MAJOR

Partners on the Ground

Management's Discussion and Analysis

Second Quarter Fiscal 2013

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER FISCAL 2013

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 October 31, 2012. All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These quarterly unaudited interim 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 October 31, 2012 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited consolidated interim financial statements as at and for the three months ended October 31, 2012, 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, 2012.

This MD&A is dated November 23, 2012. 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 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 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 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.

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.

In calendar 2011, senior mining companies announced significant increases in exploration budgets as they had an urgent need to replenish their diminishing reserves in light of their lack of exploration in 2009 and 2010. Also, in calendar 2011 there was a significant increase in financing of junior mining companies particularly in the first half of the year. 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.

With the current volatility in the financial markets, many junior mining companies are experiencing financing difficulties and slowing down their exploration efforts. However, at the present time, 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. In addition, the price of gold is almost double what it was in 2008, the price of copper remains relatively high by historical standards, and both are well above average costs of production.

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 (Brazil, Russia, India and China) 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 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.

OVERALL PERFORMANCE

As expected during the quarter, two general factors contributed to a decline in revenue. Many mining companies did not extend their activities beyond their original budgets. Last year, most senior companies continued their drilling efforts well into November and December. While revenue from senior and intermediate companies actually increased year-over-year by some $20 million, we saw a decline in our activities with junior mining companies. In fact, 78% of our revenue during the quarter came from senior and intermediate customers. Many of these projects are slated to continue and are expected to create a solid base for operations in calendar 2013.

During the quarter, four branches faced specific challenges. Australia had many projects canceled due to high costs, the high Australian dollar and new mining taxes. Mongolia and Argentina were affected by political uncertainty, although both started to recover somewhat late in the quarter. Finally, Mexico had many projects delayed or canceled as this region has a larger proportion of junior customers.

The overall gross margin percentage for the quarter was 33.4% compared to 34.6% for the same period last year. A higher proportion of demobilizations due to contract shutdowns was the main contributor to this slight margin decrease.

Net earnings were $22.3 million or $0.28 per share ($0.28 per share diluted) for the quarter, compared to net earnings of $31.6 million or $0.43 per share ($0.42 per share diluted) for the prior year quarter.

RESULTS OF OPERATIONS – SECOND QUARTER ENDED OCTOBER 31, 2012

Total revenue for the quarter was $199.6 million, down 7% from the $213.9 million recorded in the same quarter last year. The reduction in revenue came mainly from four branches: Australia where projects have been canceled due to high costs and new mining taxes, Mongolia and Argentina, which were affected by political uncertainty and Mexico, which has a higher proportion of junior customers.

Revenue for the quarter from Canada-U.S. drilling operations increased by 12% to $94.0 million compared to the same period last year. In Canada, operations from the Bradley acquisition accounted for the increase as the Company’s U.S. operations were relatively flat.

South and Central American revenue was down 25% to $50.9 million for the quarter, compared to the prior year quarter. Almost all of this decrease is attributable to Mexico, which has a larger proportion of junior customers struggling with financing and Argentina, which is affected by political uncertainty.

Australian, Asian and African operations reported revenue of $54.8 million, down 11% from the same period last year. The decrease came mainly from Australia where projects have been canceled due to high costs and new mining taxes and Mongolia, which was affected by political uncertainty. These decreases offset new or increased operations in the Philippines (Bradley), Burkina Faso and Mozambique.

The overall gross margin percentage for the quarter was 33.4% compared to 34.6% for the same period last year. A higher proportion of demobilizations due to contract shutdowns was the main contributor to this slight margin decrease.

General and administrative costs were $15.8 million for the quarter compared to $13.1 million in the same period last year. The increase was mainly due to the acquisition of Bradley and the addition of new operations in Burkina Faso. As compared to the first quarter just passed, general and administrative costs have decreased by 9% over the past three months.

Other expenses for the quarter were $3.3 million, down $2.7 million from the $6.0 million reported in the prior year quarter, due primarily to lower incentive compensation expenses given the Company's decreased profitability compared to Q2 last year.

The provision for income tax for the quarter was $11.4 million compared to $12.9 million for the prior year period. The tax expense for the quarter was impacted by differences in tax rates between regions.

RESULTS OF OPERATIONS – YEAR TO DATE ENDED OCTOBER 31, 2012

Revenue for the six months ended October 31, 2012 increased 16% to $437.2 million from $378.0 million for the corresponding period last year.

Canada-U.S. revenue increased by 42% to $206.8 million compared to $145.6 million last year. The acquisition of the Bradley operations combined with increased levels of activity in the U.S. accounted for this increase.

Revenue in South and Central America was relatively flat year-over-year at $120.3 million. Revenue increase from the new Bradley operations was mitigated by a reduction in activity levels in Argentina and Mexico.

Revenue in Australia, Asia and Africa decreased 3% to $110.1 million from the prior year period. Australian and Mongolian operations were the main drivers of this decrease somewhat mitigated with new operations in Burkina Faso and the Philippines (Bradley), and increased operations in Mozambique and the DRC.

Gross margins for the year to date were 33.8% compared to 33.2% last year. Contracts that were signed or renewed this year reflected a stronger pricing environment.

General and administrative expenses increased to $33.1 million compared to $25.4 million for the same period last year. The increase was mainly due to the acquisition of Bradley and the addition of new operations in Burkina Faso.

