



# 2 0 1 1 ANNUAL REPORT

Groupe Forage

**MAJOR**

Drilling Group International Inc.

# Corporate Profile



**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, sonic, RAB, geotechnical, environmental, water-well, and coal-bed methane and shallow gas.

Over the years, the Company has positioned itself as one of the largest specialized operators in the world by leveraging its main competitive advantages: specialized equipment, long-standing relationships with the world's largest mining companies, access to capital and skilled personnel. This positioning is strengthened with the Company's senior management having experienced several economic and mining industry cycles.

During the last several years, the Company has achieved strong growth while remaining focused on the long-term objective of building a solid company for the future. Our corporate strategy remains to:

- i) dominate specialized drilling and expand effective capacity;
- ii) modernize our conventional fleet and expand our footprint in strategic areas;
- iii) diversify our services within the drilling field;
- iv) keep debt at minimum levels; and
- v) be the best in class in safety and human resources.

Major Drilling's common shares trade on the Toronto Stock Exchange under the symbol MDI and are included in the TSX Composite Index.

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## Highlights

In millions of Canadian dollars (except earnings per share)*	2011	2010
Revenue	\$ 482.3	\$ 307.9
Gross margin	25.0%	24.2%
Net earnings (loss)	27.6	(0.5)
Earnings (loss) per share - basic*	\$ 0.39	\$ (0.01)
Cash flow from operations**	60.9	30.6

\* re-stated to reflect stock split

\*\* before changes in non-cash working capital items

## Transitioning Fiscal 2011

- Revenue grew by 57%
- Generated cash from operations of \$61 million
- Semi-annual dividend increased from \$0.0667 per share to \$0.0733 per share
- Carried out a three for one stock split
- Acquired North Star Drilling in the USA
- Acquired Resource Drilling in Mozambique
- Continued to upgrade the rig fleet

## Looking Ahead to Fiscal 2012

- Utilization rates picking up
- Pricing should improve
- Capital expenditures of \$70 million planned

# Message to Shareholders



Fiscal year 2011 was a year of recovery. In the first quarter of fiscal 2011, we started to see the activity levels pick up in Chile, Argentina and Canada. By mid-year, utilization rates were picking up in every region where we operate, but pricing, although recovering, remained substantially lower than the levels of fiscal year 2008.

In 2008, there were very few properties that had entered the development stage. During the exploration phase of a project, clients typically run two to three drills on a property; during the development stage, the clients' need for data increases and they often put five to ten rigs on the same property. In the first nine months of calendar 2010, most of the increase in demand came from the growth in these developmental projects. The senior mining houses and the juniors had not significantly increased their volume of exploration work.

As we entered the second quarter, we anticipated that the larger mining companies would be increasing their budgets significantly, and they did. In that period, we were able to begin the process of price recovery. We also saw a resurgence of financing for junior mining companies, which added a further layer of demand in the fourth quarter.

This is the first time in many decades that we have had three demand drivers – senior mining houses, junior mining companies and projects in development. While this is welcome and should lead to a much stronger pricing environment going forward, the very rapid ramp-up in activity has brought its own challenges, especially with regards to the labour force. We have increased our employee numbers from 2,000 in 2009 to over 4,000 by the end of fiscal 2011. The cost of recruiting and training this volume of people, as well as the short-term drop in productivity caused by less experienced personnel, had a direct but temporary impact on our margins.

We continue to believe that the mineral supply and reserve challenges will fuel activity in the mining sector. We also believe that as exploration activity continues to pick up, greater emphasis will be put on developing mineral resources in areas that are difficult to access. This will increase the need for more sophisticated specialized drilling.

Just as we had positioned our operations in the event of a downturn, the Company has strategically positioned itself to take full advantage of long-term growth in specialized drilling.

Training drillers is an essential element in our growth and we will continue to invest in our people. We have created four new training centres around the world to support this growth. These centres will not only allow us to increase the number of drillers, but will also serve to speed up the learning curve to minimize the impact on productivity.

During the year, we acquired two companies. In June 2010, we bought the assets of North Star Drilling in Minnesota. This is part of our strategy to grow the environmental drilling business and to add the techniques of sonic drilling to our roster of services. In March 2011, we acquired the assets of Resource Drilling in Mozambique, allowing us to establish a foothold in an area of the world where mining is taking on greater importance.

Net capital expenditures for the year were \$62.6 million as we purchased 74 rigs while retiring 62 through our modernization program. With the shortage of crews re-emerging as an issue, our focus turns to increasing the earning power of each crew and rig. The modern rigs that we purchase will help improve productivity and safety while reducing training time for crews. We also added eight rigs through our US acquisition and fifteen through our Mozambique acquisition.

Overall, the fiscal year ended April 30, 2011 was a transition year for Major Drilling.

Revenue has grown year-over-year by 57% to \$482.3 million. Earnings have grown from a loss of \$0.5 million last year to earnings of \$27.6 million and we are very well positioned for the year in front of us. As utilization rates increase, the pricing environment continues to improve.

In fiscal year 2011, we were also reminded that drilling is an activity that can be heavily affected by weather. In the last part of the year, unusual flooding in Australia had a very serious negative impact on our operations, as did unfavourable winter conditions in Canada and floods in North Dakota.

Recognizing the positive outlook for our Company, the Board of Directors increased our semi-annual dividend by 10%. In March, the shareholders approved a 3 for 1 stock split in order to enhance the stock's trading liquidity.

We know that our value is in our quality, relationships and results. We believe that the Company is well positioned to take advantage of the opportunities that we now have before us.

We wish to thank our customers and our shareholders for your support and we want to express our sincere gratitude to all the employees of Major Drilling for their dedication, flexibility and driving spirit. All of you are what make our Company strong.



David Tennant  
Chairman of the Board



Francis McGuire  
President and Chief Executive Officer

# Report on Operations



## MAJOR DRILLING'S COMMITMENT TO CUSTOMERS

As many of our customers expand their efforts, they recognize the value that Major Drilling brings to their drilling projects. It is reflected in our attention to safety, the quality of our people, our modern equipment and our advanced systems. Customers know our resolve to overcome even the most difficult challenges in order to deliver results. We continue to focus on our relationships with our customers to be their "partners on the ground".

In order to be able to consistently communicate with our employees, customers and the communities that we work and live in every day, our focus has been to find a way to clearly identify the value that Major Drilling brings to our drilling projects. It is important that our customers know what to expect when working with us.

We interviewed customers, supervisors and management on what three things best represent Major Drilling. Each of the groups independently came up with the same three attributes.

### 1. Quality    2. Relationships    3. Results

You'll start to see this equation on clothing, equipment and in our offices around the world.

$$V=QR^2 \quad \text{Value} = \text{Quality, Relationships, Results}$$

**QUALITY** – We focus on continual improvement in safety, equipment, a variety of drilling services, training, customer service, relationships, etc.

**RELATIONSHIPS** – We develop relationships on the ground with customers. Our employees see themselves as working in collaboration with our customers, functioning not only as a supplier but as an extension of our customers' teams.

**RESULTS** – Through innovation, solid hard work, sheer determination and empowerment of our local employees, Major Drilling is tenacious in overcoming the obstacles we encounter on the ground and in producing results. That resolve is a key element of our corporate culture.

"Here at Resolution Copper, Major Drilling routinely completes multiple +2 km long directionally motored HQ holes from individual pre-collared mother holes," says Carl Hehnke, Manager of Resource Evaluation at Resolution Copper. "Major Drilling has demonstrated an ability to partner with our team to develop innovative solutions."

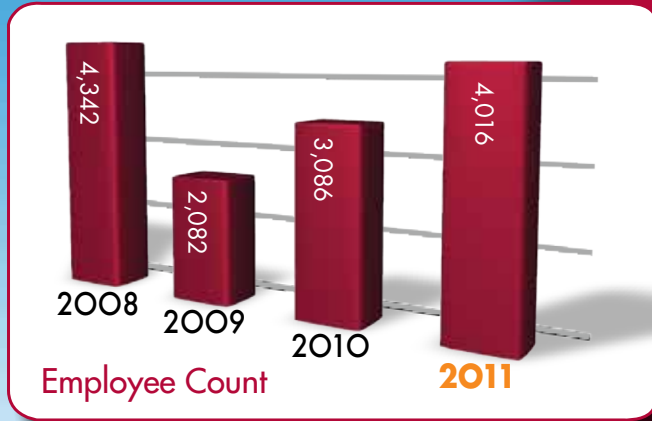
## OUR FLEET

The nature and quality of our fleet continues to grow and evolve in line with our strategic plan. Over the past five years, we have added 123 specialized rigs to our capacity while modernizing our conventional fleet.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Specialized	134	168	228	235	<b>257</b>
Conventional	249	286	233	206	<b>191</b>
Underground	87	80	74	76	<b>81</b>
Environmental	-	-	-	8	<b>31</b>
<b>Total</b>	<b>470</b>	<b>534</b>	<b>535</b>	<b>525</b>	<b>560</b>

## SAFETY – AT OUR VERY CORE

Safety is the most critical quality we provide to our customers. It is woven throughout every decision made at every job site. Major Drilling promotes a proactive approach to the health and safety of all employees.



One of our many safety achievements was the Cameco Global Contractor Safety Award for 2010 in Mongolia. Cameco Mongolia Project Geologist, Kristl Hoksbergen, has said "Cameco prides itself on its dedication to safety and the preservation of the environment. It is evident that Major Mongolia is also committed to these values, as we have seen through this award. We look forward to continuing this mutually beneficial partnership."

By partnering with our customers and industry leaders in behavioural safety, we have built a comprehensive integrated management system. The program uses the latest technology to make sure all of our branches around the world have access to the most up-to-date standards.

Safety is always at the forefront of all of our efforts. We have high expectations for our suppliers with the safety of our equipment. For our employees, our "Take 5" program reminds them to think through the task, look for the exposure, assess the risk, take precautions, remove the risk and do the job safely.

In the last quarter of this fiscal year, we initiated additional preventative measures to eliminate the risk of finger and hand injuries. Supervisors are providing additional training for our employees to utilize the correct hand placement as they do their job. There is immediate and direct feedback to employees to reinforce safe behaviour. We also continue to focus on safe driving procedures across the Company.

It is important for us to spend the time, resources and energy required to make sure that crews go home safely at the end of their shift.

