

**Major Drilling Group International Inc.**  
**Consolidated Statements of Operations**  
(in thousands of Canadian dollars, except per share information)  
(unaudited)

	Nine months ended January 31		Three months ended January 31	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>TOTAL REVENUE</b>	<b>\$ 345,018</b>	\$ 210,488	<b>\$ 107,720</b>	\$ 72,471
<b>DIRECT COSTS</b>	<b>259,512</b>	158,487	<b>83,847</b>	60,492
<b>GROSS PROFIT</b>	<u><b>85,506</b></u>	<u>52,001</u>	<u><b>23,873</b></u>	<u>11,979</u>
<b>OPERATING EXPENSES</b>				
General and administrative	29,614	24,930	10,112	7,932
Other expenses	5,135	3,828	1,825	1,796
Foreign exchange (gain) loss	(220)	(663)	1,028	166
Interest expense (revenue)	331	(128)	100	(33)
Interest expense on long-term debt	545	813	165	239
Amortization	23,371	22,783	8,257	7,343
Restructuring charge	-	1,220	-	-
Goodwill impairment	-	2,032	-	-
	<u><b>58,776</b></u>	<u>54,815</u>	<u><b>21,487</b></u>	<u>17,443</u>
<b>EARNINGS (LOSS) BEFORE INCOME TAX</b>	<u><b>26,730</b></u>	<u>(2,814)</u>	<u><b>2,386</b></u>	<u>(5,464)</u>
<b>INCOME TAX - PROVISION (RECOVERY)</b>				
Current	9,447	3,214	597	1,912
Future	(854)	(2,339)	125	(2,923)
	<u><b>8,593</b></u>	<u>875</u>	<u><b>722</b></u>	<u>(1,011)</u>
<b>NET EARNINGS (LOSS)</b>	<u><b>\$ 18,137</b></u>	<u>\$ (3,689)</u>	<u><b>\$ 1,664</b></u>	<u>\$ (4,453)</u>
<b><u>EARNINGS (LOSS) PER SHARE</u></b>				
<b>Basic *</b>	<u><b>\$ 0.76</b></u>	<u>\$ (0.16)</u>	<u><b>\$ 0.07</b></u>	<u>\$ (0.19)</u>
<b>Diluted **</b>	<u><b>\$ 0.76</b></u>	<u>\$ (0.15)</u>	<u><b>\$ 0.07</b></u>	<u>\$ (0.19)</u>

\*Based on 23,817,294 and 23,719,622 daily weighted average shares outstanding for the fiscal year to date 2011 and 2010, respectively, and on 23,859,937 and 23,723,932 daily weighted average shares outstanding for the third quarter ended January 31, 2011 and 2010, respectively. The total number of shares outstanding on January 31, 2011 was 23,866,375.

\*\*Based on 24,014,272 and 23,874,652 daily weighted average shares outstanding for the fiscal year to date 2011 and 2010, respectively, and on 24,178,057 and 23,938,688 daily weighted average shares outstanding for the third quarter ended January 31, 2011 and 2010, respectively.

**Major Drilling Group International Inc.**  
**Consolidated Statements of Comprehensive Earnings (Loss)**

(in thousands of Canadian dollars)  
(unaudited)

	Nine months ended January 31		Three months ended January 31	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>NET EARNINGS (LOSS)</b>	<b>\$ 18,137</b>	<b>\$ (3,689)</b>	<b>\$ 1,664</b>	<b>\$ (4,453)</b>
<b>OTHER COMPREHENSIVE EARNINGS (LOSS)</b>				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	<u>4,280</u>	<u>(24,975)</u>	<u>(4,315)</u>	<u>(959)</u>
<b>COMPREHENSIVE EARNINGS (LOSS)</b>	<b><u>\$ 22,417</u></b>	<b><u>\$ (28,664)</u></b>	<b><u>\$ (2,651)</u></b>	<b><u>\$ (5,412)</u></b>

**Consolidated Statements of Retained Earnings**

(in thousands of Canadian dollars)  
(unaudited)

