

Groupe Forage

***MAJOR***

Drilling Group International Inc.

## **Management's Discussion and Analysis**

### **Third Quarter Fiscal 2008**

# **MAJOR DRILLING GROUP INTERNATIONAL INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **THIRD QUARTER FISCAL 2008**

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 period ended January 31, 2008. 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 financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the Company's audited financial statements for the year ended April 30, 2007, except for the adoption of new accounting policies as disclosed in Note 2 of the Notes to Consolidated Financial Statements.

This MD&A is a review of activities and results for the quarter ended January 31, 2008 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited consolidated interim financial statements as at and for the three months ended January 31, 2008, 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, 2007.

This MD&A is dated February 29, 2008. 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 and assumptions about the markets in which the Company operates, the world economic climate as it relates to the mining industry, the Canadian economic environment and the Company's ability to attract and retain customers and to manage its assets and operating costs.

Actual results could be materially different from expectations if known or unknown risks affect the business, or if estimates or assumptions turn out to be inaccurate. The Company does not guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place reliance on these forward-looking statements.

The Company disclaims any intention and assumes no obligation to update any forward-looking statement, even if new information becomes available, as a result of future events or for any other reasons. Risks that could cause the Company's actual results to materially differ from its current expectations are discussed in this MD&A.

Additional information relating to the Company, including the Company's Annual Information Form for the most recently completed financial year, can be found on SEDAR at [www.sedar.com](http://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, Armenia and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, RAB, geotechnical, environmental drilling and coal-bed methane and shallow gas.

## **INDUSTRY OVERVIEW**

The metals and minerals drilling industry is reliant primarily on demand from two metal groups, gold on the one hand and base metals on the other. Each commodity group is influenced by distinct market forces. In a positive commodity pricing regime, either one of these metal groups can, by itself, bring the contract drilling sector to capacity. Worldwide mineral exploration expenditures in calendar 2007 were projected to surpass US\$10 billion, above 1997 peak levels of US\$5.2 billion (nominal). In 1997, growth in mineral exploration was primarily driven by gold mining and exploration companies, but in calendar 2007 both gold and base metal mining companies expanded exploration budgets.

Several large mining companies have released plans to maintain or increase their exploration budgets in 2008, with some releasing multi-year exploration plans showing gradual increases over the next three to five years. Also, many junior mining companies have the funds to carry out their exploration program in calendar 2008 and beyond. The Metals Economics Group (“MEG”), a recognized authority on mining industry intelligence, expects to see a continued increase in worldwide exploration spending in calendar 2008, albeit at a more moderate rate than seen in the past few years. Major Drilling is well positioned to benefit from the cyclical upturn for gold and base metals through its global reach, expertise and strong balance sheet.

### ***Gold***

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

### ***Base Metals***

Drilling services for base metals are always affected by overall commodity prices. However, with low levels of exploration in the recent past limiting the expansion of supply, and the emergence of China and India as major consumers of base metals, supply is expected to fall short of demand over the next several years, which should increase demand for exploration drilling services in the mining industry. MEG reports that even if the recovery in exploration spending produces a number of new large-scale projects, 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. Most observers believe that a slowdown in the US economy would have only a small impact for the demand for base metals as problems on the supply side and continued demand from China and India should keep prices above levels required for exploration. Drilling demand from uranium companies is expected to increase in 2008 given the number of projects moving into the pre-feasibility stage around the world.

## **OVERALL PERFORMANCE**

During the first quarter of the previous year, the Company sold its manufacturing division and closed its operations in China. These operations have now been accounted for as discontinued operations. All financial references in this document are to continuing operations, unless otherwise noted.

Revenue for the quarter was up over 34 percent compared to the same quarter last year at \$120.8 million, with all of the Company’s divisions participating in this growth. Operations were affected by heavy rains in Africa, Australia, Mexico and Ecuador as well as by extreme weather in Canada, whereas last year weather conditions had been much more favourable. Also, our record performance might have been even stronger were it not for the impact of foreign translations. The unfavourable foreign exchange translation impact for the quarter, when comparing to the effective rates for the same period last year, is estimated at \$14 million on revenue and \$1.7 million on net earnings. As mentioned in prior reports, the Company continues to make significant investments in training, and is on track to meet its goal of expanding its labour force by 20 percent this year.

