MAJOR

Partners on the Ground

Management's Discussion and Analysis

Third Quarter Fiscal 2014

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD 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 January 31, 2014. 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 January 31, 2014 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 January 31, 2014, 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 February 28, 2014. 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, corruption, bribery and fraud by employees and 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 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

The current economic environment continues to impact drilling in the short to medium-term, particularly on gold projects where the Company has seen a significant slowdown in activity in calendar 2013. Sources of funding for junior mining companies are limited, and as such many of their projects, both in the base metals and gold sectors, have been delayed or cancelled. In a number of jurisdictions, uncertainty as to the policies of host governments or issues of land tenure also continue to have an impact on results.

As noted in the second quarter news release, program extensions in November were lower than last year. Also, subsequent to the holiday season, and as expected, customers have been, and continue to be, slow in deciding on their 2014 calendar year drilling plans. This has led to reduced activity levels as compared to the third quarter last year, and produced a seasonal loss as anticipated. Quarterly results were also impacted by a foreign exchange loss of $3.3 million, mostly related to the devaluation of the Argentine peso, and the Company crystalized currency losses by converting some of its Argentine pesos into U.S. dollar investments at a significant discount in order to protect against further devaluations.

The overall gross margin percentage for the quarter was 24.7%, up slightly from 23.8% for the same period last year. Third quarter margins are typically impacted by a slowdown during the holiday season combined with higher than usual mobilizations, demobilizations and increased repairs during this period. 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.

Net loss was $12.8 million or $0.16 per share ($0.16 per share diluted) for the quarter, compared to a net loss of $4.3 million or $0.05 per share ($0.05 per share diluted) for the prior year quarter.

Despite the difficult environment, the Company has one of the most solid balance sheets in its industry with a net cash position (net of debt) of $33.6 million. Given the Company's ability to generate cash flows, it has declared a semi-annual dividend of $0.10 per share to be paid on May 1, 2014.

RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2014

Total revenue for the quarter was $71.8 million, down 42% from revenue of $123.2 million recorded in the same quarter last year. There have been continued delays in the decision making process on the part of many of the Company's senior customers in regards to their 2014 exploration drilling programs, and many junior customers have scaled back or suspended drilling activities as compared to last year. Also, program extensions in November were lower than the prior year. This has led to reduced activity levels as compared to the third quarter last year. The favourable foreign exchange translation impact 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.

Revenue for the quarter from Canada-U.S. drilling operations decreased by 33% to $32.4 million compared to the same period last year, as both countries were affected by the slowdown in the industry.

South and Central American revenue was down 53% to $18.6 million for the quarter, compared to the same quarter last year. Mexico, Chile and Argentina were affected by a reduction in work by juniors and the cancellation of certain projects. Additionally, in Colombia and Argentina, geopolitical factors have slowed the exploration efforts of many mining companies.

Australian, Asian and African operations reported revenue of $20.8 million, down 41% from the same period last year. In Australia, projects have been cancelled due to high costs being incurred by mining companies. Mongolia continues to be affected by political uncertainty around mining laws and Burkina Faso was affected by a reduction in work by juniors. Also, the Company closed its operations in Tanzania earlier in the fiscal year.

The overall gross margin percentage for the quarter was 24.7%, up slightly from 23.8% for the same period last year. Third quarter margins are typically impacted by a slowdown during the holiday season combined with higher than usual mobilizations, demobilizations and increased repairs during this period. Reduced pricing, due to increased competitive pressures and delays, impacted margins, however the Company has been able to recapture some of this through productivity gains and cost cutting.

General and administrative costs decreased 22% from last year at $12.1 million for the quarter compared to $15.4 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.

Foreign exchange loss was $3.3 million compared to a gain of $0.5 million last year. Most of this quarter's loss was related to the devaluation of the Argentine peso and the Company crystalized currency losses by converting some of its Argentine pesos into U.S. dollar investments, although at a significant discount, to protect against further devaluations.

The provision for income tax for the quarter was a recovery of $0.5 million compared to an expense of $1.9 million for the prior year period. This quarter's tax expense was impacted by differences in tax rates between regions, non-tax affected losses, and non-deductible expenses, including the foreign exchange loss in Argentina.

