MAJOR
Partners on the Ground

Management's Discussion and Analysis

First Quarter Fiscal 2017

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 2017

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, 2016. All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These quarterly unaudited interim condensed consolidated financial statements were prepared in accordance with IAS 34 Interim Financial Reporting.

This MD&A is a review of activities and results for the quarter ended July 31, 2016 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, 2016, and also in conjunction with the audited consolidated financial statements and Management's Discussion and Analysis contained in the Company's annual report for the fiscal year ended April 30, 2016.

This MD&A is dated August 31, 2016. Disclosure contained in this document is current to that date, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

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

Such forward-looking statements are subject to a number of risks and uncertainties that include, but are not limited to: cyclical downturn; competitive pressures; dealing with business and political systems in a variety of jurisdictions; repatriation of property in other jurisdictions; payment of taxes in various jurisdictions; exposure to currency movements; inadequate or failed internal processes, people or systems or from external events; dependence on key customers; safety performance; expansion and acquisition strategy; legal and regulatory risk; corruption, bribery or fraud by employees or agents; extreme weather conditions and the impact of natural or other disasters; specialized skills and cost of labour increases; equipment and parts availability and reputational risk. These factors and other risk factors, as described under "General Risks and Uncertainties" in the Company's 2016 Annual Information Form, represent risks the Company believes are material. Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons, except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are also discussed in this MD&A.

Additional information relating to the Company, including the Company's Annual Information Form for the previous year and the most recently completed financial year, are available on the SEDAR website at www.sedar.com.

CORPORATE OVERVIEW

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

BUSINESS STRATEGY

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

The Company intends to continue modernizing its conventional fleet and expanding its footprint in strategic areas while maintaining a strong balance sheet and remaining best in class in safety and human resources. The Company will also seek to diversify by investing in energy, underground and drilling-related mine services that are complementary to its skill set.

The Company categorizes its mineral drilling services into three types: specialized drilling, conventional drilling and underground drilling.

Specialized drilling can be defined as any drilling project that, by virtue of its scope, technical complexity or location, creates significant barriers to entry for smaller drilling companies. This would include, for example, deep-hole drilling, directional drilling, and mobilizations to remote locations or high altitudes. Because significant ore bodies are getting more difficult to find, the Company expects specialized drilling services to continue to fuel future growth and, over the next two decades, the Company believes these skills will be in greater and greater demand.

Conventional drilling tends to be more affected by the industry cycle as the barriers to entry are not as significant as with specialized drilling. This part of the industry is highly fragmented and has numerous competitors. Because the Company offers only limited differentiation in this sector, it is not its priority for investment.

Underground drilling takes on greater importance in the latter stages of the mining cycle as clients develop underground mines. In August 2014, the Company entered a new type of underground service with the acquisition of the assets of Taurus Drilling Services, a provider of underground percussive/longhole drilling, which relates more to the production function of a mine. Offering both underground production drilling and underground core drilling, the Company now provides an even wider range of complementary services to its clients.

A key part of the Company's strategy is to maintain a strong balance sheet. The Company is in a unique position to react quickly when the industry begins to recover as its financial strength allows it to retain key employees and to maintain its equipment in good condition. The Company also has a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue, and a large part of the Company's other expenses relate to variable incentive compensation based on the Company's profitability.

INDUSTRY OVERVIEW

The metals and minerals drilling industry is reliant primarily on demand from two metal groups, gold and base metals. Each commodity group is influenced by distinct market forces.

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

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

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

In terms of customer base, the Company has two categories of customers: senior and intermediate companies, for which the Company provides greenfield exploration drilling and/or drilling at operating mines, and junior exploration companies.

The industry is currently in a cyclical downturn. At this point in time, most senior and intermediate mining companies are more cautious with their investments in exploration. Large base metal producers will eventually need to expand existing mines and develop new ones to meet the world's growth, especially in emerging markets. Activity from senior gold producers is likely to show greater volatility as gold prices vary, which will impact their exploration budgets.

With the commodity prices improving over the last six months, many junior mining companies have been able to access capital markets and obtain financing for their mining projects. However, there is typically a lag between the timing of these financings and the impact they can have on the drilling industry. Junior mining companies can account for some 50% of the drilling market in cyclical upturns.

