**

Major Drilling Group International Inc. is one of the world's largest drilling service companies primarily serving the mining industry. To support its customers' varied exploration drilling requirements, Major Drilling maintains field operations and offices in Canada, the United States, South and Central America, Australia, Asia, and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, sonic, geotechnical, environmental, water-well, and coal-bed methane and shallow gas.



## BUSINESS STRATEGY

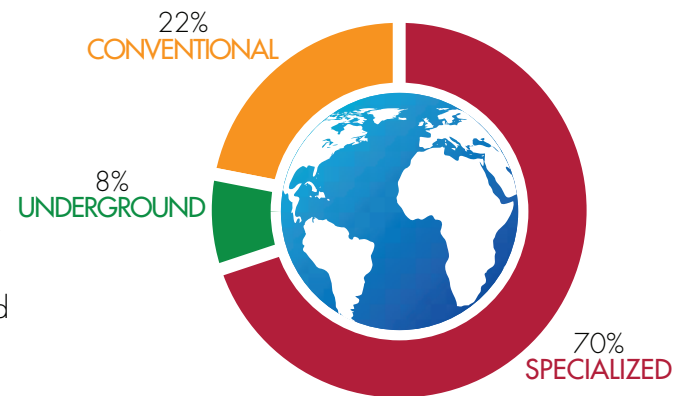
Major Drilling continues to base its business premise on the following: mining companies continue to deplete the more easily accessible mineral reserves around the world and attractive deposits will be in increasingly remote locations, areas difficult to access and/or deep in the ground. For this reason, Major Drilling's strategy is to focus its services on projects that have these characteristics, calling these services "specialized drilling". Over the years, the Company has positioned itself as one of the largest specialized operators in the world by leveraging its main competitive advantages: skilled personnel, specialized equipment, long-standing relationships with the world's largest mining companies and access to capital.

Although the Company's main focus remains specialized services, it also intends to continue to modernize its conventional fleet and expand its footprint in strategic areas while maintaining prudent debt levels and remaining best in class in safety and human resources. The Company will also seek to diversify by investing in energy and environmental drilling 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.

## REVENUE BY TYPE

FISCAL 2012



**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.

## 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.

Several years ago, high commodity prices drove the industry to record levels of activity, with worldwide mineral exploration expenditures in calendar 2008 surpassing US\$14 billion. During the recession, which began in calendar 2009, drilling was significantly impacted, particularly on base metal projects, with worldwide mineral exploration expenditures that year falling to US\$8 billion. Most senior and intermediate base metal companies were leveraged and reduced their exploration spending in calendar 2009, in order to conserve cash. Many gold producers delayed exploration plans at that time due to the uncertainty in the economy.

While senior companies increased their exploration budgets for calendar 2010, spending had not yet rebounded to their pre-financial crisis levels. Early stage exploration companies had shown little increase in activity as they were still experiencing difficulties in getting financing.

In calendar 2011, senior mining companies announced significant increases in exploration budgets as they have an urgent need to replenish their diminishing reserves in light of their lack of exploration in the last several years. Also, in calendar 2011 there was a significant increase in financing of junior mining companies particularly in the first half of the year.

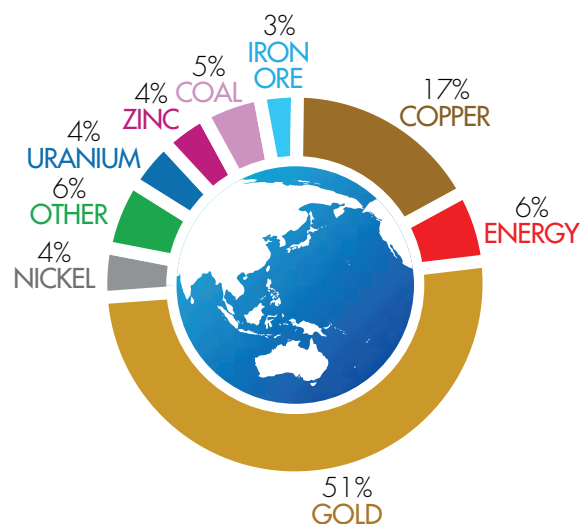
# Management's Discussion and Analysis

All of this combined for a record year in exploration with Metals Economics Group ("MEG") estimating that total global expenditures for non-ferrous metals exploration was a record US\$18.2 billion in 2011.

In the longer-term, the fundamental drivers of the business remain positive, with worldwide supply for most metals expected to tighten and higher demand coming from the emergence of the BRIC countries over the last 10 years. The prospects for gold related drilling, which generally accounts for approximately 50% of the drilling market, also remains positive.

One of the realities 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.

REVENUE BY COMMODITY FISCAL 2012



## BUSINESS ACQUISITIONS

### North Star Drilling

Effective June 30, 2010, the Company acquired the assets of North Star Drilling, which provides contract drilling services to the fresh water and geothermal markets in certain mid-western states in the US, and operates from its head office in Little Falls, Minnesota, as well as from satellite offices in Brainerd and Bemidji, Minnesota. The acquired business includes drilling equipment, contracts and personnel. The purchase price for the transaction was USD \$2.4 million (CAD \$2.6 million), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$0.8 million to the purchase price, based on future earnings.

### Resource Drilling

Effective March 24, 2011, the Company acquired the assets of Resource Drilling, which provides contract drilling services in Mozambique, where Major Drilling did not have a presence. The acquired business includes drilling equipment, inventory, contracts and personnel. The purchase price for the transaction was USD \$9.6 million (CAD \$9.3 million), including customary working capital adjustments, financed with cash.

### Bradley Group Limited

Effective September 30, 2011, the Company acquired all the issued and outstanding shares of Bradley Group Limited ("Bradley"), which provides a unique opportunity to further the Company's corporate strategy of focusing on specialized

drilling, expanding its geographic footprint in areas of high growth and of maintaining a balance in the mix of drilling services. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes working capital, drilling equipment, credit facilities, contracts and personnel. The purchase price for the transaction was CAD \$78.1 million, including customary working capital adjustments and net of cash acquired.

Through the acquisition, Major Drilling has added Bradley Group's 124 rigs to its fleet. The addition of Bradley Group's rigs, of which approximately 80% are surface drilling rigs and 20% are underground diamond drilling rigs, furthers the Company's strategic focus on specialized drilling. The acquisition also involves the addition of Bradley Group's highly experienced workforce, experienced management team and existing contracts in Canada, the Philippines, Colombia, Mexico and Suriname.

The portion of the purchase price payable on the closing of the acquisition was financed using the net proceeds of an equity offering and new and extended credit facilities.

## STOCK SPLIT

On March 23, 2011 the Company enacted a 3 for 1 stock split. Amounts per share throughout this document have been adjusted accordingly and are now presented post-split.

**OVERALL PERFORMANCE**

Revenue for the fiscal year ended April 30, 2012 increased 65% to \$797.4 million from \$482.3 million for the corresponding period last year. Most of the Company’s branches exhibited strong growth mainly coming from increased utilization and better pricing. Also, as of September 30, 2011, the Company completed the largest acquisition in its history with the purchase of the Bradley operations.

Gross margin for the year was up to 31.5% compared to 25.0% last year representing general improvements in pricing, and our training and recruitment efforts, which allowed the Company to increase the number of shifts in the field during the year.

The combination of strong revenue growth and improved margins produced net earnings of \$89.7 million (\$1.18 per share) compared to net earnings of \$27.6 million (\$0.39 per share) for last year.

**SELECTED ANNUAL INFORMATION**

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

| Years ended April 30                         | IFRS<br>2012 | IFRS<br>2011 | Canadian GAAP<br>2010 |
|--|--------------|--------------|-----------------------|
| <b>Revenue by region</b>                     |              |              |                       |
| Canada-U.S.                                  | \$ 322       | \$ 181       | \$ 103                |
| South and Central America                    | 252          | 169          | 108                   |
| Australia, Asia and Africa                   | 223          | 132          | 97                    |
|  | 797          | 482          | 308                   |
| <b>Gross profit</b>                          | 251          | 120          | 74                    |
| as a percentage of revenue                   | 31.5%        | 25.0%        | 24.2%                 |
| <b>Net earnings (loss)</b>                   | 90           | 28           | -                     |
| Per share (basic)                            | \$ 1.18      | \$ 0.39      | \$ (0.01)             |
| Per share (diluted)                          | \$ 1.16      | \$ 0.38      | \$ (0.01)             |
| <b>Total assets</b>                          | 686          | 474          | 416                   |
| <b>Total long-term financial liabilities</b> | 42           | 17           | 15                    |

**RESULTS OF OPERATIONS**

**FISCAL 2012 COMPARED TO FISCAL 2011**

Revenue for the fiscal year ended April 30, 2012 increased 65% to \$797.4 million from \$482.3 million for the corresponding period last year. Most of the Company’s branches exhibited strong growth mainly coming from increased utilization and better pricing. Also, as of September 30, 2011, the Company completed the largest acquisition in its history with the purchase of the Bradley operations.

*Canada-U.S.*

Canada-U.S. revenue increased by 78% to \$322.0 million compared to \$181.3 million last year. The main drivers of this growth were the Bradley acquisition in Eastern Canada, the U.S. operation with both mineral and energy divisions seeing a significant increase in activity, and the existing Canadian operations with increased pricing and activity levels.

Gross margins in Canada-U.S. increased year-over-year from improved pricing and better contractual terms.

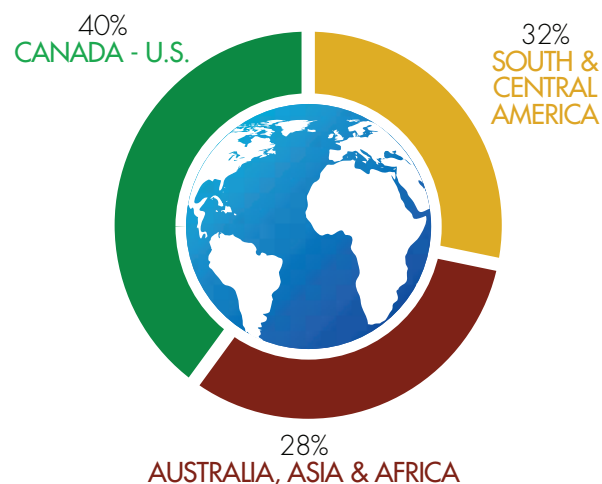
# Management's Discussion and Analysis

## South and Central America

Revenue in South and Central America increased by 49% to \$251.8 million, compared to \$169.4 million for the prior year. Increased activity levels in Mexico, Chile and Argentina accounted for approximately 70% of the growth in this region. The acquisition of Bradley's operations in Colombia and Suriname as well as increased activity levels in Colombia also contributed to this growth.

Gross margins in the region increased year-over-year due to a better pricing environment. Also, training and recruitment efforts allowed the Company to increase the number of shifts in the field during the year providing more efficiencies.

## REVENUE BY GEOGRAPHIC SEGMENT FISCAL 2012



## Australia, Asia and Africa

Revenue in Australia, Asia and Africa increased 70% to \$223.6 million from \$131.6 million in the prior year period. Australia and Mongolia were the bigger drivers of the growth in the region while new operations in Mozambique, Democratic Republic of the Congo ("DRC") and Burkina Faso also contributed to the growth.

Gross margins in the region increased year-over-year as pricing recovered and operations in Australia were restructured.

## Operating Expenses

General and administrative costs were \$58.0 million or 7.3% of revenue compared to \$41.0 million or 8.5% of revenue in the same period last year. The increase was due to three main factors: i) the new Bradley operations; ii) new operations in Burkina Faso, Mozambique and the DRC; and iii) increased costs to support the strong growth in activity levels.

Other expenses were \$16.1 million for the year compared to \$7.6 million for the same period last year due primarily to higher incentive compensation expenses driven by the Company's increased profitability in the current year.

Foreign exchange loss was \$1.3 million for the year compared to a gain of \$0.9 million in the prior year period as a result of unfavourable currency variations during the year on net monetary items.

Finance costs were \$3.4 million for the year compared to \$1.3 million last year due to increased long-term debt levels.

Depreciation and amortization expense increased to \$42.6 million for the year compared to \$30.9 million for the previous year. Nearly half of the increase relates to the acquisition of Bradley, including the amortization of intangible assets, which are amortized over four years. Investments in equipment over the last year account for the rest of the increase.

The effective corporate income tax rate is affected by the relative weight of income tax payable in the various tax jurisdictions where the Company operates. The cumulative effective income tax rate for the year is 30.1% compared to 33.1% in 2011.

Net earnings for the year were \$89.7 million or \$1.18 per share (\$1.16 per share diluted) compared to \$27.6 million or \$0.39 per share (\$0.38 per share diluted) for the same period last year.

## SUMMARY ANALYSIS FISCAL 2011 COMPARED TO FISCAL 2010

Revenue for the fiscal year ended April 30, 2011 increased 57% to \$482.3 million from \$307.9 million for the corresponding period in the previous year. Most of the Company's branches exhibited strong growth mainly coming from increased utilization. The bulk of the increased activity for the year came from intermediate and junior mining companies with advanced properties, projects that require several years of multi-rig drilling. In the fourth quarter, many senior mining companies increased their exploration budgets, while at the same time, early stage exploration companies saw their ability to raise capital significantly increase.

Gross margin for the year was up to 25.0% compared to 24.2% the previous year representing general improvements in pricing, partially offset by increased training, mobilization and consumable costs, to accommodate the present growth.

The combination of strong revenue growth and improved margins produced net earnings of \$27.6 million (\$0.39 per share) compared to a net loss of \$0.5 million (\$0.01 per share) for the previous year.

## SUMMARY OF QUARTERLY RESULTS (in thousands of Canadian dollars, except per share information)

|                                    | Fiscal 2011 |            |            |            | Fiscal 2012 |            |            |            |
|------------------------------------|-------------|------------|------------|------------|-------------|------------|------------|------------|
|                                    | Q1          | Q2         | Q3         | Q4         | Q1          | Q2         | Q3         | Q4         |
| <b>Revenue</b>                     | \$ 109,480  | \$ 127,818 | \$ 107,720 | \$ 137,258 | \$ 164,152  | \$ 213,854 | \$ 182,188 | \$ 237,238 |
| <b>Gross profit</b>                | 26,532      | 35,101     | 23,873     | 34,913     | 51,499      | 74,055     | 47,120     | 78,452     |
| <b>Gross margin</b>                | 24.2%       | 27.5%      | 22.2%      | 25.4%      | 31.4%       | 34.6%      | 25.9%      | 33.1%      |
| <b>Net earnings</b>                | 5,134       | 11,321     | 1,671      | 9,466      | 17,892      | 31,560     | 9,566      | 30,731     |
| Per share - basic <sup>(1)</sup>   | 0.07        | 0.16       | 0.02       | 0.13       | 0.25        | 0.43       | 0.12       | 0.39       |
| Per share - diluted <sup>(1)</sup> | 0.07        | 0.16       | 0.02       | 0.13       | 0.25        | 0.42       | 0.12       | 0.38       |

<sup>(1)</sup> Adjusted to reflect the 3 for 1 stock split completed in fiscal 2011.

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. On seasonality, the second quarter (August to October) is typically less affected than the other quarters by weather issues, which allows the Company to maximize operational efficiencies.

## SUMMARY ANALYSIS FOURTH QUARTER RESULTS ENDED APRIL 30, 2012

Total revenue for the fourth quarter was \$237.2 million compared to \$137.3 million recorded for the prior year period. All of the Company's regions contributed to this growth as did the newly acquired Bradley operations.

Revenue from Canada-U.S. drilling operations was up 105% to \$106.7 million for the quarter compared to the same period last year. In Canada, the Bradley acquisition accounted for more than half of the increase but the existing Canadian operations also saw increased activity levels although mitigated by mild weather.

