MAJOR PROJECTS
MAJOR GROWTH
MAJOR DRILLING

2006 ANNUAL REPORT

Groupe Forage
MAJOR
Drilling Group International Inc.

Corporate Profile

Founded in 1980, Major Drilling Group International Inc. (the Company) has consistently delivered high quality drilling services in some of the world's most remote and harshest environments. The Company has grown into one of the largest contract drilling service providers to the metals and minerals sector around the globe. With 27 field operations and/or offices in 17 countries, Major Drilling's primary focus is the mining sector. In the past year, the Company has initiated drilling services in the coal-bed methane and shallow gas segments of the energy sector.

In June 2006, the Company made the strategic decision to focus its corporate resources on the mineral drilling business and sold its Australian and Chilean based manufacturing division, Universal Drill Rigs (UDR).

The Company now has the opportunity to partner with Sandvik, the purchaser, a company with mineral drilling equipment as a core business, to assist them in developing the next generation of drill rigs.

Despite recent volatility, gold and base metal prices remain at historically high levels and the demand for drilling services continues to outrun the sector's capacity to respond.

Major Drilling's common shares trade on the Toronto Stock Exchange under the symbol MDI.

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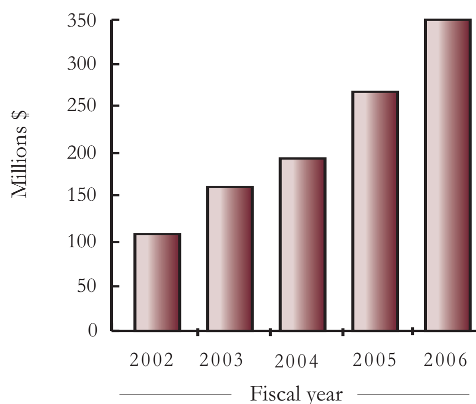
Highlights

Groupe Forage MAJOR Drilling Group International Inc.

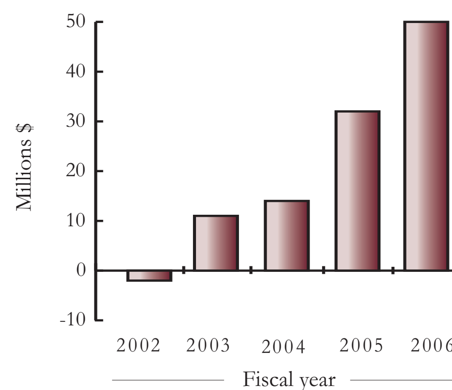
In millions $ (Except earnings per share)

	FY 2006	FY 2005
Revenues	350.3	269.3
Gross margin	28.5%	26.7%
Cash flow from operations (before changes in non-cash operating working capital items)	50.1	31.7
Net earnings	28.6	15.5
Net earnings per share (basic)	1.26	0.71

Revenues for the year ended April 30

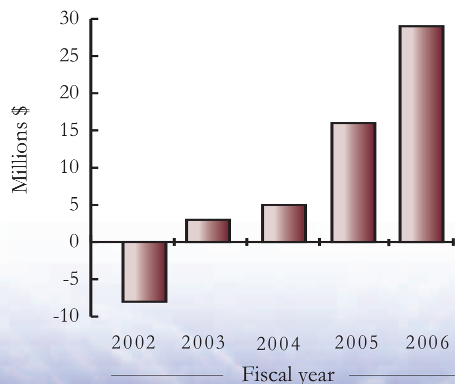


Cash flow* for the year ended April 30



*(used-in) from operating activities before changes in non-cash operating working captal items

Earnings (loss) from continuing operations* April 30



* before write-down of goodwill and non-controlling interest

- Record annual revenues for fourth consecutive year
- Highest earnings in the Company's history
- Improving gross profit margins
- Successful integration of US based drilling operation acquired last year
- Entry into energy related drilling

The mountains of Argentina

Message to Shareholders

Fiscal 2006 (FY06) proved to be a very satisfying year. The Company's strong operating leverage was evident as annual revenue growth of 30 percent translated into an 84 percent increase in net earnings for the year, reaching a record high of $28.6 million. Revenue increased to $350.3 million, the fourth consecutive year of record revenues.

We continued to see an increase in demand for the Company's services, as gold and base metal exploration and mining companies compete for scarce drilling capacity creating a favorable pricing environment for the upcoming year. During the past year, Major Drilling had some success in moving from a meter rate to a combination of meter rate and day rate, especially for larger contracts in Australia and the U.S. In January, Major signed a two-year contract, with roll over provisions, to provide drilling services to the Diavik mine. The contract is structured around a series of day rates and fixed monthly charges, which will allow both parties to optimize best practices, performance and safety.

Higher energy prices have opened up a new market for our specialized, high-end services in shallow gas/slim-hole drilling, and directional drilling. These services are a natural extension of our skills and equipment that has not been extensively utilized in the oil and gas service sector in the past. The Company has assessed the potential for diversification into this field and we believe that this sector holds significant opportunity for growth, limited only by our ability to train and develop crews. At year end, we had nine rigs working on such projects and we will be putting another nine rigs into this field over the next eight months.

A Mongolian Sunset

In June of 2006, the Company made the strategic decision to sell its manufacturing division, UDR, to Sandvik of Sweden. As we move further into the cycle, we believe that the returns available from drilling will be greater than those which might come from manufacturing. The decision to withdraw from the drill rig manufacturing business was made easier by Sandvik's attractive offer and the opportunity to partner with a company with sales, service, and product development capabilities, to take what is already a world class line of products to a new level.

The outlook continues to be very strong. Gold and base metal prices, despite recent volatility, remain at historically high levels and the demand for drilling services continues to outrun the sector's capacity to respond. For the year ahead, our prospects are excellent.