The overall margin was relatively flat quarter-over-quarter at 27.9 percent as compared to 28.0 percent for the same quarter last year. Margin growth was impacted by weather conditions and African margins still lagging behind other regions.

The strong revenue growth produced record earnings from continuing operations of \$7.7 million (\$0.32 per share). This represents an increase of 35.1 percent compared to earnings from continuing operations of \$5.7 million (\$0.25 per share) recorded in the third quarter of fiscal 2007.

## **RESULTS OF OPERATIONS – THIRD QUARTER ENDED JANUARY 31, 2008**

Total revenue for the third quarter was \$120.8 million, up 34.1 percent from the \$90.1 million recorded for the prior year period.

Revenue from Canada-U.S. drilling operations was up \$4.8 million or 15.8 percent to \$35.1 million for the quarter compared to \$30.3 million for the same period last year. Additional equipment and improved pricing contributed to the growth in that region.

In South and Central America, revenue for the quarter was \$38.8 million, up 31.1 percent from \$29.6 million recorded in the prior year quarter. Revenue growth was driven primarily by the new acquisitions in Chile and Ecuador, and good internal growth in Mexico.

Australian, Asian and African drilling operations reported revenue of \$46.8 million, up some 55.0 percent from \$30.2 million reported in the same period last year. The African acquisition, better rig utilization in Australia and a new operation in Armenia accounted for most of the region's growth.

The overall gross margin percentage for the quarter was relatively flat at 27.9 percent as compared to 28.0 percent for the same period last year. Margin growth was impacted by weather conditions and lower margins in the African operations, which offset the impact of pricing and productivity improvements.

General and administrative costs were \$11.2 million for the quarter, compared to \$8.8 million for the prior year period. The increase was primarily due to the additional administrative costs relating to the acquisitions in Africa, Chile and Ecuador, additions in management to accommodate growth, and overall cost increases due to increased volume.

Other expenses were \$2.6 million for the quarter compared to \$2.0 million for the same period last year, due to higher incentive compensation expenses, given the Company's improved profitability in the current year, and to losses on the disposal of assets.

Foreign exchange loss was \$0.4 million for the quarter compared to nil for the prior year period. This is due to the strengthening of the Canadian dollar against the U.S. dollar.

Short-term interest expense was \$0.2 million for the quarter compared to revenue of \$0.3 million last year, while interest on long-term debt was \$0.6 million compared to \$0.7 million for the prior year quarter.

Amortization expense increased to \$7.0 million for the quarter compared to \$5.2 million for the same quarter last year, as a result of increased investment in equipment.

The Company's tax expense was \$4.0 million for the quarter compared to \$3.2 million for the same period last year, reflecting the Company's increased profitability.

Earnings from continuing operations for the quarter were \$7.7 million or \$0.32 per share (\$0.32 per share diluted) compared to \$5.7 million or \$0.25 per share (\$0.24 per share diluted) in the prior year period.

Loss from discontinued operations was \$0.4 million or \$0.02 per share compared to \$0.7 million or \$0.03 per share for the same period last year.

Resulting net earnings were \$7.2 million or \$0.31 per share (\$0.30 per share diluted) compared to \$5.0 million or \$0.22 per share (\$0.21 per share diluted) for the same period last year.

## **RESULTS OF OPERATIONS – NINE MONTHS ENDED JANUARY 31, 2008**

Revenue for the nine-month period ending January 31, 2008 increased 46.8 percent to \$420.3 million from \$286.4 million for the corresponding period last year.

Canada-U.S. revenue increased by 31.0 percent or \$32.3 million to \$136.5 million compared to \$104.2 million last year with both countries contributing to this growth.

Revenue in South and Central America increased by 46.1 percent or \$39.8 million to \$126.1 million, compared to \$86.3 million in the prior year period. Internal growth in Mexico and Chile and acquisitions in Chile and Ecuador accounted for most of the growth, with Venezuela and Argentina also making strong contributions.