	Nine months ended January 31	
	<u>2011</u>	<u>2010</u>
<b>RETAINED EARNINGS, BEGINNING OF THE PERIOD</b>	<b>\$ 209,025</b>	<b>\$ 218,983</b>
Net earnings (loss)	<u>18,137</u>	<u>(3,689)</u>
Dividend	<u>(5,243)</u>	<u>(4,745)</u>
<b>RETAINED EARNINGS, END OF THE PERIOD</b>	<b><u>\$ 221,919</u></b>	<b><u>\$ 210,549</u></b>

**Consolidated Statements of Accumulated Other  
Comprehensive Loss**

(in thousands of Canadian dollars)  
(unaudited)

	Nine months ended January 31	
	<u>2011</u>	<u>2010</u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE PERIOD</b>	<b>\$ (44,333)</b>	<b>\$ (5,079)</b>
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	<u>4,280</u>	<u>(24,975)</u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF THE PERIOD</b>	<b><u>\$ (40,053)</u></b>	<b><u>\$ (30,054)</u></b>

**Major Drilling Group International Inc.**  
**Consolidated Statements of Cash Flows**

(in thousands of Canadian dollars)  
(unaudited)

	Nine months ended January 31		Three months ended January 31	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>OPERATING ACTIVITIES</b>				
Net earnings (loss)	\$ 18,137	\$ (3,689)	\$ 1,664	\$ (4,453)
Operating items not involving cash				
Amortization	23,371	22,783	8,257	7,343
(Gain) loss on disposal of property, plant and equipment	(426)	934	391	933
Future income tax (recovery)	(854)	(2,339)	125	(2,923)
Stock-based compensation	1,463	1,485	556	441
Goodwill impairment	-	2,032	-	-
	<u>41,691</u>	<u>21,206</u>	<u>10,993</u>	<u>1,341</u>
Changes in non-cash operating working capital items	5,736	11,562	9,914	11,887
Cash flow from operating activities	<u>47,427</u>	<u>32,768</u>	<u>20,907</u>	<u>13,228</u>
<b>FINANCING ACTIVITIES</b>				
Repayment of long-term debt	(7,124)	(9,026)	(1,890)	(2,557)
Proceeds from short-term debt (note 8)	10,400	-	-	-
Issuance of common shares	1,412	28	132	-
Dividend paid	(9,993)	(9,488)	(5,243)	(4,745)
Cash flow used in financing activities	<u>(5,305)</u>	<u>(18,486)</u>	<u>(7,001)</u>	<u>(7,302)</u>
<b>INVESTING ACTIVITIES</b>				
Business acquisition (note 5)	(2,567)	-	(30)	-
Acquisition of property, plant and equipment	(40,515)	(17,282)	(18,307)	(10,074)
Proceeds from disposal of property, plant and equipment	3,929	1,610	572	113
Cash flow used in investing activities	<u>(39,153)</u>	<u>(15,672)</u>	<u>(17,765)</u>	<u>(9,961)</u>
<b>OTHER ACTIVITIES</b>				
Foreign exchange translation adjustment	(1,034)	(2,954)	179	203
<b>INCREASE (DECREASE) IN CASH</b>	<b>1,935</b>	<b>(4,344)</b>	<b>(3,680)</b>	<b>(3,832)</b>
<b>CASH POSITION, BEGINNING OF THE PERIOD</b>	<b>30,232</b>	<b>58,035</b>	<b>35,847</b>	<b>57,523</b>
<b>CASH POSITION, END OF THE PERIOD</b>	<b>\$ 32,167</b>	<b>\$ 53,691</b>	<b>\$ 32,167</b>	<b>\$ 53,691</b>

**Major Drilling Group International Inc.**  
**Consolidated Balance Sheets**

As at January 31, 2011 and April 30, 2010

(in thousands of Canadian dollars)

(unaudited)