The previous cycle was driven primarily by gold exploration, compared to the current upturn, which is being driven by increases in both base metals and gold exploration expenditures. While gold related exploration expenditures are still well below their 1997 peak levels, Metals Economics Group is projecting that global exploration budgets for nonferrous metals for calendar 2006 will move above the previous cyclical peak.

With continuing growth opportunities in both specialized and energy related drilling, we have increased our net capital budget to some $40 million in the coming year to expand our capacity to respond to the growing demand for drilling services. This will allow us to expand our deep-hole specialized fleet and our energy fleet.

In June of 2006, Mr. Mike Pavey, Executive Vice-President and Chief Financial Officer, announced his long planned intention to retire in September of 2006. I am pleased to announce that Mr. Denis Larocque, previously Vice-President Finance, has been promoted to the position of Chief Financial Officer. Since joining Major Drilling in 1994, Mr. Larocque has built an intimate knowledge of international business and the drilling industry. As Mr. Pavey takes his well earned retirement, the Company has never been in better financial shape nor had a stronger financial team. The appointment of Mr. Larocque as Chief Financial Officer ensures continuity of vision and purpose for the Company.

I would like to thank Mr. Larry Doane, who stepped down as director after ten years of service. We welcome Mr. David Hope and Mr. Ed Breiner as new directors. Mr. Hope was recently chair of the Canadian Institute of Chartered Accountants. Mr. Breiner is President and CEO of Schramm, a leading manufacturer of reverse circulation drilling equipment.

We would like to express our ongoing appreciation to all of our employees, as they continue to be the integral part of our strength and success. We also extend our thanks to our clients for their continued loyalty.

Finally, we wish to thank you, our investors, for your support. Your Company continues to be a unique, diversified, market proxy for the entire minerals and metals sector around the globe.

David Tennant
Chairman of the Board

Francis McGuire
President and Chief Executive Officer

"We continued to see an increase in demand for the Company's services, as gold and base metal exploration and mining companies compete for scarce drilling capacity..."

Our Operations

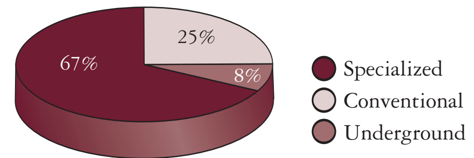
Major enjoyed record revenues and earnings in FY06. At the completion of this very rewarding year, Major's business premise remains unchanged. The Company continues to focus on specialized drilling as mining companies deplete the more easily accessible mineral reserves around the world and attractive deposits are in increasingly remote locations and areas difficult to access.

The Company continues to focus on senior and well-funded intermediate mining companies as a customer base as they offer better long-term prospects. This approach ensures more stability in the future, should funding for juniors diminish. As discussed in the Message to Shareholders, the Diavik contract, depending on the drilling requirements, has the potential to generate revenues of some $6 to $10 million annually.

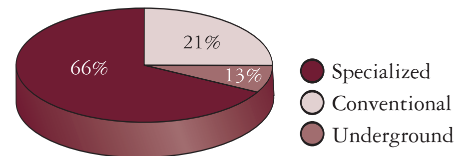
In the mineral sector, the Company categorizes drilling into three types: specialized drilling, conventional drilling and underground drilling. Specialized drilling comprises the skill sets which allow the Company to drill for difficult to access mineral deposits. Over the next two decades, we believe these skills will be in greater and greater demand. Conventional drilling is the most cyclical part of the industry and therefore not a priority for investments by the Company. Underground drilling is as cyclical as conventional drilling activity, but usually lags three to four years behind, as drilling moves underground as clients develop underground mines. While underground drilling remains relatively flat, conventional drilling is growing with the cycle, and specialized drilling is growing structurally. This past year has seen evidence of these patterns as drilling projects are going deeper and moving to more remote locations.

Major Drilling has been assessing the potential for diversification and we believe that the energy sector holds significant growth potential. Higher energy prices have opened up a new market for the Company's specialized, high-end services in shallow gas/slim-hole drilling, and directional drilling. These services are a natural extension of our existing skills and equipment. By year end, the Company had nine rigs dedicated on such projects and expects over the next year, to be adding another nine rigs.

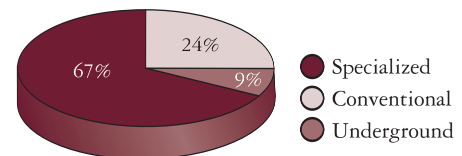
Drilling Revenues FY 2006



Drilling Revenues FY 2005



Drilling Revenues FY 2004



Margins have continued to improve in 2006, as the Company has set a framework for continued long-term improvement in margin performance through improved labour productivity, more favorable contract structures and cost "pass throughs" for many uncontrollable costs.

The Company operates in three geographic areas - Canada-U.S., South and Central America, and Australasia/Africa.

In Canada-U.S., the Company tends to focus its efforts on specialized drilling more than in the other geographic areas due to the intense competition in conventional drilling in Canada. Revenues are not particularly dominant in any commodity group in that region as the Company drills for gold, base metals, diamonds and uranium. The Company had three rigs operating in the energy field in the U.S. by year end. Due primarily to the successful integration of the U.S. acquisition of drilling assets in March of 2005, Canada-U.S. led all of the Company's operating regions with impressive revenue growth in fiscal 2006.

South and Central America includes operations in Venezuela, Argentina, French Guiana, Chile, Mexico and, most recently, Suriname. Due to the less competitive environment in these countries, the Company typically has a higher proportion of conventional drilling than in other regions, while still commanding good pricing. This region's activity is dominated by gold and silver, which at times can account for as much as 75% of the activity in the area. In 2006, the growth in this region was driven primarily by Argentina, Chile and Mexico, which more than offset the reduction in Venezuelan revenues due to regulatory and currency control uncertainties.

