MAJOR

Partners on the Ground

Management's Discussion and Analysis

First Quarter Fiscal 2016

MAJOR DRILLING GROUP INTERNATIONAL INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 2016

This Management’s Discussion and Analysis (“MD&A”) relates to the results of operations, financial condition and cash flows of Major Drilling Group International Inc. (“Major Drilling” or the “Company”) as at and for the three-month period ended July 31, 2015. All amounts in this MD&A are in Canadian dollars, except where otherwise noted. These quarterly unaudited interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”).

This MD&A is a review of activities and results for the quarter ended July 31, 2015 as compared to the corresponding period in the previous year. Comments relate to, and should be read in conjunction with, the comparative unaudited interim condensed consolidated financial statements as at and for the three months ended July 31, 2015, and also in conjunction with the audited consolidated financial statements and Management’s Discussion and Analysis contained in the Company’s annual report for the fiscal year ended April 30, 2015.

This MD&A is dated August 31, 2015. Disclosure contained in this document is current to that date, unless otherwise stated.

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 that 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; corruption, bribery or fraud by employees or agents; 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” in the Company’s 2015 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 previous year and the most recently completed financial year, are available on the SEDAR website at www.sedar.com.

CORPORATE OVERVIEW

Major Drilling Group International Inc. is one of the world’s largest drilling services 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, Mexico, South America, Asia, and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, sonic, geotechnical, environmental, water-well, coal-bed methane, shallow gas and underground percussive/longhole drilling.

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 prudent debt levels and remaining best in class in safety and human resources. The Company will also seek to diversify by investing in energy and underground drilling services that are complementary to its skill set.

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

Specialized drilling can be defined as any drilling project that, by virtue of its scope, technical complexity or location, creates significant barriers to entry for smaller drilling companies. This would include, for example, deep-hole drilling, directional drilling, and mobilizations to remote locations or high altitudes. Because significant ore bodies are getting more difficult to find, the Company expects specialized drilling services to continue to fuel future growth, and over the next two decades, the Company believes 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. Last year, the Company entered a new type of underground service with the acquisition of the assets of Taurus Drilling Services, a provider of underground percussive/longhole drilling to mining companies. Percussive/longhole drilling relates more to the production function of a mine. Offering both underground production drilling and its existing underground core drilling, the Company now provides an even wider range of complementary services to its clients.

A key part of the Company's strategy is to maintain a strong balance sheet. The Company is in a unique position to react quickly when the industry begins to recover as its financial strength allows it to invest in safety and to maintain its equipment in excellent condition. The Company also has a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue, and a large part of the Company's other expenses relate to variable incentive compensation based on the Company's profitability.

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.

Gold has always been a significant driver in the mining industry accounting for 40 to 50% of the exploration spend carried on around the world. Exploration activity generally varies up or down with the trend in gold prices.

The demand for base metals is dependent on economic activity. In the longer-term, the fundamental drivers of base metals remain positive, with worldwide supply for most metals expected to tighten and higher demand coming from the emerging markets over the last few years. As these countries continue to urbanize, the requirement for base metals will continue to increase at the same time as the easily accessible reserves are being depleted.

One of the realities of the mining industry is that future mineral deposits will 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.

In terms of customer base, the Company has two categories of customers: senior and intermediate companies, for which the Company provides greenfield exploration drilling and/or drilling at operating mines, and junior exploration companies.

The industry is currently in a cyclical downturn. At this point in time, most senior and intermediate mining companies are more cautious with their investments in exploration. Large base metal producers will eventually need to expand existing mines and develop new ones to meet the world's growth, especially in emerging markets. Activity from senior gold producers is likely to show greater volatility as gold prices vary, which will impact their exploration budgets.

Many junior mining companies continue to experience financing difficulties thus have slowed down their exploration efforts. Junior mining companies can account for some 50% of the market in cyclical upturns. While it is expected that some of the more advanced projects will be able to obtain financing as needed, it will be necessary for investors to once again support exploration projects in order for drilling activities to regain the momentum that they had at their peak.

OVERALL PERFORMANCE

Although demand for drilling services continues to be weak and pricing very competitive, the Company was able to increase its revenue and margins over the last three months. Services around existing mines continued to grow, including underground core and percussive drilling, which should help to provide greater revenue stability, provided senior and intermediate miners continue with their production plans. The Company's efforts to reduce costs have had a positive impact on margins and have allowed the Company to grow its EBITDA to $11.4 million, more than double the EBITDA in the first quarter of last year.

