Management's Discussion and Analysis

Third Quarter Fiscal 2011

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER FISCAL 2011

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, 2011. 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, 2010.

This MD&A is a review of activities and results for the three and nine-month periods ended January 31, 2011 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, 2011, 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, 2010.

This MD&A is dated February 28, 2011. 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, Asia, 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, long-standing relationships with the world's largest mining companies and access to capital.

Although the Company's main focus remains specialized services, it also intends to continue to modernize its conventional fleet and expand its footprint in strategic areas while maintaining minimum debt levels and remaining best in class in safety and human resources. Also, the Company will seek to diversify by investing in energy and environmental drilling services that are complementary to its skill set.

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

Underground drilling takes on greater importance in the latter stages of the mining cycle as clients develop underground mines.

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. In the last quarter of fiscal 2010, as well as in the first three quarters of fiscal 2011, general activity levels began to increase. Over time, it is expected 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 metals groups, gold on the one hand and base metals on the other. Each commodity group is influenced by distinct market forces. Prior to the recent recession, 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.

At the end of the most recently completed fiscal year, the bulk of the increased activity was coming from intermediate mining companies and junior mining companies with advanced properties. While senior companies slightly increased their exploration budgets for calendar 2010, spending had not yet rebounded to their pre-financial crisis levels. Early stage exploration companies had shown little increase in activity as they were still experiencing difficulties in getting financing. Recent announcements of significant increases in exploration budgets from senior mining companies, combined with a recent increase in financing of junior mining companies, indicate that activity levels in calendar 2011 should be robust.

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") had reported 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. Increased production by the major gold producers over the past decade has resulted in a greater need to add to reserves in order to maintain a life-of-production that satisfies the long-term views of investors and market analysts. Although, as a group, the major producers successfully replaced almost twice their total production over the past 10 years, almost all of these reserve additions were achieved through acquisitions or by upgrading resources at existing projects and mines, and not through significant new discoveries.

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 at 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. 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 reported 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

Indications are that activity levels in calendar 2011 should be robust. Intermediate and junior mining companies with advanced projects have ramped up their already busy drilling programs by adding rigs. Most senior mining companies have significantly increased their exploration budgets for 2011, and there have been recent increases in financings for junior mining companies. Nearly half of the funds from financings done on the TSX for mining in 2010 were raised in the last 3 months of the year. These financings should add a layer of activity to an industry where shortages of labour and supplies have already begun to appear.

Looking ahead to the fourth quarter and fiscal 2012, the Company has a positive view. The Company continues to see a noticeable increase in inquiries from all categories of customers, and if customers move forward with their stated plans, the Company should see utilization rates continue to gradually improve as crews become available. This increase in utilization gives the Company considerable leverage to increase revenue and profits as it moves forward.

Also, given industry shortages in many of the Company's operating areas, the Company expects pricing to continue to recover, which should help margins improve, although the shortage of experienced drill crews will put some pressure on labour costs and productivity, especially in the Company's most active markets.

OVERALL PERFORMANCE

The quarter ended with a profit despite the usual shutdown of operations over the holidays and severe weather issues. November was a particularly good month and continued the progression the Company experienced in its second quarter. December had its usual holiday shutdowns, while January got off to a slow start in many regions. This was compounded by heavy rains and floods in Australia, which not only reduced potential revenue and earnings but resulted in extra costs of $1 million in January. As a result, revenue for the third quarter came in at $107.7 million, up nearly 50 percent relative to the same quarter last year, which was at $72.5 million.

The overall gross margin percentage for the quarter was 22.2 percent compared to 16.5 percent for the same period last year. Margins were 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, during the floods in Australia, the Company had to carry costs while rigs were idle, which impacted margins.

Net earnings were $1.7 million or $0.07 per share for the quarter, compared to a net loss of $4.5 million or $0.19 per share for the prior year quarter.

RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2011

Total revenue for the third quarter was $107.7 million compared to $72.5 million recorded for the prior year period. All of the Company's regions contributed to this growth with Canada-U.S. having the greatest increase in activity. In Australia, although the Company saw signs of strong recovery, the ability of that operation to contribute was hampered by heavy floods in Queensland.

Revenue from Canada-U.S. drilling operations was up 75 percent to $38.2 million for the quarter compared to $21.8 million for the same period last year. U.S. operations saw a strong recovery particularly from its senior customers. In Canada, activity levels continue to increase but startups were somewhat slower than last year.

In South and Central America, revenue for the quarter was $36.8 million, up 39 percent from $26.5 million recorded in the prior year quarter. The increase was primarily driven by Argentina and Mexico, where activity levels picked up substantially compared to last year.

