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

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

| | Three months ended July 31 (unaudited) | |
|---|---|---|
| | **2014** | 2013 |
| **TOTAL REVENUE** | **$ 67,551** | $ 108,211 |
| **DIRECT COSTS** | **50,884** | 73,089 |
| **GROSS PROFIT** | **16,667** | 35,122 |
| **OPERATING EXPENSES** | | |
| General and administrative | **10,979** | 13,047 |
| Other expenses | **871** | 1,065 |
| (Gain) loss on disposal of property, plant and equipment | **(15)** | 170 |
| Foreign exchange loss | **73** | 1,224 |
| Finance costs | **204** | 314 |
| Depreciation of property, plant and equipment | **13,353** | 13,175 |
| Amortization of intangible assets | **321** | 342 |
| Restructuring charge | **591** | 2,034 |
| | **26,377** | 31,371 |
| **(LOSS) EARNINGS BEFORE INCOME TAX** | **(9,710)** | 3,751 |
| **INCOME TAX - PROVISION (RECOVERY) (note 7)** | | |
| Current | **328** | 3,791 |
| Deferred | **(2,707)** | (1,562) |
| | **(2,379)** | 2,229 |
| **NET (LOSS) EARNINGS** | **$ (7,331)** | $ 1,522 |
| **(LOSS) EARNINGS PER SHARE (note 8)** | | |
| **Basic** | **$ (0.09)** | $ 0.02 |
| **Diluted** | **$ (0.09)** | $ 0.02 |

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Comprehensive (Loss) Earnings
**(in thousands of Canadian dollars)**

| | Three months ended July 31 (unaudited) | |
|---|---|---|
| | **2014** | 2013 |
| **NET (LOSS) EARNINGS** | **$ (7,331)** | $ 1,522 |
| **OTHER COMPREHENSIVE LOSS** | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Unrealized loss on foreign currency translations (net of tax) | **(2,500)** | (5,097) |
| **COMPREHENSIVE LOSS** | **$ (9,831)** | $ (3,575) |

# Major Drilling Group International Inc.
## Interim Condensed Consolidated Statements of Changes in Equity
**For the three months ended July 31, 2013 and 2014**
**(in thousands of Canadian dollars)**
**(unaudited)**

| | Share capital | Share-based payments reserve | Retained earnings | Foreign currency translation reserve | Total |
|---|---|---|---|---|---|
| **BALANCE AS AT MAY 1, 2013** | $ 230,985 | $ 14,204 | $ 283,088 | $ 10,052 | $ 538,329 |
| Share-based payments reserve | - | 530 | - | - | 530 |
| | 230,985 | 14,734 | 283,088 | 10,052 | 538,859 |
| **Comprehensive loss:** | | | | | |
| Net earnings | - | - | 1,522 | - | 1,522 |
| Unrealized loss on foreign currency translations | - | - | - | (5,097) | (5,097) |
| Total comprehensive loss | - | - | 1,522 | (5,097) | (3,575) |
| **BALANCE AS AT JULY 31, 2013** | $ 230,985 | $ 14,734 | $ 284,610 | $ 4,955 | $ 535,284 |
| **BALANCE AS AT MAY 1, 2014** | **$ 230,985** | **$ 15,937** | **$ 211,945** | **$ 25,480** | **$ 484,347** |
| Exercise of stock options | **12** | **(3)** | **-** | **-** | **9** |
| Share-based payments reserve | **-** | **355** | **-** | **-** | **355** |
| | **230,997** | **16,289** | **211,945** | **25,480** | **484,711** |
| **Comprehensive loss:** | | | | | |
| Net loss | **-** | **-** | **(7,331)** | **-** | **(7,331)** |
| Unrealized loss on foreign currency translations | **-** | **-** | **-** | **(2,500)** | **(2,500)** |
| Total comprehensive loss | **-** | **-** | **(7,331)** | **(2,500)** | **(9,831)** |
| **BALANCE AS AT JULY 31, 2014** | **$ 230,997** | **$ 16,289** | **$ 204,614** | **$ 22,980** | **$ 474,880** |