## OUR PEOPLE

As demand expands, the industry is nearing capacity in terms of labour. Major Drilling is also invested in building up our labour force, which has grown from 3,086 to 4,016 over the year. In the four key areas where the labour shortage is the biggest challenge (Canada, the US, Australia and Chile), we have now established training centres. The goals for these centres are to speed up the learning curve to minimize impacts on productivity and to enhance our retention rate.

## OUR COMMITMENT TO YOU

Major Drilling is a specialized drilling company that delivers on even the toughest sites through our knowledge, extensive experience, focus on safety, and commitment to meeting the local needs of every customer. With the best people on the ground and a modern, diversified drilling fleet, we partner with our customers and local communities for outstanding results.



# Management's Discussion and Analysis

*The following management's discussion and analysis "MD&A", prepared as of June 30, 2011, should be read together with the audited financial statements for the year ended April 30, 2011 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.*

*This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. For a full discussion of forward-looking statements, see the forward-looking statements section of this report.*

## **FORWARD-LOOKING STATEMENTS**

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. These forward-looking statements are typically identified by future or conditional verbs such as "outlook", "believe", "anticipate", "estimate", "project", "expect", "intend", "plan", and terms and expressions of similar import.

Such forward-looking statements are subject to a number of risks and uncertainties which include, but are not limited to: cyclical downturn, competitive pressures, dealing with business and political systems in a variety of jurisdictions, repatriation of property in other jurisdictions, payment of taxes in various jurisdictions, exposure to currency movements, inadequate or failed internal processes, people or systems or from external events, dependence on key customers, safety performance, expansion and acquisition strategy, legal and regulatory risk, extreme weather conditions and the impact of natural or other disasters, specialized skills and cost of labour increases, equipment and parts availability and reputational risk. 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 also 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 the SEDAR website 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, Asia and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, sonic, RAB, geotechnical, environmental, water-well and coal-bed methane and shallow gas.

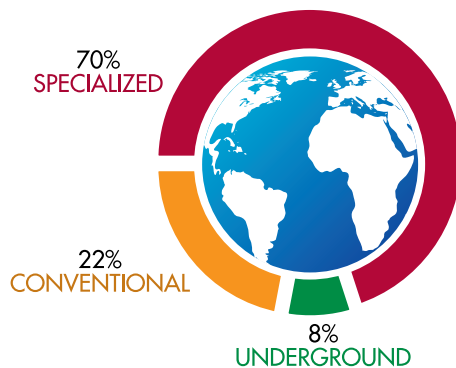
## **BUSINESS STRATEGY**

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. The Company will also seek to diversify by investing in energy and environmental drilling services that are complementary to its skill set.

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

## REVENUE BY TYPE FISCAL 2011



**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.

## 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.

Several years ago, high commodity prices drove the industry to record levels of activity, with worldwide mineral exploration expenditures in calendar 2008 surpassing US\$14 billion. During the recession, which began in calendar 2009, drilling was significantly impacted, particularly on base metal projects, with worldwide mineral exploration expenditures that year 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.

While senior companies 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. Announcements of significant increases in exploration budgets from senior mining companies, combined with an 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.

# Management's Discussion and Analysis

## Gold

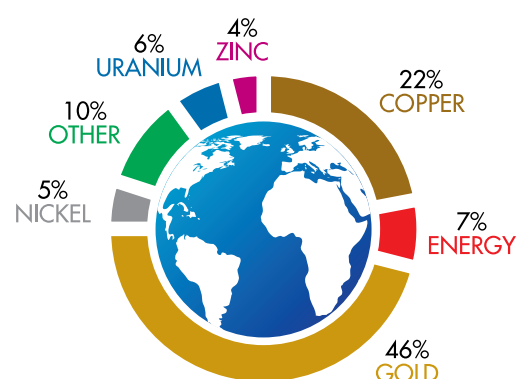
Drilling services for gold are always affected by overall commodity prices. However, Metals Economics Group ("MEG") had reported that declining gold reserves replacement via exploration, since 1997, may result in gold supply shortages in the long-term, a fact that has been echoed by several senior gold 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 or 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.

## REVENUE BY COMMODITY FISCAL 2011



## BUSINESS ACQUISITIONS

### SMD Services

Effective February 26, 2010, the Company acquired SMD Services based in Huntsville, Alabama. Through this purchase, Major Drilling entered the environmental drilling sector and acquired a small fleet of sonic, probe and auger drill rigs, as well as a skilled management team and personnel. The purchase price for the transaction was USD \$2.0 million (CAD \$2.1 million), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$2.0 million to the purchase price, based on future earnings.

### North Star Drilling

Effective June 30, 2010, the Company acquired the assets of North Star Drilling, which provides contract drilling services to the fresh water and geothermal markets in certain mid-western states in the US, and operates from its head office in Little Falls, Minnesota, as well as from satellite offices in Brainerd and Bemidji, Minnesota. The acquired business includes drilling equipment, contracts and personnel. The purchase price for the transaction was USD \$2.4 million (CAD \$2.6 million), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$0.8 million to the purchase price, based on future earnings.

### Resource Drilling

Effective March 24, 2011, the Company acquired the assets of Resource Drilling, which provides contract drilling services in Mozambique, where Major Drilling did not have a presence. The acquired business includes drilling equipment, inventory, contracts and personnel. The purchase price for the transaction was USD \$9.7 million (CAD \$9.5 million), including customary working capital adjustments, financed with cash.

## STOCK SPLIT

On March 23, 2011 the Company enacted a 3 for 1 stock split. Amounts per share throughout this document have been adjusted accordingly and are now presented post-split.

## OVERALL PERFORMANCE

Revenue for the fiscal year ended April 30, 2011 increased 57 percent to \$482.3 million from \$307.9 million for the corresponding period last year. Most of the Company's branches exhibited strong growth mainly coming from increased utilization. The bulk of the increased activity for the year came from intermediate and junior mining companies with advanced properties, projects that require several years of multi-rig drilling. In the fourth quarter, many senior mining companies increased their exploration budgets, while at the same time, early stage exploration companies saw their ability to raise capital significantly increase.

Gross margin for the year was up to 25.0 percent compared to 24.2 percent last year representing general improvements in pricing, partially offset by increased training, mobilization and consumable costs, to accommodate the present growth.

The combination of strong revenue growth and improved margins produced net earnings of \$27.6 million (\$0.39 per share) compared to a net loss of \$0.5 million (\$0.01 per share) for last year.

### SELECTED ANNUAL INFORMATION

(in millions of Canadian dollars, except per share information)

Years ended April 30	2011	2010	2009
<b>Revenue by region</b>			
Canada-U.S.	\$ 181	\$ 103	\$ 167
South and Central America	169	108	155
Australia, Asia and Africa	132	97	201
	<b>482</b>	<b>308</b>	<b>523</b>
<b>Gross profit</b>	120	74	176
Gross profit as a percentage of revenue	25.0%	24.2%	33.6%
<b>Net earnings (loss)</b>	28	-	46
Per share (basic)	\$ 0.39	\$ (0.01)	\$ 0.65
Per share (diluted)	\$ 0.38	\$ (0.01)	\$ 0.64
<b>Total assets</b>	482	416	469
<b>Total long-term financial liabilities</b>	17	15	24

## RESULTS OF OPERATIONS

### FISCAL 2011 COMPARED TO FISCAL 2010

Revenue for the fiscal year ended April 30, 2011 increased 57 percent to \$482.3 million from \$307.9 million for the corresponding period last year. Most of the Company's branches exhibited strong growth mainly coming from increased utilization. Revenue growth was affected by the strengthening Canadian dollar against the U.S. dollar as compared to the same period last year. The unfavourable foreign exchange translation impact for the year, when comparing to the effective rates for the same period last year, is estimated at \$15 million on revenue.

#### Canada-U.S.

Canada-U.S. revenue increased by 75 percent to \$181.3 million compared to \$103.3 million last year. About half of the growth came from the U.S. operation with both mineral and energy divisions seeing a significant increase in activity. Canadian operations accounted for a third of the region's increase while the remainder came from the new environmental division.

Gross margins in Canada-U.S. decreased year-over-year as competitive pressures continued to negatively affect pricing and margins at the beginning of the year. Improved pricing during the year was offset by significant training, mobilization, repair and consumable costs to support increased demand.

# Management's Discussion and Analysis

## South and Central America

Revenue in South and Central America increased by 58 percent to \$169.4 million, compared to \$107.4 million for the prior year period. Most of the growth in the region came from Mexico, Argentina and Chile.

Margins in this geographic segment were impacted compared to last year by competitive pressures on pricing and higher mobilization and repair costs relating to the ramp-up as the Company geared up for the increase in activity.

## Australia, Asia and Africa

Revenue in Australia, Asia and Africa increased 36 percent to \$131.6 million from \$97.1 million in the prior year period. Mongolia and Indonesia were the main drivers of growth in the region while the Company also added operations in Kazakhstan and Mozambique. As the industry was going through a significant ramp-up, Australian revenue grew somewhat compared to last year but growth efforts were hampered by significant floods that hit Eastern Australia and affected operations for the latter half of the year.

Gross margins in the region increased year-over-year as pricing held up well in Mongolia and operations in Australia and Tanzania were restructured.

## Operating Expenses

General and administrative costs were \$40.9 million or 8.5 percent of revenue compared to \$33.4 million or 10.9 percent of revenue in the same period last year. The increase was due to the addition of our U.S. based environmental division and increased costs to support the strong growth in activity levels.

Other expenses were \$6.3 million for the year compared to \$5.0 million for the same period last year due primarily to higher incentive compensation expenses given the Company's increased profitability in the current year.

Foreign exchange gain was \$0.9 million for the year compared to \$0.1 million in the prior year period as a result of favourable currency variations during the year on net monetary items.

Short-term interest expense was \$0.6 million for the year compared to a revenue of \$0.2 million last year, while interest expense on long-term debt was \$0.7 million compared to \$1.1 million for the same period last year.

Amortization expense increased to \$31.8 million for the year, compared to \$30.1 million for the same period last year, as a result of additional equipment being purchased during the year.

In the previous year, the Company recorded a restructuring charge of \$1.2 million, relating mainly to Australia, and a non-cash goodwill and intangible assets impairment charge of \$1.5 million in Ecuador.

The income tax provision for the year was \$13.4 million compared to \$2.9 million for the prior year period.