Australian, Asian and African drilling operations reported revenue of $32.7 million, up 35 percent from $24.2 million reported in the same period last year. The revenue increase came primarily from Mongolia, Tanzania and the recent startup of Kazakhstan.

The overall gross margin percentage for the quarter was 22.2 percent compared to 16.5 percent for the same period last year. Although margins increased over last year due to improved pricing, margins were still 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.

General and administrative costs were $10.1 million for the quarter compared to $7.9 million in the same period last year. The increase was due to the addition of the new environmental division and also increased costs to support the strong growth in activity levels.

Other expenses were flat at $1.8 million for the quarter as losses incurred because of the Australian floods in the quarter were offset by lower charges for write-down of fixed assets compared to last year.

Foreign exchange loss in the quarter was $1.0 million compared to $0.2 million in the prior year quarter, the increase resulting from a change in foreign currency rates on net monetary balance sheet items.

Amortization expense was $8.3 million for the quarter compared to $7.3 million for the same quarter last year, as a result of increased net capital expenditures.

Income tax expense was $0.7 million in the quarter compared to a recovery of $1.0 million for the prior year quarter, as a result of increased earnings.

Net earnings were $1.7 million or $0.07 per share ($0.07 per share diluted) compared to a net loss of $4.5 million or $0.19 per share ($0.19 per share diluted) for the same period last year.

RESULTS OF OPERATIONS – YEAR TO DATE ENDED JANUARY 31, 2011

Revenue for the nine months ended January 31, 2011 increased 64 percent to $345.0 million from $210.5 million for the corresponding period last year.

Canada-U.S. revenue increased by 95 percent or $63.1 million to $129.2 million compared to $66.1 million last year, with both countries contributing to this growth.

Revenue in South and Central America increased by 73 percent to $118.9 million, compared to $68.9 million in the prior year period. Most of the growth in the region came from Mexico, Argentina and Chile.

Revenue in Australia, Asia and Africa increased 28 percent to $96.9 million from $75.5 million in the prior year period. Mongolia and Indonesia were the main drivers of growth in the region while Australia, due to weather issues, and Tanzania were flat compared to the same period last year.

Gross margins for the year to date were 24.8 percent compared to 24.7 percent last year, representing a slight improvement in operational margins, partially offset by increased training, mobilization and consumable costs, to accommodate the present growth.

General and administrative costs were $29.6 million or 8.6 percent of revenue compared to $24.9 million or 11.8 percent of revenue in the same period last year. The increase was due to the addition of our U.S. based environmental division and also increased costs to support the strong growth in activity levels.

Other expenses were $5.1 million for the year compared to $3.8 million for the same period last year, due primarily to higher incentive compensation expenses given the Company's increased profitability in the current year and losses incurred because of the Australian floods.

Amortization expense increased to $23.4 million compared to $22.8 million in the previous period, as a result of increased net capital expenditures.

The provision for income tax for the year was $8.6 million compared to $0.9 million for the prior year, reflecting the increased profitability of the operations.

In the previous year, the Company recorded a restructuring charge of $1.2 million to account for retrenchment and closedown costs, primarily in Australia. The Company also recorded a net non-cash goodwill impairment charge of $2.0 million relating to the Paragon del Ecuador S.A. acquisition.

Net earnings were $18.1 million or $0.76 per share ($0.76 per share diluted) compared to a net loss of $3.7 million or $0.16 per share ($0.15 per share diluted) last year.

SUMMARY OF QUARTERLY RESULTS

(in $000 CAD, except per share)	Fiscal 2009	Fiscal 2010				Fiscal 2011		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	$ 66,400	$ 62,489	$ 75,528	$ 72,471	$ 97,368	$ 109,480	$ 127,818	$ 107,720
Gross profit	17,806	17,230	22,792	11,979	22,372	26,532	35,101	23,873
Gross margin	26.8%	27.6%	30.2%	16.5%	23.0%	24.2%	27.5%	22.2%
Net (loss) earnings	(4,601)	(3,296)	4,060	(4,453)	3,225	5,053	11,420	1,664
Per share - basic	(0.19)	(0.14)	0.17	(0.19)	0.14	0.21	0.48	0.07
Per share - diluted	(0.19)	(0.14)	0.17	(0.19)	0.13	0.21	0.48	0.07

Historically, the Company's fourth quarter has been 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. Coming out of the recent economic and industry downturn, it is not yet clear whether or not the Company's revenue will return to more historical seasonal patterns, or whether a recent lack of seasonality will continue.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations (before changes in non-cash working capital items) was $11.0 million for the quarter compared to $1.3 million generated in the same period last year. For the nine-month period ended January 31, 2011, cash flow from operations (before changes in non-cash working capital items) was $41.7 million compared to $21.2 million generated in the same period last year.