U.S. operations continued its strong growth, particularly with its senior mining customers.

In South and Central America, revenue for the quarter was \$73.3 million, up 45% from the prior year quarter. This increase was driven by stronger activity levels in Mexico, Chile and Argentina, combined with additional contracts in Colombia and Suriname from the Bradley acquisition.

Australian, Asian and African drilling operations reported revenue of \$57.3 million, up 65% from the same period last year. The revenue increase came primarily from Australia and new operations in Mozambique, Burkina Faso and the DRC.

The overall gross margin percentage for the quarter was 33.1% compared to 25.4% for the same period last year. New pricing on contracts that were signed or renewed for this calendar year reflected the current stronger pricing environment. Also, our training and recruitment efforts allowed the Company to increase the number of shifts in the field during the quarter. Margins were somewhat impacted by weather issues and more shifting between jobs than usual.

# Management's Discussion and Analysis

General and administrative costs were \$16.0 million for the quarter compared to \$11.3 million in the same period last year. The increase was due to the acquisition of Bradley, the addition of new operations in Burkina Faso, Mozambique and the DRC and also increased costs to support the strong growth in activity levels.

Other expenses were \$4.0 million, up from \$1.6 million in the prior year quarter, due primarily to higher incentive compensation expenses driven by the Company's increased profitability.

Foreign exchange loss was \$1.3 million compared to a gain of \$0.7 million in the prior year period. The loss was due to the effect of exchange rate variations on monetary working capital items.

Depreciation and amortization expense increased to \$12.6 million for the quarter compared to \$8.2 million for the same quarter last year. A significant portion of the increase relates to the acquisition of Bradley, including the amortization of intangible assets, which are amortized over four years. Investments in equipment over the last year account for the rest of the increase.

Net earnings were \$30.7 million or \$0.39 per share (\$0.38 per share diluted) for the quarter compared to net earnings of \$9.5 million or \$0.13 per share (\$0.13 per share diluted) for the prior year quarter.

## LIQUIDITY AND CAPITAL RESOURCES

### *Operating Activities*

Cash flow from operations (before changes in non-cash operating working capital items, finance costs and income taxes) was \$178.2 million for the fiscal year ended April 30, 2012 compared to \$75.7 million generated last year.

The change in non-cash operating working capital items was an outflow of \$32.8 million in fiscal 2012 compared to an outflow of \$22.6 million for the same period last year. The change in non-cash operating working capital in fiscal 2012 was primarily impacted by:

- An increase in accounts receivable of \$34.6 million due to increased activity in the fourth quarter as compared to the same period last year;
- An increase in inventory of \$12.0 million as the Company was adding more rigs in the field;
- An increase in accounts payable of \$10.8 million due to increased activity as compared to last year.

### *Financing Activities*

#### Renewal of Credit Facilities

During the year, the Company renewed and expanded its main credit facilities for an aggregate of \$100 million for a five-year term, consisting of: (i) an extension of an existing \$25 million revolving operating facility, (ii) a new \$25 million non-revolving term facility, and (iii) an extension and increase to \$50 million of an existing \$45 million revolving term facility. These facilities were renewed with no significant changes in the borrowing conditions of the facilities.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the period, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

#### Operating Credit Facilities

The credit facilities related to operations total \$28.2 million (\$25.0 million from a Canadian chartered bank and \$3.2 million in various credit facilities) and are primarily secured by corporate guarantees of companies within the group. At April 30, 2012, the Company had utilized \$2.6 million of these lines for stand-by letters of credit. The Company also has a credit facility of \$3.8 million for credit cards for which interest rate and repayment are as per cardholder agreements.

#### Long-Term Debt

Total long-term debt increased by \$26.0 million during the year to \$51.0 million at April 30, 2012. The increase is due to \$18.5 million in additional debt contracted or assumed through the Bradley acquisition and additional debt of \$25.0 million acquired during the year. Debt repayments were \$17.4 million during the year.

As of April 30, 2012, the Company had the following long-term debt facilities available:

- \$25.0 million non-revolving facility for financing the acquisition of Bradley Group. At April 30, 2012, the remaining balance of this facility stood at \$22.1 million. This facility is 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 April 30, 2012, the Company had utilized \$11.2 million of this line. Draws on this line are due on maturity in September 2016.
- \$10.0 million non-revolving facility. At April 30, 2012, the remaining balance of this facility stood at \$9.3 million. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.
- \$8.0 million note payable, carrying interest at a fixed rate of 4% repayable over three years ending in September 2014.
- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled \$0.4 million at April 30, 2012, which were fully drawn and mature through 2016.

**PAYMENTS DUE BY PERIOD** (in thousands of Canadian dollars)

| Contractual obligations              | Total            | Less than 1 year | 2-3 years        | 4-5 years        | 6+ years        |
|--------------------------------------|------------------|------------------|------------------|------------------|-----------------|
| Long-term debt                       | \$ 50,986        | \$ 8,712         | \$ 17,544        | \$ 20,392        | \$ 4,338        |
| Purchasing commitments               | 7,723            | 7,723            | -                | -                | -               |
| Operating leases                     | 5,963            | 1,857            | 2,767            | 1,329            | 10              |
| <b>Total contractual obligations</b> | <b>\$ 64,672</b> | <b>\$ 18,292</b> | <b>\$ 20,311</b> | <b>\$ 21,721</b> | <b>\$ 4,348</b> |

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure, dividend and debt obligations. As at April 30, 2012, the Company had unused borrowing capacity under its credit facilities of \$64.3 million and cash of \$37.2 million, for a total of \$101.5 million in available funds.

Equity Offering

On September 28, 2011, concurrent with the Bradley acquisition, the Company completed an equity offering of 5.9 million common shares at a price of \$11.90 per common share. In connection with the equity offering, the Company granted the underwriters an option to purchase an additional 885,000 common shares at the same price. This option was subsequently exercised on October 25, 2011 resulting in total aggregate proceeds, net of share issue costs of \$77.2 million.

Investing Activities
Capital Expenditures

Capital expenditures were \$81.1 million for the year ended April 30, 2012 compared to \$62.6 million for the same period last year.

During the year, the Company added 79 drill rigs through its capital expenditure program while retiring or disposing of 38 drill rigs through its modernization program. The Bradley acquisition also contributed to increasing the Company's drill fleet by 124 rigs, with the Company's total now standing at 725.

While the Company is well aware of the present volatility in the financial markets, should its senior customers follow through with their current stated plans, the Company could add approximately 75 rigs to its fleet over the coming year at a cost of approximately \$100 million.

# Management's Discussion and Analysis

## OUTLOOK

The fundamental drivers of the business remain positive, with worldwide supply for most metals expected to tighten and higher demand coming from the emergence of the BRIC countries over the last 10 years. The prospects for gold related drilling, which generally accounts for approximately 50% of the drilling market, also remains positive. One of the realities 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.

Looking forward at fiscal 2013, the demand for drilling services from the senior mining houses continues to be strong. The demand for specialized drilling from the senior mining houses, particularly in Latin America and Africa, continues to grow as customers need to replace their reserves. The Company foresees adding several more rigs to its recently established branch in West Africa. In addition, the Company will continue to make in-roads drilling for coal and iron ore customers. As junior miners become more cautious in their spending given the difficulty in accessing capital, it is anticipated that senior miners will represent a greater proportion of the Company's drilling projects going forward.

Should senior customers follow through with their current stated plans, the Company could add up to 75 rigs to its fleet over the coming year as part of its capital expenditures estimated at some \$100 million, the highest level in its history. While the Company is optimistic that its senior customers will continue with their projects, it is well aware of the present volatility in the financial markets, and the ability of those customers to modify their plans on short notice, at which point the Company would adjust its capital expenditure plans accordingly.

The Company remains in an excellent financial position. Total debt levels, net of cash, stood at \$13.7 million at year end.

## FOREIGN EXCHANGE

The Company's reporting currency is the Canadian dollar, however a significant portion of the Company's revenue and operating expenses outside of Canada are denominated in U.S. dollars, Chilean pesos and Australian dollars. The year-over-year comparisons in growth of revenue and operating expenses have been impacted by the falling U.S. dollar against the Canadian dollar.

During fiscal 2012, approximately 24% of revenue generated was in Canadian dollars, 8% in Chilean pesos and 8% in Australian dollars with most of the balance being in U.S. dollars. Since most of the input costs related to this revenue are denominated in the same currency as the revenue, the impact on earnings is somewhat muted.

The unfavourable foreign exchange translation impact for the year, when comparing to the effective rates for the same period last year, is estimated at less than \$3 million on revenue. Net earnings however, remained less impacted by currency fluctuations during the year as a large proportion of costs are typically incurred in the same currency as revenue. The estimated total unfavourable FX impact on net earnings for the year was negligible.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

As of May 1, 2011, the Company adopted International Financial Reporting Standards (IFRS). The Company's date of transition to IFRS is May 1, 2010, to accommodate 2011 IFRS comparative figures. The Company has provided information throughout this document and other publicly filed documents to assist a user in understanding the Company's transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP). A comprehensive summary of all of the significant changes including the various reconciliations of Canadian GAAP financial statements to those prepared under IFRS is included in the first time adoption of IFRS note in the Company's audited consolidated financial statements for the year ended April 30, 2012.



## **FUTURE ACCOUNTING CHANGES**

All accounting standards effective for periods beginning on or after May 1, 2011 have been adopted as part of the transition to IFRS. The following new IFRS pronouncements have been issued but are not in effect as at April 30, 2012:

IFRS 7 (as amended in 2011) Financial Instruments: Disclosures  
IFRS 9 (as amended in 2010) Financial Instruments  
IFRS 10 Consolidated Financial Statements  
IFRS 11 Joint Arrangements  
IFRS 12 Disclosure of Interests in Other Entities  
IFRS 13 Fair Value Measurement  
IAS 1 Presentation of Financial Statements  
IAS 12 (amended) Income Taxes – recovery of underlying assets  
IAS 19 Employee Benefits  
IAS 27 (reissued) Separate Financial Statements  
IAS 28 (reissued) Investments in Associates and Joint Ventures  
IAS 32 (amended) Financial Instruments: Presentation

The Company is currently evaluating the impact of applying these standards to its consolidated financial statements.

## **CRITICAL ACCOUNTING ESTIMATES**

### *Use of estimates*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are not readily apparent from other sources, which affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts

of revenue and expenses during the reported periods. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment for amortization purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, assumptions used in compilation of share-based payments, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities, and impairment testing of goodwill and intangible assets.

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

Management reviews the condition of inventories at the end of each reporting period and recognizes a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use. Management's estimate of the net realizable value of such inventories is based primarily on sales prices and current market conditions.

Amounts used for impairment calculations are based on estimates of future cash flows of the Company. By their nature, the estimates of cash flows, including the estimates of future revenue, operating expenses, utilization, discount rates and market pricing are subject to measurement uncertainty. Accordingly, the impact in the consolidated financial statements of future periods could be material.

Property, plant and equipment are aggregated into Cash Generating Units ("CGU") based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings.

Compensation costs accrued for long-term share-based payment plans are subject to the estimation of what the ultimate payout will be using the Black Scholes pricing model, which is based on significant assumptions such as volatility, dividend yield and expected term.

The amount recognized as provisions and accrued liabilities, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation.

# Management's Discussion and Analysis

In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

## *Judgments*

The Company applied judgment in determining the functional currency of the Company and its subsidiaries. Functional currency was determined based on the currency that mainly influences sales prices, labour, materials and other costs of providing services.

Property, plant and equipment and goodwill are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment with respect to the lowest level at which independent cash inflows are generated.

The Company has applied judgment in determining the degree of componentization of property, plant and equipment. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and has a separate useful life has been identified as a separate component and is depreciated separately.

The Company has applied judgment in recognizing provisions and accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event; whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and whether a reliable estimate can be made of the amount of the obligation.

## **OFF BALANCE SHEET ARRANGEMENTS**

Except for operating leases disclosed in Note 23 "Commitments" of the notes to consolidated financial statements and presented as contractual obligations in the liquidity and capital resources section herein, the Company does not have any other material off balance sheet arrangements.

## **GENERAL RISKS AND UNCERTAINTIES**

The risks described below and elsewhere in this MD&A do not include all possible risks, and there may be other risks of which management is currently not aware.

### *Cyclical Downturn*

The most significant operating risk affecting the Company is a downturn in demand for its services due to a decrease in activity in the minerals and metals industry. In attempting to mitigate this risk, the Company is exploiting its competitive advantage in specialized drilling and continues to explore opportunities to diversify and to rationalize its regional infrastructures. In previous cyclical market downturns the Company realized that specialized services were not as affected by decreases in metal and mineral prices compared to its traditional services. Consequently, the Company's addition of rigs and acquisitions of businesses have generally been focused on specialized drilling services. The impact on the Company of a severe and persistent downturn in the minerals and metals industry may not be fully mitigated by the foregoing measures.

While receivables from senior and larger intermediate mining exploration companies consistently remain a significant component of total receivables, accounts receivable from junior mining companies also have a tendency to increase during a cyclical downturn. In many cases, capital markets are the only source of funds available to these juniors and any change in the outlook for the sector or the lack of success of a specific exploration program can quickly impair the ability of these juniors to raise capital to pay for their drilling programs.

Levels of inventory typically increase as a result of increased activity levels. In addition to direct volume related increases however, inventory levels also increase due to an expansion of activity in remote locations at the end of long supply chains where it is necessary to increase inventory to ensure an acceptable level of continuing service, which is part of the Company's competitive advantage. In the event of a sudden downturn of activities related either to a specific project or to the sector as a whole, it is more difficult and costly to redeploy this remote inventory to other regions where it can be consumed.

### *Competitive Pressures*

Pressures from competitors could result in decreased contract prices and put a strain on current growth rates. There can be no assurance that the Company's competitors will not be successful in capturing a share of the Company's present or potential customer base.

### **Country Risk**

The Company is committed to utilizing its expertise and technology in exploration areas around the world. With this comes the risk of dealing with business and political systems in a variety of jurisdictions. Unanticipated economic, political, tax related, regulatory or legal changes (or changes in interpretation) could have a material negative impact on operations and assets. The risks include, but are not limited to, military repression, extreme fluctuations in currency exchange rates and high rates of inflation, and changes in mining or investment policies or shifts in political attitude that may adversely affect the business. There has been an emergence of a trend by some governments to increase their participation in the benefits of rising commodity prices, through increased taxation, expropriation, or otherwise. This could negatively impact the level of foreign investment in mining and exploration activities and thus drilling demand in these regions. Such events could result in reductions in revenue and transition costs as equipment is shifted to other locations.

### **Repatriation of Funds or Property**

There is no assurance that any of the countries in which the Company operates or may operate in the future will not impose restrictions on the repatriation of funds or property to other jurisdictions.

### **Taxes**

The Company is subject to many different forms of taxation in various jurisdictions throughout the world, including but not limited to, income tax, withholding tax, commodity tax and social security and other payroll related taxes, which may lead to disagreements with tax authorities regarding the application of tax law.

Tax law and administration is extremely complex and often requires the Company to make subjective determinations. The computation of income, payroll and other taxes involves many factors, including the interpretation of tax legislation in various jurisdictions in which the Company is subject to ongoing tax assessments. The Company's estimate of tax related assets, liabilities, recoveries and expenses incorporates significant assumptions. These assumptions include, but are not limited to, the tax rates in various jurisdictions, the effect of tax treaties between jurisdictions and taxable income projections. To the extent that such assumptions differ from actual results, the Company may have to record additional tax expenses and liabilities, including interest and penalties.

### **Foreign Currency**

The Company conducts a significant proportion of its business outside of Canada and consequently has exposure to currency movements, principally in U.S. dollars, Chilean pesos and Australian dollars. In order to reduce its exposure to foreign exchange risks associated with currencies of developing countries, where a substantial portion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where practical and legally permitted.