Net earnings for the year were \$27.6 million or \$0.39 per share (\$0.38 per share diluted) compared to a net loss of \$0.5 million or \$0.01 per share (\$0.01 per share diluted) for the same period last year.

## REVENUE BY GEOGRAPHIC SEGMENT FISCAL 2011



## SUMMARY ANALYSIS

### FISCAL 2010 COMPARED TO FISCAL 2009

Revenue for the fiscal year ended April 30, 2010 decreased 41 percent to \$307.9 million from \$523.0 million for the corresponding period in the previous year. The first eight months of the year were marked by contract cancellations and delays in all regions due to the prevailing economic situation. Utilization rates and pricing dropped significantly, affecting both revenue and margins. In the last quarter of fiscal 2010, the Company started seeing a sequential recovery by region.

Gross margin for the year was down to 24.2 percent compared to 33.6 percent in 2009, due to significant reductions in pricing and severe weather issues in Australia, mitigated somewhat by improved productivity.

The combination of reduced revenue and margins produced a net loss of \$0.5 million (\$0.01 per share) compared to net earnings of \$45.9 million (\$0.65 per share) in 2009.

### FOURTH QUARTER RESULTS ENDED APRIL 30, 2011

Total revenue for the fourth quarter was \$137.3 million compared to \$97.4 million recorded for the prior year period. All of the Company's regions contributed to this growth although Australia, Canada and U.S. revenue was affected by weather issues.

Revenue from Canada-U.S. drilling operations was up 40 percent to \$52.1 million for the quarter compared to the same period last year. U.S. operations saw a strong recovery, particularly from its senior mining customers, but had its energy division affected by floods in North Dakota. In Canada, activity levels continued to increase but margins were affected by extreme winter conditions.

In South and Central America, revenue for the quarter was \$50.5 million, up 31 percent from 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 \$34.7 million, up 61 percent from the same period last year. The revenue increase came primarily from Mongolia, Australia and Tanzania, but we also saw increases from the recent start-up of operations in Kazakhstan and our recent acquisition in Mozambique.

The overall gross margin percentage for the quarter was 25.4 percent compared to 23.0 percent for the same period last year. Margins were impacted by costs relating to the ramp-up of operations, additional training costs as the Company geared up for new contracts, and by weather issues.

General and administrative costs were \$11.3 million for the quarter compared to \$8.5 million in the same period last year. The increase was due to the addition of the new environmental, Mozambique and Kazakhstan divisions, in addition to the costs of supporting the strong growth in activity levels.

Other expenses were flat at \$1.2 million for the quarter compared to the same period last year.

Net earnings were \$9.4 million or \$0.13 per share (\$0.13 per share diluted) for the quarter compared to net earnings of \$3.2 million or \$0.05 per share (\$0.04 per share diluted) for the prior year quarter.

### SUMMARY OF QUARTERLY RESULTS (in thousands of Canadian dollars, except per share information)

	Fiscal 2010				Fiscal 2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Revenue</b>	\$ 62,489	\$ 75,528	\$ 72,471	\$ 97,368	\$ 109,480	\$ 127,818	\$ 107,720	\$ 137,258
<b>Gross profit</b>	17,230	22,792	11,979	22,372	26,532	35,101	23,873	34,913
<b>Gross margin</b>	27.6%	30.2%	16.5%	23.0%	24.2%	27.5%	22.2%	25.4%
<b>Net (loss) earnings</b>	(3,296)	4,060	(4,453)	3,225	5,053	11,420	1,664	9,422
Per share - basic	(0.05)	0.06	(0.06)	0.05	0.07	0.16	0.02	0.13
Per share - diluted	(0.05)	0.06	(0.06)	0.04	0.07	0.16	0.02	0.13

With the exception of the third quarter, the Company exhibits comparatively less seasonality in quarterly revenue than in the past. 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.

# Management's Discussion and Analysis

## LIQUIDITY AND CAPITAL RESOURCES

### Operating Activities

Operating cash flow (before changes in non-cash working capital) was \$60.9 million for the fiscal year ended April 30, 2011, nearly double the \$30.6 million generated last year, which is a direct result of increased utilization.

The change in non-cash operating working capital items was an outflow of \$13.0 million in fiscal 2011 compared to an outflow of \$9.9 million for the same period last year. The change in non-cash operating working capital in fiscal 2011 was primarily impacted by:

- An increase in accounts receivable of \$38.6 million due to increased activity in the fourth quarter as compared to the same period last year;
- An increase in inventory of \$6.2 million as the Company was adding more rigs in the field;
- An increase in accounts payable of \$25.8 million due to increased activity as compared to last year; and
- An increase in income tax payable of \$9.1 million due to increased profitability.

### Financing Activities

Total long-term debt increased by \$1.1 million during the year from \$23.9 million at April 30, 2010 to \$25.0 million at April 30, 2011. The increase is due to additional debt of \$10.0 million acquired during the year offset by repayments of \$8.9 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.

The credit facilities related to operations total \$26.2 million (\$25.0 million from a Canadian chartered bank and \$1.2 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 \$2.5 million for credit cards for which interest rate and repayment are as per cardholder agreements. At April 30, 2011, the Company had utilized \$8.4 million of these lines for stand-by letters of credit.

The Company has a 3,835 million Chilean peso (CAD \$7.9 million) loan, secured by a USD \$8.0 million stand-by letter of credit drawn from the Company's demand credit facility, carrying interest at an annual rate of 7.7 percent and maturing in April 2012.

The Company has a \$45.0 million facility for financing the cost of equipment purchases or acquisition costs of related businesses. At April 30, 2011, the Company had utilized \$24.6 million of this line. Draws on this line can be amortized over five years.

The Company also has various other loans and capital lease facilities related to equipment purchases that totaled \$0.5 million at April 30, 2011, which were fully drawn and mature through 2012.

<b>PAYMENTS DUE BY PERIOD</b> (in thousands of Canadian dollars)				
Contractual obligations	Total	Less than 1 year	2-3 years	4-5 years
Short-term debt	\$ 7,919	\$ 7,919	\$ -	\$ -
Long-term debt	25,032	8,402	12,499	4,131
Purchasing commitments	4,365	4,365	-	-
Operating leases	5,533	3,103	1,917	513
<b>Total contractual obligations</b>	<b>\$ 42,849</b>	<b>\$ 23,789</b>	<b>\$ 14,416</b>	<b>\$ 4,644</b>

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure, dividend and debt obligations. As at April 30, 2011, the Company had unused borrowing capacity under its credit facilities of \$38.3 million and cash of \$16.2 million, for a total of \$54.5 million in available funds.

### **Capital Expenditures**

Capital expenditures were \$62.6 million for the year ended April 30, 2011 compared to \$24.5 million for the same period last year.

During the year, the Company added 74 drill rigs through its capital expenditure program and 23 drill rigs through acquisitions while retiring or disposing of 62 drill rigs through its modernization program. This brings the total drill rig count to 560 at year end.

In fiscal 2012, the Company expects to spend approximately \$70 million in capital expenditures, with the intent of purchasing 40 rigs, approximately 30 being replacements of older rigs with low utilization rates. The rigs that will be purchased will help improve productivity and safety while reducing training time for crews. With the shortage of crews re-emerging as an issue, the Company's focus turns to increasing the earning power of each crew and rig. This year the Company will also be investing heavily in support equipment and vehicles, which are key to utilization and productivity.

### **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.

Activity levels in fiscal 2012 should be robust. Intermediate and junior mining companies with advanced projects continue to ramp up their already busy drilling programs by adding rigs. Most senior mining companies have significantly increased their exploration budgets for calendar 2011, and junior mining companies have had favorable access to capital markets. The Company continued to see inquiries from all categories of customers and as demand expands, the industry is nearing capacity in terms of labour. Pricing should continue to improve as the year progresses. 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, remain positive.

The expected increase in utilization and pricing should provide considerable leverage to increase revenue and profits. With regards to labour, wage increases were required to attract and retain the most experienced drillers, which are key to high-quality customer service. As the pool of available experienced drillers is drying up, the Company had to increase the number of trainee drillers, which has and will continue to temporarily affect productivity as they gain experience. In the four key areas where the labour shortage is most problematic (Canada, US, Australia and Chile), the Company has now established four new training centres. The goals for these centres are to improve our retention rate for new entrants but also to speed up their learning curve to minimize the impact on productivity.

The Company remains in an excellent financial position. Total debt levels, net of cash, stood at \$16.7 million at year end. With significant increases in activity, the Company always has a temporary drain on cash due to working capital requirements as more rigs are started. Cash levels should rebuild as receivables are collected.

# Management's Discussion and Analysis

## FOREIGN EXCHANGE

The Company's reporting currency is the Canadian dollar, however a significant portion of the Company's revenue and operating expenses outside of Canada are denominated in U.S. dollars, Chilean pesos and Australian dollars. The year-over-year comparisons in growth of revenue and operating expenses have been impacted by the falling U.S. dollar against the Canadian dollar.

During fiscal 2011, approximately 22 percent of revenue generated was in Canadian dollars, 11 percent in Chilean pesos and 7 percent in Australian dollars with most of the balance being in U.S. dollars. Since most of the input costs related to this revenue is denominated in the same currency as the revenue, the impact on earnings is somewhat muted.

The unfavourable foreign exchange translation impact for the year, when comparing to the effective rates for the same period last year, is estimated at \$15 million on revenue. Net earnings however, remained less impacted by currency fluctuations during the year as a large proportion of costs are typically incurred in the same currency as revenue. The estimated total unfavourable FX impact on net earnings for the year was less than \$2 million.

## 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 has completed 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 near completion 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 2012 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 all 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 has been conducted throughout fiscal 2011 and will continue into fiscal 2012. The post implementation phase will include sustainable IFRS compliant financial data and processes for fiscal 2012 and beyond.

The Company is in the final stages 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, which will result in a decrease in equipment value of approximately \$12 million.

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 straightline 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 at the date of transition.

# Management's Discussion and Analysis

## *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, \$2.0 million at the date of transition and \$0.8 million in fiscal year 2011.

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 has reviewed the treatment of drills and drilling equipment and no change will be required for componentisation; however the Company will be componentising buildings, which will have a 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 will not 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.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include, but are not limited to, the useful lives of property, plant and equipment for amortization purposes, property, plant and equipment and inventory valuation, valuation of future income taxes, assumptions used in compilation of stock-based compensation, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities and impairment testing of goodwill and intangible assets. Actual results could differ materially from those estimates and assumptions.