Other expenses were flat at $8.6 million compared to the same period last year.

Depreciation and amortization expense increased to $26.6 million compared to $17.9 million in the previous period, as a result of the Bradley acquisition and the increased direct investment in equipment.

Net earnings were $54.2 million or $0.69 per share ($0.68 per share diluted) compared to $49.5 million or $0.68 per share ($0.67 per share diluted) last year.

SUMMARY OF QUARTERLY RESULTS

(in $000 CAD, except per share)	Fiscal 2011		Fiscal 2012				Fiscal 2013	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	$ 107,720	$ 137,258	$ 164,152	$ 213,854	$ 182,188	$ 237,238	$ 237,565	$ 199,637
Gross profit	23,873	34,913	51,499	74,055	47,120	78,452	81,278	66,699
Gross margin	22.2%	25.4%	31.4%	34.6%	25.9%	33.1%	34.2%	33.4%
Net (loss) earnings	1,671	9,466	17,892	31,560	9,566	30,731	31,875	22,349
Per share - basic	0.02	0.13	0.25	0.43	0.12	0.39	0.40	0.28
Per share - diluted	0.02	0.13	0.25	0.42	0.12	0.38	0.40	0.28

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, finance costs and income taxes) was $48.4 million for the quarter compared to $55.4 million generated in the same period last year.

The change in non-cash operating working capital items was an inflow of $19.1 million for the quarter compared to an outflow of $13.5 million for the same period last year. The inflow in non-cash operating working capital in the quarter ended October 31, 2012 was primarily impacted by:

- A decrease in accounts receivable of $21.9 million due to decreased activity in the second quarter;
- A decrease in inventory of $5.1 million; and
- A decrease in accounts payable of $10.1 million (net of dividend payable).

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.

Operating Credit Facilities

The credit facilities related to operations total $28.6 million ($25.0 million from a Canadian chartered bank and $3.6 million in various credit facilities) and are primarily secured by corporate guarantees of companies within the group. At October 31, 2012, the Company had utilized $2.5 million of these lines mainly 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 decreased by $2.4 million during the quarter to $47.2 million at October 31, 2012. Debt repayments were $4.1 million during the quarter.

As of October 31, 2012, the Company had the following long-term debt facilities:

- $19.6 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 October 31, 2012, the Company had utilized $11.2 million of this line. Draws on this line are due on maturity in September 2016.
- $8.8 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.
- $5.5 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 $2.1 million at October 31, 2012, which were fully drawn and mature through 2016.

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 October 31, 2012, the Company had unused borrowing capacity under its credit facilities of $64.9 million and cash of $77.0 million, for a total of $141.9 million in available funds.

Investing Activities

Net capital expenditures were $16.1 million for the quarter ended October 31, 2012 compared to $16.1 million for the same period last year.

During the quarter, the Company added 21 drill rigs through its capital expenditure program while retiring or disposing of 8 drill rigs through its modernization program. This brings the total drill rig count to 752 at quarter-end. Also, subsequent to quarter-end, the Company purchased the Canadian assets of Landdrill International Limited. Through this, the Company acquired 15 compatible rigs that are less than three years old, as well as ancillary equipment and inventory for a total purchase price of approximately $4.0 million. This will help reduce the Company's capital expenditures for fiscal 2014 by some $10 million.

OUTLOOK

Looking forward, if customers go ahead with their stated plans, the Company sees consistent levels of activity coming in calendar 2013 from both the senior and intermediate mining houses as well as junior companies with projects in development. The bidding activity in most regions has been very similar to last year with the exceptions of Australia and Argentina. It is important to note that the requested start date in many of these bids is slightly later than last year. Based on current customer plans, it is expected that demand for specialized drilling should continue in the year ahead. Specialized drilling continues to form the cornerstone of the Company's corporate strategy. Although there has been a recent increase in junior financing activity, there has not been any significant increase in their activity levels.

It is important to note that the Company is now in its third quarter, seasonally the weakest quarter of its fiscal year, as mining and exploration companies shut down, often for extended periods over the holiday season. Holiday breaks are expected to be longer this year and November will not have the benefit of the program extensions that the Company had last year. This will lead to a drop in activity as compared to Q3 last year. Weather can also play an important role in affecting operations. As we have experienced in some past years, the Company expects to generate a seasonal loss in the upcoming third quarter before recovering to Q2 activity levels in the fourth quarter.

FOREIGN EXCHANGE

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar. The unfavourable impact of U.S. dollar exchange translation, for the quarter, when comparing to the effective rates for the same period last year, is estimated at $2 million on revenue but negligible on net earnings.

The favourable impact of foreign exchange translation, for the six-month period ended October 31, 2012, is estimated at $3 million on revenue but negligible on net earnings.

COMPREHENSIVE EARNINGS

The consolidated statements of other comprehensive earnings for the quarter include $1.7 million in unrealized loss on translating the financial statements of the Company’s foreign operations compared to a gain of $5.8 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, 2012, which can be found on the SEDAR website at www.sedar.com, and which continue to apply to the business of the Company. 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, 2012, 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 internal controls over financial reporting during the period beginning on May 1, 2012 and ended on October 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

OUTSTANDING SHARE DATA

As of November 23, 2012, there were 79,147,378 common shares issued and outstanding in the Company. This is the same number as reported in our first quarter MD&A (reported as of August 31, 2012).

ADDITIONAL INFORMATION

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