Foreign exchange translations can have a great impact on year-to-year comparisons because of the geographic distribution of the Company's activities. Year-over-year revenue comparisons have been affected by the fluctuation in the Canadian dollar against the U.S. dollar. Margin performance however is less affected by currency fluctuations as a large proportion of costs are typically in the same currency as revenue. In future periods, year-to-year comparisons of revenue could be significantly affected by changes in foreign exchange rates.

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and/or systems or from external events. Operational risk is present in all of the Company's business activities, and incorporates exposure relating to fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, technology failures, processing errors, business integration, theft and fraud, damage to physical assets and employee safety and insurance coverage.

### **Dependence on Key Customers**

From time to time, the Company may be dependent on a small number of customers for a significant portion of overall revenue and net income. Should one or more such customers terminate contracts with the Company, there can be no guarantee that the Company will obtain sufficient replacement contracts to maintain the existing revenue and income levels.

# Management's Discussion and Analysis

Consequently, the Company continues to work to expand its client base and geographic field of operations to mitigate its exposure to any single client, commodity or mining region.

## **Safety**

Failure to maintain a record of acceptable safety performance may have an adverse impact on the Company's ability to attract and retain customers. Most of the Company's customers consider safety and reliability two primary attributes when selecting a provider of drilling services. The Company continues to invest in training to improve skills, abilities and safety awareness.

## **Expansion and Acquisition Strategy**

The Company intends to remain vigilant with regards to potentially strategic future acquisitions and internal expansion. It is not possible to ensure that future acquisition opportunities will exist on acceptable terms, or that newly acquired or developed entities will be successfully integrated into the Company's operations. Additionally, the Company cannot give assurances that it will be able to secure the necessary financing on acceptable terms to pursue this strategy.

## **Legal and Regulatory Risk**

Regulatory risk incorporates exposure relating to the risk of non-compliance with applicable legislation and regulatory directives. Legal risk incorporates non-compliance with legal requirements, including the effectiveness of preventing or handling litigation. Local management is responsible for managing day-to-day regulatory risk. In meeting this responsibility,

local management receives advice and assistance from such corporate oversight functions as legal, compliance and internal audit. Compliance and internal audit test the extent to which operations meet regulatory requirements, as well as the effectiveness of internal controls.

## **Extreme Weather Conditions and the Impact of Natural or Other Disasters**

The Company operates in a variety of locations, some of which are prone to extreme weather conditions. From time to time these conditions, as well as natural or other disasters, could have an adverse financial impact on operations located in the regions where these conditions occur.

## **Specialized Skills and Cost of Labour Increases**

Generally speaking, drilling activity related to metals and minerals is broadly linked to price trends in the metals and minerals sector. During periods of increased activity a limiting factor in this industry can be a shortage of qualified drillers. The Company addresses this issue by attempting to become the "employer of choice" for drillers in the industry, as well as hiring and training more locally-based drillers. Historically, most of the Company's drillers have been Australian or Canadian. Development of local drillers has already had a positive impact in South American, African, Mongolian and Indonesian operations, and is expected to continue to play an important role.

The Company also relies on an experienced management team across the Company to carry on its business. A departure of several members of the management team at one time could have an adverse financial impact on operations.

A material increase in the cost of labour can materially affect gross margins and therefore the Company's financial performance.

## **Equipment and Parts Availability**

The Company's ability to provide reliable service is dependent upon timely delivery of equipment and replacement parts from fabricators and suppliers. Any factor that substantially increases the order time on equipment and increases uncertainty surrounding final delivery dates may constrain future growth, existing operations, and the financial performance of the Company.

## **Reputational Risk**

Negative publicity, whether true or not, regarding practices, actions or inactions, could cause a decline in the Company's value, liquidity, or customer base.

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

Effective September 30, 2011, the Company completed the acquisition of the Bradley group of companies. The results of Bradley's operations have been included in the financial statements since the date of acquisition. However, the Company has not had sufficient time to appropriately review the internal controls used by Bradley. The Company is in the process of integrating the Bradley operation and will be expanding its disclosure controls and procedures and internal controls over financial reporting compliance program to include the Bradley group of companies over the next year.

As a result, the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have limited the scope of design of disclosure controls and procedures and testing of internal controls over financial reporting to exclude Bradley controls, policies and procedures from the April 30, 2012 certification of internal controls. The acquisition date financial information for Bradley is included in the discussion regarding the acquisition contained in this MD&A and Note 20 of the consolidated financial statements.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company’s management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management, including the CEO and the CFO, does not expect that the Company’s disclosure controls will prevent or detect all errors and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

The Company’s CEO and the CFO have evaluated the effectiveness of the Company’s disclosure controls and concluded that, subject to the inherent limitations and restrictions noted above, those disclosure controls were effective for the year ended April 30, 2012.

The Company’s CEO and CFO are responsible for designing internal controls over financial reporting (“ICFR”) or causing them to be designed under their supervision. The Company’s ICFR are designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

During fiscal 2012, management, including its CEO and CFO, evaluated the existence and design of the Company’s ICFR and confirm there were no changes to the ICFR that have occurred during the year that materially affected, or are reasonably likely to materially affect, the Company’s ICFR. The Company continues to review and document its disclosure controls and its ICFR, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with the business.

As of April 30, 2012, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Company’s ICFR as defined in NI 52-109. Based on this evaluation,

other than restrictions mentioned above, the CEO and the CFO concluded that the design and operation of these ICFR were effective.

The evaluations were conducted in accordance with the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), a recognized control model, and the requirements of NI 52-109.

**OUTSTANDING SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares, which is currently the only class of voting equity securities. Holders of common shares are entitled to receive notice of, attend and vote at all meetings of the shareholders of the Company. Each common share carries the right to one vote in person or by proxy at all meetings of the shareholders of the Company.

Last year, the Company enacted a 3 for 1 stock split. Therefore, as at June, the Company’s share capital was composed of the following:

| (amounts in thousands)    | As at June 8<br>2012 | As at June 30<br>2011 |
|---------------------------|----------------------|-----------------------|
| Common shares             | 79,147               | 72,040                |
| Stock options outstanding | 2,907                | 2,780                 |

# Management's Responsibility

Management is responsible for preparation and presentation of the annual consolidated financial statements, management's discussion and analysis ("MD&A") and all other information in this annual report.

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards and summarized in the consolidated financial statements.

The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. Management has designed and evaluated the effectiveness of its disclosure controls and procedures.

Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements and the MD&A necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to June 5, 2012. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity, operating trends and risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events may not occur as expected. 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.

20

The consolidated financial statements have been examined by Deloitte & Touche LLP, independent chartered accountants. The independent auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditor's 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 independent auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and the MD&A. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements and the MD&A 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 independent auditors. The independent auditors have full and free access to the Audit Committee.

Major Drilling Group International Inc.'s Chief Executive Officer and Chief Financial Officer have certified Major Drilling Group International Inc.'s annual disclosure documents as required in Canada by the Canadian securities regulators.

  
Francis McGuire  
President and Chief Executive Officer

  
Denis Larocque  
Chief Financial Officer

June 5, 2012  
Moncton, New Brunswick, Canada

Left: Francis McGuire, President & CEO  
Right: Denis Larocque, Chief Financial Officer



# Independent Auditor's Report

**MAJOR**

Partners on the Ground

## To the Shareholders of Major Drilling Group International Inc.

We have audited the accompanying consolidated financial statements of Major Drilling Group International Inc., which comprise the consolidated balance sheets as at April 30, 2012, April 30, 2011 and May 1, 2010, and the consolidated statements of operations, comprehensive earnings, changes in equity and cash flows for the years ended April 30, 2012 and April 30, 2011, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Major Drilling Group International Inc. as at April 30, 2012, April 30, 2011 and May 1, 2010, and its financial performance and its cash flows for the years ended April 30, 2012 and April 30, 2011 in accordance with International Financial Reporting Standards.

*Deloitte + Touche LLP*

Chartered Accountants  
June 5, 2012  
Saint John, New Brunswick, Canada

# Consolidated Statements of Operations

For the years ended April 30, 2012 and 2011  
(in thousands of Canadian dollars, except per share information)

|  | 2012       | 2011       |
|--|------------|------------|
| TOTAL REVENUE  | \$ 797,432 | \$ 482,276 |
| DIRECT COSTS   | 546,306    | 361,857    |
| GROSS PROFIT   | 251,126    | 120,419    |
| OPERATING EXPENSES                                       |            |            |
| General and administrative                               | 57,980     | 40,963     |
| Other expenses   | 16,055     | 7,582      |
| Loss (gain) on disposal of property, plant and equipment | 1,370      | (377)      |
| Gain on sale of investment                               | -          | (313)      |
| Foreign exchange loss (gain)                             | 1,319      | (892)      |
| Finance costs  | 3,367      | 1,275      |
| Depreciation and amortization (note 19)                  | 42,604     | 30,919     |
|  | 122,695    | 79,157     |
| EARNINGS BEFORE INCOME TAX                               | 128,431    | 41,262     |
| INCOME TAX - PROVISION (note 14)                         |            |            |
| Current  | 24,592     | 13,548     |
| Deferred   | 14,090     | 122        |
|  | 38,682     | 13,670     |
| NET EARNINGS   | \$ 89,749  | \$ 27,592  |
| EARNINGS PER SHARE (note 16)                             |            |            |
| Basic  | \$ 1.18    | \$ 0.39    |
| Diluted  | \$ 1.16    | \$ 0.38    |

# Consolidated Statements of Comprehensive Earnings

For the years ended April 30, 2012 and 2011  
(in thousands of Canadian dollars)

|   | 2012      | 2011      |
|---|-----------|-----------|
| NET EARNINGS  | \$ 89,749 | \$ 27,592 |
| OTHER COMPREHENSIVE EARNINGS  |           |           |
| Unrealized gains (losses) on foreign currency translations (net of tax) | 1,871     | (3,662)   |
| Unrealized gain on interest swap (net of tax)                           | 121       | -         |
| COMPREHENSIVE EARNINGS  | \$ 91,741 | \$ 23,930 |



# Consolidated Statements of Changes in Equity

For the years ended April 30, 2012 and 2011  
(in thousands of Canadian dollars)

|  | Share capital | Reserves | Share-based payments reserve | Retained earnings | Foreign currency translation reserve | Total      |
|--|---------------|----------|------------------------------|-------------------|--------------------------------------|------------|
| <b>BALANCE AS AT MAY 1, 2010</b>                   | \$ 144,919    | \$ -     | \$ 9,236                     | \$ 153,358        | \$ -                                 | \$ 307,513 |
| Exercise of stock options                          | 5,723         | -        | (1,558)                      | -                 | -                                    | 4,165      |
| Share-based payments reserve                       | -             | -        | 2,602                        | -                 | -                                    | 2,602      |
| Dividends  | -             | -        | -                            | (10,525)          | -                                    | (10,525)   |
|  | 150,642       | -        | 10,280                       | 142,833           | -                                    | 303,755    |
| <b>Comprehensive earnings:</b>                     |               |          |                              |                   |                                      |            |
| Net earnings                                       | -             | -        | -                            | 27,592            | -                                    | 27,592     |
| Unrealized losses on foreign currency translations | -             | -        | -                            | -                 | (3,662)                              | (3,662)    |
| Total comprehensive earnings                       | -             | -        | -                            | 27,592            | (3,662)                              | 23,930     |
| <b>BALANCE AS AT APRIL 30, 2011</b>                | \$ 150,642    | \$ -     | \$ 10,280                    | \$ 170,425        | \$ (3,662)                           | \$ 327,685 |
| <b>BALANCE AS AT MAY 1, 2011</b>                   | \$ 150,642    | \$ -     | \$ 10,280                    | \$ 170,425        | \$ (3,662)                           | \$ 327,685 |
| Exercise of stock options                          | 2,932         | -        | (909)                        | -                 | -                                    | 2,023      |
| Share issue (net of issue costs) (note 15)         | 77,189        | -        | -                            | -                 | -                                    | 77,189     |
| Share-based payments reserve                       | -             | -        | 2,426                        | -                 | -                                    | 2,426      |
| Dividends  | -             | -        | -                            | (13,365)          | -                                    | (13,365)   |
|  | 230,763       | -        | 11,797                       | 157,060           | (3,662)                              | 395,958    |
| <b>Comprehensive earnings:</b>                     |               |          |                              |                   |                                      |            |
| Net earnings                                       | -             | -        | -                            | 89,749            | -                                    | 89,749     |
| Unrealized gains on foreign currency translations  | -             | -        | -                            | -                 | 1,871                                | 1,871      |
| Unrealized gain on interest rate swap              | -             | 121      | -                            | -                 | -                                    | 121        |
| Total comprehensive earnings                       | -             | 121      | -                            | 89,749            | 1,871                                | 91,741     |
| <b>BALANCE AS AT APRIL 30, 2012</b>                | \$ 230,763    | \$ 121   | \$ 11,797                    | \$ 246,809        | \$ (1,791)                           | \$ 487,699 |


# Consolidated Balance Sheets

As at April 30, 2012, 2011 and May 1, 2010  
(in thousands of Canadian dollars)

|  | 2012              | 2011              | 2010              |
|--|-------------------|-------------------|-------------------|
| <b>ASSETS</b>                                    |                   |                   |                   |
| <b>CURRENT ASSETS</b>                            |                   |                   |                   |
| Cash   | \$ 37,237         | \$ 16,215         | \$ 30,232         |
| Trade and other receivables                      | 159,770           | 100,300           | 62,128            |
| Income tax receivable                            | 3,314             | 2,720             | 10,053            |
| Inventories                                      | 95,905            | 69,864            | 63,170            |
| Prepaid expenses                                 | 7,476             | 8,439             | 4,813             |
|  | <b>303,702</b>    | <b>197,538</b>    | <b>170,396</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT (note 8)</b>    | <b>318,171</b>    | <b>235,473</b>    | <b>198,935</b>    |
| <b>DEFERRED INCOME TAX ASSETS (note 14)</b>      | <b>2,859</b>      | <b>11,575</b>     | <b>9,379</b>      |
| <b>GOODWILL (note 9)</b>                         | <b>54,946</b>     | <b>28,316</b>     | <b>26,475</b>     |
| <b>INTANGIBLE ASSETS (note 10)</b>               | <b>6,295</b>      | <b>1,235</b>      | <b>1,074</b>      |
|  | <b>\$ 685,973</b> | <b>\$ 474,137</b> | <b>\$ 406,259</b> |
| <b>LIABILITIES</b>                               |                   |                   |                   |
| <b>CURRENT LIABILITIES</b>                       |                   |                   |                   |
| Trade and other payables                         | \$ 115,805        | \$ 88,599         | \$ 53,992         |
| Income tax payable                               | 3,142             | 4,297             | 2,830             |
| Short-term debt (note 12)                        | -                 | 7,919             | -                 |
| Current portion of long-term debt (note 13)      | 8,712             | 8,402             | 8,887             |
|  | <b>127,659</b>    | <b>109,217</b>    | <b>65,709</b>     |
| <b>CONTINGENT CONSIDERATIONS</b>                 | <b>2,760</b>      | <b>2,612</b>      | <b>2,011</b>      |
| <b>LONG-TERM DEBT (note 13)</b>                  | <b>42,274</b>     | <b>16,630</b>     | <b>15,041</b>     |
| <b>DEFERRED INCOME TAX LIABILITIES (note 14)</b> | <b>25,581</b>     | <b>17,993</b>     | <b>15,985</b>     |
|  | <b>198,274</b>    | <b>146,452</b>    | <b>98,746</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                      |                   |                   |                   |
| Share capital (note 15)                          | 230,763           | 150,642           | 144,919           |
| Reserves   | 121               | -                 | -                 |
| Share-based payments reserve                     | 11,797            | 10,280            | 9,236             |
| Retained earnings                                | 246,809           | 170,425           | 153,358           |
| Foreign currency translation reserve             | (1,791)           | (3,662)           | -                 |
|  | <b>487,699</b>    | <b>327,685</b>    | <b>307,513</b>    |
|  | <b>\$ 685,973</b> | <b>\$ 474,137</b> | <b>\$ 406,259</b> |