RESULTS OF OPERATIONS – YEAR TO DATE ENDED JANUARY 31, 2014

Revenue for the nine months ended January 31, 2014 decreased 51% to $272.3 million from $560.4 million for the corresponding period last year.

Revenue from Canada-U.S. drilling operations decreased by 49% to $129.4 million compared to the same period last year as both countries were affected by the slowdown in the industry.

South and Central American revenue was down 64% to $57.9 million compared to the same period last year. Mexico, Chile and Argentina were affected by a reduction in work by juniors and the cancellation of projects. Additionally, in Colombia and Argentina, geopolitical factors have slowed the exploration efforts of many mining companies.

Australian, Asian and African operations reported revenue of $85.0 million, down 42% 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 has closed its operations.

Gross margin for the year to date was 30.4% compared to 31.6% last year. Reduced pricing due to increased competitive pressures and delays impacted margins, however the Company has been able to recapture some of this through productivity gains and cost cutting.

General and administrative expenses decreased by $11.1 million or 23% to $37.4 million compared to the prior 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 were down 71% or $6.5 million to $2.7 million compared to last year, due primarily to lower incentive compensation expenses given the Company's decreased profitability.

Foreign exchange loss was $5.3 million compared to a gain of $2.0 million last year. Most of this year's loss is related to the devaluation of the Argentine peso and the Company crystalized currency losses by converting some of its Argentine pesos into U.S. dollar investments at a significant discount during the quarter to protect against further devaluations.

The Company has recorded a restructuring charge of $3.2 million compared to $0.9 million last year, consisting primarily of retrenchment costs following additional staff reduction initiatives implemented during the year across the Company.

A goodwill impairment of $12.1 million was recognized in the second quarter of this year. The goodwill write-off was non-cash in nature and did not affect liquidity or cash flows from operating activities. Although this goodwill impairment is attributable to reduced cash flow expectations in Chile for the near term, this does not reflect a change in the Company's commitment to continue to operate in Chile.

The provision for income tax year-to-date was an expense of $10.4 million compared to an expense of $27.6 million for the prior year period. This year's tax expense is mostly impacted by three main factors: 1) a non-tax deductible goodwill impairment charge; 2) a combined write down and unrecognized tax losses on its Australian and Colombian deferred tax assets related to carry-forward losses given the uncertainty in the near-term outlook for adequate taxable income in Australia and Colombia; and 3) a non-tax deductible foreign exchange loss in Argentina.

Net loss was $30.4 million or $0.38 per share ($0.38 per share diluted) compared to earnings of $49.9 million or $0.63 per share ($0.63 per share diluted) last year.

SUMMARY OF QUARTERLY RESULTS

(in $000 CAD, except per share)	Fiscal 2012	Fiscal 2013				Fiscal 2014		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	$ 237,238	$ 237,565	$ 199,637	$ 123,189	$ 135,537	$ 108,211	$ 92,268	$ 71,830
Gross profit	78,452	81,278	66,699	29,275	43,087	35,122	30,011	17,770
Gross margin	33.1%	34.2%	33.4%	23.8%	31.8%	32.5%	32.5%	24.7%
Net earnings (loss)	30,731	31,875	22,349	(4,288)	2,174	1,522	(19,100)	(12,797)
Per share - basic	0.39	0.40	0.28	(0.05)	0.03	0.02	(0.24)	(0.16)
Per share - diluted	0.38	0.40	0.28	(0.05)	0.03	0.02	(0.24)	(0.16)

With the exception of the third quarter, the Company does not exhibit much seasonality in quarterly revenue. 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 $1.7 million for the quarter compared to $13.4 million generated in the same period last year.

The change in non-cash operating working capital items was an inflow of $1.9 million for the quarter compared to an inflow of $25.8 million for the same period last year. The outflow in non-cash operating working capital in the quarter ended January 31, 2014 was primarily impacted by:

- A decrease in accounts receivable of $8.1 million due to decreased activity in the third quarter;
- An increase in inventory of $2.8 million as the Company purchased inventory at discounted prices; and
- A decrease in accounts payable of $3.8 million (net of dividend paid of $7.9 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>

During the quarter, the Company borrowed 2,000 million Chilean pesos (CAD $4.1 million), secured by a USD $4.4 million stand-by letter of credit drawn from the Company's demand credit facility, carrying interest at an annual rate of 6.85%.