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

**(in thousands of Canadian dollars)**

| | Three months ended July 31 (unaudited) | |
|---|---|---|
| | **2014** | 2013 |
| **OPERATING ACTIVITIES** | | |
| (Loss) earnings before income tax | **$ (9,710)** | $ 3,751 |
| Operating items not involving cash | | |
| Depreciation and amortization | **13,674** | 13,517 |
| (Gain) loss on disposal of property, plant and equipment | **(15)** | 170 |
| Share-based payments reserve | **355** | 530 |
| Restructuring charge | **-** | 665 |
| Finance costs recognized in (loss) earnings before income tax | **204** | 314 |
| | **4,508** | 18,947 |
| Changes in non-cash operating working capital items | **(1,195)** | (9,576) |
| Finance costs paid | **(201)** | (310) |
| Income taxes paid | **(2,200)** | (6,351) |
| Cash flow from operating activities | **912** | 2,710 |
| **FINANCING ACTIVITIES** | | |
| Repayment of demand loan | **(3,354)** | - |
| Repayment of long-term debt | **(1,739)** | (13,066) |
| Issuance of common shares | **9** | - |
| Dividends paid | **(7,916)** | (7,916) |
| Cash flow used in financing activities | **(13,000)** | (20,982) |
| **INVESTING ACTIVITIES** | | |
| Payment of consideration for previous business acquisition | **-** | (205) |
| Acquisition of property, plant and equipment (note 6) | **(7,145)** | (5,204) |
| Proceeds from disposal of property, plant and equipment | **10,634** | 1,816 |
| Cash flow from (used in) investing activities | **3,489** | (3,593) |
| Effect of exchange rate changes | **(170)** | 613 |
| **DECREASE IN CASH** | **(8,769)** | (21,252) |
| **CASH, BEGINNING OF THE PERIOD** | **74,244** | 82,311 |
| **CASH, END OF THE PERIOD** | **$ 65,475** | $ 61,059 |

# Major Drilling Group International Inc.
# Interim Condensed Consolidated Balance Sheets
**As at July 31, 2014 and April 30, 2014**
**(in thousands of Canadian dollars)**
**(unaudited)**

| | July 31, 2014 | April 30, 2014 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 65,475 | $ 74,244 |
| Trade and other receivables | 58,207 | 66,211 |
| Income tax receivable | 11,613 | 12,179 |
| Inventories | 79,979 | 81,308 |
| Prepaid expenses | 5,892 | 4,690 |
| | 221,166 | 238,632 |
| **PROPERTY, PLANT AND EQUIPMENT** | 288,944 | 307,288 |
| **DEFERRED INCOME TAX ASSETS** | 6,491 | 5,825 |
| **GOODWILL** | 38,056 | 38,056 |
| **INTANGIBLE ASSETS** | 1,603 | 1,923 |
| | $ 556,260 | $ 591,724 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Demand loan | $ 535 | $ 3,909 |
| Trade and other payables | 35,883 | 52,155 |
| Income tax payable | 972 | 3,416 |
| Current portion of long-term debt | 9,294 | 9,655 |
| | 46,684 | 69,135 |
| **LONG-TERM DEBT** | 12,811 | 14,187 |
| **DEFERRED INCOME TAX LIABILITIES** | 21,885 | 24,055 |
| | 81,380 | 107,377 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 230,997 | 230,985 |
| Share-based payments reserve | 16,289 | 15,937 |
| Retained earnings | 204,614 | 211,945 |
| Foreign currency translation reserve | 22,980 | 25,480 |
| | 474,880 | 484,347 |
| | $ 556,260 | $ 591,724 |

## 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 has operations in Canada, the United States, Mexico, South America, Asia and Africa.

## 2. BASIS OF PRESENTATION

***Statement of compliance***
These Interim Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies as outlined in the Company's annual Consolidated Financial Statements for the year ended April 30, 2014.

On August 29, 2014 the Board of Directors authorized the financial statements for issue.

***Basis of consolidation***
These Interim Condensed Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved when the Company is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the period are included in the Consolidated Statements of Operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Intra-group transactions, balances, income and expenses are eliminated on consolidation, where appropriate.

***Basis of preparation***
These Interim Condensed Consolidated Financial Statements have been prepared based on the historical cost basis except for certain financial instruments that are measured at fair value, using the same accounting policies and methods of computation as presented in the Company's annual Consolidated Financial Statements for the year ended April 30, 2014, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which were applicable for fiscal years beginning on or after January 1, 2014.

