

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

	Six months ended October 31		Three months ended October 31	
	<u>2010</u>	2009	<u>2010</u>	2009
TOTAL REVENUE	\$ 237,298	\$ 138,017	\$ 127,818	\$ 75,528
DIRECT COSTS	175,665	97,995	92,717	52,736
GROSS PROFIT	<u>61,633</u>	<u>40,022</u>	<u>35,101</u>	<u>22,792</u>
OPERATING EXPENSES				
General and administrative	19,502	16,998	9,946	8,126
Other expenses	3,310	2,032	1,419	1,147
Foreign exchange gain	(1,248)	(829)	(1,340)	(149)
Interest expense (revenue)	231	(95)	145	(26)
Interest expense on long-term debt	380	574	180	271
Amortization	15,114	15,440	7,759	7,713
Restructuring charge	-	1,220	-	-
Goodwill impairment	-	2,032	-	-
	<u>37,289</u>	<u>37,372</u>	<u>18,109</u>	<u>17,082</u>
EARNINGS BEFORE INCOME TAX	<u>24,344</u>	<u>2,650</u>	<u>16,992</u>	<u>5,710</u>
INCOME TAX - PROVISION (RECOVERY)				
Current	8,850	1,302	5,907	1,587
Future	(979)	584	(335)	63
	<u>7,871</u>	<u>1,886</u>	<u>5,572</u>	<u>1,650</u>
NET EARNINGS	<u>\$ 16,473</u>	<u>\$ 764</u>	<u>\$ 11,420</u>	<u>\$ 4,060</u>
<u>EARNINGS PER SHARE</u>				
Basic *	<u>\$ 0.69</u>	<u>\$ 0.03</u>	<u>\$ 0.48</u>	<u>\$ 0.17</u>
Diluted **	<u>\$ 0.69</u>	<u>\$ 0.03</u>	<u>\$ 0.48</u>	<u>\$ 0.17</u>

*Based on 23,795,973 and 23,717,467 daily weighted average shares outstanding for the fiscal year to date 2011 and 2010, respectively, and on 23,807,033 and 23,718,861 daily weighted average shares outstanding for the quarter ended October 31, 2010 and 2009, respectively. The total number of shares outstanding on October 31, 2010 was 23,854,042.

**Based on 23,955,179 and 24,025,755 daily weighted average shares outstanding for the fiscal year to date 2011 and 2010, respectively, and on 24,019,713 and 23,894,788 daily weighted average shares outstanding for the second quarter ended October 31, 2010 and 2009, respectively.

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

(in thousands of Canadian dollars)
(unaudited)

	Six months ended October 31		Three months ended October 31	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NET EARNINGS	\$ 16,473	\$ 764	\$ 11,420	\$ 4,060
OTHER COMPREHENSIVE EARNINGS (LOSS)				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	<u>8,595</u>	<u>(24,016)</u>	<u>2,958</u>	<u>412</u>
COMPREHENSIVE EARNINGS (LOSS)	<u>\$ 25,068</u>	<u>\$ (23,252)</u>	<u>\$ 14,378</u>	<u>\$ 4,472</u>

Consolidated Statements of Retained Earnings

(in thousands of Canadian dollars)
(unaudited)

	Six months ended October 31	
	<u>2010</u>	<u>2009</u>
RETAINED EARNINGS, BEGINNING OF THE PERIOD	\$ 209,025	\$ 218,983
Net earnings	16,473	764
Dividend	<u>(5,243)</u>	<u>(4,745)</u>
RETAINED EARNINGS, END OF THE PERIOD	<u>\$ 220,255</u>	<u>\$ 215,002</u>

**Consolidated Statements of Accumulated Other
Comprehensive Loss**

(in thousands of Canadian dollars)
(unaudited)

	Six months ended October 31	
	<u>2010</u>	<u>2009</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE PERIOD	\$ (44,333)	\$ (5,079)
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	<u>8,595</u>	<u>(24,016)</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF THE PERIOD	<u>\$ (35,738)</u>	<u>\$ (29,095)</u>

Major Drilling Group International Inc. Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)
(unaudited)