Australasian/African drilling operations include Australia, Indonesia, Tanzania, Mongolia and, most recently, China. In Australia, there is a much higher proportion of underground drilling than in any other region, which means delayed growth as underground drilling activity tends to increase further on in the cycle. The drilling in regions like Mongolia, Tanzania and Indonesia is generally defined as specialized by virtue of the logistics required to operate in those countries. This region's activity in FY06 was dominated by base metal work, particularly in Australia and Mongolia. In addition, the Company had four rigs operating in the energy field in Australia during the year. While Indonesia also showed moderate growth, revenue growth in this region was led by Tanzania and Mongolia.

As the Company continues to seek out potential acquisitions in specialized and energy related drilling, it will do so with the discipline required to preserve and increase shareholder value.

Specialized drilling can be defined as any drilling project that by virtue of its scope, technical complexity and location, creates significant barriers to entry for smaller drilling companies. This would include deep-hole drilling, directional drilling, and mobilizations to remote locations or high altitudes, all of which usually result in higher pricing and margins. Because significant ore bodies are getting more difficult to find, the Company expects specialized drilling services to continue to fuel future growth.

With a strategy of dominating specialized drilling, Major Drilling has positioned itself as the largest specialized operator in the world. In this way, the Company has leveraged its main competitive advantages, skilled personnel, specialized equipment, long standing relationships with the world's largest mining companies and access to capital.

Our Operations

SAFETY

FY06 was again a year of great change for Major Drilling. With operations in 17 countries, Major continued to globalize its Environment Health and Safety department to reduce, and or eliminate, workplace injuries to achieve minimal harm to our employees.

As an industry with much diversity, Major Drilling continued to lead by embracing and investing in tomorrow's technology for training, equipment and best operating and management practices in the industry.

With more than 2,500 employees in the field worldwide, we continue to invest heavily in our most important resource with training to improve our employees' skills, abilities, and safety awareness, providing them with the tools necessary to return from work safely every day, injury and accident free.

Once again, the Company had a significant increase of total hours worked year-over-year due in part to the U.S. acquisition in March of fiscal 2005 (FY05), and the continued ramp up of drilling activities globally. Hours worked increased from 4.4 million in calendar 2004 to 5.2 million or an overall increase of 19 percent ending calendar year 2005. The Company's accident frequency rate has continued to reflect its focus on safety, with an improvement from 1.6 in calendar 2004 to 1.4 or a decrease of 12.5 percent in calendar 2005. The Company also had a significant decrease in its severity rates from 52.4 in calendar 2004 to 36.5 in calendar year 2005. The emphasis on injury reduction and investment in training and safety will continue in all operations globally. Major's employees remain its most important asset. Protecting them and helping them protect themselves, on the job site and on the roads, will remain a top priority.

Key points of interest for 2006 include the introduction of web-based training, the participation in an industry wide ergonomic study of diamond drill workers, the tabling of a report specifically dealing with hand and finger injuries recorded from 2000 to present and the implementation of corrective actions.

UDR300D on site in Orange, NSW, Australia

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ENVIRONMENT & COMMUNITY

As a mineral exploration drilling service company with operations around the world, Major Drilling's goal is to understand and respect the environment, land, cultures and social economic structures of the communities in which it operates. The Company continues to reduce its environmental footprint to protect and preserve the environmental integrity of the locations in which the Company works.

Major Drilling pools strategic planning, operational expertise, cutting-edge technology and innovative processes in an effort to further reduce its environmental impact. The Company continues to work with the Canadian Diamond Drilling Association and the Prospectors and Developers Association of Canada, and is a driving force within the E3 working group, an industry lead effort to establish national guidelines for environmental protection in the Canadian mining industry.

Global 2005 Statistics

Statistics	2005 Ending Dec. 31, 2005	2004 Ending Dec. 31, 2004	Net Increase (Decrease)
Hours Worked (in thousands)	5,243	4,405	19.0%
Lost Time Injuries	36	35	2.8%
Days Lost	957	1153	(16.9%)
Frequency Rate	1.4	1.6	(12.5%)
Severity Rate	36.5	52.4	(30.3%)

Our Environment, Health and Safety Committee statement: All Major Drilling operations will be carried out in a manner that protects the health and safety of our employees, site visitors and community in general, while having proper regard for the protection of the environment.

Burundi border in Tanzania

Management's Discussion & Analysis

The following discussion and analysis, prepared as of June 7, 2006, should be read together with the audited financial statements for the year ended April 30, 2006 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 Corporation'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

Securities laws encourage companies to disclose forward-looking information in order for investors to have a better understanding of a company's future prospects and make informed investment decisions.

This MD&A contains forward-looking statements about the Company's objectives, strategies, financial condition, results of operations, cash flows and businesses. These statements are "forward-looking" because they are based on current expectations, estimates and assumptions about the markets in which the Company operates, the world economic climate as it relates to the mining industry, the Canadian economic environment and the Company's ability to attract and retain customers and to manage its assets and operating costs.

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

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

Additional information relating to the Company, including the Company's Annual Information Form for the most recently completed financial year, can be found on SEDAR at www.sedar.com.

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, Mexico, South and Central America, Australia, Europe, Asia and Africa. Major Drilling provides all types of drilling services including surface and underground coring, directional, reverse circulation, RAB, geotechnical and environmental drilling and most recently coal-bed methane and shallow gas related drilling. Revenues from drilling represented 91 percent of the Company's total revenues for the year ended April 30, 2006.

The Company also designed, manufactured and sold drills and drilling equipment, for use by mining and mineral exploration companies around the world, through its UDR Group subsidiaries. As mentioned previously, the Company disposed of UDR as of June 7, 2006. For the year ended April 30, 2006, revenues from manufacturing represented 9 percent of the Company's total revenues.

INDUSTRY OVERVIEW

The metals and minerals drilling industry is reliant primarily on demand from two metal groups, gold and base metals. In a positive commodity pricing regime, either one of these metal groups can, by itself, bring the contract drilling sector to capacity. With low levels of exploration in the recent past limiting the expansion of supply, and the emergence of China as a major consumer of base metals, supply is expected to fall short of demand over the next several years, which will increase demand for exploration drilling services in the mining industry.