In light of the recent economic conditions, the Company has re-examined its critical accounting estimates.

As of April 30, 2011, property, plant and equipment with a carrying value of \$246.5 million represented approximately 50 percent of total assets. As such, the estimates used in accounting for the related depreciation and amortization charges have a material impact on the Company's financial condition and earnings.

Inventory represented almost 15 percent of total assets at April 30, 2011. Although the Company can redeploy remote inventory to other regions in the event of a downturn in a particular region, this can prove to be costly. The Company continues to monitor realizable value of inventory, especially in remote locations.

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

## **OFF BALANCE SHEET ARRANGEMENTS**

Except for operating leases disclosed in note 16 "Commitments" of the notes to consolidated financial statements and presented as contractual obligations in the liquidity and capital resources section herein, the Company does not have any other off balance sheet arrangements.

## **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 may not be fully mitigated by the foregoing measures.

# Management's Discussion and Analysis

While receivables from senior and larger intermediate mining exploration companies consistently 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.

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*

The Company 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, 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 U.S. 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 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 regards 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.

# Management's Discussion and Analysis

## *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 can be 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 can 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.

## **DISCLOSURE CONTROLS**

Disclosure controls and procedures 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 Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

Management, including the CEO and the CFO, does not expect that the Company's disclosure controls will prevent or detect all errors and all fraud. 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.

The Company's CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and concluded that, subject to the inherent limitations noted above, those disclosure controls were effective for the year ended April 30, 2011.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's CEO and CFO are responsible for designing internal controls over financial reporting ("ICFR") 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.

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 has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

During fiscal 2011, management, including its CEO and CFO, evaluated the existence and design of the Company's ICFR and confirm there were no changes to the ICFR that have occurred during the year that materially affected, or are reasonably likely to materially affect, the Company's ICFR. The Company continues to review and document its disclosure controls and its ICFR, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with the business.

As of April 30, 2011, an evaluation was carried out, under the supervision of the CEO and CFO, of the effectiveness of the Company's ICFR as defined in NI 52-109. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these ICFR were effective.

The evaluations were conducted in accordance with the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of NI 52-109.

## OUTSTANDING SHARE DATA

The authorized capital of the Company consists of an unlimited number of common shares, which is currently the only class of voting equity securities. Holders of common shares are entitled to receive notice of, attend and vote at all meetings of the shareholders of the Company. Each common share carries the right to one vote in person or by proxy at all meetings of the shareholders of the Company.

During the year, the Company enacted a 3 for 1 stock split. Therefore, as at June 30, the Company's share capital was composed of the following:

<b>SHARE CAPITAL</b> (amounts in thousands)		
As at June 30	<b>2011</b>	2010
Common shares	72,040	71,370
Stock options outstanding	2,780	3,501

# Management's Responsibility

Management is responsible for preparation and presentation of the annual consolidated financial statements, management's discussion and analysis ("MD&A") and all other information in this annual report.

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected, Canadian generally accepted accounting principles and policies, consistently applied and summarized in the consolidated financial statements.

The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. Management has designed and evaluated the effectiveness of its disclosure controls and procedures.

Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements and the MD&A necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to June 7, 2011. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity, operating trends and risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events may not occur as expected. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

The consolidated financial statements have been examined by Deloitte & Touche LLP, independent chartered accountants. The independent auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditor's report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management and the independent auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and the MD&A. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements and the MD&A for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the appointment of the independent auditors. The independent auditors have full and free access to the Audit Committee.

Major Drilling Group International Inc.'s Chief Executive Officer and Chief Financial Officer have certified Major Drilling Group International Inc.'s annual disclosure documents as required in Canada by the Canadian securities regulators.



A handwritten signature in black ink, appearing to read "Francis McGuire".

Francis McGuire  
President & Chief Executive Officer

A handwritten signature in black ink, appearing to read "Denis Larocque".

Denis Larocque  
Chief Financial Officer

June 7, 2011  
Moncton, New Brunswick, Canada

*Left: Francis McGuire, President & CEO  
Right: Denis Larocque, Chief Financial Officer*

# Independent Auditor's Report

## To the Shareholders of Major Drilling Group International Inc.

We have audited the accompanying consolidated financial statements of Major Drilling Group International Inc. ("the Company"), which comprise the consolidated balance sheets as at April 30, 2011 and April 30, 2010, and the consolidated statements of operations, comprehensive earnings (loss), retained earnings, accumulated other comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2011 and April 30, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*  
Chartered Accountants

June 7, 2011  
Saint John, New Brunswick, Canada

# Consolidated Statements of Operations

**For the years ended April 30, 2011 and 2010**

(in thousands of Canadian dollars, except per share information)

	<b>2011</b>	<b>2010</b>
TOTAL REVENUE	\$ 482,276	\$ 307,856
DIRECT COSTS	361,857	233,483
GROSS PROFIT	120,419	74,373
OPERATING EXPENSES		
General and administrative	40,947	33,437
Other expenses	6,331	5,000
Foreign exchange gain	(892)	(138)
Interest expense (revenue)	557	(214)
Interest expense on long-term debt	718	1,068
Amortization	31,759	30,058
Restructuring charge (note 4)	-	1,220
Goodwill impairment (note 5)	-	1,519
	<b>79,420</b>	<b>71,950</b>
EARNINGS BEFORE INCOME TAX	40,999	2,423
INCOME TAX - PROVISION (RECOVERY) (note 17)		
Current	13,548	5,946
Future	(108)	(3,059)
	<b>13,440</b>	<b>2,887</b>
NET EARNINGS (LOSS)	\$ 27,559	\$ (464)
EARNINGS (LOSS) PER SHARE (note 18)		
Basic	\$ 0.39	\$ (0.01)
Diluted	\$ 0.38	\$ (0.01)

# Consolidated Statements of Comprehensive Earnings (Loss), Retained Earnings and Accumulated Other Comprehensive Loss

## Consolidated Statements of Comprehensive Earnings (Loss)

For the years ended April 30, 2011 and 2010  
(in thousands of Canadian dollars)

	2011	2010
NET EARNINGS (LOSS)	\$ 27,559	\$ (464)
OTHER COMPREHENSIVE LOSS Unrealized loss on translating financial statements of self-sustaining foreign operations	(3,662)	(39,254)
COMPREHENSIVE EARNINGS (LOSS)	<u>\$ 23,897</u>	<u>\$ (39,718)</u>

## Consolidated Statements of Retained Earnings

For the years ended April 30, 2011 and 2010  
(in thousands of Canadian dollars)

	2011	2010
RETAINED EARNINGS, BEGINNING OF THE YEAR	\$ 209,025	\$ 218,983
Net earnings (loss)	27,559	(464)
Dividends	(10,525)	(9,494)
RETAINED EARNINGS, END OF THE YEAR	<u>\$ 226,059</u>	<u>\$ 209,025</u>

## Consolidated Statements of Accumulated Other Comprehensive Loss

For the years ended April 30, 2011 and 2010  
(in thousands of Canadian dollars)

	2011	2010
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE YEAR	\$ (44,333)	\$ (5,079)
Unrealized losses on translating financial statements of self-sustaining foreign operations	(3,662)	(39,254)
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF THE YEAR	<u>\$ (47,995)</u>	<u>\$ (44,333)</u>

# Consolidated Balance Sheets

**As at April 30, 2011 and 2010**  
(in thousands of Canadian dollars)

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 16,215	\$ 30,232
Accounts receivable	100,300	62,128
Income tax receivable	2,720	10,053
Inventories	69,864	63,170
Prepaid expenses	8,439	4,813
Future income tax assets (note 17)	194	793
	<b>197,732</b>	<b>171,189</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b> (note 8)	<b>246,509</b>	<b>210,812</b>
<b>FUTURE INCOME TAX ASSETS</b> (note 17)	<b>11,085</b>	<b>8,117</b>
<b>GOODWILL AND INTANGIBLE ASSETS</b> (note 9)	<b>26,939</b>	<b>25,538</b>
	<b>\$ 482,265</b>	<b>\$ 415,656</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued charges	\$ 88,618	\$ 54,027
Income tax payable	4,297	2,830
Short-term debt (note 11)	7,919	-
Current portion of long-term debt (note 12)	8,402	8,887
Future income tax liabilities (note 17)	472	819
	<b>109,708</b>	<b>66,563</b>
<b>LONG-TERM DEBT</b> (note 12)	<b>16,630</b>	<b>15,041</b>
<b>FUTURE INCOME TAX LIABILITIES</b> (note 17)	<b>18,080</b>	<b>15,783</b>
	<b>144,418</b>	<b>97,387</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 13)	146,600	142,435
Contributed surplus	13,183	11,142
Retained earnings	226,059	209,025
Accumulated other comprehensive loss	(47,995)	(44,333)
	<b>337,847</b>	<b>318,269</b>
	<b>\$ 482,265</b>	<b>\$ 415,656</b>

Contingencies and commitments (notes 15 and 16)

Approved by the Board of Directors



**David Tennant**  
Chairman of the Board



**Jo Mark Zurel**  
Chairman of the Audit Committee

# Consolidated Statements of Cash Flows

For the years ended April 30, 2011 and 2010  
(in thousands of Canadian dollars)

2011

2010

## OPERATING ACTIVITIES

Net earnings (loss)	\$ 27,559	\$ (464)
Operating items not involving cash		
Amortization	31,759	30,058
(Gain) loss on disposal of property, plant and equipment	(377)	662
Future income tax (recovery)	(108)	(3,059)
Stock-based compensation	2,041	1,933
Goodwill impairment	-	1,519
	60,874	30,649
Changes in non-cash operating working capital items (note 14)	(13,023)	(9,872)
Cash flow from operating activities	47,851	20,777

## FINANCING ACTIVITIES

Repayment of long-term debt	(8,939)	(11,522)
Repayment of short-term debt	(3,131)	-
Proceeds from long-term debt	10,000	-
Proceeds from short-term debt	10,400	-
Issuance of common shares	4,165	202
Dividends paid	(9,993)	(9,488)
Cash flow from (used in) financing activities	2,502	(20,808)

## INVESTING ACTIVITIES

Business acquisitions (net of cash acquired) (note 6)	(3,776)	(1,974)
Acquisition of property, plant and equipment, net of direct financing (note 8)	(62,568)	(24,532)
Proceeds from disposal of property, plant and equipment	4,498	2,932
Cash flow used in investing activities	(61,846)	(23,574)

## OTHER ACTIVITIES

Foreign exchange translation adjustment	(2,524)	(4,198)
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## DECREASE IN CASH

(14,017) (27,803)

## CASH POSITION, BEGINNING OF THE YEAR

30,232 58,035

## CASH POSITION, END OF THE YEAR

\$ 16,215 \$ 30,232

Additional information (note 14)

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2011 AND 2010 (in thousands of Canadian dollars, except per share information)

## 1. NATURE OF ACTIVITIES

Major Drilling Group International Inc. (the "Company") is incorporated under the Canada Business Corporations Act. The principal source of revenue consists of contract drilling for companies primarily involved in mining and mineral exploration. The Company has operations in Canada, the United States, South and Central America, Australia, Asia and Africa.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### *Principles of consolidation*

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its subsidiaries.