Total revenue for the quarter was $83.9 million, up 24% from revenue of $67.6 million recorded in the same quarter last year. Most of the increase relates to the addition of the percussive division, increased activity in South and Central America and better foreign exchange conversion rates, which offset revenue reduction from the energy division and the closure of operations in the Democratic Republic of Congo ("DRC").

The overall gross margin percentage for the quarter was 25.8%, up from 24.7% for the same period last year. This margin is an indication that pricing appears to have now stabilized, but is also a result of the Company's discipline on pricing.

During the quarter, the Company made the difficult decision to close its operations in South Africa and Namibia, recording a restructuring charge of $6.1 million. Of this, $5.0 million was a non cash write-down of assets and $1.1 million was a net cash charge for severance and lease termination. As well, the Company will incur additional moving costs over the next few months. Also, during the quarter, the Company incurred additional restructuring charges of $0.3 million relating to severance as it continues to reduce costs across the organization.

Net loss was $11.2 million or $0.14 per share for the quarter, compared to a net loss of $7.3 million or $0.09 per share for the same quarter last year.

Based on the Company's continuing strong balance sheet, the Board of Directors has declared a semi-annual dividend of $0.02 per common share, which will be paid on November 2, 2015 to shareholders of record as of October 9, 2015. This dividend is designated as an "eligible dividend" for Canadian tax purposes.

RESULTS OF OPERATIONS – FIRST QUARTER ENDED JULY 31, 2015

Total revenue for the quarter was $83.9 million, up 24% from revenue of $67.6 million recorded in the same quarter last year. Most of the increase relates to the addition of the Company's percussive division, increased activity in South and Central America and more favorable foreign exchange conversion rates, which offset revenue reduction from the Company's energy division and the closure of its operation in the DRC. The favourable foreign exchange translation impact for the quarter is estimated at $5.6 million on revenue but negligible on net earnings, when comparing to the effective rates for the same period last year.

Revenue for the quarter from Canada-U.S. drilling operations increased by 40% to $51.0 million compared to the same period last year. Most of the increase came from the addition of the Company's percussive division.

South and Central American revenue was up 45% to $20.5 million for the quarter, compared to the prior year quarter. Most of the increase came from Mexico and Chile, while other regions were relatively flat.

Asian and African operations reported revenue of $12.4 million, down 27% from the same period last year. Most of the decrease came from the closure of operations in the DRC, and a slowdown in Southern Africa.

The overall gross margin percentage for the quarter was 25.8%, up from 24.7% for the same period last year. This margin is an indication that pricing appears to have now stabilized, but is also a result of the Company's discipline on pricing.

General and administrative costs decreased 3% from last year to $10.6 million for the quarter, despite an increase due to foreign exchange translation, and the Taurus acquisition. With the decrease in activity during the current industry downturn, the Company has reduced its general and administrative costs across its operations.

Gain on disposal of property, plant and equipment was $2.6 million during the quarter compared to nil last year, as the Company sold a non-operational building in Chile.

The Company recorded a restructuring charge of $6.4 million consisting primarily of a non-cash write-down of assets of $5.0 million in South Africa and Namibia, $1.1 million in closedown costs relating to severance and lease termination, and $0.3 million in additional restructuring charges across the organization as it continues to reduce costs.

The income tax provision for the quarter was an expense of $2.8 million compared to a recovery of $2.4 million for the prior year period. The tax expense for the quarter was impacted by non-tax affected losses and non-deductible expenses, while incurring taxes in profitable branches.

Net loss was $11.2 million or $0.14 per share for the quarter, compared to a net loss of $7.3 million or $0.09 per share for the same quarter last year.

SUMMARY OF QUARTERLY RESULTS

(in $000 CAD, except per share)	Fiscal 2014			Fiscal 2015				Fiscal 2016
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	$ 92,268	$ 71,830	$ 82,637	$ 67,551	$ 87,192	$ 69,784	$ 81,191	$ 83,934
Gross profit	30,011	17,770	21,524	16,667	20,736	7,786	20,707	21,617
Gross margin	32.5%	24.7%	26.0%	24.7%	23.8%	11.2%	25.5%	25.8%
Net loss	(19,100)	(12,797)	(24,935)	(7,331)	(10,148)	(18,999)	(13,087)	(11,180)
Per share - basic	(0.24)	(0.16)	(0.31)	(0.09)	(0.13)	(0.24)	(0.16)	(0.14)
Per share - diluted	(0.24)	(0.16)	(0.31)	(0.09)	(0.13)	(0.24)	(0.16)	(0.14)

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.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow from operations (before changes in non-cash operating working capital items, interest and income taxes) was $7.6 million for the quarter compared to $4.5 million generated in the same period last year.