	Six months ended October 31		Three months ended October 31	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES				
Net earnings	\$ 16,473	\$ 764	\$ 11,420	\$ 4,060
Operating items not involving cash				
Amortization	15,114	15,440	7,759	7,713
(Gain) loss on disposal of property, plant and equipment	(817)	1	(705)	(66)
Future income tax (recovery)	(979)	584	(335)	63
Stock-based compensation	907	1,044	460	539
Goodwill impairment	-	2,032	-	-
	<u>30,698</u>	<u>19,865</u>	<u>18,599</u>	<u>12,309</u>
Changes in non-cash operating working capital items	<u>(4,178)</u>	<u>(325)</u>	<u>(3,961)</u>	<u>213</u>
Cash flow from operating activities	<u>26,520</u>	<u>19,540</u>	<u>14,638</u>	<u>12,522</u>
FINANCING ACTIVITIES				
Repayment of long-term debt	(5,234)	(6,469)	(2,953)	(3,393)
Acquisition of short-term debt (note 8)	10,400	-	-	-
Issuance of common shares	1,280	28	1,146	28
Dividend paid	(4,750)	(4,743)	-	-
Cash flow from (used in) financing activities	<u>1,696</u>	<u>(11,184)</u>	<u>(1,807)</u>	<u>(3,365)</u>
INVESTING ACTIVITIES				
Business acquisition (note 5)	(2,537)	-	(185)	-
Acquisition of property, plant and equipment	(22,208)	(7,208)	(13,289)	(3,904)
Proceeds from disposal of property, plant and equipment	3,357	1,497	2,817	602
Cash flow used in investing activities	<u>(21,388)</u>	<u>(5,711)</u>	<u>(10,657)</u>	<u>(3,302)</u>
OTHER ACTIVITIES				
Foreign exchange translation adjustment	<u>(1,213)</u>	<u>(3,157)</u>	<u>(1,545)</u>	<u>(484)</u>
INCREASE (DECREASE) IN CASH	5,615	(512)	629	5,371
CASH POSITION, BEGINNING OF THE PERIOD	30,232	58,035	35,218	52,152
CASH POSITION, END OF THE PERIOD	\$ 35,847	\$ 57,523	\$ 35,847	\$ 57,523

Major Drilling Group International Inc.
Consolidated Balance Sheets

As at October 31, 2010 and April 30, 2010

(in thousands of Canadian dollars)

(unaudited)

ASSETS	October	April
	2010	2010
CURRENT ASSETS		
Cash	\$ 35,847	\$ 30,232
Accounts receivable	85,563	62,128
Income tax receivable	6,575	10,053
Inventories	64,447	63,170
Prepaid expenses	6,689	4,813
Future income tax assets	233	793
	<u>199,354</u>	<u>171,189</u>
PROPERTY, PLANT AND EQUIPMENT	223,646	210,812
FUTURE INCOME TAX ASSETS	9,450	8,117
GOODWILL AND INTANGIBLE ASSETS (note 7)	27,373	25,538
	<u>\$ 459,823</u>	<u>\$ 415,656</u>
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 65,956	\$ 54,027
Income tax payable	6,486	2,830
Short-term debt (note 8)	11,148	-
Current portion of long-term debt	7,048	8,887
Future income tax liabilities	374	819
	<u>91,012</u>	<u>66,563</u>
LONG-TERM DEBT	11,741	15,041
FUTURE INCOME TAX LIABILITIES	16,789	15,783
	<u>119,542</u>	<u>97,387</u>
 SHAREHOLDERS' EQUITY		
Share capital	143,715	142,435
Contributed surplus	12,049	11,142
Retained earnings	220,255	209,025
Accumulated other comprehensive loss	(35,738)	(44,333)
	<u>340,281</u>	<u>318,269</u>
	<u>\$ 459,823</u>	<u>\$ 415,656</u>

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
(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.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
(in thousands of Canadian dollars)

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 \$2,428 (CAD \$2,537), 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 Company is in the process of finalizing the valuation of assets. As at October 31, 2010, \$1,475 of the purchase price was allocated to net tangible assets and \$1,062 was allocated to goodwill. These values are preliminary and are subject to adjustments as additional information is obtained.