<b>ASSETS</b>	<b>January 2011</b>	<b>April 2010</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 32,167	\$ 30,232
Accounts receivable	70,999	62,128
Income tax receivable	4,784	10,053
Inventories	67,155	63,170
Prepaid expenses	5,345	4,813
Future income tax assets	247	793
	<b>180,697</b>	<b>171,189</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>229,995</b>	<b>210,812</b>
<b>FUTURE INCOME TAX ASSETS</b>	<b>10,396</b>	<b>8,117</b>
<b>GOODWILL AND INTANGIBLE ASSETS (note 7)</b>	<b>27,058</b>	<b>25,538</b>
	<b>\$ 448,146</b>	<b>\$ 415,656</b>
	<b>\$ 448,146</b>	<b>\$ 415,656</b>
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued charges	\$ 57,898	\$ 54,027
Income tax payable	7,481	2,830
Short-term debt (note 8)	11,129	-
Current portion of long-term debt	6,701	8,887
Future income tax liabilities	23	819
	<b>83,232</b>	<b>66,563</b>
<b>LONG-TERM DEBT</b>	<b>10,178</b>	<b>15,041</b>
<b>FUTURE INCOME TAX LIABILITIES</b>	<b>16,418</b>	<b>15,783</b>
	<b>109,828</b>	<b>97,387</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	143,847	142,435
Contributed surplus	12,605	11,142
Retained earnings	221,919	209,025
Accumulated other comprehensive loss	(40,053)	(44,333)
	<b>338,318</b>	<b>318,269</b>
	<b>\$ 448,146</b>	<b>\$ 415,656</b>

**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE PERIODS ENDED JANUARY 31, 2011 AND 2010**  
**(in thousands of Canadian dollars)**

**1. BASIS OF PRESENTATION**

These interim consolidated financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended April 30, 2010. These interim consolidated financial statements conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements, with the exception of certain note disclosures. As a result, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes for the year ended April 30, 2010 contained in the Company's 2010 annual report.

**2. FUTURE ACCOUNTING CHANGES**

***International Financial Reporting Standards ("IFRS")***

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011 for companies with a calendar year end, therefore the transition date for the Company is May 1, 2011. This will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended April 30, 2011, and of the opening balance sheet as at May 1, 2010. The Company is currently in the process of developing a conversion and implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Company.

**3. SEASONALITY OF OPERATIONS**

The Company's operations tended to exhibit a seasonal pattern whereby its fourth quarter (February to April) was its strongest. With the exception of the third quarter, the Company has, over the past several years, exhibited comparatively less 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. Coming out of the recent economic and industry downturn, it is not yet clear whether or not the Company's revenue will return to more historical seasonal patterns, or whether a recent lack of seasonality will continue.

**4. FUNCTIONAL CURRENCY**

Effective May 1, 2010, the Company's operation in Chile changed its functional currency from the U.S. dollar to the Chilean peso. Factors considered when changing the functional currency included contract revenue being determined in local currency, the currency of operating costs and local regulations requiring invoicing and settlement of these being performed in the local currency. This change has been done in accordance with CICA Handbook Section 1651, Foreign Currency Translation, and consequently applied prospectively. All items were translated to the new functional currency using the exchange rate at the date of the change.

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**5. BUSINESS ACQUISITIONS**

*North Star Drilling*

Effective June 30, 2010, the Company acquired the assets of North Star Drilling, which provides contract drilling services to the fresh water and geothermal markets in certain mid-western states in the USA, and operates from its head office in Little Falls, Minnesota, as well as from satellite offices in Brainerd and Bemidji, Minnesota. The acquired business includes drilling equipment, contracts and employees. The purchase price for the transaction was USD \$2,449 (CAD \$2,567), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$750 to the purchase price, based on future earnings.

The net assets acquired at fair market value at acquisition are as follows:

**Assets acquired and liabilities assumed**

Accounts receivable	\$ 776
Inventories	382
Prepaid expenses	18
Property, plant and equipment	1,078
Goodwill	329
Intangible assets	763
Accounts payable	<u>(779)</u>
<b>Net assets</b>	<b><u>\$ 2,567</u></b>

**Consideration**

Cash	<b><u>\$ 2,567</u></b>
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*SMD Services*

Effective February 26, 2010, the Company acquired SMD Services based in Huntsville, Alabama. Through this purchase, Major Drilling entered the environmental drilling sector and acquired a small fleet of sonic, probe and auger drill rigs, as well as a skilled management team and personnel. The purchase price for the transaction was USD \$1,953 (CAD \$2,064), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$2,000 to the purchase price, based on future earnings.