The change in non-cash operating working capital items was an outflow of $1.1 million for the quarter compared to an outflow of $1.2 million for the same period last year. The inflow in non-cash operating working capital in the quarter ended July 31, 2015 was primarily impacted by:

- An increase in accounts receivable of $7.4 million;
- An increase in accounts payable of $7.9 million;
- A decrease in inventory of $0.9 million; and
- An increase in prepaid expenses of $2.4 million.

Financing Activities

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.

Operating Credit Facilities

The credit facilities related to operations total $31.1 million ($25.0 million from a Canadian chartered bank and $6.1 million for Chilean pesos facilities) and are primarily secured by corporate guarantees of companies within the group. At July 31, 2015, the Company had utilized $5.1 million of these lines mostly for stand-by letters of credit. The Company also has a credit facility of $1.9 million for credit cards for which interest rate and repayment are as per cardholder agreements.

Long-Term Debt

Total long-term debt increased by $0.3 million during the quarter to $15.6 million at July 31, 2015. The increase is due to additional equipment financing of $2.0 million, offset by debt repayments of $1.8 million during the quarter.

As of July 31, 2015, the Company had the following long-term debt facilities:

- $5.8 million non-revolving facility amortized over five years ending in September 2016.

- $50.0 million revolving facility for financing the cost of equipment purchases or acquisition costs of related businesses. At July 31, 2015, this facility had not been utilized.

- $6.1 million non-revolving facility. This facility carries a fixed interest rate of 5.9% and is amortized over ten years ending in August 2021.

- The Company also has various other loans and capital lease facilities related to equipment purchases that totaled $3.7 million at July 31, 2015, which were fully drawn and mature through 2019.

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 July 31, 2015, the Company had unused borrowing capacity under its credit facilities of $76.0 million and cash of $48.6 million, for a total of $124.6 million in available funds.

Investing Activities

Capital expenditures were $3.3 million (net of $2.0 million of equipment financing) for the quarter ended July 31, 2015 compared to $7.1 million for the same period last year.

The disposal of property, plant and equipment generated proceeds of $5.9 million during the quarter, compared to $10.6 million for the same period last year.

During the quarter, the Company added 5 drill rigs, including 3 rigs for the percussive division, while retiring or disposing of 11 drill rigs. This brings the total drill rig count to 698 at quarter-end.

OUTLOOK

It is still not clear what impact the latest reductions in commodity prices will have on the industry and the Company's operations, as it is very difficult to predict customer plans over the next twelve months. The Company continues to grow its services around existing mines, including underground core and percussive drilling, which should help to provide greater revenue stability, provided senior and intermediate miners continue with their production plans. In the immediate future, the Company is in a unique position to react quickly when the industry begins to recover as the Company's financial strength has allowed it to invest in safety and to maintain its equipment in excellent condition.

The Company will continue to focus on cash generation by limiting capital expenditures as necessary, by reducing inventory and by closely managing costs. The Company continues to have a variable cost structure whereby most of its direct costs, including field staff, go up or down with contract revenue, and a large part of the Company's other expenses relates to variable incentive compensation based on the Company's profitability.

FOREIGN EXCHANGE

Year-over-year revenue comparisons continue to be affected by the variations of the Canadian dollar against the U.S. dollar and other functional reporting currencies. The favourable impact of foreign exchange translation, for the quarter, when comparing to the effective rates for the same period last year, is estimated at $5.6 million on revenue but negligible on net earnings.

Argentina currency status

The Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authorities and the Central Bank for the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, and also payment of dividends to parties outside of the country). That approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars.

COMPREHENSIVE EARNINGS

The interim condensed consolidated statements of comprehensive earnings for the quarter include $21.0 million in unrealized gains on translating the financial statements of the Company's foreign operations compared to a loss of $2.5 million for the same period last year. The change relates to translating the net assets of the Company's foreign operations, which have a functional currency other than the Canadian dollar, to the Company's Canadian dollar currency presentation.

GENERAL RISKS AND UNCERTAINTIES

A complete discussion of general risks and uncertainties may be found in the Company's Annual Information Form for the fiscal year ended April 30, 2015, which can be found on the SEDAR website at www.sedar.com. The Company is not aware of any significant changes to risk factors from those disclosed at that time.

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases discussed in the annual MD&A for the year ended April 30, 2015, where there were no significant changes, the Company does not have any other off balance sheet arrangements.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's disclosure and internal controls over financial reporting during the period beginning on May 1, 2015 and ended on July 31, 2015 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

OUTSTANDING SHARE DATA

As of August 31, 2015, there were 80,136,884 common shares issued and outstanding in the Company. This is the same number as reported in the Company's annual MD&A (reported as of June 5, 2015).

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.