Contingencies and commitments (notes 22 and 23)

Approved by the Board of Directors

  
David Tennant  
Chairman of the Board

  
Jo Mark Zurel  
Chairman of the Audit Committee

# Consolidated Statements of Cash Flows

For the years ended April 30, 2012 and 2011  
(in thousands of Canadian dollars)

|   | 2012             | 2011             |
|---|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>   |                  |                  |
| Earnings before income tax  | \$ 128,431       | \$ 41,262        |
| Operating items not involving cash  |                  |                  |
| Depreciation and amortization (note 19)   | 42,604           | 30,919           |
| Loss (gain) on disposal of property, plant and equipment                        | 1,370            | (377)            |
| Share-based payments reserve  | 2,426            | 2,602            |
| Finance costs recognized in earnings before income tax                          | 3,367            | 1,275            |
|   | <u>178,198</u>   | <u>75,681</u>    |
| Changes in non-cash operating working capital items (note 18)                   | (32,787)         | (22,553)         |
| Finance costs paid  | (3,432)          | (1,275)          |
| Income taxes paid   | (27,502)         | (4,748)          |
| Cash flow from operating activities   | <u>114,477</u>   | <u>47,105</u>    |
| <b>FINANCING ACTIVITIES</b>   |                  |                  |
| Repayment of long-term debt   | (17,390)         | (8,939)          |
| Proceeds from long-term debt  | 25,000           | 10,000           |
| Repayment of short-term debt  | (12,988)         | (3,131)          |
| Proceeds from short-term debt   | -                | 10,400           |
| Issuance of common shares   | 79,212           | 4,165            |
| Dividends paid  | (11,525)         | (9,993)          |
| Cash flow from financing activities   | <u>62,309</u>    | <u>2,502</u>     |
| <b>INVESTING ACTIVITIES</b>   |                  |                  |
| Business acquisitions (net of cash acquired) (note 20)                          | (76,304)         | (3,776)          |
| Acquisition of property, plant and equipment (net of direct financing) (note 8) | (81,129)         | (62,571)         |
| Proceeds from disposal of property, plant and equipment                         | 2,228            | 4,498            |
| Cash flow used in investing activities  | <u>(155,205)</u> | <u>(61,849)</u>  |
| Effect of exchange rate changes   | (559)            | (1,775)          |
| <b>INCREASE (DECREASE) IN CASH</b>  | <u>21,022</u>    | <u>(14,017)</u>  |
| <b>CASH, BEGINNING OF THE YEAR</b>  | <u>16,215</u>    | <u>30,232</u>    |
| <b>CASH, END OF THE YEAR</b>  | <u>\$ 37,237</u> | <u>\$ 16,215</u> |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 1. NATURE OF ACTIVITIES

Major Drilling Group International Inc. ("the Company") 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 maintains operations on every continent.

## 2. BASIS OF PRESENTATION

### *Statement of compliance*

These Consolidated Financial Statements present the Company's and its subsidiaries financial results of operations and financial position in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein. These are the Company's first annual Consolidated Financial Statements prepared in accordance with IFRS and therefore the Company has applied IFRS 1 *First-time adoption of International Financial Reporting Standards* ("IFRS 1"). The preparation of these Consolidated Financial Statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited Consolidated Financial Statements for the year ended April 30, 2011. An explanation of how the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS as at May 1, 2010 has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in Note 6 of these financial statements.

These statements were authorized for issue on June 5, 2012 by the Board of Directors.

### *Basis of consolidation*

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statement 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*

The Consolidated Financial Statements have been prepared based on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the related accounting policies presented in Note 4.

## 3. FUTURE ACCOUNTING CHANGES

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

|         |  |
|---------|--|
| IFRS 7  | <i>(as amended in 2011) Financial Instruments: Disclosures</i> |
| IFRS 9  | <i>(as amended in 2010) Financial Instruments</i>              |
| IFRS 10 | <i>Consolidated Financial Statements</i>                       |
| IFRS 11 | <i>Joint Arrangements</i>                                      |
| IFRS 12 | <i>Disclosure of Interests in Other Entities</i>               |
| IFRS 13 | <i>Fair Value Measurement</i>                                  |
| IAS 1   | <i>Presentation of Financial Statements</i>                    |
| IAS 12  | <i>(amended) Income Taxes – recovery of underlying assets</i>  |
| IAS 19  | <i>Employee Benefits</i>                                       |
| IAS 27  | <i>(reissued) Separate Financial Statements</i>                |
| IAS 28  | <i>(reissued) Investments in Associates and Joint Ventures</i> |
| IAS 32  | <i>(amended) Financial Instruments: Presentation</i>           |

The Company is currently evaluating the impact of applying these standards to its Consolidated Financial Statements.

**4. SIGNIFICANT ACCOUNTING POLICIES**

**Cash**

Cash is comprised of cash on hand and demand deposits in banks, cashable at any time.

**Financial instruments**

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company’s designation of such instruments. Settlement date accounting is used.

| Asset/Liability             | Classification              | Measurement    |
|-----------------------------|-----------------------------|----------------|
| Cash                        | Loans and receivables       | Amortized cost |
| Trade and other receivables | Loans and receivables       | Amortized cost |
| Trade and other payables    | Other financial liabilities | Amortized cost |
| Short and long-term debt    | Other financial liabilities | Amortized cost |

Transaction costs are included in the initial carrying value of financial instruments, except those classified as fair value through profit or loss, and are amortized into income using the effective interest method.

**Loans and receivables** - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recorded at fair value and are subsequently measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for trade and other receivables when the recognition of interest would be immaterial.

**Other financial liabilities** - Other financial liabilities are initially recorded at fair value and are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Embedded derivatives** - Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”) (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value.

**Revenue recognition**

Revenue from drilling contracts is recognized based on the terms of customer contracts that generally provide for revenue recognition on the basis of actual meters drilled at contract rates or fixed monthly charges or a combination of both. Revenue from ancillary services, primarily relating to extra services to the customer, is recorded when the services are rendered. Revenue is recognized when collection is reasonably assured.

**Earnings per share**

Basic earnings per share are calculated by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are determined as net earnings (loss) divided by the weighted average number of diluted common shares for the year. Diluted common shares reflect the potential dilutive effect of exercising stock options.

**Inventories**

The Company maintains an inventory of operating supplies, drill rods and drill bits. Inventories are valued at the lower of cost and net realizable value, determined on a first in, first out (“FIFO”) basis. 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.

**Property, plant and equipment**

Property, plant and equipment (“PP&E”) are measured at cost, less accumulated depreciation and impairment losses. Depreciation, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable asset. When significant components of an item of PP&E have different useful lives, they are accounted for as separate assets. 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                |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Land and assets under construction not available for use are not amortized. Costs for repairs and maintenance are charged to operations as incurred. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with it will flow to the entity and when they are ready for their intended use. Subsequent costs are amortized over the useful life of the asset and replaced components are de-recognized. Amortization methods, residual values and useful lives are re-assessed at minimum on an annual basis.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Balance Sheet as trade and other payables.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized as borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and any equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired

and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), then the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), as appropriate, with the corresponding gain or loss being recognized in profit or loss.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**Contingent liabilities acquired in a business combination** - Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount initially recognized less cumulative amortization recognized in accordance with IAS 18 Revenue ("IAS 18").

#### **Goodwill**

Goodwill represents the excess of the purchase price of business acquisitions, including acquisition costs, over the fair value of the identifiable net assets acquired. The value of goodwill is tested for impairment at least annually. Any impairment loss identified by this test would be reported in earnings (loss) for the period during which the loss occurred.

#### **Intangible assets**

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination

are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets include customer relationships and non-compete agreements, which are amortized on a straight-line basis over a three and five-year period, respectively.

#### **Impairment of long-lived assets**

At the end of each reporting period, the Company assesses whether there are any indicators that the carrying values of its long-lived assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognized in prior periods for an asset

other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Income taxes**

**Current** - The tax currently receivable or payable is based on taxable profit for the year and any adjustments resulting from prior years. Taxable profit differs from profit as reported in the Consolidated Statement of Operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Deferred** - The Company follows the liability method of accounting for deferred 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 "deferred income tax assets and liabilities", are computed and recognized based on carry forwards of unused tax losses, unused tax credits and the differences between the carrying amount of balance sheet items and their corresponding tax values using the enacted, or substantively enacted, income tax rates in effect when the assets are realized or the liabilities are settled.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's primary differences arise between the tax carrying value and net book value of property, plant and equipment. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### **Translation of foreign currencies**

The Consolidated Financial Statements are presented in Canadian dollars, which is the Company's presentation currency, and the functional currency of the parent company.

Items included in the financial statements of each of the Company's subsidiaries are measured using the functional currency. The majority of the Company's subsidiaries have a functional currency of U.S. dollars, Canadian dollars or Australian dollars. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the Consolidated Statement of Operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

For the purposes of the Consolidated Financial Statements, the assets and liabilities of the Company's foreign operations (with functional currencies other than Canadian dollars) are translated into Canadian dollars using exchange rates at the end of the period. Income and expense items are translated at the average rates of exchange for the period. The resulting translation adjustments are recognized

in other comprehensive earnings within the foreign currency translation reserve. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in other comprehensive earnings and foreign currency translation reserve.

### **Share-based payments**

The Company uses the fair value method to measure compensation expense at the date of grant of stock options to employees and directors. The fair value of each tranche for all option grants is determined using the Black-Scholes option pricing model, which considers estimated forfeitures at time of grant, and each tranche is amortized separately to earnings over the vesting period of the tranche with an offset to the share-based payments reserve. When options are exercised, the corresponding share-based payments reserve and the proceeds received by the Company are credited to share capital.

The Company records the fair value of deferred share units as compensation expense, with offset to accrued liabilities.

### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Onerous contracts** - Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

**Restructurings** - A restructuring provision is recognized when the Company has developed a detailed formal plan for restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### **Derivative financial instruments**

The Company has entered into a derivative financial instrument, in the form of an interest rate swap, to manage its exposure to interest rate risk. The derivative is initially recognized at fair value at the date the derivative contract is executed and is subsequently re-measured to fair value at each reporting date. The resulting gain or loss is recognized in comprehensive earnings unless the derivative is considered to be ineffective, in which event it is recognized in profit or loss.



#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Hedge accounting**

The Company designated the derivative as a cash flow hedge. At the inception of the hedge, and on an ongoing basis, the Company documents whether the hedging instrument used in the hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

##### **Cash flow hedge**

The effective portion of changes in the fair value of the derivative is recognized in other comprehensive earnings and accumulated in shareholders' equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is terminated, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in shareholders' equity at that time is recognized immediately in profit or loss.

## **5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS**

##### **Use of estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are not readily apparent from other sources, which affect the reported amounts of assets and liabilities at the dates of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reported periods. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment for amortization purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, assumptions used in compilation of share-based payments, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities, and impairment testing of goodwill and intangible assets.

Management determines the estimated useful lives of its property, plant and equipment based on historical experience of the actual lives of property, plant and equipment of similar nature and functions, and reviews these estimates at the end of each reporting period.

Management reviews the condition of inventories at the end of each reporting period and recognizes a provision for slow-moving and obsolete items of inventory when they are no longer suitable for use. Management's estimate of the net realizable value of such inventories is based primarily on sales prices and current market conditions.

Amounts used for impairment calculations are based on estimates of future cash flows of the Company. By their nature, the estimates of cash flows, including the estimates of future revenue, operating expenses, utilization, discount rates and market pricing are subject to measurement uncertainty. Accordingly, the impact in the Consolidated Financial Statements of future periods could be material.

Property, plant and equipment are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the probability that they will be realized from future taxable earnings.

Compensation costs accrued for long-term share-based payment plans are subject to the estimation of what the ultimate payout will be using the Black-Scholes pricing model, which is based on significant assumptions such as volatility, dividend yield and expected term.

The amount recognized as provisions and accrued liabilities, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS (continued)

### Judgments

The Company applied judgment in determining the functional currency of the Company and its subsidiaries. Functional currency was determined based on the currency that mainly influences sales prices, labour, materials and other costs of providing services.

Property, plant and equipment and goodwill are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment with respect to the lowest level at which independent cash inflows are generated.

The Company has applied judgment in determining the degree of componentization of property, plant and equipment. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and has a separate useful life has been identified as a separate component and is depreciated separately.

The Company has applied judgment in recognizing provisions and accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event; whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and whether a reliable estimate can be made of the amount of the obligation.

### 6. FIRST TIME ADOPTION OF IFRS

As disclosed in Note 2, these Consolidated Financial Statements represent the Company's initial presentation of the financial results of operations and financial position under IFRS for the year ended April 30, 2012.

As a result, these Consolidated Financial Statements have been prepared in accordance with IFRS 1. Previously, the Company prepared its annual Consolidated Financial Statements in accordance with Canadian GAAP.

IFRS 1 requires the presentation of comparative information as at the May 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory exceptions and optional exemptions for first-time adopters to alleviate the retrospective application of specific IFRSs.

### Exceptions and exemptions applied

**IFRS 1 First-Time Adoption of IFRS** - IFRS 1 provides entities adopting IFRS for the first time, a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition.

The following are the optional exemptions that the Company has applied:

- Business combinations - This exemption allows the Company to not apply IFRS 3(R), *Business Combinations* ("IFRS 3"), retrospectively to business combinations that occurred before the date of transition.
- Share-based payments election - This exemption allows the Company to not apply IFRS 2, *Share-Based Payments* ("IFRS 2") to equity settled awards that were granted on or before November 7, 2002 or those granted after this date that had vested before the date of transition. The Company also did not apply IFRS 2 to cash settled awards that were settled before the date of transition to IFRS.

- Foreign currency translation adjustment ("CTA") - This election allows the Company, on the date of transition, to record the CTA from all foreign operations, calculated under Canadian GAAP, to retained earnings and reset the CTA balance to nil.
- Fair value revaluation as deemed cost - This election allows the Company to measure certain items of property, plant and equipment at the date of transition at their fair value, and to use that fair value as deemed cost at that date.

The remaining IFRS 1 exemptions and exceptions were not applicable or material to the preparation of the Company's Consolidated Balance Sheet at the date of transition to IFRS on May 1, 2010.

The following mandatory exception is applicable to the Company:

- Estimates - In accordance with IFRS 1, hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except when necessary to reflect any differences in accounting policies between Canadian GAAP and IFRS.

The following reconciliations present the adjustments made to the Company's previous Canadian GAAP financial results of operations and financial position to comply with IFRS 1. A discussion of transitional adjustments follows the reconciliations.