Revenue in Australia, Asia and Africa increased 64.4 percent or \$61.8 million to \$157.7 million from \$95.9 million in the prior year period. Australia and the new African operations accounted for about two thirds of the growth in this segment. As well, all other countries in the region grew their revenue and the Company commenced operations in Armenia.

Gross margins for the nine-month period were 32.4 percent compared to 31.3 percent last year due mainly to an improving pricing environment. With the increase in revenue and improving gross margins, gross profit for the nine-month period increased by 51.8 percent to \$136.0 million compared to \$89.6 million for the prior year period.

General and administrative expenses increased to \$32.1 million compared to \$23.6 million for the same period last year. This increase is primarily due to additions to the management team to accommodate growth, administrative salary increases and the African and Chilean acquisitions.

Other expenses were \$10.4 million for the nine-month period compared to \$7.1 million for the same period last year due primarily to higher incentive compensation expenses given the Company's improved profitability in the current year, and losses on the disposal of assets.

Foreign exchange loss was \$2.2 million for the nine-month period compared to \$0.4 million in the prior year period as a result of unfavourable variation in the U.S. dollar against the Canadian dollar.

Short-term interest revenue was \$0.4 million for the nine-month period compared to \$0.3 million last year, while interest expense on long-term debt was flat at \$1.9 million compared to the same period last year.

Amortization expense increased to \$19.5 million for the nine-month period, compared to \$14.6 million for the same period last year, as a result of increased investment in equipment.

The provision for income tax for the nine-month period was \$21.0 million compared to \$13.6 million for the prior year period reflecting the increase in pre-tax earnings.

Earnings from continuing operations for the nine-month period were \$49.3 million or \$2.09 per share (\$2.06 per share diluted) compared to \$28.7 million or \$1.24 per share (\$1.22 per share diluted) for the same period last year.

Loss from discontinued operations was \$0.6 million or \$0.02 per share compared to a gain of \$12.2 million or \$0.53 per share last year.

Resulting net earnings were \$48.7 million or \$2.07 per share (\$2.04 per share diluted) compared to \$41.0 million or \$1.77 per share (\$1.74 per share diluted) for the same period last year.

## SUMMARY OF QUARTERLY RESULTS

As reclassified (in \$000 Cnd, except per share)	Fiscal 2006	Fiscal 2007				Fiscal 2008		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	\$ 88,956	\$ 94,451	\$ 101,845	\$ 90,092	\$ 129,049	\$ 143,420	\$ 156,136	\$ 120,758
Gross profit	25,938	30,504	33,824	25,222	43,520	47,644	54,665	33,712
Gross margin	29.2%	32.3%	33.2%	28.0%	33.7%	33.2%	35.0%	27.9%
Earnings from continuing operations	9,293	10,050	12,959	5,737	17,800	18,824	22,815	7,670
Per share - basic	0.40	0.44	0.56	0.25	0.77	0.80	0.97	0.32
Per share - diluted	0.39	0.43	0.55	0.24	0.75	0.79	0.95	0.32
Net earnings	11,689	22,883	13,109	5,002	17,809	18,935	22,563	7,236
Per share - basic	0.51	0.99	0.57	0.22	0.77	0.81	0.96	0.31
Per share - diluted	0.50	0.97	0.56	0.21	0.75	0.80	0.94	0.30

The geographic distribution of the Company's growth is having an impact on its historical seasonal patterns. With the exception of the third quarter, the Company exhibits comparatively less seasonality in quarterly revenue than in the past since a relatively higher proportion of drilling revenue is coming from regions with more temperate or tropical climates that are not impacted by winter weather conditions, and strong cyclical growth tends to mute normal seasonal patterns. Historically, the Company's operations tended to exhibit a seasonal pattern whereby its fourth quarter (February to April) was its strongest. 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.

## LIQUIDITY AND CAPITAL RESOURCES

### *Operating Activities*

Operating cash flow from continuing operations (before changes in non-cash working capital) was \$16.3 million for the quarter up from \$14.9 million generated in the same period last year. The good operational performance was muted somewhat by an increase in cash taxes as the Company was still utilizing tax affected losses during the third quarter of fiscal 2007 which have now been for the most part utilized.

