Groupe Forage MAJOR Drilling Group International Inc.

Management's Discussion and Analysis

Third Quarter Fiscal 2009

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER FISCAL 2009

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, 2009. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These interim unaudited 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, 2008, except for the adoption of new accounting policies as disclosed in Note 2 of the Notes to Interim Unaudited Consolidated Financial Statements.

This MD&A is a review of activities and results for the quarter ended January 31, 2009 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 January 31, 2009, 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, 2008.

This MD&A is dated March 3, 2009. Disclosure contained in this document is current to that date, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information in order for investors to have a better understanding of a company's future prospects and make informed investment decisions.

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. Such statements include, but are not limited to: worldwide demand for gold and base metals and overall commodity prices, the level of activity in the minerals and metals industry and the demand for the Company's services, the Canadian and international economic environments, the Company's ability to attract and retain customers and to manage its assets and operating costs, sources of funding for its clients, particularly for junior mining companies, competitive pressures, currency movements, which can affect the Company revenue in Canadian dollars, the geographic distribution of the Company's operations, the impact of operational changes, changes in jurisdictions in which the Company operates (including changes in regulation), failure by counterparties to fulfill contractual obligations, and other factors set forth from time to time in the Company's Annual Information Form, as such factors may be amended or updated in subsequent MD&As.

These factors and other risk factors, as described under "Risk 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. Risks that could cause the Company's actual results to materially differ from its current expectations are 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 SEDAR 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, Indonesia, Mongolia, and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, RAB, geotechnical, environmental drilling and coal-bed methane and shallow gas.

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. In a positive commodity pricing regime, either one of these metal groups can, by itself, stimulate significant demand for drilling services. In the last few years, historically high commodity prices in all commodities drove the industry to record levels of activity with worldwide mineral exploration expenditures in calendar 2008 surpassing US$14 billion.

The current economic environment has impacted, and will continue to impact, drilling in the short to medium-term, particularly on base metal projects where the Company expects to see a significant slowdown in activity in 2009. Senior and intermediate base metal companies that are leveraged have also reduced their exploration spending for 2009, in order to conserve cash. Many gold producers have delayed exploration plans due to the uncertainty in the economy. Sources of funding for junior mining companies are limited, and as such many junior projects, both in the base metals and gold sectors, have been delayed or cancelled.

Long-term, the fundamental drivers of our business remain positive, with worldwide supply for most metals expected to tighten due to the continuing lack of significant discoveries. The prospects for gold related drilling, which generally accounts for 50 percent of the drilling market, remains positive.

Gold

Drilling services for gold are always affected by overall commodity prices. However, Metals Economics Group ("MEG") is reporting that declining gold reserves replacement via exploration, since 1997, may result in gold supply shortages in the long-term. Especially evident from their analysis is that the number of recently discovered large deposits of more than 2.5 million oz. (a size senior mining companies would consider developing) is not adequate to replace the seniors' gold production. The discovery rate of major gold deposits has declined in each of the last eight years. Historically, only about half of feasibility-stage projects reach production within ten years.

Base Metals

Drilling services for base metals are affected by overall commodity prices. Despite the current economic environment, with low levels of exploration in the recent past limiting the expansion of supply, and the emergence of China and India as major consumers of base metals, supply is expected to be stretched within the next several years. MEG reports that the time required to take a project from discovery through to production ensures that any new discoveries will not benefit global supply for years. During this time, definition drilling is required to establish mine plans in order to bring these discoveries into production.

OUTLOOK AND BUSINESS STRATEGY

The Company cautions that there is currently very broad volatility in all aspects of its business and accordingly, actual results may vary substantially from all forward-looking information in this MD&A.

The uncertainty surrounding the present global economic situation limits the Company's visibility for the short-term. Fourth quarter revenue will be significantly impacted by cancellations and delays, and revenue could potentially fall by more than half as compared to the same quarter last year. Delays and cancellations will continue to have an impact through at least the first half of calendar 2009. In addition, lower levels of demand have significantly increased competitive pressures, which will impact pricing. As announced last quarter, the Company has undertaken quick actions to reduce its costs. In November, the Company took actions to reduce general and administrative expenses by 10 percent and, in the current environment, is taking steps to further reduce expenses. As part of these actions, the decision was made in early February that directors' fees and salary of the Company's top 40 executives would be reduced by 10 percent. Furthermore, the Company continues to have a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue and a large part of the Company's other expenses relates to variable incentive compensation based on the Company's profitability. In order to optimize our rig performance, we took this opportunity to review the quality of our fleet and retired 55 inefficient and more costly rigs. Due to all these initiatives, the Company recorded a total restructuring charge of $6.9 million in the third quarter, $5.2 million being non-cash.

