MAJOR

Partners on the Ground

Management's Discussion and Analysis

First Quarter Fiscal 2014

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 2014

This Management's Discussion and Analysis ("MD&A") relates to the results of operations, financial condition and cash flows of Major Drilling Group International Inc. ("Major Drilling" or the "Company") as at and for the three-month period ended July 31, 2013. All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These quarterly unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A is a review of activities and results for the quarter ended July 31, 2013 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited interim condensed consolidated financial statements as at and for the three months ended July 31, 2013, and also in conjunction with the audited consolidated financial statements and Management's Discussion and Analysis contained in the Company's annual report for the fiscal year ended April 30, 2013.

This MD&A is dated August 30, 2013. Disclosure contained in this document is current to that date, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

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

Such forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to: cyclical downturn, competitive pressures, dealing with business and political systems in a variety of jurisdictions, repatriation of property in other jurisdictions, payment of taxes in various jurisdictions, exposure to currency movements, inadequate or failed internal processes, people or systems or from external events, dependence on key customers, safety performance, expansion and acquisition strategy, legal and regulatory risk, corruption, bribery and fraud by employees or agents, extreme weather conditions and the impact of natural or other disasters, specialized skills and cost of labour increases, equipment and parts availability and reputational risk. These factors and other risk factors, as described under "General Risks and Uncertainties" 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 most recently completed financial year, can be found on the SEDAR website at 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, 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 underground 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.

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.

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

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

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

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

Most senior and intermediate mining companies remain committed to the large majority of their projects in order to replace their reserves. For the most part, these mining companies are in a much better financial position than three years ago, during the financial crisis. Large base metal producers will need to expand existing mines and develop new ones to meet the world's growth, especially in emerging markets. Activity from senior gold producers is likely to show greater volatility as gold prices vary, which will impact their exploration budgets.

With the current volatility in the financial markets, many junior mining companies are experiencing financing difficulties and slowing down their exploration efforts. Junior mining companies can account for some 50% of the market in cyclical upturns. While some of the more advanced projects are expected to be able to obtain financing as needed, it will be necessary for investors to once again support exploration projects in order for drilling activities to regain the momentum that they had at their peak.

OVERALL PERFORMANCE

With the uncertainty around economic matters impacting the mining market, the Company continued to see some customers delaying or cancelling their exploration drilling plans. In a number of jurisdictions, uncertainty as to the policies of host governments or issues of land tenure also continues to have an impact on activity levels. These factors, combined with the fact that sources of funding for junior mining companies remain limited, have led to decreased activity in all regions and as a result revenue decreased by 54% during the quarter to $108.2 million.

The overall gross margin percentage for the quarter was 32.5%, down from 34.2% for the same period last year, but still a historically strong margin. Reduced pricing due to increased competitive pressures and delays impacted margins, however the Company has been able to recapture some of this loss through productivity gains and cost cutting.

The Company recorded a restructuring charge of $2.0 million consisting primarily of retrenchment costs following additional staff reduction initiatives implemented during the quarter across the Company.

Net earnings (including restructuring charge) were $1.5 million or $0.02 per share for the quarter, compared to net earnings of $31.9 million or $0.40 per share for the prior year quarter.

Given the Company's financial strength, the Board of Directors has declared a semi-annual dividend of $0.10 per common share, which will be paid on November 1, 2013 to shareholders of record as of October 10, 2013. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

RESULTS OF OPERATIONS – FIRST QUARTER ENDED JULY 31, 2013

Total revenue for the quarter was $108.2 million, down 54% from the record revenue of $237.6 million recorded in the same quarter last year. Uncertainty around economic matters impacting the mining market caused some customers to delay or cancel their exploration drilling plans, which impacted the quarter's results compared to last year. In a number of jurisdictions, uncertainty as to the policies of host governments or issues of land tenure also had an impact on quarter results. Also, many junior customers have scaled back or suspended drilling activities as compared to last year.