### *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment for amortization purposes, property, plant and equipment and inventory valuation, determination of income and other taxes, assumptions used in compilation of stock-based compensation, fair value of assets acquired and liabilities assumed in business acquisitions, amounts recorded as accrued liabilities, and impairment testing of goodwill and intangible assets.

### *Financial instruments*

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described in the following table. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Demand credit facility	Other financial liabilities	Amortized cost
Accounts payable and accrued charges	Other financial liabilities	Amortized cost
Short and long-term debt	Other financial liabilities	Amortized cost

The Company has adopted the policy of amortizing transaction costs to net income using the effective interest method.

### *Revenue recognition*

Revenue from drilling contracts is recognized based on the terms of customer contracts that generally provide for revenue on the basis of actual meters drilled at contract rates or fixed monthly charges or a combination of both. Revenue from ancillary services, primarily relating to extra services to the customer, is recorded when the services are rendered. Revenue is recognized when collection is reasonably assured.

### *Earnings per share*

Earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

Diluted earnings per share are determined as net earnings divided by the weighted average number of diluted common shares for the year. Diluted common shares reflect the potential dilutive effect of exercising stock options based on the treasury stock method.

### *Inventories*

The Company maintains an inventory of operating supplies, drill rods and drill bits. Inventories are valued at the lower of cost and replacement cost, primarily determined on a first in, first out (FIFO) basis. The value of used inventory items is considered minimal; therefore they are not valued, except for drill rods, which, if still considered usable, are valued at 50% of cost.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment**

Property, plant and equipment are valued at cost. Amortization, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable asset. The following rates apply to those assets being amortized on the straight-line method:

	<b>Residual value (%)</b>	<b>Useful life (years)</b>
Buildings	0	15 - 20
Drilling equipment	0 - 15	5 - 15
Automotive and off-road equipment	0 - 10	5 - 10
Other (office, computer and shop equipment)	0	5 - 15

Costs for repairs and maintenance are charged to operations as incurred. Significant improvements are capitalized and amortized over the useful life of the asset.

**Goodwill and intangible assets**

Goodwill represents the excess of the purchase price of business acquisitions, including acquisition costs, over the fair value of the identifiable net assets acquired. The value of goodwill is tested for impairment at least annually. Any impairment loss revealed by this test would be reported in earnings for the period during which the loss occurred.

Intangible assets include the carrying value of customer relationships and a non-compete agreement, which are amortized on a straight-line basis between a three and five-year period.

**Impairment of long-lived assets**

The Company assesses long-lived assets for recoverability whenever indications of impairment exist. When the net recoverable value of a long-lived asset is less than its carrying value, as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset (when quoted market prices are not readily available), is below the asset's carrying value.

**Future income taxes**

The Company follows the liability method of accounting for corporate income taxes. This method takes a balance sheet approach and focuses on the amount of income taxes payable or receivable that will arise if an asset is realized or a liability is settled for its carrying amount. These resulting assets and liabilities, referred to as "future income tax assets and liabilities", are computed based on differences between the carrying amount of balance sheet items and their corresponding tax values using the enacted, or substantively enacted, income tax rates in effect when the differences are expected to reverse. The Company's primary differences arise between the tax carrying value and net book value of property, plant and equipment. Management reduces the carrying value of the future income tax assets by a valuation allowance when it is more likely than not that some portion of the asset will not be realized.

**Translation of foreign currencies**

All amounts are presented in Canadian dollars. The Company's international operations are self-sustaining foreign operations. The assets and liabilities of self-sustaining foreign operations are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items of such operations are translated at average rates of exchange for the year. The resulting foreign currency translation gain or loss is reported on the Statement of Accumulated Other Comprehensive Loss. The change in the amount primarily reflects the relative strength or weakness of the Australian and U.S. dollar and the Chilean peso against the Canadian dollar and the change in the net investment in the self-sustaining foreign operations.

**Stock-based compensation**

The Company uses the fair value method for accounting for stock-based compensation as defined by Canadian generally accepted accounting principles. Stock-based compensation awards expense is calculated using the Black-Scholes option pricing model and is charged to operations on a grade vesting basis over the vesting period with an offsetting credit to contributed surplus.

The Company records the fair value of the deferred share units as compensation expense.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2011 AND 2010 (in thousands of Canadian dollars, except per share information)

## 3. FUTURE ACCOUNTING CHANGES

### *International Financial Reporting Standards ("IFRS")*

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011 for companies with a calendar year end, therefore the transition date for the Company is May 1, 2011. This will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended April 30, 2011, and of the opening balance sheet as at May 1, 2010. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, disclosure controls and procedures, taxes, and information systems and processes. The Company has established a transition plan to ensure the timely conversion to IFRS.

## 4. RESTRUCTURING CHARGE

The Company initiated a restructuring plan in fiscal year 2009 to standardize the drilling equipment fleet and reduce operating costs by rationalizing the workforce and business locations. The restructuring charge of \$1,220 for the previous year includes \$594 for severance, \$204 for lease terminations and \$422 for other relocation expenses mainly relating to the closure of two regional offices in Australia.

## 5. GOODWILL IMPAIRMENT

In the previous fiscal year, the Company recorded a net non-cash goodwill impairment charge of \$1,519. This eliminated goodwill of \$3,722 recorded on the Paragon del Ecuador S.A. acquisition offset by a reduction of a holdback of \$2,203, which was a contingent consideration to the purchase price and dependent on the political situation in Ecuador. The goodwill impairment charge resulted from the inability of this region to generate the expected revenue due to political issues and uncertainty that continues to affect the mining industry in Ecuador.

## 6. BUSINESS ACQUISITIONS

### *Resource Drilling*

Effective March 24, 2011, the Company acquired the assets of Resource Drilling, which provides contract drilling services in Mozambique, where Major Drilling did not have a presence. The acquired business includes drilling equipment, inventory, contracts and personnel. The purchase price for the transaction was USD \$9,733 (CAD \$9,512), including customary working capital adjustments, financed with cash.

The Company is in the process of finalizing the valuation of assets. As at April 30, 2011, the values allocated to net tangible assets are preliminary and are subject to adjustments as additional information is obtained.

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

### **Assets acquired**

Inventories	\$ 946
Prepaid expenses	23
Property, plant and equipment	8,543
<b>Net assets</b>	<b><u>\$ 9,512</u></b>

### **Consideration**

Cash	\$ 1,209
Due to vendor	8,303
	<b><u>\$ 9,512</u></b>

### *North Star Drilling*

Effective June 30, 2010, the Company acquired the assets of North Star Drilling, which provides contract drilling services to the fresh water and geothermal markets in certain mid-western states in the US, and operates from its head office in Little Falls, Minnesota, as well as from satellite offices in Brainerd and Bemidji, Minnesota. The acquired business includes drilling equipment, contracts and personnel. The purchase price for the transaction was USD \$2,449 (CAD \$2,567), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$750 to the purchase price, based on future earnings.

## 6. BUSINESS ACQUISITIONS (continued)

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

### Assets acquired and liabilities assumed

Accounts receivable	\$ 776
Inventories	382
Prepaid expenses	18
Property, plant and equipment	1,078
Goodwill	329
Intangible assets	763
Accounts payable	(779)
<b>Net assets</b>	<b>\$ 2,567</b>

### Consideration

Cash	<b>\$ 2,567</b>
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### SMD Services

Effective February 26, 2010, the Company acquired SMD Services based in Huntsville, Alabama. Through this purchase, Major Drilling entered the environmental drilling sector and acquired a small fleet of sonic, probe and auger drill rigs, as well as a skilled management team and personnel. The purchase price for the transaction was USD \$1,953 (CAD \$2,064), including customary working capital adjustments, financed with cash. There is also a contingent consideration of USD \$2,000 to the purchase price, based on future earnings.

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

### Assets acquired and liabilities assumed

Cash	\$ 90
Accounts receivable	234
Prepaid expenses	46
Property, plant and equipment	1,605
Intangible assets	249
Accounts payable	(160)
<b>Net assets</b>	<b>\$ 2,064</b>

### Consideration

Cash	<b>\$ 2,064</b>
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## 7. INVENTORY

The cost of inventory recognized as an expense and included in direct costs for the year ended April 30, 2011 was \$73,463 (2010 - \$65,204). During the year, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

## 8. PROPERTY, PLANT AND EQUIPMENT

### 2011

### 2010

	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	\$ 1,375	\$ -	\$ 1,375	\$ 1,542	\$ -	\$ 1,542
Buildings	11,201	2,907	8,294	10,442	2,363	8,079
Drilling equipment	250,627	71,631	178,996	217,025	61,722	155,303
Automotive and off-road equipment	91,977	48,095	43,882	75,551	40,444	35,107
Shop, camp and computer equipment	32,711	18,749	13,962	28,572	17,791	10,781
	<b>\$ 387,891</b>	<b>\$ 141,382</b>	<b>\$ 246,509</b>	<b>\$ 333,132</b>	<b>\$ 122,320</b>	<b>\$ 210,812</b>

Capital expenditures were \$62,618 and \$24,532 for the years ended April 30, 2011 and 2010, respectively. The Company obtained direct financing of \$50 for the year ended April 30, 2011 but did not obtain direct financing for the year ended April 30, 2010.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2011 AND 2010 (in thousands of Canadian dollars, except per share information)

## 9. GOODWILL AND INTANGIBLE ASSETS

	2011	2010
Goodwill	\$ 25,704	\$ 24,464
Intangible assets	1,235	1,074
	<u>\$ 26,939</u>	<u>\$ 25,538</u>

Intangible assets include the carrying value of customer relationships and a non-compete agreement, which are amortized on a straightline basis between a three and five-year period.