Beyond the fourth quarter, and due to the ongoing volatility in the sector, we have very little visibility and our results will depend, in large part, on how quickly drill programs resume. The level of drilling will be highly dependant on gold companies as they make decisions on their exploration spending for the remaining part of calendar 2009. In the meantime, the Company is looking at opportunities in new jurisdictions that it was unable to service in the past due to labour and rig constraints.

The Company became debt-free, net of cash, during the quarter. Total cash level, net of long-term debt, increased by $30.6 million to stand at $22.6 million at quarter-end. Good operational cash flow and reduced capital expenditures, at $14.3 million during the quarter, combined with tight working capital management, were responsible for this progress.

Despite the difficult environment, the Company expects operations to generate positive cash flow in fiscal year 2010. The Company's strategic goal in fiscal 2010 is to accumulate cash. The Company will do so by generating cash from operations, by limiting capital expenditures to between $25 million and $30 million per year, by reducing inventory and by closely monitoring costs. The Company continues to see opportunities to invest in specialized drilling, although at a slower pace. While acquisitions remain a possibility, the Company is increasingly focused on building its cash reserves. During the quarter, the Company added 13 previously ordered rigs and sold 9 rigs, which brings the rig count to 525 rigs at the end of January.

The Board of Directors has declared a cash dividend of $0.20 per common share payable on May 1, 2009 to shareholders on record as of April 10, 2009. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

OVERALL PERFORMANCE

The quarter had a relatively strong start in November with good revenue and improved productivity. However, by the end of November many projects were completed whereas last year, most customers worked well into December. In January, due to the uncertainty in the economy, many customers delayed or cancelled their exploration drilling plans, which impacted the quarter's results compared to last year.

Revenue for the quarter was down 27.6 percent at $87.4 million compared to $120.8 million recorded for the prior year period. Early shutdowns of projects going into the holiday season and cancellation or delays of programs in January accounted for the reduction in revenue in all three of our regions. The favourable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same period last year, is estimated at $9 million on revenue.

The overall gross margin percentage for the quarter was down at 27.6 percent as compared to 27.9 percent for the same period last year. Margins in November were higher than last year as more experienced drillers operated our rigs and training expenses decreased. In January, reduced pricing due to increased competitive pressures and delays impacted margins.

During the quarter, the Company recorded a restructuring charge of $6.9 million to account for retrenchment costs of $1.7 million and non-cash asset write downs of $5.2 million.

Loss from continuing operations for the quarter, after the restructuring and impairment charge, was $5.1 million or $0.21 per share ($0.21 per share diluted) compared to earnings from continuing operations of $7.7 million or $0.32 per share ($0.32 per share diluted) in the prior year period. Excluding restructuring and impairment charges (net of tax), earnings for the quarter were $0.5 million or $0.02 per share.

RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2009

Total revenue for the third quarter was $87.4 million compared to $120.8 million recorded for the prior year period. Early shutdowns of projects going into the holiday season and cancellation or delays of programs in January accounted for the reduction in revenue in all three of our regions. The favorable foreign exchange translation impact, for the quarter, when comparing to the effective rates for the same period last year, is estimated at $9 million on revenue.

Revenue from Canada-U.S. drilling operations was down 19 percent to $28.4 million for the quarter compared to $35.1 million for the same period last year.

In South and Central America, revenue for the quarter was $23.5 million, down 39 percent from $38.8 million recorded in the prior year quarter. A complete halt of operations in Venezuela and Ecuador due to political issues, and a slowdown in Mexico due to a higher proportion of juniors, impacted revenue in the region.

Australian, Asian and African drilling operations reported revenue of $35.5 million, down some 24 percent from $46.8 million reported in the same period last year.

The overall gross margin percentage for the quarter was 27.6 percent as compared to 27.9 percent for the same period last year. Margins in November were higher than last year as more experienced drillers operated our rigs and training expenses decreased. In January, reduced pricing due to increased competitive pressures and delays impacted margins.