The net assets acquired at fair market value at acquisition are as follows:

**Assets acquired and liabilities assumed**

Cash	\$ 90
Accounts receivable	234
Prepaid expenses	46
Property, plant and equipment	1,605
Intangible assets	249
Accounts payable	<u>(160)</u>
<b>Net assets</b>	<b><u>\$ 2,064</u></b>

**Consideration**

Cash	<b><u>\$ 2,064</u></b>
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**6. INVENTORY**

The cost of inventory recognized as an expense and included in direct costs for the nine and three months ended January 31, 2011 was \$57,708 and \$15,544 respectively. During the period, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

**7. GOODWILL AND INTANGIBLE ASSETS**

	<u>January 2011</u>	<u>April 2010</u>
Goodwill	\$ 25,559	\$ 24,464
Intangible assets	<u>1,499</u>	<u>1,074</u>
	<u>\$ 27,058</u>	<u>\$ 25,538</u>

Intangible assets include the carrying value of customer relationships and a non-compete agreement, which are amortized on a straight-line basis between a three and five year period.

Changes in the goodwill and intangible assets balance were as follows for the nine and three months ending January 31, 2011 and 2010:

	<u>2011 YTD</u>	<u>2010 YTD</u>	<u>2011 Q3</u>	<u>2010 Q3</u>
Balance at beginning of the period	\$ 25,538	\$ 32,072	\$ 27,373	\$ 26,297
Goodwill and intangible assets acquired	1,092	-	30	-
Amortization of intangible assets	(572)	(396)	(275)	(132)
Goodwill adjustment	-	(1,690)	-	-
Goodwill impairment	-	(2,032)	-	-
Effect of foreign currency exchange rate changes	<u>1,000</u>	<u>(1,817)</u>	<u>(70)</u>	<u>(28)</u>
	<u>\$ 27,058</u>	<u>\$ 26,137</u>	<u>\$ 27,058</u>	<u>\$ 26,137</u>

**8. SHORT-TERM DEBT**

In the first quarter of the current fiscal year, the Company borrowed 5,375 million Chilean pesos (CAD \$10.4 million), initially secured by a USD \$10 million stand-by letter of credit drawn from the Company's demand credit facility, carrying interest at an annual rate of 5.18 percent and maturing in May 2011. In the third quarter, the stand-by letter of credit was increased to USD \$11 million due to the weakening of the US dollar.

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**9. CAPITAL MANAGEMENT**

The Company includes shareholders' equity (excluding accumulated other comprehensive loss), short and long-term borrowings and demand credit facility net of cash in the definition of capital.

Total managed capital was as follows:

	<u>January 2010</u>	<u>April 2010</u>
Short-term debt	\$ 11,129	\$ -
Long-term debt	16,879	23,928
Share capital	143,847	142,435
Contributed surplus	12,605	11,142
Retained earnings	221,919	209,025
Cash	<u>(32,167)</u>	<u>(30,232)</u>
	<u>\$ 374,212</u>	<u>\$ 356,298</u>

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: i) preserve access to capital markets; ii) meet financial obligations; and iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

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.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from fiscal 2010.

**10. FINANCIAL INSTRUMENTS**

***Fair value***

The carrying values of cash, accounts receivable and accounts payable and accrued charges approximate their fair value due to the relatively short period to maturity of the instruments. Long-term debt has a carrying value of \$16,879 as at January 31, 2011 (April 30, 2010 - \$23,928), which also approximates its fair value.

***Risk management***

The Company is exposed to various risks related to its financial assets and liabilities. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them, from previous periods, unless otherwise stated in this note.



**MAJOR DRILLING GROUP INTERNATIONAL INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
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**10. FINANCIAL INSTRUMENTS (Continued)**

***Credit risk***

The Company is exposed to credit risk from its accounts receivable. The Company has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. It carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. The Company also diversifies its credit risk by dealing with a large number of customers in various countries. Demand for the Company's drilling services depends upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold, nickel and copper. The Company's five largest customers account for 26 percent (22 percent in 2010) of total quarterly revenue, with no one customer representing more than 10 percent of its revenue for 2011 or 2010.

The carrying amounts for accounts receivable are net of allowances for doubtful accounts, which are estimated based on aged analyses of receivables, past experience, specific risks associated with the customer and other relevant information. The maximum exposure to credit risk is the carrying value of the financial assets.