The change in non-cash operating working capital items for the quarter was an inflow of $9.9 million compared to an inflow of $11.9 million for the same quarter last year.

Financing Activities

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

Total long-term debt decreased by $1.9 million during the quarter from $18.8 million at October 31, 2010 to $16.9 million at January 31, 2011. The decrease is due to debt repayments of $1.9 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.

The credit facilities related to operations total $26.3 million ($25.0 million from a Canadian chartered bank and $1.3 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 $0.7 million for credit cards for which interest rate and repayment are as per cardholder agreements. At January 31, 2011, the Company had utilized $12.0 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, 2011, the Company had utilized $16.1 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 $8.6 million at January 31, 2010, of which $0.8 million was utilized and matures through 2012.

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. At January 31, 2011, the Company had unused borrowing capacity under its credit facilities of $51.0 million and cash of $32.2 million, for a total of $83.2 million in available funds.

Investing Activities

Capital expenditures were $18.3 million for the quarter ended January 31, 2011 compared to $10.1 million for the same period last year. The Company also sold fixed assets, generating proceeds of $0.6 million as compared to $0.1 million the previous year.

During the quarter, the Company added 16 drill rigs through its capital expenditure program, 2 of which are for its environmental division. The Company also retired or disposed of 22 drill rigs through its modernization program. This brings the total drill rig count to 541 at quarter-end. The Company also added support vehicles and equipment to the operations to meet the changing patterns of demand and its continually rising safety standards. Through this, the Company plans to continue its efforts to improve rig utilization and reliability.

FOREIGN EXCHANGE

Year-over-year revenue comparisons can be affected by the variations of the Canadian dollar against the US dollar, Chilean peso 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 $3 million on revenue, but negligible on net earnings.

OTHER COMPREHENSIVE EARNINGS (LOSS)

The consolidated statements of comprehensive earnings (loss) for the quarter include $4.3 million in unrealized losses on translating the financial statements of the Company’s self-sustaining foreign operations compared to a loss of $1.0 million for the same period last year. The change relates to translating the net assets of the Company’s 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 1.9 percent against the US dollar decreasing the net value of the Company’s net asset position in these subsidiaries in Canadian dollar terms.

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 a 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 diversify and to rationalize its regional infrastructures. In previous cyclical market downturns, 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 recent 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. Credit and capital markets financing continue to be challenging for many mining companies, which could adversely impact exploration programs.

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 competitors could result in 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 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 the Company 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 the Company is subject to ongoing tax assessments. The Company's 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, the Company 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 US dollars, Chilean pesos 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 US 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, such as that occurring as the industry last transitioned from a cyclical downturn to a cyclical upturn, a limiting factor in this industry was 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.

CRITICAL ACCOUNTING ESTIMATES

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Note 2 to the audited financial statements for the year ended April 30, 2010. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2010, 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 the 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 preparation 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 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, 2011, 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

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian reporting issuers must report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. For the transition year, which commenced on May 1, 2010, the Company will continue to report under Canadian GAAP and is required to capture comparative IFRS financial information. The Company will convert to IFRS and begin issuing interim financial statements in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" for the fiscal year beginning May 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company launched its conversion project in 2008. The Company is following the key events timeline proposed by the AcSB to obtain training and thorough knowledge of IFRS, finalize the assessment of accounting policies with reference to IFRS and plan for conversion to be ready for the 2011 changeover.

The conversion project consists of four primary phases:

1. The scoping and planning phase, which 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, developing an implementation plan and communication strategy, was completed in mid 2009 and served as the basis for the planning of future phases.

2. The Company is near completion of the detailed assessment phase, which 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 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.

3. The operations implementation phase is in progress and 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. This phase also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures.

4. Post implementation phase will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

The Company has engaged, and will continue to engage, in dialogue with the Company's independent auditors in all phases of the conversion project.

In light of the IFRS requirements, the Company has implemented the majority of the systems that will support the compilation of the IFRS compliant financial data for the opening balance sheet as at May 1, 2010, fiscal 2011 and thereafter. These systems include new functionalities in the consolidation system, a uniform fixed assets module and a stock-based compensation plan management system. Other enhancements to our current systems have also been implemented to ensure future compliance. The implementation phase also includes ongoing training for key personnel, identification and documentation of impact and required changes to, and ensuring the effectiveness of, the Company's internal control environment and disclosure controls and procedures. This stage of phase 3 will be conducted throughout fiscal 2011. The post implementation phase will include sustainable IFRS compliant financial data and processes for fiscal 2012 and beyond.