General and administrative costs were relatively flat at $11.3 million for the quarter, compared to $11.2 million for the prior year period. General and administrative costs were $1.5 million, or 11.7 percent lower than reported in the second quarter following initiatives implemented in November, which started to take effect in December. The Company monitors these costs closely and has taken steps to further reduce these expenses. As part of these actions, the decision was made in February that directors' fees and salary of the Company's top 40 executives would be reduced by 10 percent.

Other expenses were $2.0 million for the quarter compared to $2.6 million for the same period last year. The reduction primarily relates to lower incentive compensation expenses given the Company's decreased profitability as compared to the same period last year, offset by an increase in bad debt provisions.

Foreign exchange gain was $0.7 million for the quarter compared to a loss of $0.4 million for the prior year period. The gain was due to exchange rate variations on monetary working capital items.

Short-term interest expense was nil for the quarter compared to $0.2 million last year, while interest on long-term debt was $0.5 million compared to $0.6 million for the prior year quarter.

Amortization expense increased to $8.5 million for the quarter compared to $7.0 million for the same quarter last year, as a result of increased investment in equipment.

During the quarter, the Company recorded a restructuring charge of $6.9 million to account for retrenchment costs of $1.7 million and asset write downs of $5.2 million. Also, the Company recorded a non-cash goodwill and intangible assets impairment charge of $0.7 million.

The Company's tax recovery was $0.1 million for the quarter compared to an expense of $4.0 million for the same period last year. The tax expense for the quarter was impacted by the non-recognition or reversal of tax losses in Venezuela and Botswana.

Loss from continuing operations for the quarter, after the restructuring and impairment charge, was $5.1 million or $0.21 per share ($0.21 per share diluted) compared to earnings from continuing operations of $7.7 million or $0.32 per share ($0.32 per share diluted) in the prior year period. Excluding restructuring and impairment charges (net of tax), earnings for the quarter were $0.5 million or $0.02 per share.

Resulting net loss for the quarter was $5.1 million or $0.21 per share ($0.21 per share diluted) compared to $7.2 million or $0.31 per share ($0.30 per share diluted) for the same period last year.

RESULTS OF OPERATIONS – NINE MONTHS ENDED JANUARY 31, 2009

Revenue for the nine-month period ending January 31, 2009 increased 8.6 percent to $456.6 million from $420.3 million for the corresponding period last year. The favorable foreign exchange translation impact, for the year, when comparing to the effective rates for the same period last year, is estimated at $12 million on revenue.

Canada-U.S. revenue increased by 8.1 percent to $147.6 million compared to $136.5 million last year with both countries contributing to this growth.

Revenue in South and Central America increased by 5.6 percent to $133.1 million, compared to $126.1 million in the prior year period. Good growth in Chile and Argentina was mitigated by a halt of operations in Venezuela and Ecuador due to political issues in those countries.

Revenue in Australia, Asia and Africa increased 11.5 percent to $175.8 million from $157.7 million in the prior year period. Good growth in Australia, Mongolia and Namibia was mitigated by a reduction in revenue in other parts of Africa and the shutdown of operations in Armenia earlier in the year.

Gross margins for the nine-month period were 34.6 percent compared to 32.4 percent last year due mainly to an improving pricing environment compared to last year.

General and administrative expenses increased to $37.5 million compared to $32.1 million for the same period last year. This increase is primarily due to additions to the management team to accommodate growth in the first half of the fiscal year, administrative salary increases, and the acquisition.

Other expenses were $10.7 million for the nine-month period compared to $10.4 million for the same period last year due primarily to higher bad debt provisions partially offset by lower incentive compensation expense.

Foreign exchange loss was $1.0 million for the nine-month period compared to $2.2 million in the prior year period as a result of less unfavorable currency variations during the year.

Short-term interest expense was $0.2 million for the nine-month period compared to revenue of $0.4 million last year, while interest expense on long-term debt was $1.4 million compared to $1.9 million for the same period last year.

Amortization expense increased to $24.2 million for the nine-month period, compared to $19.5 million for the same period last year, as a result of increased investment in equipment during the year.

The provision for income tax for the nine-month period was $24.6 million compared to $21.0 million for the prior year period reflecting the increase in pre-tax earnings, year to date.

Net earnings for the nine-month period were $50.5 million or $2.13 per share ($2.11 per share diluted) compared to $48.7 million or $2.07 per share ($2.04 per share diluted) for the same period last year.