## 6. FIRST TIME ADOPTION OF IFRS (continued)

**IFRS Opening Consolidated Balance Sheet  
As at May 1, 2010**

| ASSETS                                 | Previous GAAP | (a)<br>Adjustments | (b)<br>Foreign currency translation reserve | (c)<br>Share-based payments reserve | (d)<br>Deferred share units | (e)<br>Contingent consideration | (f)<br>Fair value as deemed cost | IFRS       |
|--|---------------|--------------------|---|-------------------------------------|-----------------------------|---------------------------------|----------------------------------|------------|
| <b>CURRENT ASSETS</b>                  |               |                    |   |                                     |                             |                                 |                                  |            |
| Cash                                   | \$ 30,232     | \$ -               | \$ -  | \$ -                                | \$ -                        | \$ -                            | \$ -                             | \$ 30,232  |
| Trade and other receivables            | 62,128        | -                  | -   | -                                   | -                           | -                               | -                                | 62,128     |
| Income tax receivable                  | 10,053        | -                  | -   | -                                   | -                           | -                               | -                                | 10,053     |
| Inventories                            | 63,170        | -                  | -   | -                                   | -                           | -                               | -                                | 63,170     |
| Prepaid expenses                       | 4,813         | -                  | -   | -                                   | -                           | -                               | -                                | 4,813      |
|  | 170,396       | -                  | -   | -                                   | -                           | -                               | -                                | 170,396    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   | 210,812       | -                  | -   | -                                   | -                           | -                               | (11,877)                         | 198,935    |
| <b>DEFERRED INCOME TAX ASSETS</b>      | 8,910         | -                  | -   | -                                   | -                           | -                               | 469                              | 9,379      |
| <b>GOODWILL</b>                        | 24,464        | -                  | -   | -                                   | -                           | 2,011                           | -                                | 26,475     |
| <b>INTANGIBLE ASSETS</b>               | 1,074         | -                  | -   | -                                   | -                           | -                               | -                                | 1,074      |
|  | \$ 415,656    | \$ -               | \$ -  | \$ -                                | \$ -                        | \$ 2,011                        | \$ (11,408)                      | \$ 406,259 |
| <b>LIABILITIES</b>                     |               |                    |   |                                     |                             |                                 |                                  |            |
| <b>CURRENT LIABILITIES</b>             |               |                    |   |                                     |                             |                                 |                                  |            |
| Trade and other payables               | \$ 54,027     | \$ -               | \$ -  | \$ -                                | \$ (35)                     | \$ -                            | \$ -                             | \$ 53,992  |
| Income tax payable                     | 2,830         | -                  | -   | -                                   | -                           | -                               | -                                | 2,830      |
| Current portion of long-term debt      | 8,887         | -                  | -   | -                                   | -                           | -                               | -                                | 8,887      |
|  | 65,744        | -                  | -   | -                                   | (35)                        | -                               | -                                | 65,709     |
| <b>CONTINGENT CONSIDERATION</b>        | -             | -                  | -   | -                                   | -                           | 2,011                           | -                                | 2,011      |
| <b>LONG-TERM DEBT</b>                  | 15,041        | -                  | -   | -                                   | -                           | -                               | -                                | 15,041     |
| <b>DEFERRED INCOME TAX LIABILITIES</b> | 16,602        | 1,713              | -   | -                                   | -                           | -                               | (2,330)                          | 15,985     |
|  | 97,387        | 1,713              | -   | -                                   | (35)                        | 2,011                           | (2,330)                          | 98,746     |
| <b>SHAREHOLDERS' EQUITY</b>            |               |                    |   |                                     |                             |                                 |                                  |            |
| Share capital                          | 142,435       | 2,484              | -   | -                                   | -                           | -                               | -                                | 144,919    |
| Share-based payments reserve           | 11,142        | (2,484)            | -   | 578                                 | -                           | -                               | -                                | 9,236      |
| Retained earnings                      | 209,025       | (1,713)            | (44,333)                                    | (578)                               | 35                          | -                               | (9,078)                          | 153,358    |
| Foreign currency translation reserve   | (44,333)      | -                  | 44,333                                      | -                                   | -                           | -                               | -                                | -          |
|  | 318,269       | (1,713)            | -   | -                                   | 35                          | -                               | (9,078)                          | 307,513    |
|  | \$ 415,656    | \$ -               | \$ -  | \$ -                                | \$ -                        | \$ 2,011                        | \$ (11,408)                      | \$ 406,259 |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### IFRS Consolidated Balance Sheet As at April 30, 2011

| ASSETS                                 | Previous GAAP | Opening IFRS restatements* | (a) Adjustments | (c) Share-based payments reserve | (d) Deferred share units | (e) Contingent consideration | (f) Fair value as deemed cost | (g) Building componentization | IFRS       |
|--|---------------|----------------------------|-----------------|----------------------------------|--------------------------|------------------------------|-------------------------------|-------------------------------|------------|
| <b>CURRENT ASSETS</b>                  |               |                            |                 |                                  |                          |                              |                               |                               |            |
| Cash                                   | \$ 16,215     | \$ -                       | \$ -            | \$ -                             | \$ -                     | \$ -                         | \$ -                          | \$ -                          | \$ 16,215  |
| Trade and other receivables            | 100,300       | -                          | -               | -                                | -                        | -                            | -                             | -                             | 100,300    |
| Income tax receivable                  | 2,720         | -                          | -               | -                                | -                        | -                            | -                             | -                             | 2,720      |
| Inventories                            | 69,864        | -                          | -               | -                                | -                        | -                            | -                             | -                             | 69,864     |
| Prepaid expenses                       | 8,439         | -                          | -               | -                                | -                        | -                            | -                             | -                             | 8,439      |
|  | 197,538       | -                          | -               | -                                | -                        | -                            | -                             | -                             | 197,538    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   | 246,509       | (11,877)                   | -               | -                                | -                        | -                            | 726                           | 115                           | 235,473    |
| <b>DEFERRED INCOME TAX ASSETS</b>      | 11,279        | 469                        | -               | -                                | -                        | -                            | (155)                         | (18)                          | 11,575     |
| <b>GOODWILL</b>                        | 25,704        | 2,011                      | -               | -                                | -                        | 601                          | -                             | -                             | 28,316     |
| <b>INTANGIBLE ASSETS</b>               | 1,235         | -                          | -               | -                                | -                        | -                            | -                             | -                             | 1,235      |
|  | \$ 482,265    | \$ (9,397)                 | \$ -            | \$ -                             | \$ -                     | \$ 601                       | \$ 571                        | \$ 97                         | \$ 474,137 |
| <b>LIABILITIES</b>                     |               |                            |                 |                                  |                          |                              |                               |                               |            |
| <b>CURRENT LIABILITIES</b>             |               |                            |                 |                                  |                          |                              |                               |                               |            |
| Trade and other payables               | \$ 88,618     | \$ (35)                    | \$ -            | \$ -                             | \$ 16                    | \$ -                         | \$ -                          | \$ -                          | \$ 88,599  |
| Income tax payable                     | 4,297         | -                          | -               | -                                | -                        | -                            | -                             | -                             | 4,297      |
| Short-term debt                        | 7,919         | -                          | -               | -                                | -                        | -                            | -                             | -                             | 7,919      |
| Current portion of long-term debt      | 8,402         | -                          | -               | -                                | -                        | -                            | -                             | -                             | 8,402      |
|  | 109,236       | (35)                       | -               | -                                | 16                       | -                            | -                             | -                             | 109,217    |
| <b>CONTINGENT CONSIDERATIONS</b>       | -             | 2,011                      | -               | -                                | -                        | 601                          | -                             | -                             | 2,612      |
| <b>LONG-TERM DEBT</b>                  | 16,630        | -                          | -               | -                                | -                        | -                            | -                             | -                             | 16,630     |
| <b>DEFERRED INCOME TAX LIABILITIES</b> | 18,552        | (617)                      | -               | -                                | -                        | -                            | 33                            | 25                            | 17,993     |
|  | 144,418       | 1,359                      | -               | -                                | 16                       | 601                          | 33                            | 25                            | 146,452    |
| <b>SHAREHOLDERS' EQUITY</b>            |               |                            |                 |                                  |                          |                              |                               |                               |            |
| Share capital                          | 146,600       | 2,484                      | 1,558           | -                                | -                        | -                            | -                             | -                             | 150,642    |
| Share-based payments reserve           | 13,183        | (1,906)                    | (1,558)         | 561                              | -                        | -                            | -                             | -                             | 10,280     |
| Retained earnings                      | 226,059       | (55,667)                   | -               | (561)                            | (16)                     | -                            | 538                           | 72                            | 170,425    |
| Foreign currency translation reserve   | (47,995)      | 44,333                     | -               | -                                | -                        | -                            | -                             | -                             | (3,662)    |
|  | 337,847       | (10,756)                   | -               | -                                | (16)                     | -                            | 538                           | 72                            | 327,685    |
|  | \$ 482,265    | \$ (9,397)                 | \$ -            | \$ -                             | \$ -                     | \$ 601                       | \$ 571                        | \$ 97                         | \$ 474,137 |

## 6. FIRST TIME ADOPTION OF IFRS (continued)

**IFRS Consolidated Statement of Operations  
For the year ended April 30, 2011**

|   | Previous GAAP | (c)<br>Share-based<br>payments | (d)<br>Deferred<br>share units | (f)<br>Fair value<br>as deemed cost | (g)<br>Building<br>componentization | IFRS       |
|---|---------------|--------------------------------|--------------------------------|-------------------------------------|-------------------------------------|------------|
| TOTAL REVENUE                                     | \$ 482,276    | \$ -                           | \$ -                           | \$ -                                | \$ -                                | \$ 482,276 |
| DIRECT COSTS                                      | 361,857       | -                              | -                              | -                                   | -                                   | 361,857    |
| GROSS PROFIT                                      | 120,419       | -                              | -                              | -                                   | -                                   | 120,419    |
| <b>OPERATING</b>                                  |               |                                |                                |                                     |                                     |            |
| General and administrative                        | 40,947        | -                              | 16                             | -                                   | -                                   | 40,963     |
| Other expenses                                    | 7,021         | 561                            | -                              | -                                   | -                                   | 7,582      |
| Gain on disposal of property, plant and equipment | (377)         | -                              | -                              | -                                   | -                                   | (377)      |
| Gain on sale of investment                        | (313)         | -                              | -                              | -                                   | -                                   | (313)      |
| Foreign exchange gain                             | (892)         | -                              | -                              | -                                   | -                                   | (892)      |
| Finance costs                                     | 1,275         | -                              | -                              | -                                   | -                                   | 1,275      |
| Depreciation and amortization                     | 31,759        | -                              | -                              | (726)                               | (114)                               | 30,919     |
|   | 79,420        | 561                            | 16                             | (726)                               | (114)                               | 79,157     |
| EARNINGS (LOSS) BEFORE INCOME TAX                 | 40,999        | (561)                          | (16)                           | 726                                 | 114                                 | 41,262     |
| <b>INCOME TAX - PROVISION (RECOVERY)</b>          |               |                                |                                |                                     |                                     |            |
| Current   | 13,548        | -                              | -                              | -                                   | -                                   | 13,548     |
| Deferred  | (108)         | -                              | -                              | 188                                 | 42                                  | 122        |
|   | 13,440        | -                              | -                              | 188                                 | 42                                  | 13,670     |
| NET EARNINGS (LOSS)                               | \$ 27,559     | \$ (561)                       | \$ (16)                        | \$ 538                              | \$ 72                               | \$ 27,592  |

**IFRS Consolidated Statement of Comprehensive Earnings (Loss)  
For the year ended April 30, 2011**

|  | Previous GAAP | (c)<br>Share-based<br>payments reserve | (d)<br>Deferred<br>share units | (f)<br>Fair value<br>as deemed cost | (g)<br>Building<br>componentization | IFRS      |
|--|---------------|--|--------------------------------|-------------------------------------|-------------------------------------|-----------|
| NET EARNINGS (LOSS)  | \$ 27,559     | \$ (561)                               | \$ (16)                        | \$ 538                              | \$ 72                               | \$ 27,592 |
| <b>OTHER COMPREHENSIVE LOSS</b>                              |               |  |                                |                                     |                                     |           |
| Unrealized loss on foreign currency translation (net of tax) | (3,662)       | -                                      | -                              | -                                   | -                                   | (3,662)   |
| COMPREHENSIVE EARNINGS (LOSS)                                | \$ 23,897     | \$ (561)                               | \$ (16)                        | \$ 538                              | \$ 72                               | \$ 23,930 |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 6. FIRST TIME ADOPTION OF IFRS (continued)

### Adjustments required to transition to IFRS:

- a) Adjustments - Subsequent to the release of the April 30, 2011 Canadian GAAP annual Consolidated Financial Statements, management identified adjustments required for a component of deferred tax and classification of a component of share-based payments in the Company's April 30, 2011 historical annual Consolidated Financial Statements.
- b) Foreign currency translation reserve - The Company has applied the IFRS 1 exemption as described in the "exceptions and exemptions applied" section above.
- c) Share-based payments - The Company's policy under Canadian GAAP was to use the straightline method to account for options that vest in installments over time. Under IFRS, each installment is accounted for as a separate share option grant with its own distinct vesting period, hence the fair value of each tranche differs. In addition, Canadian GAAP permits companies to either estimate the forfeitures at the grant date or record the entire expense as if all share-based payments vest and then record forfeitures as they occur. IFRS requires that forfeitures be estimated at the time of grant to eliminate distortion of remuneration expense recognized during the vesting period. The estimate is revised if subsequent information indicates that actual forfeitures are likely to differ from previous estimates.
- d) Deferred Share Units ("DSUs") - The Company's policy under Canadian GAAP was to value the DSUs using the intrinsic value at each reporting date. Under IFRS we use the fair value, which is affected by changes in underlying volatility of the stock as well as changes in the stock price.
- e) Contingent consideration - Under Canadian GAAP, contingent consideration is recognized as part of the purchase cost when it can be reasonably estimated at the acquisition date and the outcome of the contingency can be determined beyond reasonable doubt. Under IFRS, contingent consideration, regardless of probability considerations, is recognized at fair value at the acquisition date. The Company has booked contingent considerations for the SMD Services and the North Star Drilling acquisitions.
- f) Fair value as deemed cost - The Company has applied the IFRS 1 exemption as described in the "exceptions and exemptions applied" section above.
- g) Building componentization - Under Canadian GAAP, costs incurred for property, plant and equipment on initial recognition are allocated to significant components when practicable. Under IFRS, costs incurred for plant and equipment on initial recognition are allocated to significant components, capitalized and depreciated separately over the estimated useful lives of each component. Practicability of allocating costs to significant components is not considered under IFRS. Component costs incurred subsequent to the initial purchase of property, plant and equipment are capitalized when it is probable that future economic benefits will flow to the Company and the costs can be measured reliably. Upon capitalization, the carrying amount of components replaced, if any, are de-recognized. The Company has componentized buildings.

## 7. INVENTORY

The cost of inventory recognized as an expense and included in direct costs for the year ended April 30, 2012 was \$108,807 (April 30, 2011 - \$73,463). During the year, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

The following is a breakdown of inventory by category:

|                             | April 30<br>2012 | April 30<br>2011 | May 1<br>2010    |
|-----------------------------|------------------|------------------|------------------|
| Rods and casings            | \$ 34,716        | \$ 24,422        | \$ 20,883        |
| Consumables                 | 14,548           | 13,036           | 14,154           |
| Machine parts               | 14,112           | 9,993            | 9,770            |
| Wireline and downhole tools | 11,355           | 6,013            | 5,954            |
| Diamond bits                | 8,736            | 6,476            | 5,363            |
| Other                       | 12,438           | 9,924            | 7,046            |
|                             | <b>\$ 95,905</b> | <b>\$ 69,864</b> | <b>\$ 63,170</b> |

The Company's credit facility related to operations is in part secured by a general assignment of the Company's inventory.