## 3. APPLICATION OF NEW AND REVISED IFRS

The following IASB standards, now in effect, have had no significant impact on the Company's Consolidated Financial Statements:

IAS 32 *(amended) Financial Instruments: Presentation*
IAS 36 *(amended) Impairment of Assets*
IAS 39 *(amended) Financial Instruments: Recognition and Measurement*
IFRIC 21 *Levies*

The Company has not applied the following revised IASB standards that have been issued, but are not yet effective:

IFRS 9 *(as amended in 2010) Financial Instruments*
IFRS 11 *(amended) Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
IFRS 15 *Revenue from Contracts with Customers*
IAS 16 *(amended) Property, Plant and Equipment*
IAS 38 *(amended) Intangible Assets*

The Company is currently in the process of assessing the impact of the adoption of these standards on the Consolidated Financial Statements.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment for 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.

The Company applied judgment in determining the functional currency of the Company and its subsidiaries, the determination of cash generating units ("CGUs"), the degree of componentization of property, plant and equipment, and the recognition of provisions and accrued liabilities.

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

## 5. SEASONALITY OF OPERATIONS

The third quarter (November to January) is normally the Company's weakest quarter due to the shutdown of mining and exploration activities, often for extended periods over the holiday season, particularly in South and Central America.

## 6. PROPERTY PLANT & EQUIPMENT

Capital expenditures for the three months ended July 31, 2014 were $7,145 (2013 - $5,204). The Company did not obtain direct financing in either quarter.

## 7. INCOME TAXES

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

| | **Q1 2015** | Q1 2014 |
|---|---|---|
| (Loss) earnings before income tax | **$ (9,710)** | $ 3,751 |
| Statutory Canadian corporate income tax rate | **27%** | 28% |
| Expected income tax expense based on statutory rate | **$ (2,622)** | $ 1,050 |
| Non-recognition of tax benefits related to losses | **750** | 76 |
| Other foreign taxes paid | **94** | 125 |
| Rate variances in foreign jurisdictions | **(257)** | 454 |
| Other | **(344)** | 524 |
| | **$ (2,379)** | $ 2,229 |

The Company periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Company records its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. While management believes they have adequately provided for the probable outcome of these matters, future results may include favorable or unfavorable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the statutes of limitations lapse.

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

## 8. (LOSS) EARNINGS PER SHARE

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

| | Q1 2015 | Q1 2014 |
|---|---|---|
| Net (loss) earnings for the period | **$ (7,331)** | $ 1,522 |
| Weighted average common shares outstanding – basic (000's) | **79,162** | 79,161 |
| **Net effect of dilutive securities:** | | |
| Stock options (000's) | **-** | 31 |
| Weighted average common shares – diluted (000's) | **79,162** | 79,192 |
| **(Loss) earnings per share:** | | |
| Basic | **$ (0.09)** | $ 0.02 |
| Diluted | **$ (0.09)** | $ 0.02 |

The calculation of the diluted (loss) earnings per share for the three months ended July 31, 2014 excludes the effect of 1,956,271 options (2013 - 2,815,212) as they were anti-dilutive.

The total number of shares outstanding on July 31, 2014 was 79,163,388 (2013 – 79,161,378).

## 9. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments corresponding to its management structure, Canada - U.S., South and Central America, and Australia, Asia and Africa. The services provided in each of the reportable segments are essentially the same. The accounting policies of the segments are the same as those described in the Company's annual Consolidated Financial Statements for the year ended April 30, 2014. Management evaluates performance based on (loss) earnings from operations in these three geographic segments before finance costs, general corporate expenses and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

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

## 9. SEGMENTED INFORMATION (Continued)

| | Q1 2015 | Q1 2014 |
|---|---|---|
| Revenue | | |
| Canada – U.S. | **$ 36,419** | $ 53,367 |
| South and Central America | **14,105** | 21,738 |
| Australia, Asia and Africa | **17,027** | 33,106 |
| | **$ 67,551** | $ 108,211 |
| (Loss) earnings from operations | | |
| Canada – U.S. | **$ (613)** | $ 7,363 |
| South and Central America | **(4,718)** | (2,087) |
| Australia, Asia and Africa | **(2,282)** | 1,447 |
| | **(7,613)** | 6,723 |
| Eliminations | **-** | (152) |
| | **(7,613)** | 6,571 |
| Finance costs | **204** | 314 |
| General corporate expenses* | **1,893** | 2,506 |
| Income tax | **(2,379)** | 2,229 |
| Net (loss) earnings | **$ (7,331)** | $ 1,522 |

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

Canada – U.S. includes revenue for the period ended July 31, 2014 of $22,450 (July 31, 2013 - $38,345) for Canadian operations.