SUMMARY OF QUARTERLY RESULTS

	Fiscal 2007	Fiscal 2008				Fiscal 2009		
(in $000 Cnd, except per share)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	$ 129,049	$ 143,420	$ 156,136	$ 120,758	$ 169,995	$ 178,215	$ 191,010	$ 87,361
Gross profit	43,520	47,644	54,665	33,712	59,420	63,304	70,438	24,086
Gross margin	33.7%	33.2%	35.0%	27.9%	35.0%	35.5%	36.9%	27.6%
Earnings (loss) from continuing operations	17,800	18,824	22,815	7,670	25,286	26,330	29,276	(5,070)
Per share - basic	0.77	0.80	0.97	0.32	1.07	1.11	1.23	(0.21)
Per share - diluted	0.75	0.79	0.95	0.32	1.05	1.10	1.22	(0.21)
Net earnings (loss)	17,809	18,935	22,563	7,236	25,361	26,330	29,276	(5,070)
Per share - basic	0.77	0.81	0.96	0.31	1.07	1.11	1.23	(0.21)
Per share - diluted	0.75	0.80	0.94	0.30	1.05	1.10	1.22	(0.21)

The geographic distribution of the Company's operations has impacted its historical seasonal revenue patterns. Historically, the Company's fourth quarter was its strongest, followed by its second and first quarters. 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. With the exception of the third quarter, the Company has, over the past several years, exhibited comparatively less seasonality in quarterly revenue, since a relatively higher proportion of drilling revenue was generated in regions with more temperate or tropical climates that were not impacted by winter weather conditions. Additionally, strong cyclical growth had tended to mute normal seasonal patterns. With the current economic and industry downturn ongoing, 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.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Operating cash flow from continuing operations (before changes in non-cash working capital) was $9.4 million for the quarter, a decrease of 42.3 percent from $16.3 million generated in the same period last year.

The change in non-cash operating working capital items was an inflow of $33.6 million in the quarter compared to an inflow of $1.1 million for the same quarter last year. The change in non-cash operating working capital in the quarter was primarily impacted by:

- A decrease in accounts receivable of $60.2 million due to a decrease in activity as compared to the previous quarter as the Company experienced the usual seasonality with the holiday shutdowns, compounded by delays or cancellation of drilling programs in January;
- A decrease in accounts payable of $28.8 million due to a seasonal decrease in activity as compared to the previous quarter.

Financing Activities

Long-term debt repayments were $3.2 million during the quarter.

The credit facilities related to operations total $31.4 million ($30.0 million from a Canadian chartered bank and $1.4 million in credit facilities in Chile and Australia) and are secured by fixed and floating charges on selected Canadian capital assets, a general assignment of book debts, inventories and corporate guarantees of companies within the group. The Company has a credit facility of $1.7 million for credit cards for which interest rate and repayment are as per cardholder agreements. At January 31, 2009, the Company had utilized $1.9 million of these lines.

A second facility is a $65.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At January 31, 2009, the Company had utilized $29.0 million of this line. Draws on this line can be amortized over five years.

The first and second facilities have been renewed in November 2008 with no significant changes in the borrowing conditions of the facilities.

The third facility is a US$2.8 million non-revolving term facility established to assist in the 2005 acquisition of Dynatec's Drilling Division, based in the United States. This facility is being amortized over a five-year period, which commenced in June 2005.

The Company also has other various loans and capital lease facilities related to equipment purchases that totaled $15.6 million at January 31, 2009, of which $11.6 million were utilized and mature through 2011.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure and debt obligations. As at January 31, 2009, the Company had unused borrowing capacity under its credit facilities of $69.5 million and cash of $66.8 million, for a total of $136.3 million in available funds.

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.

Investing Activities

Capital expenditures were $14.5 million ($14.3 million net of financing) for the quarter ended January 31, 2009 compared to $17.6 million ($16.5 million net of financing) for the same period last year. Capital expenditure plans have been reduced to $50-$55 million for this fiscal year, which is less than the $80 million that was originally planned. As the difficulty in accessing ore bodies continues to increase, the Company continues to see opportunities to invest in specialized drilling, but in the current economic climate, will do so at a slower pace. While acquisitions remain a possibility, we are increasingly focused on building our cash reserves.