Revenue for the quarter from Canada-U.S. drilling operations decreased by 53% to $53.4 million compared to the same period last year. Although Canadian revenue was down 43% compared to the same quarter last year, U.S. operations were more affected, in part due to the scale down of its environmental division.

South and Central American revenue was down 69% to $21.7 million for the quarter, compared to the same quarter last year. All of the countries in this region, particularly Mexico, Chile and Argentina, were affected by a reduction in work by juniors and the cancellation or reduction of projects. Additionally, in Colombia, geopolitical factors have slowed exploration efforts of many mining companies.

Australian, Asian and African operations reported revenue of $33.1 million, down 40% from the same period last year. Three main factors affected the region's revenue: 1) Australia, where projects have been cancelled due to high costs being incurred by mining companies and new mining taxes, 2) Mongolia, which is affected by political uncertainty around mining laws, and 3) Tanzania, where the Company is closing its operations.

The overall gross margin percentage for the quarter was 32.5%, down from 34.2% for the same period last year, but still a historically strong margin. Reduced pricing due to increased competitive pressures and delays impacted margins, however the Company has been able to recapture some of this loss through productivity gains and cost cutting.

General and administrative costs were down 25% from last year at $13.0 million for the quarter compared to $17.3 million in the same period last year. With the decrease in activity, the Company has reduced its general and administrative costs by implementing reductions of salaried employees, restructuring certain branches, and reducing management salaries.

Other expenses for the quarter were $1.1 million, down from $5.3 million in the same quarter last year, due primarily to lower incentive compensation expenses given the Company's decreased profitability.

During the quarter, the Company incurred a loss on exchange of $1.2 million compared to a gain on exchange of $1.4 million last year. This year's loss on exchange was primarily due to monetary items in Chile, Australia and Argentina where currencies had significant variances during the quarter.

The Company recorded a restructuring charge of $2.0 million consisting primarily of retrenchment costs following additional staff reduction initiatives implemented during the quarter across the Company.

Net earnings (including restructuring charge) were $1.5 million or $0.02 per share for the quarter, compared to net earnings of $31.9 million or $0.40 per share for the same quarter last year.

SUMMARY OF QUARTERLY RESULTS

(in $000 CAD, except per share)	Fiscal 2012			Fiscal 2013				Fiscal 2014
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	$ 213,854	$ 182,188	$ 237,238	$ 237,565	$ 199,637	$ 123,189	$ 135,537	$ 108,211
Gross profit	74,055	47,120	78,452	81,278	66,699	29,275	43,087	35,122
Gross margin	34.6%	25.9%	33.1%	34.2%	33.4%	23.8%	31.8%	32.5%
Net earnings	31,560	9,566	30,731	31,875	22,349	(4,288)	2,174	1,522
Per share - basic	0.43	0.12	0.39	0.40	0.28	(0.05)	0.03	0.02
Per share - diluted	0.42	0.12	0.38	0.40	0.28	(0.05)	0.03	0.02

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

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations (before changes in non-cash operating working capital items, interest and income taxes) was $18.9 million for the quarter compared to $60.8 million generated in the same period last year.

The change in non-cash operating working capital items was an outflow of $9.6 million for the quarter compared to an outflow of $19.7 million for the same period last year. The outflow in non-cash operating working capital in the quarter ended July 31, 2013 was primarily impacted by:

- A decrease in accounts payable of $22.2 million, including a $6.4 million employee profit-share payment made in July;
- A decrease in accounts receivable of $13.1 million;
- A decrease in inventory of $3.8 million; and
- An increase in prepaid expenses of $4.3 million.

Financing Activities

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

<u>Operating Credit Facilities</u>

The credit facilities related to operations total $28.3 million ($25.0 million from a Canadian chartered bank and $3.3 million in various credit facilities) and are primarily secured by corporate guarantees of companies within the group. At July 31, 2013, the Company had utilized $2.0 million of these lines mostly for stand-by letters of credit. The Company also has a credit facility of $4.0 million for credit cards for which interest rate and repayment are as per cardholder agreements.