Worldwide exploration expenditures in 2005 were US$5.1 billion, still below 1997 peak levels of US$5.2 billion (nominal). In 1997, growth in mineral exploration was primarily driven by gold mining and exploration companies, but in 2005 both gold and base-metal mining companies expanded exploration budgets. Metals Economics Group, a recognized authority on mining industry intelligence, is projecting that global exploration budgets for calendar 2006, for nonferrous metals, will finally move above the previous cyclical peak. Major Drilling is well positioned to benefit from this cyclical upturn through its global reach, expertise and strong balance sheet.

BUSINESS STRATEGY AND COMPETITIVE STRENGTHS

Management remains focused on its long-term strategic objectives:

- ***Dominate specialized drilling and expand effective capacity.*** Services such as deep-hole drilling, directional drilling and drilling in difficult environments and remote locations have the greatest growth potential, allowing Major Drilling to exploit its primary competitive advantages – specialized equipment, skilled and innovative personnel, long-term customer relationships, financial capacity and global reach, all significant barriers to entry for smaller locally based firms.

- ***Utilize and rationalize conventional capacity while improving efficiency.*** With a focus on greenfield exploration, conventional drilling is typically the most affected by industry downturns and upturns.

- ***Tactically expand underground capacity, especially in high margin specialized services.*** Underground drilling contracts are typically of longer duration than surface drilling contracts, providing some stability to the Company's revenue stream. These contracts also provide a tactical point of entry that can often expand to encompass all of a client's drilling requirements. Increases in underground drilling activity typically lag increases in surface drilling activity in the early stages of a cyclical upturn.

- ***Build and maintain a highly cost effective organization and a standardized fleet while working toward reduced long-term debt as the cycle progresses.*** The rationalization of the fleet and acquisition of new equipment with an emphasis on state-of-the-art specialized equipment will improve productivity, safety and reduce operating costs and inventory requirements.

ACQUISITIONS

Raematt Drilling

Effective May 15, 2004, the Company purchased the assets of Raematt Drilling, an underground drilling contractor based in Victoria, Australia. Through this purchase Major Drilling acquired a number of specialized deep-hole underground drill rigs, together with support equipment and inventory, and several highly skilled drill crews.

In this transaction, contracts valued in excess of A$14.0 million were taken over by the Company. The purchase price for the transaction was $6.6 million financed with a note payable of $1.9 million to the previous owner and $4.7 million in debt. This purchase is very much in line with the Company's long-term strategy of growing its specialized services.

Dynatec Corporation Drilling Services Division

Effective March 15, 2005, the Company purchased the assets of Dynatec Corporation's Drilling Services Division operating in the Western United States (Arizona, Idaho, Oregon, Nevada, Utah, Wyoming as well as West Virginia), areas where Major Drilling did not previously have a presence. Through this purchase Major Drilling acquired more than 30 drill rigs, including 18 specialized surface drill rigs, together with related support equipment and inventory.

Through this acquisition, the Company gained access to a large pool of skilled and experienced drillers, established a presence in a large and important North American mining region, and took over an operation with approximately US$30 million in projected revenues over the following twelve-month period.

The purchase price for the transaction was $20.2 million. The purchase was financed through the issue of $6.2 million of Major Drilling common stock out of treasury (527,485 shares, based on a volume weighted average price for the five trading days prior to the execution of the agreement) and $14.0 million of debt.

OVERALL PERFORMANCE

Total revenues for the year were $350.3 million, up 30.1 percent over the $269.3 million reported for last year, with contract drilling revenues, up 29.3 percent over the prior year period, continuing to show steady growth. All of the Company's operating divisions participated in this growth, led by Canada-U.S., where revenue increased over 45 percent compared to the prior year, due largely to the acquisition of the U.S. based drilling operation acquired in March of last year.

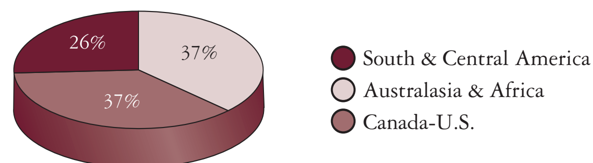
Gross margins for the year were 28.5 percent up from the 26.7 percent margin posted a year ago. The Company continued to make gradual progress in expanding its gross margin percentage, despite increased labour and materials costs, through ongoing cost control, increasing labour productivity, and an improving pricing environment.

Management's Discussion & Analysis

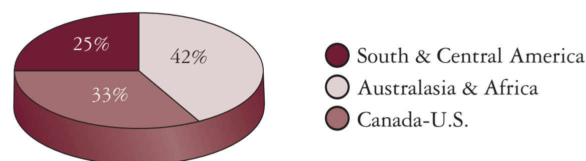
Increased revenues and strengthening margins combined to lift gross profit in the year to $99.7 million, over 38 percent above the prior year. This improvement in gross profit was also reflected in the bottom line, as this year marked the second consecutive year of record breaking net earnings, with earnings of $28.6 million or $1.26 per share, an 84.5 percent increase over last year.

Cash flow from operating activities also continued to strengthen this year, increasing 2.6 times to $38.5 million compared to the $15.0 million recorded in the prior year. As a result of this strong cash generation, total debt, net of cash, decreased by $17.8 million or 31 percent during the year. The Company achieved this debt reduction at the same time as additional rigs, many of which are specialized, were put in the field as part of its capital program, which totalled $27.5 million, net of direct financing, in the year.