During the quarter, the Company added 13 drill rigs through its capital expenditure program while retiring or disposing of 64 inefficient and more costly rigs. This brings the total rig count to 525 at quarter-end.

FOREIGN EXCHANGE

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar and the Australian dollar. 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 $9 million on revenue and $1.4 million on net loss. The favourable impact of foreign exchange translation, for the nine-month period ended January 31, 2009, when comparing to the effective rates for the same period last year, is estimated at $12 million on revenue and $2.7 million on net earnings.

OTHER COMPREHENSIVE EARNINGS

The consolidated statements of comprehensive earnings for the quarter include $4.1 million in unrealized gains on translating the financial statements of our self-sustaining foreign operations. The change relates to translating the net assets of our foreign operations using the current rate method, given that the subsidiaries are considered self-sustaining for Canadian GAAP purposes. During the quarter, the Canadian dollar weakened 1.8 percent against the U.S. dollar but strengthened 3.5 percent against the Australian dollar, increasing the net value of our net asset position in these subsidiaries in Canadian dollar terms.

RESTRUCTURING CHARGE

During the third quarter of 2009, the Company initiated a restructuring plan to standardize the drilling equipment fleet and reduce operating costs by rationalizing the workforce and business locations. These initiatives generated a total restructuring charge of $6.9 million as detailed below.

The current economic environment presented an opportunity to accomplish significant progress in the rationalization of the Company's drilling equipment fleet, which was initiated a number of years ago. The Company eliminated 55 drill rigs from its global fleet for a non-cash charge of $5.2 million with the objective of increasing the focus on hydraulic drill rigs equipped with the latest safety features.

Employee severance charges of $1.6 million have been incurred to rationalize the workforce and centralize some administrative functions. These charges have been fully paid out in the quarter.

Business relocation charges of $0.1 million, relating to early termination of leases, have been expensed and are not yet paid at the end of the quarter.

GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT

In the current quarter, the Company recorded an impairment charge of $0.7 million.

Of this amount, $0.3 million relates to the value attributed to the acquired contracts and recorded as intangible assets from the Forage à Diamant Benoît Ltée purchase earlier this fiscal year. This impairment was required as the majority of these contracts have been completed early due to the current economic conditions.

Goodwill of $0.4 million from the Longstaff Group of Companies purchased in the third quarter of 2007 has also been impaired due to the economic downturn and the inability of this region to generate the expected revenue.

BUSINESS ACQUISITIONS

Acquisition of Forage Benoît

Effective August 1, 2008 the Company acquired the assets of the exploration drilling company Forage à Diamant Benoît Ltée ("Benoît") based in Val-d'Or, Québec. Through this purchase, Major Drilling acquired 19 drill rigs, support equipment and inventory, existing contracts and personnel. The purchase price for the transaction was C$23.1 million including customary working capital adjustments, financed by cash and debt.

GENERAL RISKS AND UNCERTAINTIES

The risks described below do not include all possible risks and there may be other risks to which management is currently not aware.

Cyclical Downturn

The most significant operating risk affecting the Company is the continuing or further downturn in demand for its services due to a decrease in activity in the minerals and metals industry. In attempting to mitigate this risk, the Company is exploiting its competitive advantage in specialized drilling and continues to explore opportunities to rationalize its regional infrastructures. In the last cyclical market downturn, the Company realized that specialized services were not as affected by decreases in metal and mineral prices compared to its traditional services. Consequently, the Company's addition of rigs and acquisitions of businesses have generally been focused on specialized drilling services. The impact on the Company of a severe and persistent downturn in the minerals and metals industry (a possible outcome of the current global economic conditions) may not be fully mitigated by the foregoing measures.

While receivables from senior and larger intermediate mining exploration companies remain a significant component of total receivables, accounts receivable from junior mining companies also have a tendency to increase during a cyclical downturn. In many cases, capital markets are the only source of funds available to these juniors and any change in the outlook for the sector or the lack of success of a specific exploration program can quickly impair the ability of these juniors to raise capital to pay for their drilling programs. Also, both credit and capital markets financing have become generally scarce under current global economic conditions, which could impact adversely the exploration programs of all mining exploration companies, irrespective of size.