OVERALL PERFORMANCE

Although most mining companies remain cautious in their spending, the Company has seen an increase in activity compared to the beginning of the year. Revenue is up 8% over the last three months as demand for the Company's services has improved. The Company's net cash position (net of debt) continues to be positive at $33.4 million. The decrease this quarter was mainly due to the purchase of over $3 million in inventory in preparation for potential increased activity levels. The Company also spent $2.8 million on capital expenditures this quarter.

Total revenue for the quarter was $69.1 million, down 18% from revenue of $83.9 million recorded in the same quarter last year. The favourable foreign exchange translation impact for the quarter is estimated at $1.8 million on revenue but negligible on net earnings, when comparing to the effective rates for the same period last year.

The overall gross margin percentage for the quarter was 21.9%, down from 25.8% for the same period last year. Pricing pressure and higher repair costs impacted margins in the current quarter.

Net loss was $9.8 million or $0.12 per share for the quarter, compared to a net loss of $11.2 million or $0.14 per share for the same quarter last year.

RESULTS OF OPERATIONS – FIRST QUARTER ENDED JULY 31, 2016

Total revenue for the quarter was $69.1 million, down 18% from revenue of $83.9 million recorded in the same quarter last year. The favourable foreign exchange translation impact for the quarter is estimated at $1.8 million on revenue but negligible on net earnings, when comparing to the effective rates for the same period last year.

Revenue for the quarter from Canada-U.S. drilling operations decreased by 14% to $43.8 million compared to the same period last year. The increase in revenue from the US operations was more than offset by the decrease from the Canadian operations.

South and Central American revenue was down 34% to $13.5 million for the quarter, compared to the prior year quarter. The decrease came mostly from the Mexican and Chilean operations.

Asian and African operations reported revenue of $11.8 million, down 5% from the same period last year. Asia showed some improvement, which was more than offset by a decrease in activity levels in Africa.

The overall gross margin percentage for the quarter was 21.9%, down from 25.8% for the same period last year. Pricing pressure and higher repair costs impacted margins in the current quarter.

General and administrative costs were flat at $10.6 million compared to the previous quarter, despite a small increase due to foreign exchange translation. The Company continues to monitor its general and administrative costs across all of its operations.

In the same quarter last year, the Company recorded a restructuring charge of $6.4 million consisting primarily of a non-cash write-down of assets of $5.0 million in South Africa and Namibia, $1.1 million in closedown costs relating to severance and lease termination, and $0.3 million in additional restructuring charges.

The income tax provision for the quarter was an expense of $0.9 million compared to an expense of $2.8 million for the prior year period. The tax expense for the quarter was impacted by non-tax affected losses and non-deductible expenses, while incurring taxes in profitable branches.

Net loss was $9.8 million or $0.12 per share for the quarter, compared to a net loss of $11.2 million or $0.14 per share for the same quarter last year.

SUMMARY OF QUARTERLY RESULTS

(in $000 CAD, except per share)	Fiscal 2015			Fiscal 2016				Fiscal 2017
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	$ 87,192	$ 69,784	$ 81,191	$ 83,934	$ 84,667	$ 71,887	$ 64,133	$ 69,089
Gross profit	20,736	7,786	20,707	21,617	23,311	12,982	12,051	15,141
Gross margin	23.8%	11.2%	25.5%	25.8%	27.5%	18.1%	18.8%	21.9%
Net loss	(10,148)	(18,999)	(13,087)	(11,180)	(5,349)	(15,897)	(12,859)	(9,782)
Per share - basic	(0.13)	(0.24)	(0.16)	(0.14)	(0.07)	(0.20)	(0.16)	(0.12)
Per share - diluted	(0.13)	(0.24)	(0.16)	(0.14)	(0.07)	(0.20)	(0.16)	(0.12)

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

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations (before changes in non-cash operating working capital items, interest and income taxes) was $4.3 million for the quarter compared to $7.6 million generated in the same period last year.