The credit facilities related to operations therefore increased to a total of $33.4 million ($25.0 million from Canadian chartered banks, $4.1 million for a Chilean pesos facility and $4.3 million in various credit facilities) and are primarily secured by corporate guarantees of companies within the group. At January 31, 2014, the Company had utilized $11.3 million of these lines mainly for stand-by letters of credit. The Company also has a credit facility of $4.3 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 $1.8 million during the quarter to $24.8 million at January 31, 2014. Debt repayments were $1.7 million during the quarter.

As of January 31, 2014, the Company had the following long-term debt facilities:

- $13.3 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 January 31, 2014, this facility had not been utilized.

- $7.6 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.

- $3.0 million note payable, carrying interest at a fixed rate of 4% repayable in September 2014.

- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled $0.9 million at January 31, 2014, 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 January 31, 2014, the Company had unused borrowing capacity under its credit facilities of $72.1 million and cash of $62.4 million, for a total of $134.5 million in available funds.

Investing Activities

Net capital expenditures were $5.7 million for the quarter ended January 31, 2014 compared to $18.7 million for the same period last year.

During the quarter, the Company added 3 drill rig through its capital expenditure program while retiring or disposing of 11 drill rigs through its modernization program. This brings the total drill rig count to 717 at quarter-end.

OUTLOOK

The current economic environment continues to impact drilling in the short to medium-term, particularly on gold projects where the Company has seen a significant slowdown in activity in calendar 2013. Also, lower levels of demand have increased competitive pressures, which will impact pricing going forward.

At the start of the fourth quarter, there continued to be a number of projects for which decisions had not yet been made regarding start dates and exact drilling meterage. Weather conditions have also caused start times to be delayed. This has resulted in reduced activity in February. In a number of jurisdictions, uncertainty as to the policies of host governments or issues of land tenure are causing customers to hold back on investments. This is making it difficult to predict what might happen in those markets. With lower utilization rates and a slow start in activity levels, the Company is also seeing pricing pressures throughout the industry.

In Australia the Company continues to see no improvement since the beginning of the year. The utilization rates for surface rigs are extremely low. Price competition has been especially intense in Eastern Australia where the Company's operations are concentrated. The Company is currently considering all restructuring options for this branch, including the possibility of withdrawing from this market.

On the other hand, in many regions the Company is seeing encouraging signs of increased enquiries, especially from gold customers, which if they result in successful bids, would generate higher revenue levels in the second half of this calendar year.

The Company will continue to react to local conditions in specific markets. Given the encouraging signs seen at present, the Company is in a strong position to react quickly when the industry begins to recover as the Company's financial strength has allowed it to continue to invest in safety, to maintain its equipment in excellent condition, and to retain many of its skilled employees. The Company will continue to focus on cash management by limiting capital expenditures, and by closely monitoring costs.

Long-term, the fundamental drivers of the business remain positive, with worldwide supply for most metals expected to tighten. 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 difficult to access will increase, which should increase 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 $2 million on revenue but negligible on net earnings. The favourable impact of foreign exchange translation, for the nine-month period ended January 31, 2014, is estimated at $4 million on revenue and less than $1 million on net earnings.

Argentina Currency Status

The Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authorities for the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest of non-Argentine debt and also payment of dividends to parties outside of the country). That approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars. Those approvals are administered by the Argentine Central Bank through the Local Exchange Market ("Mercado Unico Libre de Cambios", or "MULC"), which is the only market where exchange transactions may be lawfully made.

During the quarter, the Argentine peso devalued over 26%, which produced a foreign exchange loss. Following this, the Company converted some of its Argentine pesos into U.S. dollar short-term investments to protect against further devaluations. This transaction was done at a discounted exchange rate, crystalizing further exchange losses.

COMPREHENSIVE EARNINGS

The consolidated statements of other comprehensive earnings for the quarter include $16.9 million in unrealized gain on translating the financial statements of the Company's foreign operations compared to a gain of $1.5 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, 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, 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 January 31, 2014 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

OUTSTANDING SHARE DATA

As of February 28, 2014, there were 79,161,378 common shares issued and outstanding in the Company. This is the same number as reported in our second quarter MD&A (reported as of November 30, 2013).

ADDITIONAL INFORMATION

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