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MAJOR

Drilling Group International Inc.

Management's Discussion and Analysis

Third Quarter Fiscal 2010

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER FISCAL 2010

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 and nine-month periods ended January 31, 2010. 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, 2009, 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 three and nine-month periods ended January 31, 2010 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 and nine months ended January 31, 2010, 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, 2009.

This MD&A is dated February 28, 2010. 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's 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 "General Risks and Uncertainties" of the Company's Annual Information Form, represent risks the Company believes are material. Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons, except in accordance with applicable securities laws. Risks that could cause the Company's actual results to materially differ from its current expectations are 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, water-well and coal-bed methane and shallow gas.

BUSINESS STRATEGY

Major Drilling continues to base its business premise on the following: mining companies continue to deplete the more easily accessible mineral reserves around the world and attractive deposits will be in increasingly remote locations, areas difficult to access and/or deep in the ground. For this reason, Major Drilling's strategy is to focus its services on projects that have these characteristics, calling these services "specialized drilling". Over the years, the Company has positioned itself as one of the largest specialized operators in the world by leveraging its main competitive advantages: skilled personnel, specialized equipment, longstanding relationships with the world's largest mining companies, and access to capital.

Although the Company's main focus remains specialized services, it also intends to continue to modernize its conventional fleet and expand its footprint in strategic areas while maintaining minimum debt levels and remaining best of class in safety and human resources.

The Company therefore categorizes its drilling services into three types: specialized drilling, conventional drilling and underground drilling.

Specialized drilling can be defined as any drilling project that, by virtue of its scope, technical complexity or location, creates significant barriers to entry for smaller drilling companies. This would include, for example, deep-hole drilling, directional drilling, and mobilizations to remote locations or high altitudes. Because significant ore bodies are getting more difficult to find, the Company expects specialized drilling services to continue to fuel future growth, and over the next two decades, we believe these skills will be in greater and greater demand.

Conventional drilling is much more affected by the industry cycle as the barriers to entry are not as significant as with specialized drilling. This part of the industry is highly fragmented and has numerous competitors. Because the Company offers only limited differentiation in this sector, it is not its priority for investment.

Underground drilling takes on greater importance in the latter stages of the mining cycle as clients develop underground mines. While growth in underground drilling is relatively flat, conventional drilling grows parallel with the industry cycle, while specialized drilling grows structurally.

Specialized projects tend to be more costly for customers than conventional projects. Due to the impact of the recent economic environment on many of our senior customers, some of these projects were either cancelled or very heavily cut back in the second half of fiscal 2009 and the first half of fiscal 2010. This quarter, general activity levels have begun to increase. However, we expect pricing to remain competitive until utilization rates pick up significantly, especially in conventional drilling. Over time, we expect that many of the supply issues that face most commodities will come back into focus and that even with moderate growth in the world economy, the need to explore and develop mines will increase. It is believed that at that point, the need to develop resources in areas that are increasingly difficult to access will return, which should increase demand for specialized drilling.

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 the last few years, historically high prices for all commodities drove the industry to record levels of activity with worldwide mineral exploration expenditures in calendar 2008 surpassing US$14 billion.

The recent economic environment has impacted drilling, particularly on base metal projects with worldwide mineral exploration expenditures in calendar 2009 falling to US$8 billion. Senior and intermediate base metal companies that were leveraged reduced their exploration spending in calendar 2009, in order to conserve cash. Many gold producers delayed exploration plans at that time due to the uncertainty in the economy. Sources of funding for junior mining companies were limited, and as such many junior projects, both in the base metals and gold sectors, were delayed or cancelled.

Early indications show that most senior and intermediate mining companies' exploration budgets will increase in calendar 2010. As the price of commodities continues to recover and the financing environment improves, the Company has seen a noticeable increase in inquiries from intermediate and senior customers, which could potentially have a positive impact on the market by this spring. In the longer-term, the fundamental drivers of the 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 approximately 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, a fact that has been echoed by several senior gold mining companies. 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 10 years. One of the realities is that future gold deposits will probably have to come from areas difficult to access, either in remote politically sensitive areas, deeper in the ground or in higher altitudes. This should improve demand for specialized services in the future.