Drilling Revenues FY 2006 by Region



Drilling Revenues FY 2005 by Region



Selected Annual Information

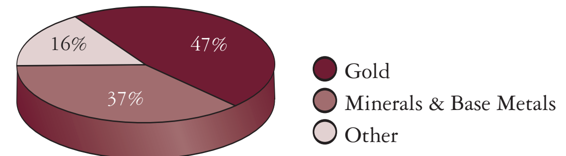
Years ended April 30 (in millions of Canadian dollars, except per share information)	**2006**	2005	2004
Revenue by region			
Canada-U.S.	$ 119	$ 82	$ 61
South and Central America	82	62	33
Australasia and Africa	118	102	82
	319	246	176
Manufacturing revenues, net of eliminations	31	23	18
	350	269	194
Gross profit	100	72	47
Gross profit as a percentage of revenue	28.5%	26.7%	24.1%
Earnings from continuing operations (before non-controlling interest)	29	16	5
Net earnings	29	16	5
Total assets	271	256	199
Total long-term financial liabilities	30	38	22
Earnings per share:			
Basic	$ 1.26	$ 0.71	$ 0.25
Diluted	1.23	0.70	0.24

RESULTS OF OPERATIONS

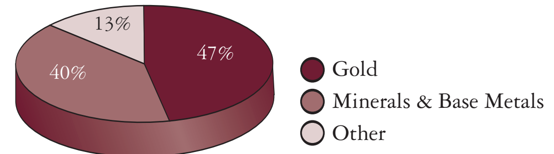
FISCAL 2006 COMPARED TO FISCAL 2005

Total revenue for the fiscal year ended April 30, 2006 was $350.3 million, up 30.1 percent over the $269.3 million reported for last year. This was the fourth consecutive year of record revenue despite the unfavourable foreign exchange (FX) impact of the strengthening Canadian dollar against both the U.S. and Australian currencies estimated at $19 million. Drilling revenues increased by $72.2 million to $318.5 million from $246.3 million in fiscal 2005. Third party sales from the manufacturing division increased by 38.3 percent to $31.8 million compared to $23.0 million last year.

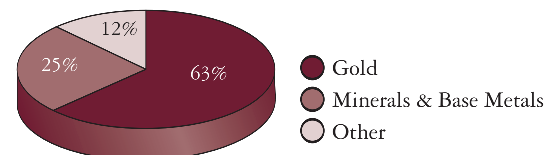
Drilling Revenues FY 2006 by Commodity



Drilling Revenues FY 2005 by Commodity



Drilling Revenues FY 2004 by Commodity



Canada-U.S.

Canada-U.S. drilling revenues increased by 45.1 percent to $119.1 million compared to $82.1 million last year, with approximately 93.4 percent of this increase related to U.S. operations and the U.S. acquisition in March 2005. In Canada, there was a slight increase in revenues reflecting improved pricing.

Gross margins in the Canada-U.S. region showed the largest improvement of all the regions despite poor winter weather conditions that dragged down performance in the fourth quarter of the year. The termination or successful renegotiation of low margin contracts combined with a generally improving pricing regime in the face of continuing strong demand for drilling services in Canada was responsible for the improvement in the region's margin in the year.

South and Central America

Revenues in South and Central America increased by 30.6 percent or $19.1 million to $81.5 million compared to $62.4 million in fiscal 2005, despite a 50.6 percent reduction in Venezuelan sales, year-over-year. Strong growth in Mexico accounted for 68 percent of the region's growth with Argentina, Chile and the Guyanese Shield responsible for the balance. This was the only region to display decreased margins as improvements in margin percentages in Mexico and Chile were offset by a significant reduction in margins in Venezuela due to the substantial reduction in sales in that branch as drilling activity continues to gradually recover following regulatory and currency control uncertainties.

Management's Discussion & Analysis

Australasia and Africa

Revenues from drilling in Australasia and Africa increased 15.8 percent to $117.9 million from $101.8 million in fiscal 2005 as all of the Company's operations in the region exhibited growth. Revenue growth was led by Tanzania and Mongolia with increases of 87.3 and 22.8 percent respectively. With a partial year of operation, revenues from China represented some 1.7 percent of the region's annual revenue. In Australia, revenue growth was muted due to the strength of the Canadian dollar compared to the Australian dollar. Also, Australia has a higher relative proportion of underground operations than the rest of the Company. The underground market has not yet benefited from a cyclical upturn and remains a very competitive part of the market.

Australasian and African gross profit percentages increased slightly compared to the previous year. Margins increased in Tanzania, Indonesia and Mongolia, reflecting improved pricing and productivity. This increase was offset in Australia, as the ramp up of energy related drilling delivered lower than expected margins, and the start-up of operations in China resulted in low margins in that country.

Manufacturing

Third party sales from the manufacturing division increased by 38.3 percent to $31.8 million compared to $23.0 million last year, mainly due to two factors: i) increased utilization of capacity and ii) the start-up of drill rig manufacturing operations in Chile to service the Latin American market during the year.

Manufacturing margins increased due to improved pricing with increased demand, better cost control and production efficiency.

Operating expenses

General and administrative expenses increased $4.6 million to $32.7 million compared to $28.1 million last year with virtually all of that increase related to the combined impact of the U.S. acquisition late in fiscal 2005, the start-up of operations in China, and the initiation of manufacturing operations in Chile during fiscal 2006. General and administrative expenses were 9.3 percent of revenues as compared to 10.4 percent of revenues in fiscal 2005.

Other expenses increased to $5.6 million from $3.6 million in fiscal 2005 due in part to increased bonus provisions as a result of improved profitability in the current year, increased provisions for bad debt and increased stock option expense.

Foreign exchange loss was $1.0 million for the year compared to $0.7 million in fiscal 2005.

Interest expense on short and long-term debt increased to $3.6 million compared to $2.4 million last year due to debt financing related to the U.S. acquisition, direct investment in additional equipment, and higher working capital requirements associated with the increase in sales volumes through the year.

Amortization expense increased to $17.6 million from $14.1 million last year primarily as a result of the U.S. acquisition.