## 8. PROPERTY, PLANT AND EQUIPMENT

Changes in the property, plant and equipment balance were as follows for the periods:

| <b>Cost</b>                               |          |            |              |             |             |              |
|---|----------|------------|--------------|-------------|-------------|--------------|
|   | Land     | Buildings  | Drills       | Auto        | Other       | Total        |
| Balance as at May 1, 2010                 | \$ 1,542 | \$ 10,442  | \$ 219,751   | \$ 75,551   | \$ 25,846   | \$ 333,132   |
| Additions                                 | -        | 2,020      | 40,201       | 19,808      | 592         | 62,621       |
| Disposals                                 | (167)    | (1,213)    | (5,416)      | (5,370)     | -           | (12,166)     |
| Business acquisitions                     | -        | -          | 7,459        | 2,143       | 19          | 9,621        |
| Effect of exchange rate changes and other | -        | (48)       | (4,157)      | (155)       | (956)       | (5,316)      |
| Balance as at April 30, 2011              | 1,375    | 11,201     | 257,838      | 91,977      | 25,501      | 387,892      |
| Additions                                 | -        | 864        | 57,645       | 18,253      | 4,820       | 81,582       |
| Disposals                                 | -        | -          | (6,621)      | (3,559)     | (83)        | (10,263)     |
| Business acquisitions                     | 367      | 9,382      | 28,077       | 4,474       | 401         | 42,701       |
| Effect of exchange rate changes and other | 67       | (23)       | (2,308)      | 2,639       | (3,126)     | (2,751)      |
| Balance as at April 30, 2012              | \$ 1,809 | \$ 21,424  | \$ 334,631   | \$ 113,784  | \$ 27,513   | \$ 499,161   |
| <b>Accumulated Depreciation</b>           |          |            |              |             |             |              |
|   | Land     | Buildings  | Drills       | Auto        | Other       | Total        |
| Balance as at May 1, 2010                 | \$ -     | \$ (2,363) | \$ (74,610)  | \$ (40,444) | \$ (16,780) | \$ (134,197) |
| Disposals                                 | -        | 194        | 3,917        | 3,934       | -           | 8,045        |
| Depreciation                              | -        | (668)      | (17,093)     | (11,125)    | (1,272)     | (30,158)     |
| Effect of exchange rate changes and other | -        | 46         | 3,365        | (460)       | 940         | 3,891        |
| Balance as at April 30, 2011              | -        | (2,791)    | (84,421)     | (48,095)    | (17,112)    | (152,419)    |
| Disposals                                 | -        | -          | 3,865        | 2,727       | 73          | 6,665        |
| Depreciation                              | -        | (957)      | (23,267)     | (13,658)    | (2,093)     | (39,975)     |
| Effect of exchange rate changes and other | -        | 35         | 3,246        | 1,728       | (270)       | 4,739        |
| Balance as at April 30, 2012              | \$ -     | \$ (3,713) | \$ (100,577) | \$ (57,298) | \$ (19,402) | \$ (180,990) |
| Net book value May 1, 2010                | \$ 1,542 | \$ 8,079   | \$ 145,141   | \$ 35,107   | \$ 9,066    | \$ 198,935   |
| Net book value April 30, 2011             | \$ 1,375 | \$ 8,410   | \$ 173,417   | \$ 43,882   | \$ 8,389    | \$ 235,473   |
| Net book value April 30, 2012             | \$ 1,809 | \$ 17,711  | \$ 234,054   | \$ 56,486   | \$ 8,111    | \$ 318,171   |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 8. PROPERTY, PLANT AND EQUIPMENT (continued)

There were no impairments recorded as at April 30, 2012, April 30, 2011 or May 1, 2010. The Company has assessed whether there is any indication that an impairment loss recognized in prior periods for property, plant and equipment may no longer exist or may have decreased. There were no impairments requiring reversal as at April 30, 2012, April 30, 2011 or May 1, 2010.

Capital expenditures were \$81,582 and \$62,621 respectively for the years ended April 30, 2012 and 2011. The Company obtained direct financing of \$453 and \$50 respectively for the years ended April 30, 2012 and 2011.

The carrying value of PP&E under finance leases for the year ended April 30, 2012 was \$251 (April 30, 2011 - \$1,889; May 1, 2010 - \$4,541).

## 9. GOODWILL

Changes in the goodwill balance were as follows:

|                                      |                  |
|--------------------------------------|------------------|
| Balance as at May 1, 2010            | \$ 26,475        |
| Goodwill on acquisition (Note 20)    | 1,083            |
| Effect of movement in exchange rates | 758              |
| <b>Balance as at April 30, 2011</b>  | <b>28,316</b>    |
| Goodwill on acquisition (Note 20)    | 26,857           |
| Effect of movement in exchange rates | (227)            |
| <b>Balance as at April 30, 2012</b>  | <b>\$ 54,946</b> |

### Goodwill acquired

Goodwill arose in the acquisition of Bradley Group Limited because total consideration exceeded the fair market value of the net assets acquired. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Bradley and Major. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

### Allocation of goodwill to CGUs

The carrying amount of goodwill was allocated to CGUs as follows:

|        | April 30<br>2012 | April 30<br>2011 | May 1<br>2010    |
|--------|------------------|------------------|------------------|
| Canada | \$ 38,056        | \$ 13,223        | \$ 13,223        |
| Chile  | 11,857           | 12,182           | 11,004           |
| Other  | 5,033            | 2,911            | 2,248            |
|        | <b>\$ 54,946</b> | <b>\$ 28,316</b> | <b>\$ 26,475</b> |

### Canada

The recoverable amount of the 'Canadian Branch' as a CGU is determined on a value-in-use calculation, which uses cash flow projections based on financial budgets and forward projections approved by management covering a five-year period, and a discount rate of 15% per annum. Cash flows beyond that period have been extrapolated using a steady 2% per annum growth rate. While the mining services market in Canada is cyclical in nature, this organic growth rate has been achieved across two business cycles and is seen by management as a fair and conservative long-term average growth rate. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

### Chile

The recoverable amount of the 'Chilean Branch' as a CGU is determined on a value-in-use calculation, which uses cash flow projections based on financial budgets and forward projections approved by management covering a five-year period, and a discount rate of 16% per annum. Cash flows beyond that period have been extrapolated using a steady 2% per annum growth rate. While the mining services market in Chile is cyclical in nature, this organic growth rate has been achieved across two business cycles and is seen by management as a fair and conservative long-term average growth rate. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

### Key assumptions

The key assumptions in the value-in-use calculations for the Canadian and Chilean CGUs are as follows:

**Revenue** - The values assigned to the assumptions reflect past experience, except for peak revenue that is reasonably expected to be higher than the last peak during 2008 and 2009. The effect of the incorporation of the acquired drill fleets and significant levels of capital expenditure within both the Canadian and Chilean CGUs since 2007 that have been higher than the sustaining level, have provided both CGUs with the basis on which to grow. The growth expected is consistent with management's plans for focusing operations in these markets and growing share in the specialized drilling market.

**Gross margin** - Management expects that gross margins will remain in a range in line with historically achieved levels.

Goodwill from the acquisition of Bradley Group Limited, as disclosed in Note 20, has not been allocated to a CGU for impairment testing purposes since the value is preliminary.



**10. INTANGIBLE ASSETS**

Changes in the intangible assets balance were as follows:

|  |                 |
|--|-----------------|
| <b>Balance as at May 1, 2010</b>           | <b>\$ 1,074</b> |
| Intangible assets on acquisition (Note 20) | 763             |
| Amortization                               | (761)           |
| Effect of movement in exchange rates       | 159             |
| <b>Balance as at April 30, 2011</b>        | <b>1,235</b>    |
| Intangible assets on acquisition (Note 20) | 7,666           |
| Amortization                               | (2,629)         |
| Effect of movement in exchange rates       | 23              |
| <b>Balance as at April 30, 2012</b>        | <b>\$ 6,295</b> |

**11. DEMAND CREDIT FACILITIES**

The Company has credit facilities available in Canada of \$25,000 bearing interest at the bank's prime lending rate plus 0.75% or the bankers' acceptance fee plus 2.25% for Canadian dollar draws and the bank's U.S. dollar base rate in Canada plus 0.75% or the bank's London interbank offer rate ("LIBOR") plus 2.25% for U.S. dollar draws. The demand credit facilities are primarily secured by corporate guarantees of companies within the group. The Company has a credit facility of \$3,800 for credit cards, with interest rates and repayments as per the cardholder agreement. As at April 30, 2012, the Company had utilized USD \$0.6 million (April 30, 2011 - USD \$8.0 million; May 1, 2010 - nil) of these lines for stand-by letters of credit.

The Company also has various credit facilities amounting to \$3,150 (April 30, 2011 - \$1,227; May 1, 2010 - \$1,585) bearing interest at rates ranging from 3.0% to 10.41% secured by corporate guarantees of companies within the group and selected buildings in Australia. As at April 30, 2012 there were stand-by letters of credit outstanding for \$1,991 (April 30, 2011 - \$812; May 1, 2010 - \$1,137) on these facilities.

**12. SHORT-TERM DEBT**

As at April 30, 2011, the Company had a 3,835 million Chilean pesos (CAD \$7,919) loan, secured by a USD \$8,000 stand-by letter of credit drawn from the Company's demand credit facility, carrying interest at an annual rate of 7.7%, which was reimbursed in April 2012.

**13. LONG-TERM DEBT**

|   | April 30<br>2012 | April 30<br>2011 | May 1<br>2010 |
|---|------------------|------------------|---------------|
| Revolving equipment and acquisition loan (authorized \$50,000), bearing interest at either the bank's prime rate plus 0.75% or the bankers' acceptance rate plus 2.25% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 0.75% or the bank's LIBOR plus 2.25% for U.S. dollar draws, interest only payments required until maturity, maturing in September 2016, secured by corporate guarantees of companies within the group. | \$ 11,224        | \$ 24,552        | \$ 20,576     |
| Non-revolving term loan, bearing interest at either the bank's prime rate plus 0.75% or the bankers' acceptance rate plus 2.25% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 0.75% or the bank's LIBOR plus 2.25% for U.S. dollar draws, payable in monthly installments of \$417, maturing in September 2016, secured by corporate guarantees of companies within the group.  | 22,083           | -                | -             |
| Term loan bearing interest at 5.9%, payable in monthly installments of \$84, unsecured, maturing in August 2021.  | 9,333            | -                | -             |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 13. LONG-TERM DEBT (continued)

|  | April 30<br>2012 | April 30<br>2011 | May 1<br>2010    |
|--|------------------|------------------|------------------|
| Term loans bearing interest at rates ranging from 0% to 6.99%, payable in monthly installments of \$25, secured by certain equipment, maturing through 2016.   | \$ 467           | \$ 480           | \$ 1,930         |
| Note payable bearing interest at 4%, repayable over three years, maturing in September 2014.   | 8,000            | -                | -                |
| Revolving/non-revolving term loans – A\$721, repaid during previous year.  | -                | -                | 672              |
| Note payable, repaid during previous year.   | -                | -                | 750              |
| Derivative financial instrument with a notional principal amount of \$22,083, swapping Canadian-Bankers' Acceptance - Canadian Dealer Offered Rate for an annual fixed rate of 3.665%, maturing in September 2016. | (121)            | -                | -                |
|  | 50,986           | 25,032           | 23,928           |
| Current portion  | 8,712            | 8,402            | 8,887            |
|  | <b>\$ 42,274</b> | <b>\$ 16,630</b> | <b>\$ 15,041</b> |

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

|      |                  |
|------|------------------|
| 2013 | \$ 8,712         |
| 2014 | 8,457            |
| 2015 | 9,087            |
| 2016 | 6,081            |
| 2017 | 14,311           |
| 2018 | 4,338            |
|      | <u>\$ 50,986</u> |

The Company hedges its exposure to floating rates under the non-revolving term loan via an interest rate swap, exchanging a variable rate interest payment for a fixed rate interest payment. The interest swap contract was entered into during the current year. As at April 30, 2012 the swap is deemed effective and is recognized as a cash flow hedge.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. The Company, at all times, was in compliance with all covenants and other conditions imposed by its debt agreements.

## 14. INCOME TAXES

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

|  | 2012             | 2011             |
|--|------------------|------------------|
| Earnings before income tax   | \$ 128,431       | \$ 41,262        |
| Income tax expense calculated at 29% (2011 - 30%)  | 37,245           | 12,379           |
| Effect of non-recognition of tax benefits related to losses                              | 185              | 555              |
| Effect of previously unrecognized tax losses   | (282)            | -                |
| Other foreign taxes paid   | 684              | 165              |
| Effect of rate variances in foreign jurisdictions  | (270)            | (1,234)          |
| Other  | 5,803            | 1,805            |
|  | 43,365           | 13,670           |
| Adjustments recognized in the current year in relation to the current tax in prior years | (4,683)          | -                |
| Income tax expense recognized in net earnings  | <b>\$ 38,682</b> | <b>\$ 13,670</b> |

The tax rate used for the 2012 and 2011 reconciliations above is the effective federal and provincial Canadian corporate tax rate of 29% in 2012 (30% in 2011).

14. INCOME TAXES (continued)

The movements of deferred income tax balances are as follows:

|  | April 30, 2011 | Tax provision | Equity   | Reclassified | April 30, 2012 |
|--|----------------|---------------|----------|--------------|----------------|
| Deferred tax assets related to non-capital losses                    | \$ 11,575      | \$ (9,904)    | \$ -     | \$ -         | \$ 1,671       |
| Deferred tax asset related to share issuance costs                   | -              | -             | 1,188    | -            | 1,188          |
| Deferred tax liabilities related to difference in tax and book basis | (17,993)       | (4,186)       | -        | (3,402)      | (25,581)       |
| Net deferred tax liabilities   | \$ (6,418)     | \$ (14,090)   | \$ 1,188 | \$ (3,402)   | \$ (22,722)    |

|  | May 1, 2010 | Tax provision | Equity | Reclassified | April 30, 2011 |
|--|-------------|---------------|--------|--------------|----------------|
| Deferred tax assets related to non-capital losses                    | \$ 9,379    | \$ 2,196      | \$ -   | \$ -         | \$ 11,575      |
| Deferred tax liabilities related to difference in tax and book basis | (15,985)    | (2,318)       | -      | 310          | (17,993)       |
| Net deferred tax liabilities   | \$ (6,606)  | \$ (122)      | \$ -   | \$ 310       | \$ (6,418)     |

Income tax recognized in net earnings:

|  | 2012      | 2011      |
|--|-----------|-----------|
| <b>Current tax</b>   |           |           |
| Current tax expense in respect of the current year                                       | \$ 29,275 | \$ 13,548 |
| Adjustments recognized in the current year in relation to the current tax of prior years | (4,683)   | -         |
| <b>Deferred tax</b>  |           |           |
| Deferred tax expense recognized in the current year                                      | 12,277    | 122       |
| Write-down of previously recorded tax assets   | 1,813     | -         |
| Income tax provision   | \$ 38,682 | \$ 13,670 |

The recognition and measurement of the current and deferred 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 deferred 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 elimination of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities no longer exist. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense will result.

The Company has accumulated approximately \$6,739 in non-capital losses, of which \$6,739 is available to reduce future income taxes otherwise payable in foreign jurisdictions. These losses, if unused, will expire as follows: 2020 - \$659; indefinite - \$6,080.

The Company has accumulated approximately \$5,093 (A\$4,967) of capital losses that are available to reduce income taxes otherwise payable on capital gains realized in Australia. The benefit of these losses has not been recognized in the financial statements.

The Company has approximately \$159 million of temporary differences associated with its investments in foreign subsidiaries for which no deferred taxes have been provided on the basis that the Company is able to control the timing of the reversal of such temporary differences and such reversal is not probable in the foreseeable future.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 14. INCOME TAXES (continued)

The Company periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters, where it is probable that an adjustment will be made, the Company recorded 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 statute of limitation lapses.

## 15. SHARE CAPITAL

On March 9, 2011, the Company announced a stock split for the issued and outstanding common shares on a three for one basis. The record date for the stock split was March 23, 2011. All share and stock option numbers have been retroactively adjusted to reflect the stock split to provide more comparable information.