Levels of inventory typically increase as a result of increased activity levels. In addition to direct volume related increases however, inventory levels also increase due to an expansion of activity in remote locations at the end of long supply chains where it is necessary to increase inventory to ensure an acceptable level of continuing service, which is part of the Company's competitive advantage. In the event of a sudden downturn of activities related either to a specific project or to the sector as a whole, it is more difficult and costly to redeploy this remote inventory to other regions where it can be consumed.

Competitive Pressures

Pressures from existing competitors, in particular in current global economic conditions, could intensify and impose decreased contract prices and put a strain on current growth rates. There can be no assurance that the Company's competitors will not be successful in capturing a share of the Company's present or potential customer base.

Country Risk

Major Drilling is committed to utilizing its expertise and technology in exploration areas around the world. With this comes the risk of dealing with business and political systems in a variety of jurisdictions. Unanticipated economic, political, tax related, regulatory or legal changes (or changes in interpretation) could have a material negative impact on operations and assets. The risks include, but are not limited to, military repression, extreme fluctuations in currency exchange rates and high rates of inflation, changes in mining or investment policies or shifts in political attitude that may adversely affect the business. There has been an emergence of a trend by some governments to increase their participation in the benefits of rising commodity prices, most notably in South America and Mongolia, through increased taxation, expropriation, or otherwise. This could negatively impact the level of foreign investment in mining and exploration activities and thus drilling demand in these regions. Such events could result in reductions in revenue and transition costs as equipment is shifted to other locations.

Taxes

The Company is subject to many different forms of taxation in various jurisdictions throughout the world, including but not limited to, income tax, withholding tax, commodity tax and social security and other payroll related taxes, which may lead to disagreements with tax authorities regarding the application of tax law.

Tax law and administration is extremely complex and often requires us to make subjective determinations. The computation of income, payroll and other taxes involves many factors, including the interpretation of tax legislation in various jurisdictions in which we are subject to ongoing tax assessments. Our estimate of tax related assets, liabilities, recoveries and expenses incorporates significant assumptions. These assumptions include, but are not limited to, the tax rates in various jurisdictions, the effect of tax treaties between jurisdictions and taxable income projections. To the extent that such assumptions differ from actual results, we may have to record additional tax expenses and liabilities, including interest and penalties.

Foreign Currency

The Company conducts a significant proportion of its business outside of Canada and consequently has exposure to currency movements, principally in U.S. and Australian dollars. In order to reduce its exposure to foreign exchange risks associated with currencies of developing countries, where a substantial portion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where practical and legally permitted.

Foreign exchange translations can have a great impact on year-to-year comparisons because of the geographic distribution of the Company's activities. Year-over-year revenue comparisons have been affected by the fluctuation in the Canadian dollar against the U.S. dollar. Margin performance however is less affected by currency fluctuations as a large proportion of costs are typically in the same currency as revenue. In future periods, year-to-year comparisons of revenue could be significantly affected by changes in foreign exchange rates.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and/or systems or from external events. Operational risk is present in all of the Company's business activities, and incorporates exposure relating to fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, technology failures, processing errors, business integration, theft and fraud, damage to physical assets and employee safety and insurance coverage.

Dependence on Key Customers

From time to time, the Company may be dependent on a small number of customers for a significant portion of overall revenue and net income. Should one or more such customers terminate contracts with the Company, there can be no guarantee that the Company will obtain sufficient replacement contracts to maintain the existing revenue and income levels. Consequently, the Company continues to work to expand its client base and geographic field of operations to mitigate its exposure to any single client, commodity or mining region.

Safety

Failure to maintain a record of acceptable safety performance may have an adverse impact on the Company's ability to attract and retain customers. Most of the Company's customers consider safety and reliability two primary attributes when selecting a provider of drilling services. The Company continues to invest in training to improve skills, abilities and safety awareness.

Expansion and Acquisition Strategy

The Company intends to remain vigilant with regard to potentially strategic future acquisitions and internal expansion. It is not possible to ensure that future acquisition opportunities will exist on acceptable terms, or that newly acquired or developed entities will be successfully integrated into the Company's operations. Additionally, the Company cannot give assurances that it will be able to secure the necessary financing on acceptable terms to pursue this strategy.

Legal and Regulatory Risk

Regulatory risk incorporates exposure relating to the risk of non-compliance with applicable legislation and regulatory directives. Legal risk incorporates non-compliance with legal requirements, including the effectiveness of preventing or handling litigation. Local management is responsible for managing day-to-day regulatory risk. In meeting this responsibility, local management receives advice and assistance from such corporate oversight functions as legal, compliance and internal audit. Compliance and internal audit test the extent to which operations meet regulatory requirements, as well as the effectiveness of internal controls.