The change in non-cash operating working capital items was an outflow of $7.6 million for the quarter compared to an outflow of $1.1 million for the same period last year. The outflow in non-cash operating working capital in the quarter ended July 31, 2016 was primarily impacted by:

- An increase in accounts receivable of $4.1 million;
- An increase in accounts payable of $2.2 million;
- An increase in inventory of $3.1 million; and
- An increase in prepaid expenses of $2.5 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 quarter, due to the level of EBITDA, the debt service ratio was not met under the debt agreement. The Company does not consider this to be material as the lenders provided a waiver and the Company's cash position is more than four times the amount of its debt. The current debt agreement expires on September 30, 2016 and the Company and the lenders are currently in the process of finalizing a three-year extension to the existing agreement.

Operating Credit Facilities

The credit facilities related to operations total $25 million. This facility is from a Canadian chartered bank and is primarily secured by corporate guarantees of companies within the group. At July 31, 2016, the Company had utilized $0.5 million of these lines for stand-by letters of credit. The Company also has a credit facility of $2.7 million for credit cards for which interest rate and repayment are as per cardholder agreements.

Long-Term Debt

Total long-term debt decreased by $2.0 million during the quarter to $10.2 million at July 31, 2016. The decrease is due to debt repayments during the quarter.

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

- $0.8 million non-revolving facility amortized over five years ending in September 2016.
- $50.0 million revolving facility for financing the cost of equipment purchases or acquisition costs of related businesses. At July 31, 2016, this facility had not been utilized.
- $5.1 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.
- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled $4.3 million at July 31, 2016, which were fully drawn and mature through 2019.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure, dividend and debt obligations. As at July 31, 2016, the Company had unused borrowing capacity under its credit facilities of $74.5 million and cash of $43.6 million, for a total of $118.1 million in available funds.

Investing Activities

Capital expenditures were $2.8 million for the quarter ended July 31, 2016 compared to $3.3 million (net of $2.0 million of equipment financing) for the same period last year.

The disposal of property, plant and equipment generated proceeds of $1.2 million during the quarter, compared to $5.9 million for the same period last year.

During the quarter, the Company added 1 drill rig, while retiring or disposing of 13 drill rigs, 10 of which were part of the South Africa and Namibia restructuring plan. This brings the total drill rig count to 678 at quarter-end.

OUTLOOK

The Company continues to focus its efforts on getting prepared in anticipation of a possible recovery in demand for its services while remaining disciplined on pricing and focused on cost control. With the commodity prices improving over the last six months, many junior mining companies have been able to access capital markets and obtain financing for their mining projects. However, there is typically a lag between the timing of these financings and the impact they can have on the drilling industry. Junior mining companies can account for some 50% of the drilling market in cyclical upturns. The Company's financial strength allows it to invest in safety, to maintain its equipment in good condition, and to retain many of its skilled employees, strategically positioning the Company to react quickly when the industry recovers.

In the long-term, the Company believes that most commodities will face an imbalance between supply and demand as mining reserves continue to decrease due to the lack of exploration. Typically, gold and copper projects represent over 70% of the Company's activity. Mineral reserves of ten of the top senior gold mining companies have decreased by almost 15% over the last two years. Many industry experts expect that the copper market will face a deficit position by no later than 2018, due to the continued production and high grading of mines, combined with the lack of exploration work conducted to replace reserves. It is expected that at some point in the near future, the need to develop resources in areas that are increasingly difficult to access will significantly increase, at which time we expect to see a resurgence in demand for specialized drilling.

FOREIGN EXCHANGE

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar and other functional reporting currencies. The favourable impact of foreign exchange translation, for the quarter, when comparing to the effective rates for the same period last year, is estimated at $1.8 million on revenue but negligible on net earnings.

COMPREHENSIVE EARNINGS

The interim condensed consolidated statements of comprehensive earnings for the quarter include $11.4 million in unrealized gains on translating the financial statements of the Company's foreign operations compared to a gain of $21.0 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, 2016, 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, 2016, 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, 2016 and ended on July 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

OUTSTANDING SHARE DATA

As of August 31, 2016, there were 80,136,884 common shares issued and outstanding in the Company. This is the same number as reported in the Company's annual MD&A (reported as of June 7, 2016).

ADDITIONAL INFORMATION

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