As at January 31, 2011, 80 percent of the Company's trade receivables were aged as current and 2.7 percent of the trade receivables were impaired.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

***Interest rate risk***

The demand loan and long-term debt of the Company bear a floating rate of interest, which exposes the Company to interest rate fluctuations.

As at January 31, 2011, the Company has estimated that a one percentage point increase in interest rates would have caused a quarterly decrease in net income of approximately \$42 and a one percentage decrease in interest rates would have caused a quarterly increase in net income of \$42.

***Foreign currency risk***

Foreign currency risk arises as the Company has operations located internationally where local operational currency is not the same as the functional currency of the Company.

A significant portion of the Company's operations are located outside of Canada. The accounting impact of foreign currency exposure is minimized since the operations are classified as self-sustaining operations. In certain developing countries, the Company mitigates its risk of large exchange rate fluctuations by conducting business primarily in U.S. dollars. U.S. dollar revenue exposure is partially mitigated by offsetting U.S. dollar labour and material expenses. Monetary assets denominated in foreign currencies are exposed to foreign currency fluctuations.

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**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE PERIODS ENDED JANUARY 31, 2011 AND 2010**  
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**10. FINANCIAL INSTRUMENTS (Continued)**

Based on the Company's foreign currency net monetary exposures and net assets as at January 31, 2011, and assuming that all other variables remain constant, a 10 percent rise or fall in the Canadian dollar against the other foreign currencies would have resulted in increases (decreases) in the net earnings and comprehensive earnings as follows:

	<u>Increase (decrease) in net earnings</u>	
	Canadian dollar <u>appreciates 10%</u>	Canadian dollar <u>depreciates 10%</u>
U.S. Dollar	\$ (1,501)	\$ 1,501

	<u>Increase (decrease) in comprehensive earnings</u>	
	Canadian dollar <u>appreciates 10%</u>	Canadian dollar <u>depreciates 10%</u>
U.S. Dollar	\$ (23,531)	\$ 23,531
Chilean Peso	(3,664)	3,664
Australian Dollar	(901)	901

***Liquidity risk***

Liquidity risk, the risk that the Company would not be able to meet its financial obligations as they become due, arises from the Company's management of working capital, finance charges and principal repayments on its debt instruments.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Total financial liabilities, by due date, as at January 31, 2011 are as follows:

	<u>Total</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>
Accounts payable & accrued charges	\$ 57,898	\$ 57,898	\$ -	\$ -
Short-term debt	11,129	11,129	-	-
Long-term debt	16,879	6,701	9,982	196
	<u>\$ 85,906</u>	<u>\$ 75,728</u>	<u>\$ 9,982</u>	<u>\$ 196</u>

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(in thousands of Canadian dollars)

**11. SEGMENTED INFORMATION**

	<u>2011 YTD</u>	<u>2010 YTD</u>	<u>2011 Q3</u>	<u>2010 Q3</u>
Revenue				
Canada - U.S.	\$ 129,211	\$ 66,081	\$ 38,191	\$ 21,802
South and Central America	118,896	68,889	36,836	26,486
Australia, Asia and Africa	96,911	75,518	32,693	24,183
	<u>\$ 345,018</u>	<u>\$ 210,488</u>	<u>\$ 107,720</u>	<u>\$ 72,471</u>
Earnings (loss) from operations				
Canada - U.S.	\$ 16,571	\$ 5,394	\$ 1,648	\$ 13
South and Central America	10,565	5,400	1,561	132
Australia, Asia and Africa	10,098	(2,317)	2,979	(2,883)
	<u>37,234</u>	<u>8,477</u>	<u>6,188</u>	<u>(2,738)</u>
Eliminations	<u>(699)</u>	<u>(1,024)</u>	<u>(234)</u>	<u>(367)</u>
	<u>36,535</u>	<u>7,453</u>	<u>5,954</u>	<u>(3,105)</u>
Interest expense, net	876	685	265	206
General corporate expenses	8,929	6,330	3,303	2,153
Restructuring charge	-	1,220	-	-
Goodwill impairment	-	2,032	-	-
Income tax	8,593	875	722	(1,011)
Net earnings (loss)	<u>\$ 18,137</u>	<u>\$ (3,689)</u>	<u>\$ 1,664</u>	<u>\$ (4,453)</u>

Goodwill impairment relates to the South and Central American segment for the fiscal year 2010.