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

Assets acquired and liabilities assumed

Accounts receivable	\$	774
Inventories		385
Prepaid expenses		18
Property, plant and equipment		1,075
Goodwill		1,062
Accounts payable		<u>(777)</u>
Net assets	\$	<u>2,537</u>

Consideration

Cash	\$	<u>2,537</u>
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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.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
(in thousands of Canadian dollars)

5. BUSINESS ACQUISITIONS (Continued)

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	(160)
Net assets	<u>\$ 2,064</u>

Consideration

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

The cost of inventory recognized as an expense and included in direct costs for the six and three months ended October 31, 2010 was \$42,164 and \$23,446 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>October 2010</u>	<u>April 2010</u>
Goodwill	\$ 26,321	\$ 24,464
Intangible assets	<u>1,052</u>	<u>1,074</u>
	<u>\$ 27,373</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 six and three months ending October 31, 2010 and 2009:

	<u>2011 YTD</u>	<u>2010 YTD</u>	<u>2011 Q2</u>	<u>2010 Q2</u>
Balance at beginning of the period	\$ 25,538	\$ 32,072	\$ 26,434	\$ 26,692
Goodwill and intangible assets acquired	1,062	-	374	-
Amortization of intangible assets	(297)	(264)	(165)	(132)
Goodwill adjustment	-	(1,690)	-	-
Goodwill impairment	-	(2,032)	-	-
Effect of foreign currency exchange rate changes	1,070	(1,789)	730	(263)
	<u>\$ 27,373</u>	<u>\$ 26,297</u>	<u>\$ 27,373</u>	<u>\$ 26,297</u>

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
(in thousands of Canadian dollars)

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), 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% and maturing in May 2011.

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>October 2010</u>	<u>April 2010</u>
Short-term debt	\$ 11,148	\$ -
Long-term debt	18,789	23,928
Share capital	143,715	142,435
Contributed surplus	12,049	11,142
Retained earnings	220,255	209,025
Cash	<u>(35,847)</u>	<u>(30,232)</u>
	<u>\$ 370,109</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-

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
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10. FINANCIAL INSTRUMENTS (Continued)

term debt has a carrying value of \$18,789 as at October 31, 2010 (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.

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 24 percent (25 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 October 31, 2010, 70 percent of the Company's trade receivables were aged as current (less than 30 days) and 2.2 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 October 31, 2010, the Company has estimated that a one percentage point increase in interest rates would have caused a quarterly decrease in net income of approximately \$46 and a one percentage decrease in interest rates would have caused a quarterly increase in net income of \$46.

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.

MAJOR DRILLING GROUP INTERNATIONAL INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
(in thousands of Canadian dollars)

10. FINANCIAL INSTRUMENTS (Continued)

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.

Based on the Company's foreign currency net monetary exposures and net assets as at October 31, 2010, 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	\$ (1,478)	\$ 1,478

	<u>Increase (decrease) in comprehensive earnings</u>	
	Canadian dollar <u>appreciates 10%</u>	Canadian dollar <u>depreciates 10%</u>
U.S. Dollar	\$ (22,661)	\$ 22,661
Chilean Peso	(3,602)	3,602
Australian Dollar	(1,003)	1,003

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 October 31, 2010 are as follows:

	<u>Total</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>
Accounts payable & accrued charges	\$ 65,956	\$ 65,956	\$ -	\$ -
Short-term debt	11,148	11,148	-	-
Long-term debt	18,789	7,048	10,855	886
	<u>\$ 95,893</u>	<u>\$ 84,152</u>	<u>\$ 10,855</u>	<u>\$ 886</u>

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIODS ENDED OCTOBER 31, 2010 AND 2009
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11. SEGMENTED INFORMATION

	<u>2011 YTD</u>	<u>2010 YTD</u>	<u>2011 Q2</u>	<u>2010 Q2</u>
Revenue				
Canada - U.S.	\$ 91,020	\$ 44,279	\$ 50,569	\$ 24,091
South and Central America	82,060	42,403	42,043	24,160
Australia, Asia and Africa	64,218	51,335	35,206	27,277
	<u>\$ 237,298</u>	<u>\$ 138,017</u>	<u>\$ 127,818</u>	<u>\$ 75,528</u>
Earnings from operations				
Canada - U.S.	\$ 15,077	\$ 5,381	\$ 9,506	\$ 3,768
South and Central America	9,158	5,268	4,626	3,362
Australia, Asia and Africa	7,272	566	6,278	1,270
	<u>31,507</u>	11,215	<u>20,410</u>	8,400
Eliminations	<u>(465)</u>	<u>(657)</u>	<u>(234)</u>	<u>(333)</u>
	<u>31,042</u>	10,558	<u>20,176</u>	8,067
Interest expense, net	611	479	325	245
General corporate expenses	6,087	4,177	2,859	2,112
Restructuring charge	-	1,220	-	-
Goodwill impairment	-	2,032	-	-
Income tax	7,871	1,886	5,572	1,650
Net earnings	<u>\$ 16,473</u>	<u>\$ 764</u>	<u>\$ 11,420</u>	<u>\$ 4,060</u>

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