On September 28, 2011, the Company issued a total of 5,900,000 Subscription Receipts at a price of \$11.90 per Subscription Receipt for aggregate gross proceeds of \$70,210. These Subscription Receipts were subsequently converted to 5,900,000 common shares in the Company upon the closing of the acquisition by the Company of Bradley Group Limited on September 30, 2011. The Company used the net proceeds of the offering to fund a portion of the purchase price in connection with the acquisition. On October 25, 2011, the Company issued a further 885,000 common shares for further aggregate gross proceeds of \$10,531 as a result of the exercise by the underwriters of an over allotment option

to purchase an additional 885,000 common shares of the Company for \$11.90 per share. The Company is using the net proceeds from the over allotment exercise for general corporate purposes.

### Authorized

Unlimited number of fully paid common shares, without nominal or par value, with each share carrying one vote and a right to dividends when declared.

The movement in the Company's issued and outstanding share capital during the period is as follows:

|                                   | Number of shares (000's) | Share capital |
|-----------------------------------|--------------------------|---------------|
| Balance as at May 1, 2010         | 71,243                   | \$ 144,919    |
| Exercise of stock options         | 797                      | 5,723         |
| Balance as at April 30, 2011      | 72,040                   | 150,642       |
| Exercise of stock options         | 322                      | 2,932         |
| Share issue (net of issue costs)* | 6,785                    | 77,189        |
| Balance as at April 30, 2012      | 79,147                   | \$ 230,763    |

\* share issue costs total \$3,552

### Stock option plan

The Company has a Stock Option Plan "the Plan" for Directors, officers and other employees of the Company and its subsidiaries. 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 up to 8.5% of the issued and outstanding shares at any time (representing up to 6,727,527 common shares as at April 30, 2012). As at April 30, 2012:

(i) 8,158,403 common shares had been issued upon the exercise of options granted under

the Plan (representing approximately 9.9% of the issued and outstanding common shares); (ii) 2,906,924 common shares were reserved for issuance in respect of outstanding options under the Plan (representing approximately 3.7% of the issued and outstanding common shares); and (iii) 3,820,603 common shares were available for issuance in respect of options that may be granted under the Plan (representing approximately 4.8% of the issued and outstanding common shares). The exercise price for an option issued under the Plan is determined by the Board and may not be less than the fair market value of the common shares on the grant date of the option, being the volume weighted average trading price of the common shares on the TSX for the last five trading days immediately preceding the date on which the option is granted rounded to the nearest cent or, if the shares did not trade during such five trading days, the simple average of the closing bid and ask prices of the shares on the TSX during such five trading days.

Options issued subsequent to September 2010 are exercisable for a maximum period of 8 years from the date of grant while previous grants are exercisable for a maximum period of 10 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, retires, dies or becomes disabled or there is a change of control of the Company. Options are not assignable. The Plan also provides that: (i) the total number of options to be granted to any one Participant under the Plan, together with any options or shares granted or issued under other Share Compensation Arrangement to such Participant shall not exceed 5% of the issued and outstanding Shares immediately after the grant of the option;

15. SHARE CAPITAL (continued)

(ii) the number of Shares issued to Insiders, under this Plan or any existing or proposed Share Compensation Arrangements, within a one-year period, may not exceed 10% of the issued and outstanding Shares on a non-diluted basis immediately prior to the share issuance in question; (iii) the number of Shares issuable to Insiders, under this Plan or any existing or proposed Share Compensation Arrangements, at any time, cannot exceed 10% of the issued and outstanding Shares on a non-diluted basis; (iv) the number of Shares issued to any one Insider and such Insider's associates, under this Plan or any existing or proposed Share Compensation Arrangements, within a one-year period, may not exceed 5% of the issued and outstanding Shares on a non-diluted basis immediately prior to the share issuance in question; and (v) the number of Shares issuable to non-employees, under this Plan or any existing or proposed Share Compensation Arrangements, at any time, cannot exceed 1.5% of the issued and outstanding Shares on a non-diluted basis.

**Stock options - employees and directors**

The Company has issued stock options under its Stock Option Plan. Issuance of options under the Plan is determined annually by the Company's Board of Directors. A summary of the status of the Company's Stock Option Plan, as at April 30, 2012 and April 30, 2011, and of changes during those periods, is presented below:

|                                  | April 30, 2012   |                                 | April 30, 2011   |                                 |
|----------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                                  | # of options     | Weighted average exercise price | # of options     | Weighted average exercise price |
| Outstanding at beginning of year | 2,779,928        | \$ 8.39                         | 2,858,889        | \$ 8.39                         |
| Options granted                  | 449,000          | 12.37                           | 888,000          | 8.53                            |
| Options expired                  | -                | -                               | (169,305)        | 11.84                           |
| Options exercised                | (322,004)        | 6.19                            | (797,656)        | 5.22                            |
| Outstanding at end of year       | <u>2,906,924</u> | <u>9.97</u>                     | <u>2,779,928</u> | <u>9.13</u>                     |

The following table summarizes information on stock options outstanding at April 30, 2012:

| Range of exercise prices | Outstanding as at April 30, 2012 | Weighted average remaining life (years) | Weighted average exercise price | Exercisable at April 30, 2012 | Weighted average exercise price |
|--------------------------|----------------------------------|---|---------------------------------|-------------------------------|---------------------------------|
| \$1.03 - \$9.16          | 1,645,721                        | 6.91                                    | \$ 7.57                         | 968,462                       | \$ 7.32                         |
| \$10.98 - \$19.72        | 1,261,203                        | 6.45                                    | 13.10                           | 767,201                       | 13.48                           |
|                          | <u>2,906,924</u>                 | <u>6.71</u>                             | <u>9.97</u>                     | <u>1,735,663</u>              | <u>10.04</u>                    |

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 15. SHARE CAPITAL (continued)

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

|   | April 30<br>2012 | April 30<br>2011 |
|---|------------------|------------------|
| Risk-free interest rate                                 | 1.44%            | 2.20%            |
| Expected life   | 5.77 years       | 4.5 years        |
| Expected volatility<br>(based on historical volatility) | 54.09%           | 57.10%           |
| Expected dividend yield                                 | 1.20%            | 1.43%            |

The weighted average grant date fair value of options granted during the year ended April 30, 2012 was \$5.43 (April 30, 2011 - \$3.57). For the year ended April 30, 2012, the amount of compensation cost recognized in earnings and credited to share-based payments reserve was \$2,426 (April 30, 2011 - \$2,602).

## Deferred share units

The Company has a Deferred Share Unit Plan (the "DSU Plan") for Directors and certain designated officers. Each deferred share unit ("DSU") represents the right to receive a cash payment, at such time as an outside Director or designated Officer ceases to be a Director or employee (respectively), equal to the market value of the Company's shares at the time of surrender. Under this plan, prior to the beginning of each fiscal year, Directors must elect the percentage of their total compensation as Directors that they wish to receive in DSUs in lieu of cash compensation. Designated Officers have the option to take a certain percentage of their annual bonus in DSUs.

The following table summarizes information on DSUs earned for the DSU Plan at April 30, 2012, and April 30, 2011:

|                                  | April 30, 2012<br>Number of units | April 30, 2011<br>Number of units |
|----------------------------------|-----------------------------------|-----------------------------------|
| Outstanding at beginning of year | 18,664                            | 39,174                            |
| DSUs issued during year          | 6,659                             | 3,964                             |
| DSUs redeemed during year        | -                                 | (24,474)                          |
| Outstanding at end of year       | 25,323                            | 18,664                            |

As at April 30, 2012 the total value of DSUs outstanding was \$343 (April 30, 2011 - \$276; May 1, 2010 - \$312).

## 16. EARNINGS PER SHARE

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

|   | 2012      | 2011      |
|---|-----------|-----------|
| Net earnings for the period                         | \$ 89,749 | \$ 27,592 |
| Weighted average shares outstanding - basic (000's) | 76,075    | 71,531    |
| <b>Net effect of dilutive securities:</b>           |           |           |
| Stock options                                       | 1,027     | 723       |
| Weighted average number of shares - diluted (000's) | 77,102    | 72,254    |
| <b>Earnings per share:</b>                          |           |           |
| Basic   | \$ 1.18   | \$ 0.39   |
| Diluted   | \$ 1.16   | \$ 0.38   |

The calculation of diluted earnings per share for the year ended April 30, 2012 and 2011 exclude the effect of 166,508 and 506,205 options, respectively, as they were anti-dilutive.

## 17. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments corresponding to its management structure, Canada - U.S., South and Central America, and Australia, Asia and Africa. The services provided in each of the reportable drilling segments are essentially the same. The accounting policies of the segments are the same as those described in Note 4. Management evaluates performance based on earnings from operations in these three geographic segments before finance costs and income tax. Data relating to each of the Company's reportable segments is presented as follows:

|  | 2012                  | 2011                  |                    |
|--|-----------------------|-----------------------|--------------------|
| <b>Revenue</b>   |                       |                       |                    |
| Canada - U.S.  | \$ 322,047            | \$ 181,280            |                    |
| South and Central America  | 251,833               | 169,381               |                    |
| Australia, Asia and Africa   | 223,552               | 131,615               |                    |
|  | <b>\$ 797,432</b>     | <b>\$ 482,276</b>     |                    |
| <b>Earnings from operations</b>  |                       |                       |                    |
| Canada - U.S.  | \$ 57,629             | \$ 21,567             |                    |
| South and Central America  | 55,790                | 20,188                |                    |
| Australia, Asia and Africa   | 36,365                | 14,716                |                    |
|  | <b>149,784</b>        | <b>56,471</b>         |                    |
| <b>Eliminations</b>  | <b>(939)</b>          | <b>(921)</b>          |                    |
|  | <b>148,845</b>        | <b>55,550</b>         |                    |
| <b>Finance costs</b>   | <b>3,367</b>          | <b>1,275</b>          |                    |
| <b>General corporate expenses *</b>  | <b>17,047</b>         | <b>13,013</b>         |                    |
| <b>Income tax</b>  | <b>38,682</b>         | <b>13,670</b>         |                    |
| <b>Net earnings</b>  | <b>\$ 89,749</b>      | <b>\$ 27,592</b>      |                    |
| <i>*General corporate expenses include expenses for corporate offices, stock options and certain unallocated costs</i> |                       |                       |                    |
| <b>Depreciation and amortization</b>   |                       |                       |                    |
| Canada - U.S.  | \$ 17,813             | \$ 10,195             |                    |
| South and Central America  | 9,877                 | 8,708                 |                    |
| Australia, Asia and Africa   | 11,672                | 10,593                |                    |
| <b>Unallocated and corporate assets</b>  | <b>3,242</b>          | <b>1,423</b>          |                    |
| <b>Total depreciation and amortization</b>   | <b>\$ 42,604</b>      | <b>\$ 30,919</b>      |                    |
|  | <b>April 30, 2012</b> | <b>April 30, 2011</b> | <b>May 1, 2010</b> |
| <b>Identifiable assets</b>   |                       |                       |                    |
| Canada - U.S.  | \$ 252,233            | \$ 134,666            | \$ 103,998         |
| South and Central America  | 212,861               | 189,083               | 157,937            |
| Australia, Asia and Africa   | 186,442               | 130,071               | 102,574            |
|  | <b>651,536</b>        | <b>453,820</b>        | <b>364,509</b>     |
| <b>Eliminations</b>  | <b>(573)</b>          | <b>439</b>            | <b>460</b>         |
| <b>Unallocated and corporate assets</b>  | <b>35,010</b>         | <b>19,878</b>         | <b>41,290</b>      |
| <b>Total identifiable assets</b>   | <b>\$ 685,973</b>     | <b>\$ 474,137</b>     | <b>\$ 406,259</b>  |

Canada - U.S. includes revenue in 2012 of \$195,006 (2011 - \$106,661) for Canadian operations and property, plant and equipment at April 30, 2012 of \$87,629 (April 30, 2011 - \$45,325; May 1, 2010 - \$42,019).

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 18. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital items

|                             | 2012               | 2011               |
|-----------------------------|--------------------|--------------------|
| Trade and other receivables | \$ (34,638)        | \$ (38,624)        |
| Inventories                 | (12,048)           | (6,174)            |
| Trade and other payables    | 10,818             | 25,756             |
| Other items                 | 3,081              | (3,511)            |
|                             | <u>\$ (32,787)</u> | <u>\$ (22,553)</u> |

## 19. NET EARNINGS FOR THE YEAR

Net earnings for the year have been arrived at after charging various employee benefit expenses as follows:

|   | 2012       | 2011       |
|---|------------|------------|
| <b>Direct costs:</b>                        |            |            |
| Salaries and wages                          | \$ 189,689 | \$ 119,467 |
| Other employee benefits                     | 35,841     | 24,095     |
| <b>General and administrative expenses:</b> |            |            |
| Salaries and wages                          | 24,795     | 17,147     |
| Other employee benefits                     | 3,917      | 3,027      |
| <b>Other expenses:</b>                      |            |            |
| Share-based payments                        | 559        | 383        |

Amortization expense for intangible assets has been included in the line item "Depreciation and amortization" in the Consolidated Statements of Operations with breakdown as follows:

|   | 2012             | 2011             |
|---|------------------|------------------|
| Depreciation of property, plant and equipment | \$ 39,975        | \$ 30,158        |
| Amortization of intangible assets             | 2,629            | 761              |
|   | <u>\$ 42,604</u> | <u>\$ 30,919</u> |

## 20. BUSINESS ACQUISITIONS

### Bradley Group Limited

Effective September 30, 2011, the Company acquired all the issued and outstanding shares of Bradley Group Limited ("Bradley"), which provides a unique opportunity to further the Company's corporate strategy of focusing on specialized drilling, expanding its geographic footprint in areas of high growth and of maintaining a balance in the mix of drilling services. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes the assets acquired (indicated below), contracts and personnel. The purchase price for the transaction was CAD \$78,060, including customary working capital adjustments and net of cash acquired, financed with cash and debt.

The Company is in the process of finalizing the valuation of assets. As at April 30, 2012, the values allocated to net tangible and intangible assets are preliminary and are subject to adjustments as additional information is obtained.

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

| Assets acquired                   |                         |
|-----------------------------------|-------------------------|
| Trade and other receivables (net) | \$ 23,978               |
| Inventories                       | 13,561                  |
| Prepaid expenses                  | 540                     |
| Property, plant and equipment     | 45,234                  |
| Deferred income tax assets        | 350                     |
| Goodwill (not tax deductible)     | 24,833                  |
| Intangible assets                 | 7,324                   |
| Trade and other payables          | (18,406)                |
| Income tax payable                | (1,751)                 |
| Short-term debt                   | (5,101)                 |
| Current portion of long-term debt | (113)                   |
| Long-term debt                    | (10,352)                |
| Deferred income tax liability     | (2,037)                 |
| <b>Total assets</b>               | <u><u>\$ 78,060</u></u> |
| <b>Consideration</b>              |                         |
| Cash                              | \$ 72,000               |
| Long-term debt (holdback)         | 8,000                   |
| Less: Cash acquired               | (1,940)                 |
|                                   | <u><u>\$ 78,060</u></u> |

The Company incurred acquisition-related costs of \$857 relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in the other expenses line of the Consolidated Statements of Operations.



20. BUSINESS ACQUISITIONS (continued)

As the Bradley operations have been integrated with existing operations, it is impracticable to estimate the revenue and net income attributed to the additional business generated by Bradley or of the combined entity for the year as though the acquisition date was May 1, 2011.

**Resource Drilling**

Effective March 24, 2011, the Company acquired the assets of Resource Drilling, which provides contract drilling services in Mozambique, where Major Drilling did not previously have a presence. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes drilling equipment, inventory, contracts and personnel. The purchase price for the transaction was USD \$9,563 (CAD \$9,345), including customary working capital adjustments, financed with cash.