Base Metals

Drilling services for base metals are affected by overall commodity prices. Despite the recent economic environment, with the recent limited 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

Many of the supply issues that face most commodities are coming back into focus and with moderate growth in the world economy the need to explore and develop mines will increase. At that point, it is expected that the need to develop resources in areas that are increasingly difficult to access will return, which should further increase demand for specialized drilling.

Most senior and intermediate companies have increased their exploration budgets for calendar 2010, although some remain conservative. Junior mining companies with advanced gold or base metal properties continue to be active and in most cases have ramped up their efforts. However, early stage exploration companies are still experiencing difficulties in getting financing.

Looking ahead to our fourth quarter and fiscal 2011, we have a positive but cautious view. We continue to see a noticeable increase in inquiries from intermediate and senior customers, and if customers move forward with their stated plans, we should see utilization rates gradually improve as each month goes by. This increase in utilization gives us considerable leverage to increase revenue and profits as we move forward.

Pricing is expected to remain competitive, at least for the first half of the calendar year. One of the challenges that is re-emerging in the sector is the shortage of experienced drill crews in the industry, a factor that will put some pressure on productivity and margins going forward. In Australia, we will be working our way out of some low margin contracts over the next few months while heavy rain will continue to affect our energy operations during February and March.

OVERALL PERFORMANCE

The quarter ended on a good note as the month of January was significantly more active than January last year, which bodes well for the upcoming fourth quarter and calendar 2010. However, November and December of 2009 were still affected by reduced levels of activity from larger mining companies when compared to November and December 2008, as in 2008 companies were still completing their exploration programs before the downturn fully took hold in January 2009. Consequently, and as a result of the fact that mining companies shut down operations, often for extended periods, over the holidays, the Company had expected a loss in this quarter. Also, due to the higher startups in January, the Company incurred significant training, mobilization and setup costs in both mineral and energy sectors, which reduced margins significantly in the third quarter. In Australia, weather delayed startups well into February further compounding margin performance.

Total revenue for the third quarter was $72.5 million compared to $87.4 million recorded for the prior year period. November and December revenue was down significantly, impacted by early shutdowns for the holidays from an already low level of activity compared to the same period last year. However, January revenue was significantly higher than last year as activity levels picked up. The unfavorable foreign exchange translation impact for the quarter, when compared to the effective rates for the same period last year, is estimated at $5 million on revenue.

The overall gross margin percentage for the quarter was 16.5 percent as compared to 27.6 percent for the same period last year. Margins were considerably impacted by costs relating to the ramp up of operations as the Company was gearing up for new contracts. Higher mobilization costs combined with additional personnel being trained added a layer of costs this quarter. Also, with the low levels of activity in the past 12 months, the Company had stored several rigs that had to be re-commissioned for the upcoming quarter bringing higher repair and maintenance costs. Finally, significantly reduced pricing as compared to last year, due to competitive pressures, impacted margins.

Resulting net loss for the quarter was $4.5 million or $0.19 per share ($0.19 per share diluted) compared to $5.1 million or $0.21 per share ($0.21 per share diluted) for the same period last year. Last year's loss included restructuring and impairment charges of $5.6 million net of tax.

The Company is in an excellent financial position following turbulent times, with total cash level, net of long-term debt standing at $26.6 million at quarter-end. Despite the difficult environment, the Company continued to generate positive cash flow from operations. Capital expenditures for the quarter were $10.1 million, as the Company purchased 3 additional rigs for its energy division as it continued to broaden its footprint in the coal and coal seam gas sector. The Company also added 4 rigs to its mineral division as certain types of rigs are in high demand in certain regions.

Given the Company's continued ability to generate cash, even in difficult times, the Company declared a cash dividend of $0.20 per common share payable on May 3, 2010 to shareholders of record as of April 9, 2010. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

Finally, we would like to note that we have suffered no injuries, nor damage from the destructive earthquake in Chile. We expect to have some minor and very temporary disruptions to our operations as a result of transportation and supply challenges over the next month or so.

RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2010

Total revenue for the third quarter was $72.5 million compared to $87.4 million recorded for the prior year period. November and December revenue was down significantly, impacted by early shutdowns for the holidays from an already low level of activity compared to the same period last year. However, January revenue was significantly higher than last year as activity levels picked up. The unfavorable foreign exchange translation impact for the quarter, when compared to the effective rates for the same period last year, is estimated at $5 million on revenue.