Extreme Weather Conditions and the Impact of Natural or Other Disasters

The Company operates in a variety of locations, some of which are prone to extreme weather conditions. From time to time these conditions, as well as natural or other disasters, could have an adverse financial impact on operations located in the regions where these conditions occur.

Specialized Skills and Cost of Labour Increases

Generally speaking, drilling activity related to metals and minerals is broadly linked to price trends in the metals and minerals sector. During periods of increased activity, which occurred as the industry last transitioned from a cyclical downturn to a cyclical upturn, a limiting factor in this industry is a shortage of qualified drillers. The Company addresses this issue by attempting to become the "employer of choice" for drillers in the industry, as well as hiring and training more locally-based drillers. Historically, most of the Company's drillers have been Australian or Canadian. Development of local drillers has already had a positive impact in South American, African, Mongolian and Indonesian operations, and is expected to continue to play an important role.

The Company also relies on an experienced management team across the Company to carry on its business. A departure of several members of the management team at one time could have an adverse financial impact on operations.

A material increase in the cost of labour could materially affect gross margins and therefore the Company's financial performance.

Equipment and Parts Availability

The Company's ability to provide reliable service is dependant upon timely delivery of equipment and replacement parts from fabricators and suppliers. Any factor that substantially increases the order time on equipment and increases uncertainty surrounding final delivery dates may constrain future growth, existing operations, and the financial performance of the Company.

Reputational Risk

Negative publicity, whether true or not, regarding practices, actions or inactions, could cause a decline in the Company's value, liquidity, or customer base.

CHANGES IN ACCOUNTING POLICIES

Inventories

In June 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning May 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this Section did not have a material effect on the unaudited interim consolidated financial statements.

Financial Instruments

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, and Section 1535, Capital Disclosures. All three Sections were applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company adopted the new standards for its fiscal year beginning May 1, 2008. Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital. As the standards relate only to disclosure requirements, they did not have any effect on financial results.

CRITICAL ACCOUNTING ESTIMATES

In light of the current economic conditions, the Company has re-examined its significant management estimates. There have been no material changes in this quarter to these estimates as presented in the Company's annual MD&A for the year ended April 30, 2008

Particular attention was given to impairment testing of the company's long-lived assets, goodwill and intangible assets. These assets are assessed for potential impairment at least annually or when events or changes in circumstances exist such that the carrying amount may not be recoverable. Such an assessment requires a comparison of the fair value of the respective reporting unit to its carrying value. The estimate of fair value of a reporting unit is based on cash flows, growth projections, terminal values, discount rates and industry data. Any change in the estimates used could have a material impact on the calculation of fair value and the resulting impairment charge. Sensitivity analysis is performed when testing for impairment. Significant changes in the estimates and assumptions used in impairment testing will not impact cash flows generated from our operations.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2008, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in our internal controls over financial reporting during the three months ended January 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems.

The change-over date to IFRS is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. On that date in 2011, IFRS will replace current Canadian Generally Accepted Accounting Principles for Publicly Accountable Enterprises.

Major Drilling has not completed its quantification of the effects of adopting IFRS. The financial performance and financial position as disclosed in our GAAP financial statements may be significantly different when presented in accordance with IFRS. The potential impacts on our consolidated financial statements from the adoption of IFRS will depend on the particular circumstances prevailing at the adoption date and IFRS accounting policy choices made by Major Drilling.

The Company is currently in the process of evaluating the potential impact of the IFRS standards to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board (IASB) and the Accounting Standards Board (AcSB).

OUTSTANDING SHARE DATA

As of March 3, 2009 there were 23,716,073 common shares issued and outstanding in the Company. This represents an increase of 5,000 issued and outstanding shares as compared to the number reported in our second quarter MD&A (reported as of November 30, 2008).

NON-GAAP FINANCIAL MEASURES

The Company reports "net earning excluding restructuring and impairment charges (net of taxes)" as a Non-GAAP Financial Measure. This amount is determined by adding the restructuring and impairment charges (net of taxes) to the net earnings. Management considers this indicator relevant to the users of the financial statements as it more appropriately represents the operating results of the Company in comparison to its historical performance.