The Company is in the process of quantifying the impacts expected on its consolidated financial statements due to differences between Canadian GAAP and IFRS. The following is a discussion of the issues facing the Company that are expected to have a significant financial statement impact:

IFRS 1 – First-Time Adoption of IFRS

Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of May 1, 2010, the date of the first comparative balance sheet presented under IFRS. However, IFRS 1 provides entities adopting IFRS for the first time, a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition.

The following are the optional exemptions that the Company is expecting to apply:

- Business combination election – This election allows the Company to adopt IFRS 3(R) prospectively from the date of transition.
- Share-based payments election – This election enables the Company to adopt IFRS 2, share-based payments, from the date of transition to IFRS.
- Foreign currency translation adjustment (CTA) – This election allows the Company, on the date of transition, to record the CTA from all foreign operations to retained earnings and reset the CTA balance to nil, which will result in a decrease in retained earnings of approximately $44 million.
- Fair value revaluation as deemed cost – This election allows the Company to measure certain items of property, plant and equipment at the date of transition at their fair value, and to use that fair value as deemed cost at that date. The Company is currently evaluating equipment, which may result in revaluation of certain pieces of equipment at transition date.

The remaining optional exemptions are not expected to be significant to the Company's adoption of IFRS.

IFRS 2 – Share-Based Payments

The Company's policy under Canadian GAAP is to use the straight-line method to account for options that vest in instalments over time. Under IFRS, each instalment is accounted for as a separate share option grant with its own distinct vesting period, hence the fair value of each instalment will differ.

In addition, Canadian GAAP permits companies to either estimate the forfeitures at the grant date or record the entire expense as if all share-based payments vest and then record forfeitures as they occur. IFRS requires that forfeitures be estimated at the time of grant to eliminate distortion of remuneration expense recognized during the vesting period. The estimate should be revised if subsequent information indicates that actual forfeitures are likely to differ from previous estimates.

These changes will result in an increase in contributed surplus of approximately $0.6 million and a corresponding decrease to retained earnings.

IFRS 3 – Business Combinations

Under Canadian GAAP, contingent consideration is recognized as part of the purchase cost when it can be reasonably estimated at the acquisition date and the outcome of the contingency can be determined beyond reasonable doubt. Under IFRS 3, contingent consideration, regardless of probability considerations, is recognized at fair value at the acquisition date.

The Company will be booking contingent considerations for the SMD Services and the North Star Drilling acquisitions, which will result in an increase in goodwill of approximately $2.8 million and a corresponding increase in accrued liabilities.

The following is a discussion of the issues facing the Company that are expected to have minimal financial statement impact:

IAS 12 – Income Taxes

While the overall methodology for recording deferred taxes is consistent between Canadian GAAP and IFRS, there are minimal differences that may have an impact on the Company's financial statements.

IAS 16 – Property, Plant and Equipment

Under Canadian GAAP, costs incurred for property, plant and equipment on initial recognition are allocated to significant components when practicable. Under IFRS, costs incurred for plant and equipment on initial recognition are allocated to significant components, capitalized and depreciated separately over the estimated useful lives of

each component. Practicability of allocating costs to significant components is not considered under IFRS. Costs incurred subsequent to the initial purchase of property, plant and equipment are capitalized when it is probable that future economic benefits will flow to the Company and the costs can be measured reliably. Upon capitalization, the carrying amount of components replaced, if any, are written off.

The Company will be componentizing buildings, which will have minimal financial impact.

IAS 21 – Effects of Changes in Foreign Exchange Rates

The underlying concepts of functional currency and reporting currency are broadly consistent between Canadian GAAP and IFRS. However, IFRS rules differ in the determination of functional currency. Under IFRS, functional currencies of the subsidiaries are not expected to change at transition date.

IAS 36 – Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing while IFRS uses a one-step approach for both testing for and measurement of impairment. This could potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but would not be supported on a discounted cash flow basis. The Company is not expecting any impairments to be recorded on transition.

In addition, IFRS requires the reversal of any previous impairment losses where circumstances leading to the original impairment have changed. Canadian GAAP prohibits reversal of impairment losses.

OUTSTANDING SHARE DATA

As of February 28, 2011, there were 23,871,708 common shares issued and outstanding in the Company. This represents an increase of 14,666 issued and outstanding shares as compared to the number reported in our second quarter MD&A (reported as of November 30, 2010).