Revenue from Canada-U.S. drilling operations was down 23 percent to $21.8 million for the quarter compared to $28.4 million for the same period last year. U.S. operations continued to be significantly impacted by delays and cancellations while Canada saw an increase in revenue during the quarter.

In South and Central America, revenue for the quarter was $26.5 million, up 13 percent from $23.5 million recorded in the prior year quarter. Increased activity in Chile and Argentina more than offset a decrease in activity in Mexico.

Australian, Asian and African drilling operations reported revenue of $24.2 million, down some 32 percent from $35.5 million reported in the same period last year. All regions were still impacted by low levels of activity and pricing. Also, in Australia, heavy rain affected the startup of operations in January, mainly in our energy sector on the East coast.

The overall gross margin percentage for the quarter was 16.5 percent as compared to 27.6 percent for the same period last year. Margins were considerably impacted by costs relating to the ramp up of operations as the Company was gearing up for new contracts. Higher mobilization costs combined with additional personnel being trained added a layer of costs this quarter. Also, with the low levels of activity in the past 12 months, the Company had stored several rigs that had to be re-commissioned for the upcoming quarter bringing higher repair and maintenance costs. Finally, significantly reduced pricing as compared to last year, due to competitive pressures, impacted margins.

General and administrative costs were $7.9 million for the quarter, down 30 percent compared to $11.3 million in the same period last year. The decrease was due to cost cutting initiatives implemented in November 2008 and February 2009.

Other expenses were $1.8 million for the quarter compared to $2.0 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 write-downs of fixed assets.

Foreign exchange loss was $0.2 million for the quarter compared to a gain of $0.7 million for the prior year period. The loss was due to exchange rate variations on foreign currency monetary working capital items.

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

Amortization expense decreased to $7.3 million for the quarter compared to $8.5 million for the same quarter last year, as a result of equipment write-downs in the previous quarters.

In last year's third 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 at that time, the Company recorded a non-cash goodwill and intangible asset impairment charge of $0.7 million.

The Company's tax recovery was $1.0 million for the quarter compared to a recovery of $0.1 million for the same period last year. The tax recovery for this quarter was impacted by the non-recognition or reversal of tax losses in Ecuador and South Africa.

Resulting net loss for the quarter was $4.5 million or $0.19 per share ($0.19 per share diluted) compared to $5.1 million or $0.21 per share ($0.21 per share diluted) for the same period last year.

RESULTS OF OPERATIONS – YEAR TO DATE ENDED JANUARY 31, 2010

Revenue for the nine-month period ending January 31, 2010 decreased 54 percent to $210.5 million from $456.6 million for the corresponding period last year. The unfavourable foreign exchange translation impact for the year, when compared to the effective rates for the same period last year, is estimated at less than $2 million on revenue.

Canada-U.S. revenue decreased by 55 percent to $66.1 million compared to $147.6 million last year with both countries affected by cancellations and decreased pricing.

Revenue in South and Central America decreased by 48 percent to $68.9 million, compared to $133.1 million in the prior year period. Mexico, Chile and Argentina accounted for most of the reduction.

Revenue in Australia, Asia and Africa decreased 57 percent to $75.5 million from $175.8 million in the prior year period. Every country in this segment was affected by reduced pricing and utilization due to cancellation of drilling programs.

Gross margins for the nine-month period were 24.7 percent compared to 34.6 percent last year due mainly to significantly reduced pricing.

General and administrative expenses decreased 34 percent to $24.9 million compared to $37.5 million for the same period last year. The decrease was due to cost cutting initiatives implemented in November 2008 and February 2009.

Other expenses were $3.8 million for the nine-month period compared to $10.7 million for the same period last year due primarily to lower incentive compensation expenses given the Company's decreased profitability in the current year.

Foreign exchange gain was $0.7 million for the nine-month period compared to a loss of $1.0 million in the prior year period as a result of favourable currency variations.

Short-term interest revenue was $0.1 million for the nine-month period compared to an expense of $0.2 million last year, while interest expense on long-term debt was $0.8 million compared to $1.4 million for the same period last year.

Amortization expense decreased to $22.8 million for the nine-month period, compared to $24.2 million for the same period last year, as a result of equipment write-downs in the previous quarters.

The provision for income tax for the nine-month period was an expense of $0.9 million compared to $24.6 million for the prior year period. The tax expense for the year was impacted by the non-recognition or reversal of tax losses in Ecuador and differences in tax rates between regions.