Changes in the goodwill and intangible assets balance were as follows for the years ended April 30:

	2011	2010
Balance at beginning of the year	\$ 25,538	\$ 32,072
Amortization of intangible assets	(761)	(528)
Goodwill adjustment	-	(2,203)
Goodwill impairment	-	(1,519)
Goodwill and intangible assets acquired	1,092	249
Effect of foreign currency exchange rate changes	1,070	(2,533)
	<u>\$ 26,939</u>	<u>\$ 25,538</u>

## 10. DEMAND CREDIT FACILITIES

The Company has credit facilities available in Canada of \$25,000 bearing interest at the bank's prime lending rate plus 1.0% or the bankers' acceptance fee plus 2.5% for Canadian dollar draws and the bank's U.S. dollar base rate in Canada plus 1.0% or the bank's London interbank offer rate ("LIBOR") plus 2.5% for U.S. dollar draws. The demand credit facilities are primarily secured by corporate guarantees of companies within the group. The Company has a credit facility of \$2,451 for credit cards, with interest rates and repayments as per the cardholder agreement. As at April 30, 2011, the Company had utilized USD \$8.0 million (2010 - nil) of these lines for stand-by letters of credit.

The Company also has credit facilities in Australia and Chile amounting to \$1,227 (2010 - \$1,585) bearing interest at rates ranging from 3.0% to 10.21% secured by accounts receivable and selected buildings in Australia. As at April 30, 2011 there were stand-by letters of credit outstanding for \$812 (2010 - \$1,137) on these facilities.

## 11. SHORT-TERM DEBT

The Company has a 3,835 million Chilean peso (CAD \$7.9 million) loan, secured by a USD \$8.0 million stand-by letter of credit drawn from the Company's demand credit facility, carrying interest at an annual rate of 7.7% and maturing in April 2012.

## 12. LONG-TERM DEBT

	2011	2010
Revolving/non-revolving equipment and acquisition loan (authorized \$45,000), bearing interest at either the bank's prime rate plus 1.0% or the bankers' acceptance rate plus 2.5% for Canadian dollar draws, and either the bank's U.S. dollar base rate in Canada plus 1.0% or the bank's LIBOR plus 2.5% for U.S. dollar draws, payable in monthly installments of \$667, maturing through 2016, secured by corporate guarantees of companies within the group.	\$ 24,552	\$ 20,576
Term loans bearing interest at rates ranging from 2.35% to 7.08%, payable in monthly installments of \$76, secured by certain equipment, maturing through 2012.	480	1,930
Revolving/non-revolving term loans - A\$721, repaid during the year.	-	672
Note payable, repaid during the year.	-	750
	<u>25,032</u>	<u>23,928</u>
Current portion	8,402	8,887
	<u>\$ 16,630</u>	<u>\$ 15,041</u>

## 12. LONG-TERM DEBT (continued)

The required annual principal repayments on long-term debt are as follows:

2012	\$ 8,402
2013	7,745
2014	4,754
2015	2,131
2016	2,000
	<u>\$ 25,032</u>

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. The Company, at all times, was in compliance with all covenants and other conditions imposed by its debt agreements.

## 13. SHARE CAPITAL

On March 9, 2011 the Company announced a stock split for the issued and outstanding common shares on a three for one basis. The record date for the stock split was March 23, 2011. All share and stock option numbers have been retroactively adjusted to reflect the stock split to provide more comparable information.

### Authorized

Unlimited number of common shares, without nominal or par value.

Issued	2011	2010
72,040,376 common shares (2010 - 71,242,719)	<u>\$ 146,600</u>	<u>\$ 142,435</u>

### Stock option plan

The Company has a Stock Option Plan "the Plan" for Directors, officers and other employees of the Company and its subsidiaries. The Plan provides that the Board of Directors of the Company, on the recommendation of the Compensation Committee, may grant options to purchase common shares on terms determined within the limitations of the Plan. The aggregate number of common shares reserved for issuance under the Plan is limited to up to 8.5% of the issued and outstanding shares at any time (representing up to 6,123,432 common shares as at April 30, 2011). As at April 30, 2011: (i) 7,836,901 common shares had been issued upon the exercise of options granted under the Plan (representing

approximately 10.9% of the issued and outstanding common shares); (ii) 2,779,928 common shares were reserved for issuance in respect of outstanding options under the Plan (representing approximately 3.9% of the issued and outstanding common shares); and (iii) 3,343,504 common shares were available for issuance in respect of options that may be granted under the Plan (representing approximately 4.6% of the issued and outstanding common shares). The exercise price for an option issued under the Plan is determined by the Board and may not be less than the fair market value of the common shares on the grant date of the option, being the volume weighted average trading price of the common shares on the TSX for the last five trading days immediately preceding the date on which the option is granted rounded to the nearest cent or, if the shares did not trade during such five trading days, the simple average of the closing bid and ask prices of the shares on the TSX during such five trading days.

Options issued subsequent to September 2010 are exercisable for a maximum period of eight years from the date of grant while previous grants are exercisable for a maximum period of ten years from the date of grant, subject to earlier termination if the optionee ceases to be a Director or employee of the Company for any reason, retires, dies or becomes disabled or there is a change of control of the Company. Options are not assignable. The Plan also provides that: (i) the total number of options to be granted to any one participant under the Plan, together with any options or shares granted or issued under other Share Compensation Arrangement to such participant shall not exceed 5% of the issued and outstanding shares immediately after the grant of the option; (ii) the number of shares issued to insiders, under this Plan or any existing or proposed Share Compensation Arrangements, within a one-year period, may not exceed 10% of the issued and outstanding shares on a non-diluted basis immediately prior to the share issuance in question; (iii) the number of shares issuable to insiders, under this Plan or any existing or proposed Share Compensation Arrangements, at any time, cannot exceed 10% of the issued and outstanding shares on a non-diluted basis; (iv) the number of shares issued to any one insider and such insider's associates, under this Plan or any existing or proposed Share Compensation Arrangements, within a one-year period, may not exceed 5% of the issued and outstanding shares on a non-diluted basis immediately prior to the share issuance in question; and (v) the number of shares issuable to non-employees, under this Plan or any existing or proposed Share Compensation Arrangements, at any time, cannot exceed 1.5% of the issued and outstanding shares on a non-diluted basis.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2011 AND 2010 (in thousands of Canadian dollars, except per share information)

## 13. SHARE CAPITAL (continued)

### Stock options - employees and directors

The Company has issued stock options under its Stock Option Plan. Issuance of options under the Plan is determined annually by the Company's Board of Directors. A summary of the status of the Company's Stock Option Plan, as at April 30, 2011 and 2010, and of changes during the years ending on those dates, is presented below:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,858,889	\$ 8.39	2,295,192	\$ 8.71
Options granted	888,000	8.53	823,200	7.32
Options expired	(169,305)	11.84	(165,003)	11.03
Options exercised	(797,656)	5.22	(94,500)	2.14
Outstanding at end of year	<u>2,779,928</u>	9.13	<u>2,858,889</u>	8.39

The following table summarizes information on stock options outstanding at April 30, 2011:

Range of exercise prices	Outstanding at April 30, 2011	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at April 30, 2011	Weighted average exercise price
\$0.77 - \$9.16	1,964,723	7.72	\$ 7.32	685,586	\$ 6.34
\$10.98 - \$19.72	815,205	6.90	13.49	755,205	13.45
	<u>2,779,928</u>	7.48	9.13	<u>1,440,791</u>	10.07

The Company's calculations of stock-based compensation for options granted were made using the Black-Scholes option-pricing model with weighted average assumptions as follows:

	2011	2010
Risk-free interest rate	2.20%	2.78%
Expected life	4.5 years	4.0 years
Expected volatility	57.1%	50.0%
Expected dividend yield	1.43%	1.95%

The weighted average grant date fair value of options granted during the year ended April 30, 2011 was \$3.57 (2010 - \$2.33). For the year ended April 30, 2011, the amount of compensation cost recognized in earnings and credited to contributed surplus was \$2,041 (2010 - \$1,933).

### Deferred share units

The Company has a Deferred Share Unit Plan (the "DSU Plan") for Directors and certain designated officers.

Each deferred share unit ("DSU") represents the right to receive a cash payment, at such time as an outside Director or designated officer ceases to be a Director or employee (respectively), equal to the market value of the Company's shares at the time of surrender. Under this plan, prior to the beginning of each fiscal year, Directors must elect the percentage of their total compensation as Directors that they wish to receive in DSU's in lieu of cash compensation. Designated officers have the option to take a certain percentage of their annual bonus in DSU's.

The following table summarizes information on the DSU Plan at April 30:

	2011 Number of units	2010 Number of units
Outstanding at beginning of year	39,174	9,894
DSU's issued during year	3,964	29,280
DSU's redeemed during year	(24,474)	-
Outstanding at end of year	<u>18,664</u>	<u>39,174</u>

As at April 30, 2011 the total value of DSU's outstanding was \$295 (2010 - \$221).

#### 14. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital	2011	2010
Accounts receivable	\$ (38,624)	\$ (14,467)
Inventories	(6,174)	948
Accounts payable and accrued charges	25,756	9,751
Income tax	9,091	(3,624)
Other items	(3,072)	(2,480)
	<b>\$ (13,023)</b>	<b>\$ (9,872)</b>

Interest and income tax paid	2011	2010
Interest paid	\$ 1,275	\$ 854
Income tax paid	\$ 13,342	\$ 8,874

#### 15. CONTINGENCIES

The Company is involved in various legal claims and legal notices arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows. Any amounts awarded as a result of these actions will be reflected when known.

#### 16. COMMITMENTS

The Company has commitments with various suppliers for the purchase of drill rigs and drilling supplies totaling \$4,365 with delivery dates through October 2011.

The Company also has various commitments, primarily for rental of premises, with arms-length parties as follows: 2012 - \$3,103, 2013 - \$1,394, 2014 - \$523, 2015 - \$299, 2016 - \$214.