<u>Long-Term Debt</u>

Total long-term debt decreased by $13.1 million during the quarter to $30.6 million at July 31, 2013. Debt repayments were $13.1 million during the quarter.

As of July 31, 2013, the Company had the following long-term debt facilities:

- $15.8 million non-revolving facility for financing the acquisition of Bradley Group. 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 July 31, 2013, this line had not been utilized.

- $8.1 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.

- $5.3 million note payable, carrying interest at a fixed rate of 4% repayable over the next two years ending in September 2014.

- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled $1.4 million at July 31, 2013, which were fully drawn and mature through 2017.

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 July 31, 2013, the Company had unused borrowing capacity under its credit facilities of $76.3 million and cash of $61.1 million, for a total of $137.4 million in available funds.

Investing Activities

Capital expenditures were $5.2 million for the quarter ended July 31, 2013 compared to $23.4 million for the same period last year.

During the quarter, the Company added three drill rigs through its capital expenditure program while retiring or disposing of seven drill rigs through its modernization program. This brings the total drill rig count to 736 at quarter-end. The disposal of equipment generated proceeds of $1.8 million during the quarter compared to $0.3 million for the same period last year.

OUTLOOK

The current economic environment will continue to significantly impact drilling in the short to medium-term, particularly on gold projects where the Company has a significant presence. Also, lower levels of demand have increased competitive pressures, which will impact pricing going forward. With the number of projects being either delayed or cancelled around the world, the Company believes that in the medium-term, most commodities could face an imbalance between supply and demand, and that the need to develop resources in areas that are increasingly difficult to access will increase, which should increase demand for specialized drilling.

Lower levels of demand have significantly increased competitive pressures and will likely continue to have an impact for the remainder of calendar 2013. Despite lower pricing levels, the Company maintained good margin performance thanks to the improved productivity of its crews and to the cost-cutting measures that have been implemented. However, going forward, further reductions in pricing will be more difficult to offset by gains in productivity.

The Company continues to have a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue and a large part of the Company’s other expenses relates to variable incentive compensation based on the Company’s profitability. At the same time, the Company’s financial strength allows it to continue to invest in safety, to maintain its equipment in excellent condition, and to retain skilled employees, all of which are essential to react quickly when the industry recovers.

Despite the difficult environment, the Company expects operations to generate positive cash flow in fiscal 2014. Major Drilling remains debt free, net of cash, with a net cash position of $30.5 million at the end of the quarter.

FOREIGN EXCHANGE

Year-over-year revenue comparisons can be affected by the variations of the Canadian dollar against the U.S. dollar and other functional reporting currencies. The impact of foreign exchange translation for the quarter was negligible on both revenue and net earnings.

COMPREHENSIVE EARNINGS

The consolidated statements of comprehensive earnings for the quarter include $5.0 million in unrealized losses on translating the financial statements of the Company’s foreign operations compared to a gain of $7.7 million for the same period last year. The change relates to translating the net assets of the Company’s foreign operations, which have a functional currency other than the Canadian dollar, to the Company’s Canadian dollar currency presentation.

GENERAL RISKS AND UNCERTAINTIES

A complete discussion of general risks and uncertainties may be found in the Company’s Annual Information Form for the fiscal year ended April 30, 2013, which can be found on the SEDAR website at www.sedar.com. The Company is not aware of any significant changes to risk factors from those disclosed at that time.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2013, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's disclosure and internal controls over financial reporting during the period beginning on May 1, 2013 and ended on July 31, 2013 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

OUTSTANDING SHARE DATA

As of August 30, 2013, there were 79,161,378 common shares issued and outstanding in the Company. This is the same number as reported in our annual MD&A (reported as of June 8, 2013).

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.