| | Q1 2015 | Q1 2014 |
|---|---|---|
| Depreciation and amortization | | |
| Canada – U.S. | **$ 6,043** | $ 5,809 |
| South and Central America | **3,654** | 3,014 |
| Australia, Asia and Africa | **3,605** | 4,123 |
| Unallocated corporate assets | **372** | 571 |
| Total depreciation and amortization | **$ 13,674** | $ 13,517 |

| | July 31, 2014 | April 30, 2014 |
|---|---|---|
| Identifiable assets | | |
| Canada – U.S. | **$ 210,093** | $ 197,673 |
| South and Central America | **163,653** | 178,026 |
| Australia, Asia and Africa | **130,627** | 148,806 |
| | **504,373** | 524,505 |
| Unallocated and corporate assets | **51,887** | 67,219 |
| | **$ 556,260** | $ 591,724 |

Canada – U.S. includes property, plant and equipment at July 31, 2014 of $86,995 (April 30, 2014 - $88,347) for Canadian operations.

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

## 10. FINANCIAL INSTRUMENTS

***Fair value***

The carrying values of cash, trade and other receivables, demand credit facility, demand loan 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 long-term debt, which approximates its fair values, as most debts carry variable interest rates and the remaining fixed rate debts continue to reflect fair value. The fair value of the interest rate swap included in long-term debt is measured using quoted interest rates.

| | July 31, 2014 | April 30, 2014 |
|---|---|---|
| Long-term debt | **$ 22,105** | $ 23,842 |

During the period, certain covenants were not met under the debt agreement. Due to the level of EBITDA this quarter the debt service ratio of 1.5 to 1 was not met (actual 1.33 to 1). The debt continues to be presented as long-term, consistent with the debt agreement, as the lenders have provided a waiver and the Company's cash position is three times the amount of its debt.

***Credit risk***

As at July 31, 2014, 81.1% of the Company's trade receivables were aged as current (April 30, 2014 - 79.8%) and 5.9% of the trade receivables were impaired (April 30, 2014 - 5.1%).

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

| | July 31, 2014 | July 31, 2013 |
|---|---|---|
| **Opening balance** | **$ 3,016** | $ 2,790 |
| Increase in impairment allowance | **588** | 203 |
| Write-off charged against allowance | **(742)** | - |
| Foreign exchange translation differences | **4** | (41) |
| **Ending balance** | **$ 2,866** | $ 2,952 |

***Foreign currency risk***

The 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, is US $430 as of July 31, 2014.

If the Canadian dollar moved by plus or minus 10% at July 31, 2014, the unrealized foreign exchange gain or loss recognized in net (loss) earnings would move by approximately US $43.

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

## 10. FINANCIAL INSTRUMENTS (Continued)

***Liquidity risk***

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

| | 1 year | 2-3 years | 4-5 years | thereafter | Total |
|---|---|---|---|---|---|
| Demand loan | $ 535 | $ - | $ - | $ - | $ 535 |
| Trade and other payables | 35,883 | - | - | - | 35,883 |
| Long-term debt | 9,904 | 8,956 | 2,213 | 2,206 | 23,279 |
| | $ 46,322 | $ 8,956 | $ 2,213 | $ 2,206 | $ 59,697 |

## 11. SUBSEQUENT EVENT

On August 1, 2014, the Company entered into the underground percussive/longhole drilling sector with its purchase of the operations of Taurus Drilling Services, based in Canada and the United States.

Through this purchase, which fits with the Company's strategic focus on specialized drilling, the Company acquired 39 underground drill rigs. In addition to the rigs, this acquisition involved support equipment and inventory, existing contracts and receivables, the operation's management team, and other employees, including experienced drillers.

Over the past 12 months the operations of Taurus have produced revenue of approximately $38 million.

Goodwill arising from this acquisition will be the excess of the total consideration paid over the fair market value of the net assets acquired and amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Taurus and Major.

The purchase price for the transaction was $28.9 million (consisting of $15.9 million in cash, $8.7 million in Major Drilling shares, and $4.3 million in assumption of debt), and an additional maximum amount of $11.5 million tied to performance. The additional payout period extends for three years, commencing on August 1, 2014, and payments are contingent on growing EBITDA run rates above current levels.

As the Company's process of valuing the assets acquired is ongoing, valuation of equipment, inventory, receivables, goodwill, intangible assets and the range of possible outcomes of contingent consideration, is currently in the preliminary stages.