The income tax provision for fiscal 2006 was $10.2 million compared to $7.5 million for last year reflecting the increased profitability of the Company. However, the effective tax rate for the year decreased compared to the prior year as a larger proportion of pre-tax profits were generated in Canada and Argentina where the Company continued to utilize tax losses from prior periods that had not previously been tax effected. Non-tax effected losses in Canada were fully utilized at the end of the fiscal year and the Company expects to fully utilize its non-tax effected losses in Argentina in the coming year.

Net earnings for fiscal 2006 were $28.6 million ($1.26 per share), 84.5 percent higher than the $15.5 million ($0.71 per share) recorded in fiscal 2005.

SUMMARY ANALYSIS FISCAL 2005 COMPARED TO FISCAL 2004

Total revenues for the fiscal year ended April 30, 2005 were at $269.3 million, up 39.0 percent over the $193.8 million reported for the fiscal year ended April 30, 2004 (FY04). Drilling revenues increased by $70.4 million to $246.3 million from $175.9 million in FY04. All regions of the Company's operations participated in this growth, which was driven by the continuing strong cyclical recovery in the metals and minerals sector. Third party sales from the manufacturing division increased by 28.5 percent to $23.0 million compared to $17.9 million in fiscal 2004.

Gross margin percentage for FY05 was 26.7 percent compared to 24.1 percent in FY04. With the increased level of sales, gross profit increased by 54.2 percent to $72.0 million in FY05 compared to $46.7 million in FY04. Margin improvement, which was lead by Canada-U.S., was mostly due to improved pricing as demand for drilling services increased as metal prices improved.

Net earnings for FY05 were a record $15.5 million ($0.71 per share), more than three times higher than the $4.9 million ($0.25 per share) recorded in FY04.

SUMMARY ANALYSIS FOURTH QUARTER RESULTS ENDED APRIL 30, 2006

Total revenue for the quarter was $98.3 million, up $15.5 million from $82.8 million recorded in the fourth quarter last year. With a significant proportion of the Company's revenues received in U.S. and Australian dollars, year-over-year revenue comparisons continue to be affected by the strengthening Canadian dollar against both the U.S. and Australian currencies. The estimated total unfavourable FX impact on revenue compared to the prior year quarter is $7 million although the estimated impact on net earnings is less than $0.8 million.

Contract drilling revenue increased 18.6 percent to $90.0 million for the period, compared to $75.9 million for the prior year quarter. Manufacturing revenues from third party sales increased 20.3 percent to $8.3 million compared to $6.9 million for the same period last year.

South and Central American revenues for the quarter were $26.1 million, up 30.5 percent from the $20.0 million for the prior year quarter. Revenue growth was driven primarily by Argentina, Chile and Mexico with sales, in aggregate, up 64.3 percent over the prior year quarter. This more than offset a 47.7 percent reduction in Venezuelan revenues as drilling activity continues to gradually recover following regulatory and currency control uncertainties.

Revenue for the quarter from Canada-U.S. drilling operations increased by 19.1 percent to $33.6 million compared to $28.2 million for the same period last year. U.S. operations accounted for 70.5 percent of this growth reflecting the U.S. acquisition of drilling assets in March of 2005. In Canada, revenue growth was constrained by warm weather conditions that limited winter drilling.

Australasian/African drilling operations, encompassing Australia, Indonesia, Tanzania, Mongolia and China posted revenue growth of 9.0 percent, with revenues of $30.2 million compared to $27.7 million in the prior year quarter. Revenue growth was led by Tanzania and Mongolia with revenues up 39.8 and 33.9 percent respectively. Revenue in Indonesia also grew moderately in the quarter. Operations in China, which began in September of 2005, provided some 3.4 percent of regional revenues in the quarter. In Australia however, revenues were down some 10.3 percent due, in part, to the shift in the Australian/Canadian exchange rate. In addition, transitional operational issues, including demobilizations and remobilizations negatively impacted revenues and margins.

Management's Discussion & Analysis

The overall gross margin percentage for the quarter decreased to 29.0 percent, compared to 29.4 percent for the same period last year. With the increase in sales volume, gross profit for the quarter increased to $28.5 million from $24.4 million for the same quarter last year. With the exception of the manufacturing division, gross margin percentages for all operating regions were down slightly from the prior year quarter. In Canada, margin performance was constrained by warm weather conditions that significantly limited winter drilling. Contracts, for which costs had been incurred, were delayed or cancelled and, for the projects that did move forward, warm conditions hampered site access, equipment mobility and labour productivity. In Australia, transitional operational issues, including demobilizations and remobilizations negatively impacted revenues and margins. In South and Central America, good improvement in margin percentages in all other branches was offset by a significant reduction in margins in Venezuela due to the substantial reduction in sales in that branch as drilling activity continues to gradually recover following regulatory and currency control uncertainties.

General and administrative costs were $8.6 million for the quarter, compared to $7.8 million in the same period last year. The increase in costs was due to administration infrastructure costs associated with the U.S. acquisition and the start-up of operations in China.

Other expenses for the quarter decreased to $0.3 million compared to $1.4 million for the prior year quarter due, primarily, to gains on sale of assets which more than offset increased bonus provisions related to improved profitability.

Interest expense on short-term debt was $0.4 million in the quarter compared to $0.2 million in the prior year quarter. Interest expense on long-term debt was flat at $0.5 million.

Amortization expense was $4.3 million for the quarter compared to $4.0 million for the same quarter last year, as a result of the increased direct investment.

The provision for income tax was $2.2 million in the quarter compared to $2.4 million for the prior year quarter despite the increase in pre-tax income due to the recognition of previously non-tax effected losses in Argentina and Canada, and the recovery of minimum tax in Mexico. Non-tax effected losses from prior Canadian and Mexican operations have now been fully utilized.

Net earnings for the quarter, net of non-controlling interest, were $11.7 million or $0.51 per share compared to $8.2 million or $0.37 per share in the prior year period.