#### 17. INCOME TAXES

Income taxes vary from amounts that would be determined by applying the combined statutory Canadian corporate income tax rate to earnings before income tax and non-controlling interest, with details as follows:

	2011	2010
Earnings before income tax	\$ 40,999	\$ 2,423
Statutory Canadian corporate income tax rate	30%	31%
Expected income tax expense based on statutory rate	\$ 12,300	\$ 751
Non-recognition of tax benefits related to losses	555	1,029
Utilization of previously unrecognized losses	-	(17)
Other foreign taxes paid	165	618
Rate variances in foreign jurisdictions	(1,234)	(391)
Other	1,654	897
Total income tax provision	<b>\$ 13,440</b>	<b>\$ 2,887</b>

Significant components of the Company's future income tax assets and liabilities are as follows:

	2011	2010
<b>Assets:</b>		
Loss carry forwards tax effected	\$ 11,434	\$ 9,604
Other	827	1,004
	12,261	10,608
Less valuation allowance	982	1,698
	11,279	8,910
<b>Liabilities:</b>		
Property, plant and equipment	(18,080)	(15,451)
Inventory	-	(539)
Other	(472)	(612)
Net future income tax liabilities	<b>\$ (7,273)</b>	<b>\$ (7,692)</b>

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2011 AND 2010 (in thousands of Canadian dollars, except per share information)

## 17. INCOME TAXES (continued)

The recognition and measurement of the current and future tax assets and liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions and in the assessment of the recoverability of future tax assets. Potential liabilities are recognized for anticipated tax audit issues in various tax jurisdictions based on the Company's estimate of whether, and the extent to which, additional taxes will be due.

If payment of the accrued amounts ultimately proves to be unnecessary, the elimination of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities no longer exist. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense will result.

The Company has accumulated approximately \$36,400 in non-capital losses, of which \$161 are available to reduce future Canadian income taxes otherwise payable and \$36,239 are available to reduce future income taxes otherwise payable in foreign jurisdictions. These losses, if unused, will expire as follows:

Date	Amount
2014	\$ 62
2015	21
2016	15
2017	10
2018	53
2020	585
Indefinite	35,654
	<b>\$ 36,400</b>

The Company has accumulated approximately \$4,917 (A\$4,967) of capital losses that are available to reduce income taxes otherwise payable on capital gains realized in Australia. The benefit of these losses has not been recognized in the financial statements.

### Tax audits

The Company periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Company recorded its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. While management believes they have adequately provided for the probable

outcome of these matters, future results may include favorable or unfavorable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the statute of limitation lapses.

## 18. EARNINGS (LOSS) PER SHARE

	2011	2010
Net earnings (loss)	\$ 27,559	\$ (464)
<b>Divided by:</b>		
Weighted average shares outstanding (000's)	71,531	71,179
<b>Net effect of dilutive securities:</b>		
Employees and Directors stock options (000's)	723	516
Adjusted weighted average shares and assumed conversions (000's)	72,254	71,695
<b>Earnings (loss) per share:</b>		
Basic	\$ 0.39	\$ (0.01)
Diluted	\$ 0.38	\$ (0.01)

The calculation of the diluted earnings per share for the years ended April 30, 2011 and 2010 exclude the effect of 506,205 options and 1,065,207 options, respectively, as they are anti-dilutive.

## 19. CAPITAL MANAGEMENT

The Company includes shareholders' equity (excluding accumulated other comprehensive loss), short and long-term borrowings and demand loan net of cash in the definition of capital.

Total managed capital was as follows as at April 30:

	2011	2010
Short-term debt	\$ 7,919	\$ -
Long-term debt	25,032	23,928
Share capital	146,600	142,435
Contributed surplus	13,183	11,142
Retained earnings	226,059	209,025
Cash	(16,215)	(30,232)
	<b>\$ 402,578</b>	<b>\$ 356,298</b>

## 19. CAPITAL MANAGEMENT (continued)

The Company's objective when managing its capital structure is to maintain financial flexibility in order to: (i) preserve access to capital markets; (ii) meet financial obligations; and (iii) finance internally generated growth and potential new acquisitions. To manage its capital structure, the Company may adjust spending, issue new shares, issue new debt or repay existing debt.

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

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary, dependent on various factors.

The Company's objectives with regards to capital management remain unchanged from 2010.

## 20. FINANCIAL INSTRUMENTS

### *Fair value*

The carrying values of cash, accounts receivable, demand loans and accounts payable and accrued charges approximate their fair value due to the relatively short period to maturity of the instruments. Short-term and long-term debt have carrying values of \$7,919 and \$25,032 respectively as at April 30, 2011 (April 30, 2010 – nil and \$23,928 respectively) and also approximates their fair market value.

### *Risk management*

The Company is exposed to various risks related to its financial assets and liabilities. There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them, from previous periods, unless otherwise stated in this note.

### *Credit risk*

The Company is exposed to credit risk from its accounts receivable. The Company has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral where appropriate, as

a means of mitigating the risk of financial loss from defaults. The Company carries out, on a continuing basis, credit checks on its customers and maintains provisions for contingent credit losses. The Company also diversifies its credit risk by dealing with a large number of customers in various countries. Demand for the Company's drilling services depends upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold, nickel and copper. The Company's five largest customers account for 25% (25% in 2010) of total revenue, with no one customer representing more than 10% of its revenue for 2011 or 2010.

The carrying amounts for accounts receivable are net of allowances for doubtful accounts, which are estimated based on aging analysis of receivables, past experience, specific risks associated with the customer and other relevant information. The maximum exposure to credit risk is the carrying value of the financial assets.

As at April 30, 2011, 84.8% of the Company's trade receivables were aged as current and 0.7% of the trade receivables were impaired.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. This risk is limited because the counterparties are banks with high credit ratings assigned by international creditrating agencies.

The Company does not enter into derivatives to manage credit risk.

### *Interest rate risk*

The demand credit facility and long-term debt of the Company bears a floating rate of interest, which exposes the Company to interest rate fluctuations.

As at April 30, 2011 the Company has estimated that a one percentage point increase in interest rates would cause an annual decrease in net income of approximately \$246 and a one percentage point decrease in interest rates would cause an annual increase in net income of \$246.

### *Foreign currency risk*

Foreign currency risk arises as the Company has operations located internationally where local operational currency is not the same as the functional currency of the Company.

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED APRIL 30, 2011 AND 2010 (in thousands of Canadian dollars, except per share information)

## 20. FINANCIAL INSTRUMENTS (continued)

A significant portion of the Company's operations are located outside of Canada. The earnings impact of foreign currency exposure is minimized since the operations are classified as self-sustaining operations. In certain developing countries, the Company mitigates its risk of large exchange rate fluctuations by conducting business primarily in U.S. dollars. U.S. dollar revenue exposure is partially mitigated by offsetting U.S. dollar labour and material expenses. Monetary assets denominated in foreign currencies are exposed to foreign currency fluctuations.

Based on the Company's foreign currency net monetary exposures as at April 30, 2011, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the other foreign currencies would have resulted in (decreases) increases in the net earnings and comprehensive earnings as follows:

	(Decrease) increase in net earnings	
	Canadian dollar appreciates 10%	Canadian dollar depreciates 10%
U.S. Dollar	\$ (1,460)	\$ 1,460

	(Decrease) increase in comprehensive earnings	
	Canadian dollar appreciates 10%	Canadian dollar depreciates 10%
U.S. Dollar	\$ (23,282)	\$ 23,282
Chilean Peso	(3,904)	3,904
Australian Dollar	(844)	844

### Liquidity risk

Liquidity risk arises from the Company's management of working capital, the finance charges and principal repayments on its debt instruments. The risk is that the Company would not be able to meet its financial obligations as they become due.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Total financial liabilities, by due date, as at April 30, 2011 are as follows:

	Total	1 year	2-3 years	4-5 years
Accounts payable & accrued charges	\$ 88,618	\$ 88,618	\$ -	\$ -
Short-term debt	7,919	7,919	-	-
Long-term debt	25,032	8,402	12,499	4,131
	<u>\$ 121,569</u>	<u>\$ 104,939</u>	<u>\$ 12,499</u>	<u>\$ 4,131</u>

## 21. SEGMENTED INFORMATION

The Company's operations are divided into three geographic segments, Canada-U.S., South and Central America, and Australia, Asia and Africa. The services provided in each of the reportable drilling segments are essentially the same. The accounting policies of the segments are the same as those described in Note 2. Management evaluates performance based on earnings from operations in these three geographic segments before interest and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

	2011	2010
<b>Revenue</b>		
Canada-U.S.	\$ 181,280	\$ 103,337
South and Central America	169,381	107,434
Australia, Asia and Africa	131,615	97,085
	<b>\$ 482,276</b>	<b>\$ 307,856</b>
<b>Earnings (loss) from operations</b>		
Canada-U.S.	\$ 21,429	\$ 10,098
South and Central America	20,233	10,884
Australia, Asia and Africa	14,033	(3,823)
	55,695	17,159
<b>Eliminations</b>	(921)	(1,342)
	54,774	15,817
<b>Interest expense, net</b>	1,275	854
<b>General corporate expenses</b>	12,500	9,801
<b>Restructuring charge</b>	-	1,220
<b>Goodwill impairment</b>	-	1,519
<b>Income tax</b>	13,440	2,887
<b>Net earnings (loss)</b>	<b>\$ 27,559</b>	<b>\$ (464)</b>
<b>Identifiable assets</b>		
Canada-U.S.	\$ 141,513	\$ 111,015
South and Central America	189,992	159,526
Australia, Asia and Africa	130,443	103,365
	461,948	373,906
<b>Eliminations</b>	439	460
<b>Unallocated and corporate assets</b>	19,878	41,290
	<b>\$ 482,265</b>	<b>\$ 415,656</b>
<b>Amortization</b>		
Canada-U.S.	\$ 10,334	\$ 9,456
South and Central America	8,662	7,007
Australia, Asia and Africa	11,276	11,765
	1,487	1,830
<b>Unallocated and corporate assets</b>	<b>\$ 31,759</b>	<b>\$ 30,058</b>

Canada-U.S. includes revenue in 2011 of \$106,661 (2010 - \$81,043) for Canadian operations and property, plant and equipment at April 30, 2011 of \$50,615 (2010 - \$47,609).