Net loss for the nine-month period was $3.7 million or $0.16 per share ($0.15 per share diluted) compared to earnings of $50.5 million or $2.13 per share ($2.11 per share diluted) for the same period last year.

SUMMARY OF QUARTERLY RESULTS

	Fiscal 2008	Fiscal 2009				Fiscal 2010		
(in $000 CDN, except per share)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	$ 169,995	$ 178,215	$ 191,010	$ 87,361	$ 66,400	$ 62,489	$ 75,528	$ 72,471
Gross profit	59,420	63,304	70,438	24,086	17,806	17,230	22,792	11,979
Gross margin	35.0%	35.5%	36.9%	27.6%	26.8%	27.6%	30.2%	16.5%
Net earnings (loss)	25,361	26,330	29,276	(5,070)	(4,601)	(3,296)	4,060	(4,453)
Per share - basic	1.07	1.11	1.23	(0.21)	(0.19)	(0.14)	0.17	(0.19)
Per share - diluted	1.05	1.10	1.22	(0.21)	(0.19)	(0.14)	0.17	(0.19)

The geographic distribution of the Company’s operations, as well as the timing of the recent economic downturn, 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 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.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations (before changes in non-cash working capital items) was $1.3 million for the quarter compared to $9.4 million generated in the same period last year. For the nine-month period ended January 31, 2010, cash flow from operations (before changes in non-cash working capital items) was $21.2 million compared to $84.9 million generated in the same period last year.

The change in non-cash operating working capital items for the quarter was an inflow of $11.9 million compared to an inflow of $33.6 million for the same quarter last year. The change in non-cash operating working capital in this year’s quarter was primarily impacted by:

- A decrease in accounts receivable of $8.4 million;
- An increase in inventory of $3.0 million as a result of reduced purchasing, and;
- An increase in accounts payable of $6.3 million due to recent increased activity but also as a result of more stringent cash management policies.

The change in non-cash operating working capital in the prior year 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 2009;
- A decrease in accounts payable of $28.8 million due to a seasonal decrease in activity as compared to the previous quarter.

Financing Activities

Total long-term debt decreased by $2.6 million during the quarter from $29.7 million at October 31, 2009 to $27.1 million at January 31, 2010. The decrease is due to debt repayments of $2.6 million during the quarter.

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 the third quarter of the current fiscal year, the Company reviewed the available credit facilities and decided to reduce its operating facility from $30.0 million to $25.0 million and its facility available for financing the cost of equipment purchases or acquisition costs of related businesses from $65.0 million to $45.0 million. This reduction in financing facilities was made at the sole discretion of the Company in order to reduce financing costs.

The credit facilities related to operations total $27.2 million ($25.0 million from a Canadian chartered bank and $2.2 million in credit facilities in Chile and Australia) and are primarily secured by 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, 2010, the Company had utilized $1.9 million of these lines for stand-by letters of credit.

The Company has a $45.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At January 31, 2010, the Company had utilized $22.2 million of this line. Draws on this line can be amortized over five years.

The Company also has other various loans and capital lease facilities related to equipment purchases that totaled $11.2 million at January 31, 2010, of which $4.9 million was utilized and matures 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, 2010, the Company had unused borrowing capacity under its credit facilities of $54.4 million and cash of $53.7 million, for a total of $108.1 million in available funds.

During the third quarter, the Company paid a semi-annual dividend of $4.7 million.

Investing Activities

Capital expenditures were $10.1 million for the quarter ended January 31, 2010 compared to $14.3 million for the same period last year. Also, the Company sold a small amount of equipment, generating proceeds of $0.1 million as compared to $1.1 million the previous year.

During the quarter, the Company purchased 7 additional rigs while retiring 14 rigs through its modernization program. The Company added 3 of those new rigs to its energy division as it continues to broaden its footprint in the coal and coal seam gas sector. It also added 4 rigs to its mineral division as certain types of rigs are in high demand in certain regions. The Company plans to continue its efforts to improve rig availability and reliability, and consequently it intends to upgrade part of its already modern fleet through the replacement of some 30 rigs over the next 12 months.