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

|                               |                 |
|-------------------------------|-----------------|
| <b>Assets acquired</b>        |                 |
| Inventories                   | \$ 946          |
| Prepaid expenses              | 23              |
| Property, plant and equipment | 6,010           |
| Goodwill (not tax deductible) | 2,024           |
| Intangible assets             | 342             |
| <b>Total assets</b>           | <b>\$ 9,345</b> |
| <b>Consideration</b>          |                 |
| Cash                          | \$ 7,453        |
| Trade and other payables      | 1,892           |
|                               | <b>\$ 9,345</b> |

**North Star Drilling**

Effective June 30, 2010, the Company acquired the assets of North Star Drilling, which provides contract drilling services to the fresh water and geothermal markets in certain mid-western states in the US, and operates from its head office in Little Falls, Minnesota, as well as from satellite offices in Brainerd and Bemidji, Minnesota. The acquisition was accounted for using the acquisition method and the results of this operation were included in the statement of operations as of the closing date. The acquired business includes working capital, drilling equipment, contracts and personnel. The purchase price for the transaction, excluding contingent consideration, was USD \$2,449 (CAD \$2,567), including customary working capital adjustments of CAD \$215, financed with cash. The contingent consideration of USD \$750 to the purchase price is based on future earnings. The acquiree is expected to meet target earnings, with payments to be made over the next five years.

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

|  |                 |
|--|-----------------|
| <b>Assets acquired and liabilities assumed</b> |                 |
| Trade and other receivables (net)              | \$ 776          |
| Inventories                                    | 382             |
| Prepaid expenses                               | 18              |
| Property, plant and equipment                  | 1,078           |
| Goodwill (not tax deductible)                  | 1,083           |
| Intangible assets                              | 763             |
| Trade and other payables                       | (779)           |
| <b>Net assets</b>                              | <b>\$ 3,321</b> |
| <b>Consideration</b>                           |                 |
| Cash   | \$ 2,567        |
| Contingent consideration                       | 754             |
|  | <b>\$ 3,321</b> |

**21. NON-CASH TRANSACTIONS**

During the year, the Company entered into the following non-cash financing activities, which are not reflected in the Statements of Cash Flows:

- The Company issued a dividend during the year for \$7,123 that was unpaid as at April 30, 2012 (April 30, 2011 - \$5,283).
- The Company financed equipment purchases for \$453 (April 30, 2011 - \$50).

**22. CONTINGENCIES**

The Company is involved in various legal claims and legal notices arising in the ordinary course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution and the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, it is management's opinion that the ultimate disposition of these 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 when known.

**23. COMMITMENTS**

The Company has commitments with various suppliers for the purchase of drill rigs and drilling supplies totaling \$7,723 with delivery dates through August 2012.

The Company also has various commitments, primarily for rental of premises, with arms-length parties as follows: 2013 - \$1,857, 2014 - \$1,660, 2015 - \$1,107, 2016 - \$682, 2017 - \$647, thereafter \$10.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 24. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of Directors and other members of key management personnel during the year is as follows:

|                               | 2012            | 2011            |
|-------------------------------|-----------------|-----------------|
| Short-term benefits           | \$ 5,080        | \$ 3,030        |
| Post-employment benefits      | 85              | 58              |
| Other long-term benefits      | 187             | 151             |
| Termination benefits          | -               | -               |
| Share-based payments benefits | 1,899           | 2,470           |
|                               | <b>\$ 7,251</b> | <b>\$ 5,709</b> |

## 25. DIVIDENDS

The Company declared two dividends during the year, \$0.08 per common share paid on November 1, 2011 to shareholders of record as of October 10, 2011, and \$0.09 per common share to be paid on May 2, 2012 to shareholders of record as of April 6, 2012.

The Company declared two dividends during the previous year. The first dividend of \$0.07333 per common share was paid on November 1, 2010 to shareholders of record as of October 8, 2010. The second dividend of \$0.07333 per common share was paid on May 2, 2011 to shareholders of record as of April 8, 2011.

## 26. CAPITAL MANAGEMENT

The Company includes shareholders' equity (excluding foreign currency translation reserve), short and long-term borrowings and demand loan net of cash in the definition of capital.

Total managed capital was as follows:

|                              | April 30, 2012    | April 30, 2011    | May 1, 2010       |
|------------------------------|-------------------|-------------------|-------------------|
| Short-term debt              | \$ -              | \$ 7,919          | \$ -              |
| Long-term debt               | 50,986            | 25,032            | 23,928            |
| Share capital                | 230,763           | 150,642           | 144,919           |
| Share-based payments reserve | 11,797            | 10,280            | 9,236             |
| Retained earnings            | 246,809           | 170,425           | 153,358           |
| Cash                         | (37,237)          | (16,215)          | (30,232)          |
|                              | <b>\$ 503,118</b> | <b>\$ 348,083</b> | <b>\$ 301,209</b> |

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: (i) preserve access to capital markets; (ii) meet financial obligations; and (iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the year, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from 2011.

**27. FINANCIAL INSTRUMENTS**

**Risk management objectives**

The Company’s corporate treasury function monitors and manages the financial risks relating to the operations of the Company through analysis of the various exposures. When deemed appropriate, the Company uses financial instruments to hedge these risk exposures.

**Interest rate risk management**

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by use of interest rate swap contracts when deemed appropriate.

**Interest rate swap contract**

Under the interest rate swap contract, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. This contract enables the Company to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt held.

The following table details the notional principal amount and the remaining term of the interest rate swap contract outstanding at the reporting date.

| Remaining term | Notional principal amount | Fair value |
|----------------|---------------------------|------------|
| 53 months      | \$ 22,083                 | \$ 121     |

The interest rate swap settles on a monthly basis swapping Canadian-Bankers’ Acceptance-Canadian Dealer Offered Rate for an annual fixed rate of 3.665%.

As at April 30, 2012 there is \$121 recognized in other comprehensive income relating to the hedge (April 30, 2011 – nil; May 1, 2010 - nil).

**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 short and long-term debt and contingent considerations and 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.

|                           | April 30 2012 | April 30 2011 | May 1 2010 |
|---------------------------|---------------|---------------|------------|
| Short-term debt           | \$ -          | \$ 7,919      | \$ -       |
| Contingent considerations | 2,760         | 2,612         | 2,011      |
| Long-term debt            | 50,986        | 25,032        | 23,928     |

**Fair Value Hierarchy**

The Company has certain financial assets and liabilities that are held at fair value. Financial assets and financial liabilities are classified and disclosed in one of the following categories reflecting the significance of inputs used in making the fair value measurement:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

As at April 30, 2012, the interest rate swap is classified as a Level 2 financial instrument as the fair value is determined using valuation techniques that include inputs based on observable market data. There were no financial instruments carried at fair value as at April 30, 2011 or May 1, 2010. There were no transfers of amounts between Level 1, Level 2 and Level 3 financial instruments for the year ended April 30, 2012. Additionally, there are no financial instruments classified in Level 3.

**Credit risk**

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The maximum credit risk the Company was exposed to as at April 30, 2012 was \$159,770 (April 30, 2011 - \$100,300; May 1, 2010 - \$62,128), representing total trade and other receivables. The Company’s exposure and the credit ratings of its counterparties are continuously monitored.

As at April 30, 2012, 84.3% (April 30, 2011 - 84.8%; May 1, 2010 - 84.5%) of the Company’s trade receivables were aged as current and 1.5% (April 30, 2011 - 0.7%; May 1, 2010 - 2.7%) of the trade receivables were impaired.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2012 AND 2011 (in thousands of Canadian dollars, except per share information)

## 27. FINANCIAL INSTRUMENTS (continued)

The movement in the allowance for impairment of trade receivables during the period was as follows:

|  |                 |
|--|-----------------|
| Balance as at May 1, 2010                  | \$ 1,605        |
| Increase in impairment allowance           | 493             |
| Write-off charged against allowance        | (1,125)         |
| Foreign exchange translation differences   | 9               |
| <b>Balance as at April 30, 2011</b>        | <b>982</b>      |
| Increase in impairment allowance           | 2,149           |
| Write-off charged against allowance        | (518)           |
| Recovery of amounts previously written off | (406)           |
| Foreign exchange translation differences   | 29              |
| <b>Balance as at April 30, 2012</b>        | <b>\$ 2,236</b> |

### Interest rate risk

The demand credit facility and long-term debt of the Company bears a floating rate of interest, which exposes the Company to interest rate fluctuations.

As at April 30, 2012 the Company has estimated that a one percentage point increase in interest rates would cause an annual decrease in net income of approximately \$112 and a one percentage point decrease in interest rates would cause an annual increase in net income of \$112.

### Foreign currency risk

In order to reduce its exposure to foreign exchange risks associated with currencies of developing countries, where a substantial portion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where practical and legally permitted.

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, at the reporting date is USD \$45,555 as of April 30, 2012.

If the Canadian dollar moved by plus or minus 10% at April 30, 2012, the unrealized foreign exchange gain or loss recognized in net earnings would move by approximately \$4,556.

### Liquidity risk

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Note 11 sets out details of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

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

|  | 1 year            | 2-3 years        | 4-5 years        | thereafter      | Total             |
|--|-------------------|------------------|------------------|-----------------|-------------------|
| <b>Non-derivative financial liabilities:</b> |                   |                  |                  |                 |                   |
| Trade and other payables                     | \$ 115,805        | \$ -             | \$ -             | \$ -            | \$ 115,805        |
| Contingent considerations                    | 522               | 1,004            | 1,004            | 230             | 2,760             |
| Long-term debt                               | 8,700             | 17,636           | 20,433           | 4,338           | 51,107            |
|  | <b>\$ 125,027</b> | <b>\$ 18,640</b> | <b>\$ 21,437</b> | <b>\$ 4,568</b> | <b>\$ 169,672</b> |
|  |                   |                  |                  |                 |                   |
|  | 1 year            | 2-3 years        | 4-5 years        | thereafter      | Total             |
| <b>Derivative financial liabilities:</b>     |                   |                  |                  |                 |                   |
| Interest rate swap                           | \$ 12             | \$ (92)          | \$ (41)          | \$ -            | \$ (121)          |

# Historical Summary

**MAJOR**
*Partners on the Ground*
*(in millions of Canadian dollars,  
except per share information)*

|  | 2012<br>restated for IFRS | 2011<br>restated for IFRS | 2010   | 2009   | 2008   | 2007   | 2006<br>reclassified | 2005<br>reclassified | 2004<br>reclassified |
|--|---------------------------|---------------------------|--------|--------|--------|--------|----------------------|----------------------|----------------------|
| <b>OPERATING SUMMARY</b>                                 |                           |                           |        |        |        |        |                      |                      |                      |
| Revenue by region  |                           |                           |        |        |        |        |                      |                      |                      |
| Canada-U.S.  | \$ 322                    | \$ 181                    | \$ 103 | \$ 167 | \$ 189 | \$ 151 | \$ 119               | \$ 82                | \$ 61                |
| South and Central America                                | 252                       | 169                       | 108    | 155    | 186    | 127    | 81                   | 62                   | 33                   |
| Australia, Asia and Africa                               | 223                       | 132                       | 97     | 201    | 215    | 137    | 116                  | 102                  | 82                   |
|  | 797                       | 482                       | 308    | 523    | 590    | 415    | 316                  | 246                  | 176                  |
| Gross profit   | 251                       | 120                       | 74     | 176    | 195    | 133    | 90                   | 66                   | 41                   |
| as a percentage of revenue                               | 31.5%                     | 25.0%                     | 24.2%  | 33.6%  | 33.1%  | 32.0%  | 28.6%                | 26.9%                | 23.2%                |
| General and administrative expenses                      | 58                        | 41                        | 33     | 47     | 45     | 34     | 29                   | 25                   | 22                   |
| as a percentage of revenue                               | 7.3%                      | 8.5%                      | 10.7%  | 9.0%   | 7.6%   | 8.1%   | 9.0%                 | 10.2%                | 12.5%                |
| Earnings from continuing operations                      | 90                        | 28                        | -      | 46     | 75     | 47     | 25                   | 15                   | 2                    |
| Net earnings   | 90                        | 28                        | -      | 46     | 74     | 59     | 29                   | 16                   | 5                    |
| Cashflow (1)   | 178                       | 76                        | 31     | 88     | 109    | 76     | 47                   | 29                   | 10                   |
| Earnings (loss) per share from continuing operations (2) |                           |                           |        |        |        |        |                      |                      |                      |
| Basic  | 1.18                      | 0.39                      | (0.01) | 0.65   | 1.05   | 0.67   | 0.37                 | 0.22                 | 0.04                 |
| Diluted  | 1.16                      | 0.38                      | (0.01) | 0.64   | 1.04   | 0.66   | 0.36                 | 0.22                 | 0.04                 |
| Earnings (loss) per share (2)                            |                           |                           |        |        |        |        |                      |                      |                      |
| Basic  | 1.18                      | 0.39                      | (0.01) | 0.65   | 1.05   | 0.85   | 0.42                 | 0.24                 | 0.08                 |
| Diluted  | 1.16                      | 0.38                      | (0.01) | 0.64   | 1.03   | 0.83   | 0.41                 | 0.23                 | 0.08                 |
| EBITDA (3)   | 174                       | 73                        | 33     | 105    | 135    | 89     | 55                   | 37                   | 17                   |
| per share (2)  | 2.26                      | 1.02                      | 0.47   | 1.48   | 1.91   | 1.28   | 0.81                 | 0.56                 | 0.28                 |
| Total net debt (net of cash)                             | 14                        | 17                        | (6)    | (19)   | 22     | 7      | 40                   | 57                   | 33                   |
| <b>BALANCE SHEET SUMMARY</b>                             |                           |                           |        |        |        |        |                      |                      |                      |
| Cash, net of demand loans                                | 37                        | 16                        | 30     | 58     | 19     | 25     | (5)                  | (11)                 | (7)                  |
| Property, plant and equipment                            | 318                       | 235                       | 211    | 240    | 199    | 159    | 118                  | 119                  | 99                   |
| Debt   | 51                        | 33                        | 24     | 39     | 40     | 32     | 35                   | 46                   | 25                   |
| Shareholders' equity                                     | 488                       | 328                       | 318    | 365    | 288    | 221    | 158                  | 142                  | 124                  |

(1) from continuing operations before changes in non-cash working capital items

(2) all amounts restated to reflect stock split

(3) Non-GAAP measure: Earnings before interest, income taxes, depreciation, amortization. (2010 includes \$1.2 million in restructuring charges and \$1.5 million of goodwill and intangible assets impairment - 2009 - \$9.0 million and \$0.7 million respectively)

# Shareholder Information

## **DIRECTORS**

**David Tennant (Chairman)**

**Edward Breiner**

**Jean Desrosiers**

**Fred Dymont**

**David Fennell**

**Francis McGuire**

**Catherine McLeod-Seltzer**

**Janice Rennie**

**Jo Mark Zurel**

## **OFFICERS**

**Francis McGuire**

President and Chief Executive Officer

**Denis Larocque**

Chief Financial Officer

**James Gibson**

VP Legal Affairs, General Counsel and  
Corporate Secretary

**David Balsler**

Vice President, Finance

**Denis Despres**

Vice President, North American Operations

**Kelly Johnson**

Vice President, Latin American Operations

**Robert Newburn**

Executive Vice President, Australian, Asian and  
African Operations

## **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:

TMX Broadcast Centre, Gallery

The Exchange Tower

130 King Street West

Toronto, ON Canada

September 18, 2012 at 10:00 am Eastern

# Worldwide Operations of Major Drilling Group International Inc.



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To find out more about  
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$$V=QR^2$$

Value = Quality, Relationships, Results

***MAJOR***

*Partners on the Ground*