Change in non-cash operating working capital items was \$1.1 million in the quarter compared to \$1.7 million for the same quarter last year. The change in non-cash operating working capital in the quarter was impacted by:

- A decrease in accounts receivable of \$20.2 million due to a decrease in activity as compared to the previous quarter as the Company experienced the usual shut downs during the holidays;
- An increase in inventory of \$11.2 million as the Company prepares for a busy fourth quarter;
- A decrease in accounts payable of \$9.1 million due to a seasonal decrease in activity as compared to the previous quarter.

### *Financing Activities*

During the quarter, the Company borrowed \$10.0 million from its \$65 million facility. Long-term debt repayments were \$2.8 million during the quarter.

The credit facilities related to operations total \$30.5 million (\$30.0 million from a Canadian chartered bank and \$0.5 million in credit facilities available in Chile and Australia) and are secured by fixed and floating charges on selected Canadian capital assets, a general assignment of book debts, inventories and corporate guarantees of companies within the group. The Company has a credit facility of \$1.7 million for credit cards for which interest rate and repayment are as per cardholder agreement. At January 31, 2008, the Company had utilized \$9.5 million of these lines.

A second facility is a \$65.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At January 31, 2008, the Company had utilized \$12.7 million of this line. Draws on this line can be amortized over five years.

The third facility is a US\$4.7 million non-revolving term facility established to assist in the acquisition of Dynatec's Drilling Division, based in the United States. This facility is being amortized over a five-year period, which commenced in June 2005.

The Company also has other various loans and capital lease facilities related to equipment purchases that totaled \$17.9 million at January 31, 2008, of which \$15.3 million were utilized and mature through 2011.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure and debt obligations. As at January 31, 2008, the Company had unused borrowing capacity under its credit facilities of \$75.9 million and cash of \$18.3 million, for a total of \$94.2 million.

Under the terms of certain of the Company's debt agreements, the Company must satisfy certain financial covenants. Such agreements also limit, among other things, the Company's ability to incur additional indebtedness, create liens, engage in mergers or acquisitions and make dividend and other payments. During the period, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

### ***Investing Activities***

Capital expenditures were \$17.6 million (\$16.5 million net of financing) for the quarter ended January 31, 2008 compared to \$14.5 million (\$9.3 million net of financing) for the same period last year. Capital expenditures were \$47.3 million (\$45.4 million net of financing) for the nine-month period ended January 31, 2008 compared to \$36.8 million (\$24.3 million net of financing) for the same period last year.

## **FOREIGN EXCHANGE**

Year-over-year revenue comparisons continue to be affected by the strengthening of the Canadian dollar against the U.S. dollar and the Australian dollar. The unfavourable foreign exchange translation impact, for the quarter, when comparing to the effective rates for the same period last year, is estimated at \$14 million on revenue and \$1.7 million on net earnings.

## **OUTLOOK**

Going forward, the outlook for the fourth quarter looks strong although weather continued to be challenging throughout February. With our on-going training efforts, the Company anticipates putting 29 new rigs into service during the fourth quarter that either arrived in the third quarter or will be arriving during the fourth quarter subject to delivery schedules. Seven of these are replacement rigs. In addition, the Company has increased its inventory during the quarter by \$13 million in anticipation of a busy year as well as to avoid any potential supply shortages. Demand from gold and copper projects is expected to continue to be strong in calendar 2008 as prices should remain well above economical thresholds required for sustained exploration. Drilling demand from uranium companies is expected to increase in 2008 given the number of projects moving into the pre-feasibility stage around the world. In addition, most observers believe that a slowdown in the U.S. economy would have only a small impact on the demand for base metals as problems on the supply side and continued demand from China and India should keep prices above levels required for exploration.

In terms of customer base, most senior and intermediate mining companies, which represent the majority of the Company's customers, have increased their 2008 exploration budgets from 2007. Most of the junior companies that we work for have raised substantial amounts of cash, which should carry their exploration programs through the next six to eight quarters. While financial markets may become more selective in their future support for junior mining, projects with good fundamentals are expected to find financing. The need to replace depleting reserves will continue to be the key driver in the industry.

## **BUSINESS ACQUISITIONS**

### ***Harris y Cia Ltda.***

Effective September 6, 2007, the Company entered into an agreement to purchase the exploration drilling company Harris y Cia Ltda. ("Harris").