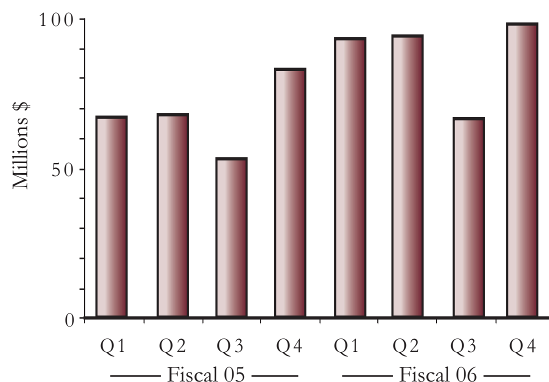
Summary of Quarterly Results

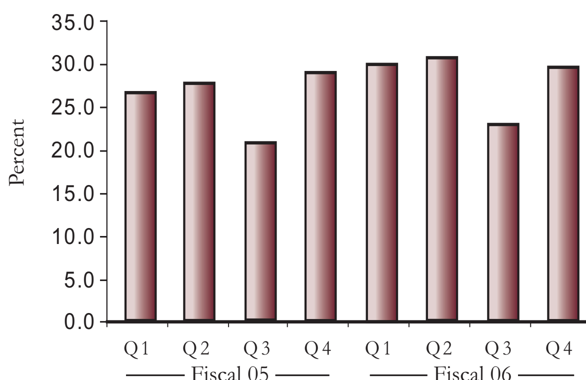
	Fiscal 2005				Fiscal 2006			
(in $000 of Cnd, except per share)	Q1[1]	Q2	Q3	Q4[2]	Q1	Q2	Q3	Q4
Revenue	$ 66,203	$ 67,208	$ 53,060	$ 82,820	$ 92,621	$ 93,546	$ 65,902	$ 98,261
Gross profit	17,672	18,819	11,130	24,354	27,900	28,679	14,592	28,504
Gross margin	26.7%	28.0%	21.0%	29.4%	30.1%	30.7%	22.1%	29.0%
Net earnings (loss)	3,811	4,716	(1,195)	8,206	8,351	9,287	(685)	11,689
Per share - basic	0.18	0.22	(0.05)	0.37	0.37	0.41	(0.03)	0.51
Per share - diluted	0.17	0.21	(0.05)	0.36	0.36	0.40	(0.03)	0.50

[1]In Q1 FY05 (May 15, 2004) the Company acquired the drill rigs, related equipment, inventory and drilling contracts owned by Raematt Drilling.

[2]In Q4 FY05 (March 15, 2005), the Company acquired the drills, related equipment, inventory and drilling contracts owned by Dynatec Corporation Drilling Services Division.

The geographic distribution of the Company's growth is having an impact on its historical seasonal patterns. With the exception of the third quarter, the Company exhibits comparatively less seasonality than in the past in quarterly revenues. A relatively higher proportion of drilling revenues is coming from regions with more temperate or tropical climates that are not impacted by winter weather conditions, and strong cyclical growth is tending to mute normal seasonal patterns. Historically, the Company's operations tended to exhibit a seasonal pattern whereby its fourth quarter (February to April) was its strongest. The third quarter (November to January) is normally the Company's weakest quarter due to the shutdown of mining and exploration activities for extended periods over the holiday season, particularly in South and Central America.





LIQUIDITY AND CAPITAL RESOURCES

Operating activities

The Company generated $50.1 million in operating cash flows (before changes in non-cash working capital) in the fiscal year ended April 30, 2006, an increase of $18.4 million from the $31.7 million generated last year, reflecting the improvement in both revenue and gross margins.

Working capital increased $11.5 million to $64.2 million at April 30, 2006 compared to $52.7 million at April 30, 2005. This increase was due primarily to (i) an increase in cash (net of demand loans) of $6.7 million; (ii) an increase in accounts receivable of $5.3 million due to increased volumes; (iii) a net increase of income tax receivable/payable of $2.2 million due to the increase in instalments paid; (iv) an increase of $2.1 million in future income tax assets, partially offset by an increase in accounts payable of $6.5 million also related to increased volumes.

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure and debt obligations. As at April 30, 2006, the Company had unused borrowing capacity under its credit facilities of $26.2 million and cash of $12.0 million, for a total of $38.2 million.

Financing activities

Total net debt (net of cash) decreased by $17.8 million during the year from $57.4 million at April 30, 2005, to $39.6 million at April 30, 2006. The decrease is primarily due to (i) debt repayments of $14.7 million; (ii) increase in net cash of $6.7 million, partially offset by additional debt of $5.1 million to finance capital expenditures.

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 year, the Company was, and continues to be, in compliance with all covenants and other conditions imposed by its debt agreements.

Management's Discussion & Analysis

The credit facilities related to operations total $31.8 million ($30.0 million from a Canadian chartered bank and $1.8 million credit facilities available in Chile, China and Australia) and are secured by fixed and floating charges on selected Canadian capital assets, a general assignment of book debts, inventories and corporate guarantees of companies within the group. The Company has a credit facility of $1.5 million for credit cards for which interest rate and repayment are as per cardholder agreement. At April 30, 2006, the Company had utilized $16.7 million of these lines, compared to $18.0 million at April 30, 2005.

A second facility is a $15.0 million facility for equipment acquisitions. At April 30, 2006, the Company had utilized $3.9 million of this line compared to $3.4 million at April 30, 2005. Draws on this line can be amortized over five years.

A third facility is a $2.2 million non-revolving term line established to assist in the acquisitions of similar businesses. This facility is being amortized over a five-year period which commenced in December 2003.

The fourth facility is a $3.0 million non-revolving term facility established to assist in the acquisition of Raematt Drilling, based in Australia. This facility is being amortized over a five-year period which commenced in June 2004.