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

# Historical Summary

(in millions of Canadian dollars, except per share information)

	2011	2010	2009	2008	2007	2006 reclassified	2005 reclassified	2004 reclassified
<b>OPERATING SUMMARY</b>								
<b>Revenue by region</b>								
Canada-U.S.	\$ 181	\$ 103	\$ 167	\$ 189	\$ 151	\$ 119	\$ 82	\$ 61
South and Central America	169	108	155	186	127	81	62	33
Australia, Asia and Africa	132	97	201	215	137	116	102	82
	<b>482</b>	<b>308</b>	<b>523</b>	<b>590</b>	<b>415</b>	<b>316</b>	<b>246</b>	<b>176</b>
<b>Gross profit</b>	<b>120</b>	<b>74</b>	<b>176</b>	<b>195</b>	<b>133</b>	<b>90</b>	<b>66</b>	<b>41</b>
as a percentage of revenue	<b>25.0%</b>	<b>24.2%</b>	<b>33.6%</b>	<b>33.1%</b>	<b>32.0%</b>	<b>28.6%</b>	<b>26.9%</b>	<b>23.2%</b>
<b>General and administrative expenses</b>	<b>41</b>	<b>33</b>	<b>47</b>	<b>45</b>	<b>34</b>	<b>29</b>	<b>25</b>	<b>22</b>
as a percentage of revenue	<b>8.5%</b>	<b>10.7%</b>	<b>9.0%</b>	<b>7.6%</b>	<b>8.1%</b>	<b>9.0%</b>	<b>10.2%</b>	<b>12.5%</b>
<b>Earnings from continuing operations</b>	<b>28</b>	<b>-</b>	<b>46</b>	<b>75</b>	<b>47</b>	<b>25</b>	<b>15</b>	<b>2</b>
<b>Net earnings</b>	<b>28</b>	<b>-</b>	<b>46</b>	<b>74</b>	<b>59</b>	<b>29</b>	<b>16</b>	<b>5</b>
<b>Cashflow <sup>(1)</sup></b>	<b>61</b>	<b>31</b>	<b>88</b>	<b>109</b>	<b>76</b>	<b>47</b>	<b>29</b>	<b>10</b>
<b>Earnings (loss) per share from continuing operations <sup>(2)</sup></b>								
Basic	<b>0.39</b>	(0.01)	0.65	1.05	0.67	0.37	0.22	0.04
Diluted	<b>0.38</b>	(0.01)	0.64	1.04	0.66	0.36	0.22	0.04
<b>Earnings (loss) per share <sup>(2)</sup></b>								
Basic	<b>0.39</b>	(0.01)	0.65	1.05	0.85	0.42	0.24	0.08
Diluted	<b>0.38</b>	(0.01)	0.64	1.03	0.83	0.41	0.23	0.08
<b>EBITDA <sup>(3)</sup></b>	<b>74</b>	<b>33</b>	<b>105</b>	<b>135</b>	<b>89</b>	<b>55</b>	<b>37</b>	<b>17</b>
per share <sup>(2)</sup>	<b>1.03</b>	<b>0.47</b>	<b>1.48</b>	<b>1.91</b>	<b>1.28</b>	<b>0.81</b>	<b>0.56</b>	<b>0.28</b>
<b>Total net debt (net of cash)</b>	<b>17</b>	<b>(6)</b>	<b>(19)</b>	<b>22</b>	<b>7</b>	<b>40</b>	<b>57</b>	<b>33</b>
<b>BALANCE SHEET SUMMARY</b>								
<b>Cash, net of demand loans</b>	<b>16</b>	<b>30</b>	<b>58</b>	<b>19</b>	<b>25</b>	<b>(5)</b>	<b>(11)</b>	<b>(7)</b>
<b>Property, plant and equipment</b>	<b>247</b>	<b>211</b>	<b>240</b>	<b>199</b>	<b>159</b>	<b>118</b>	<b>119</b>	<b>99</b>
<b>Debt</b>	<b>33</b>	<b>24</b>	<b>39</b>	<b>40</b>	<b>32</b>	<b>35</b>	<b>46</b>	<b>25</b>
<b>Shareholders' equity</b>	<b>338</b>	<b>318</b>	<b>365</b>	<b>288</b>	<b>221</b>	<b>158</b>	<b>142</b>	<b>124</b>

(1) from continuing operations before changes in non-cash working capital items

(2) all amounts re-stated to reflect stock split

(3) Non-GAAP measure: Earnings before interest, income taxes, depreciation, amortization. (2010 includes \$1.2 million in restructuring charges and \$1.5 million of goodwill and intangible assets impairment - 2009 - \$9.0 million and \$0.7 million respectively)

# Shareholder Information

**MAJOR**

*Partners on the Ground*

## DIRECTORS

David Tennant (Chairman)  
Edward Breiner  
Jean Desrosiers  
David Fennell  
Francis McGuire  
Catherine McLeod-Seltzer  
Janice Rennie  
Jo Mark Zurel

## OFFICERS

Francis McGuire  
President and  
Chief Executive Officer  
Denis Larocque  
Chief Financial Officer  
James Gibson  
VP Legal Affairs,  
General Counsel and  
Corporate Secretary  
David Balsler  
Vice President, Finance  
Denis Despres  
Vice President,  
North American Operations  
Kelly Johnson  
Vice President,  
Latin American Operations  
Robert Newburn  
Executive Vice President,  
Australian, Asian and  
African Operations

## CORPORATE OFFICE

Major Drilling Group International Inc.  
111 St. George Street, Suite 100  
Moncton, New Brunswick E1C 1T7 Canada  
Tel: 506-857-8636  
Toll-free: 866-264-3986  
Fax: 506-857-9211  
Web site: [www.majordrilling.com](http://www.majordrilling.com)  
E-mail: [info@majordrilling.com](mailto:info@majordrilling.com)

## ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of  
Major Drilling Group International Inc. will be held at:

### TMX Broadcast Centre Gallery

The Exchange Tower  
130 King Street West  
Toronto, ON Canada

September 8, 2011 at 10:00 am Eastern

## TRANSFER AGENT

CIBC Mellon Trust Company

## AUDITORS

Deloitte & Touche LLP



# WORLDWIDE OPERATIONS OF MAJOR DRILLING GROUP INTERNATIONAL INC.

## **NORTH AMERICAN OPERATIONS**

### **Canada**

#### **Winnipeg, MB**

Tel: 204-885-7532

Email: winnipeg@majordrilling.com

#### **Val-d'Or, QC**

Tel: 819-824-6839

Email: valdor@majordrilling.com

#### **Sudbury, ON**

Tel: 705-560-5995

Email: sudbury@majordrilling.com

#### **Thunder Bay, ON**

Tel: 807-625-5470

Email: thunderbay@majordrilling.com

#### **Flin Flon, MB**

Tel: 204-687-3483

Email: flinflon@majordrilling.com

#### **Yellowknife, NT**

Tel: 867-873-4037

Email: yellowknife@majordrilling.com

### **U.S.A.**

#### **Salt Lake City, UT**

Tel: 801-974-0645

Email: majoramerica@majordrilling.com

## **ENVIRONMENTAL/ GEOTECHNICAL OPERATIONS**

### **Canada**

#### **Theftord Mines, QC**

Tel: 418-338-3141

Email: kennebec@majordrilling.com

### **U.S.A.**

#### **Salt Lake City, UT**

Tel: 801-974-0645

Email: majorenvironmental@majordrilling.com

#### **Huntsville, AL**

Tel: 256-852-7000

Email: majorenvironmental@majordrilling.com

#### **Sherwood, OR**

Tel: 503-925-1133

Email: majorenvironmental@majordrilling.com

#### **Little Falls, MN**

Tel: 320-632-3010

Email: majorenvironmental@majordrilling.com

## **SOUTH AND CENTRAL AMERICAN OPERATIONS**

### **Barbados**

#### **Worthing**

Tel: 246-434-2649

Email: mdi@majordrilling.com

### **Mexico**

#### **Hermosillo**

Tel: 52-662-251-0265

Email: mexico@majordrilling.com

### **Chile**

#### **La Serena**

Tel: 56-51-420-000

Email: chile@majordrilling.com

### **Argentina**

#### **Mendoza**

Tel: 54-261-491-9100

Email: argentina@majordrilling.com

### **Guyana Shield & Suriname**

#### **Regional Office**

Tel: 819-824-6749

Email: guyanashield@majordrilling.com

#### **Paramaribo**

Tel: 597-434419

Email: suriname@majordrilling.com

### **Colombia**

#### **La Estrella**

Tel: 57-4-444-5025

Email: colombia@majordrilling.com

## **EUROPEAN OPERATIONS**

### **Northern Ireland**

#### **Office situated in Salt Lake City**

Tel: 801-974-0645

Email: majoramerica@majordrilling.com

Groupe Forage

# **MAJOR**

Drilling Group International Inc.

## **AUSTRALIAN, ASIAN & AFRICAN OPERATIONS**

### **Australia**

#### **Brisbane, QLD**

Tel: 61-7-3850-4750

Email: australia@majordrilling.com

### **Indonesia**

#### **Jakarta**

Tel: 62-21-574-1040

Email: indonesia@majordrilling.com

### **Mongolia**

#### **Ulaanbaatar**

Tel: 976-7011-9951

Email: mongolia@majordrilling.com

### **Kazakhstan**

#### **Almaty**

Tel: 7-727-262-7199

Email: kazakhstan@majordrilling.com

### **Tanzania**

#### **Mwanza**

Tel: 255-787-212-515

Email: tanzania@majordrilling.com

### **South Africa**

#### **Centurion**

Tel: 27-12-666-8793

Email: southafrica@majordrilling.com

### **Namibia**

#### **Windhoek**

Tel: 264-61-272037

Email: namibia@majordrilling.com

### **Mozambique**

#### **Tete**

Tel: 258-843045664

Email: mozambique@majordrilling.com

### **Democratic Republic of the Congo**

#### **Lubumbashi**

Email: drc@majordrilling.com

### **Mauritius**

#### **Ebene**

Tel: 230-465-8951

Email: mauritius@majordrilling.com

### **Zambia**

#### **Office situated in South Africa**

Tel: 27-12-666-8793

Email: zambia@majordrilling.com

### **Zimbabwe**

#### **Office situated in South Africa**

Tel: 27-12-666-8793

Email: zimbabwe@majordrilling.com