Through this purchase, Major Drilling acquired 11 drill rigs, all of which are currently committed to work on a double shift basis, conducting mainly specialized drilling in the active northern region of Chile. In addition, the acquisition involves all support equipment, inventory, an office and repair facilities. Major Drilling's existing operations are largely in central and southern Chile and as such this acquisition provides attractive synergies to assist the Company in fulfilling its strategy of fully servicing the Chilean specialized drilling market.

As part of this acquisition, Major Drilling also acquired Harris' existing contracts and retained key management personnel, as well as the other employees, including a number of experienced drillers. The Company anticipates that the operations of Harris will produce additional revenue of approximately US\$11 million from the time of the acquisition to the end of its fiscal year on April 30, 2008.

The purchase price for the transaction was US\$23.5 (CDN\$24.7) million, including customary working capital adjustments, financed with cash. This transaction closed on September 10, 2007.

### ***Paragon del Ecuador S.A.***

Effective October 25, 2007, the Company entered into an agreement to purchase the assets of the exploration drilling company Paragon del Ecuador S.A.

Paragon was the largest mineral exploration drilling contractor in Ecuador, operating 7 drill rigs. In addition to the rigs, this acquisition involved support equipment and inventory, existing contracts, and personnel. Subsequent to this acquisition Major Drilling now has a total of 9 drill rigs in Ecuador. The Company anticipates that the operations of Paragon will produce additional revenue of approximately US\$3.6 million from the time of the acquisition to the end of its fiscal year on April 30, 2008.

The purchase price for the transaction was US\$6.0 (CDN\$5.8) million, subject to various holdbacks and was financed with cash and debt. This transaction closed on October 25, 2007.

## **GENERAL RISKS AND UNCERTAINTIES**

### ***Cyclical Downturn***

The most significant operating risk affecting the Company is the potential downturn in demand for its services due to a decrease in activity in the minerals and metals industry. 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 been focused on specialized drilling services. At the same time, the Company continues to make progress with its initiative to standardize its fleet, which, over the next several years, will provide significant savings in repair, maintenance and inventory costs.

As the Company moves deeper into the mining cycle and activity levels increase, the requirement for working capital, particularly with respect to accounts receivable and inventory, expands. While receivables from senior and larger intermediate mining exploration companies remain a significant component of total receivables, accounts receivable from junior mining companies typically increase as a proportion of total receivables. 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. The Company manages this potential risk by closely monitoring accounts receivable aging and the level of junior financing activity in the capital markets, and requiring, in some instances, deposits or letters of credit, as considered appropriate.

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. In order to minimize its exposure to this risk, the Company works closely with its customers to anticipate and plan for scheduled reductions in their drilling programs, and with its suppliers to set up consignment arrangements where possible. The Company also closely monitors its inventory levels in these remote operations and attempts to appropriately balance its exposure to inventory risk against the risk of loss of productivity as a result of insufficient drilling consumables or spares when required.

### ***Country Risk***

Major Drilling is committed to utilizing its expertise and technology in exploration areas around the world. With this comes the risk of dealing with business and political systems in a variety of jurisdictions. Unanticipated economic, political, tax related, regulatory or legal changes (or changes in interpretation) could have a material negative impact on operations and assets. The risks include, but are not limited to, military repression, extreme fluctuations in currency exchange rates and high rates of inflation, changes in mining or investment policies or shifts in political attitude that may adversely affect the business. With rising commodity prices, there is an emergence of a trend by some governments to increase their participation in the benefits of these rising 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 temporary reductions in revenue and transition costs as equipment is shifted to other locations. The Company continually monitors these developments and has developed contingency plans to minimize the possible negative impacts in such regions to the extent reasonably possible.

The Company employs individuals who have experience working in the international arena, and attempts to assess the current and potential risks, at that time, before commencing operations in a new jurisdiction.