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 unfavourable impact of foreign exchange translation for the quarter, when comparing to the effective rates for the same period last year, is estimated at $5 million on revenue but less than $0.6 million on net loss. The unfavourable impacts of foreign exchange translation for the nine-month period ended January 31, 2010, when comparing to the effective rates for the same period last year, is estimated at less than $2 million on revenue and less than $0.6 million on net earnings.

OTHER COMPREHENSIVE (LOSS) EARNINGS

The consolidated statements of comprehensive (loss) earnings for the quarter include $1.0 million in unrealized losses 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 strengthened 0.2 percent against the U.S. dollar but weakened 3 percent against the Australian dollar, decreasing the net value of our net asset position in these subsidiaries in Canadian dollar terms.

RESTRUCTURING CHARGE

For the nine-month period ended January 31, 2010, the Company took actions in Australia to restructure the operations by closing down two offices and reducing personnel. As such, the Company recorded a restructuring charge of $1.2 million during the first quarter of the year. No further restructuring charges were incurred during the quarter ended January 31, 2010.

During the third quarter of fiscal 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 and $2.1 million in the third and fourth quarters respectively.

GOODWILL AND INTANGIBLE ASSETS IMPAIRMENT

For the nine-month period ended January 31, 2010, the Company recorded a net non-cash goodwill impairment charge of $2.0 million. This charge eliminates the goodwill of $3.7 million recorded on the Paragon del Ecuador S.A. acquisition offset by a reduction of a holdback of $1.7 million, which was a contingent consideration and dependant on the political situation in Ecuador. The goodwill impairment charge resulted from political issues and uncertainty still affecting the mining industry in Ecuador and therefore the inability of this region to generate the expected revenue.

For the nine-month period ended January 31, 2009, 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 acquisition. This impairment was required as the majority of these contracts were 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 was also impaired due to the economic downturn and the inability of this region to generate the expected revenue.

GENERAL RISKS AND UNCERTAINTIES

The risks described below and elsewhere in this MD&A do not include all possible risks, and there may be other risks of 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 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 became generally scarce under recent global economic conditions, which could adversely impact 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 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, and 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, Tanzania 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.

Repatriation of Funds or Property

There is no assurance that any of the countries in which the Company operates or may operate in the future will not impose restrictions on the repatriation of funds or property to other jurisdictions.

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, 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 dependent 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

Goodwill and Intangible Assets

Effective May 1, 2009 the Company adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets, which establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous CICA Handbook Section 3062. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

In light of the recent economic conditions, the Company re-examined its significant management estimates. Except for the goodwill impairment charge in the first quarter, there have been no new material changes this year to these estimates, as presented in the Company's annual MD&A for the year ended April 30, 2009.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2009, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer "CEO" and Chief Financial Officer "CFO" are responsible for designing internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") or causing them to be designed under their supervision. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparations of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Company's DC&P are designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding financial disclosure.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected. Therefore, no matter how well designed, ICFR and DC&P have inherent limitations and may not prevent or detect all misstatements.

For the three months ended January 31, 2010, there have been no significant changes to the ICFR and no change in the assessment of the effectiveness of the Company's ICFR and DC&P. Accordingly, the CEO and CFO have concluded that the design and operation were effective at a reasonable assurance level as of the end of the period covered by this report.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standards Board ("AcSB") 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. The Company will begin issuing interim and annual financial statements under IFRS for the fiscal year beginning May 1, 2011. The transition date of May 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011.

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 Company has commenced the scoping and planning phase of its changeover plan. The Company has designated the appropriate resources to the project to develop an effective plan and will continue to assess resource and training requirements as the project progresses. The Company has identified the following four phases of its conversion plan: i) scoping and planning, ii) detailed assessment, iii) operations implementation and iv) post implementation. The scoping and planning phase involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing a project charter, implementation plan and communication strategy. The Company has completed the scoping and planning phase. We are now engaged in the detailed assessment phase ("phase 2"), this will result in accounting policies and transitional exemption decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted.

The operations implementation phase ("phase 3") includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at May 1, 2010, fiscal 2011 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures.

Post implementation ("phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The Company will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impacts on the Company and its reporting.

OUTSTANDING SHARE DATA

As of February 28, 2010, there were 23,747,573 common shares issued and outstanding in the Company. This represents an increase of 25,000 issued and outstanding shares as compared to the number reported in our second quarter MD&A (reported as of November 30, 2009).