### ***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 legally permitted.

Foreign exchange translations now have a greater impact on year-to-year comparisons because of the changing geographic distribution of the Company's activities. With the significant growth in areas where revenue is denominated in U.S. dollars, U.S. dollar revenue has grown relative to revenue denominated in Canadian dollars. Year-over-year revenue comparisons have been affected by the rising Canadian dollar against both the U.S. and Australian dollars. 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 quarters, 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. The Company manages operational risk by attempting to ensure that effective infrastructure, controls, systems and individuals are in place. This is supported by strong principles of governance, an employee code of ethics and business conduct, audits, and other compliance related activities.

### ***Dependence on Key Contracts***

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. Upon the expiration or termination of such contracts, 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.

### ***Expansion and Acquisition Strategy***

The Company intends to continue its growth through 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 audit. Compliance and audit test the extent to which operations meet regulatory requirements, as well as the effectiveness of internal controls. Internal and external counsel work with local management to identify areas of potential legal risk. The General Counsel is involved in the management of significant litigation matters.

### ***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 Skill and Knowledge***

Generally speaking, drilling activity related to metals and minerals is broadly linked to price trends in the metals and minerals sector. One limiting factor in this industry, which has occurred as the industry has transitioned from a cyclical downturn to a cyclical upturn, is a shortage of qualified drillers. The Company is addressing 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 and Indonesian operations, and is expected to continue to play an important role in alleviating this factor.

### ***Equipment and Parts Availability***

The Company's ability to expand its operations and provide reliable service is dependant upon timely delivery of new equipment and replacement parts from fabricators and suppliers. A lack of skilled labour to build equipment, combined with new competitors entering the mineral drilling sector, is placing a strain on some manufacturers. This has substantially increased the order time on new equipment and increased uncertainty surrounding final delivery dates. Significant delays in the arrival of new equipment from expected dates may constrain future growth and the financial performance of the Company. The Company attempts to mitigate this risk by maintaining strong relations with key fabricators and suppliers.

### ***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. Reputational risk cannot be managed in isolation from other types of risk, since all risks can have an impact on reputation. Every employee and representative of the Company has a responsibility to contribute positively to the Company's reputation. This means that ethical practices are to be followed at all times, that interaction with the Company's stakeholders is positive, and that the Company complies with applicable policies, legislation, and regulations.

## **CHANGES IN ACCOUNTING POLICIES**

### ***Financial Instruments and Comprehensive Income***

In April 2005, the Accounting Standards Board ("AcSB") issued new accounting standards which were applicable to the Company: Section 1530 "Comprehensive Income"; and Section 3855 "Financial Instruments – Recognition and Measurement". Effective May 1, 2007, the Company adopted these new accounting standards.

The new accounting standards introduce Comprehensive income, which is comprised of net income and Other Comprehensive Income ("OCI"). OCI includes unrealized gains and losses arising from the translation of the financial statements of self-sustaining foreign operations.

Included in the consolidated statements of comprehensive earnings, other comprehensive loss for the nine month period was \$19.4 million. The majority of the change related to translating the net assets of our U.S. operations using the current rate method as they are considered self-sustaining under Canadian GAAP. The Canadian dollar appreciated almost 12 percent against the U.S. dollar since April 30, 2007.

Accumulated other comprehensive loss ("AOCL") is presented as a separate component of the shareholders' equity section in the consolidated Balance Sheet. Previously, these gains and losses were included in cumulative translation adjustments within shareholders' equity and are now the only element included in AOCL.

Also, under section 3855 "Financial Instruments – Recognition and Measurement", financial assets classified as loans and receivables and financial liabilities classified as other liabilities have to be measured initially at fair value. The methods used by the Company in determining the fair value of financial instruments are unchanged as a result of implementing this new accounting standard.

These accounting standards and the impact of these changes on the Company's financial statements are discussed in Note 2 – Changes in Accounting Policies.

## **CRITICAL ACCOUNTING ESTIMATES**

There have been no material changes in this quarter to the accounting estimates presented in the Company's annual MD&A for the year ended April 30, 2007.

## **OFF BALANCE SHEET ARRANGEMENTS**

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2007, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

There have been no changes in our internal controls over financial reporting during the three months ended January 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **OUTSTANDING SHARE DATA**

As of February 29, 2008, there were 23,671,008 common shares issued and outstanding in the Company. The increase of 58,131 shares from the last reported number of shares in our second quarter MD&A (reported as of November 30, 2007), is due to the exercise of stock options.