The fifth facility is a US$8.2 million non-revolving term facility established to assist in the acquisition of Dynatec's Drilling Division, based in the United States. This facility is being amortized over a five-year period which commenced in June 2005.

The Company also has other various loans and capital leases related to equipment purchases that totalled $16.7 million at April 30, 2006 compared to $20.2 million at April 30, 2005. These loans mature through 2011.

Investing activities

Net capital expenditures (capital expenditures net of financing) were $27.5 million for the year ended April 30, 2006 (of which $5.1 million were financed directly) compared to $14.1 million for the same period last year (of which $7.2 million were financed directly). It is expected that net capital expenditures will increase to $40 million in fiscal 2007 as the Company continues to invest in the energy sector and also in specialized rigs.

Payments Due by Period (in $000's)

Contractual obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term debt	$ 34,889	$ 12,220	$ 17,992	$ 4,644	$ 33
Operating leases	4,995	2,114	1,886	686	309
Total contractual obligations	$ 39,884	$ 14,334	$ 19,878	$ 5,330	$ 342

OUTLOOK

Further out in time, the outlook for Major Drilling continues to be very positive. Base metal prices remain at historically high levels, and gold prices remain firmly above US$500 per ounce. Metals Economics Group, a recognized authority on mining industry intelligence, is projecting that global exploration budgets for calendar 2006, for nonferrous metals, will finally move above the previous cyclical peak of U.S. $5.2 billion recorded in 1997, that was driven primarily by gold exploration. In contrast to the previous cycle, the current upturn is being driven by increases in both base metals and gold exploration expenditures. Gold related exploration expenditures, in nominal dollars, are still well below their 1997 peak levels. In this environment, gold and base metal exploration and mining companies continue to compete for scarce drilling capacity, providing confidence that the cyclical upturn will continue for some time. The sales and earnings momentum enjoyed in 2006 is expected to continue into fiscal 2007. Overall margin performance is also expected to continue to improve gradually through the coming year with the normal seasonal pull back in the third quarter.

FOREIGN EXCHANGE

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

Two years ago, 30 percent of the Company's revenues, on average, were in Canadian dollars. During FY06, approximately 21 percent of revenues generated were in Canadian dollars, 22 percent in Australian dollars with almost all of the balance being in U.S. dollars. Since most of the input costs related to these revenues are denominated in the same currency as the revenue, the impact on earnings is somewhat muted.

The estimated total unfavourable FX impact on revenue for the year compared to last year was $19.0 million. 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 revenues. The estimated total unfavourable FX impact on net earnings for the year was $2.1 million.

Foreign exchange had an unfavourable impact on the balance sheet of approximately $16.4 million reflected in the cumulative translation adjustment account. This impact was due to unfavourable variation in both the U.S. dollar and Australian dollar against the Canadian dollar. The Company has net U.S. dollar based assets of approximately US$87.2 million and the U.S. currency lost approximately 11 percent of its value vs. the Canadian dollar from April 30, 2005 to April 30, 2006. The Company has net A$ based assets of A$49.0 million and the Australian dollar lost approximately 14 percent of its value vs. the Canadian dollar from April 30, 2005 to April 30, 2006.

SUBSEQUENT EVENT

On June 7, 2006, the Company sold its manufacturing operations (UDR). The sale price for the all cash transaction was A$46.0 million, subject to customary working capital related post closing adjustments. The estimated proceeds, net of applicable taxes and minority interest, were some A$36.0 million (C$30.0 million). These funds will be utilized initially to reduce debt, to partially fund Major Drilling's capital program, any future acquisitions, and for general corporate purposes.

As of April 30, 2006 negotiations with the purchaser were preliminary and there was no formal agreement in place, and no reasonable expectations that such an agreement would occur. For those reasons the assets were not classified as held for sale as of April 30, 2006.

Refer to the Segmented Information (Note 18) of the consolidated financial statements for more details on the transaction's impact on the financial statements as UDR represented the full manufacturing segment.

As part of the sale agreement, the Company has committed to certain minimum annual purchase requirements for drills, equipment, parts and services combined, until June 30, 2009.

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 capital assets for amortization purposes, inventory valuation, valuation of future income taxes, assumptions used in compilation of stock-based compensation, and amounts recorded as accrued liabilities. Actual results could differ materially from those estimates and assumptions.

As of April 30, 2006, capital assets with a carrying value of $119.2 million, represented 44 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 22 percent of total assets at April 30, 2006. 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. For this reason, the Company takes a conservative approach in deferring and amortizing procurement costs and duties related to inventory.

RELATED PARTY TRANSACTIONS

During the year, the Company carried out a number of transactions with various directors in the normal course of business and these transactions were recorded at their exchange amount, which was estimated to approximate market value. These transactions were for consulting services in the amount of $7,000 (2005 - $35,000).

OFF BALANCE SHEET ARRANGEMENTS

Except for operating leases, disclosed in Note 12 “Commitments” and Note 17 “Subsequent Events” of the consolidated financial statements as well as in the operating leases presented as contractual obligations in the liquidity section herein, the Company does not have any other off balance sheet arrangements.

GENERAL RISKS AND UNCERTAINTIES

Cyclical Downturn

The most significant operating risk affecting the Company is the potential downturn in demand for its services due to a decrease in activity in the minerals and metals industry. To mitigate this risk, the Company is exploiting its competitive advantage in specialized drilling and continues to explore opportunities to rationalize its regional infrastructures. In the last cyclical market downturn, the Company realized that specialized services were not as affected by decreases in metal and mineral prices compared to its traditional services. Consequently the Company's additions of rigs and acquisition of businesses have been focused on specialized drilling services. At the same time, the Company continues to make progress with its initiative to standardize its fleet, which, over the next several years, will provide significant savings in repair, maintenance and inventory costs.

As the Company moves deeper into the mining cycle and activity levels increase, the requirement for working capital, particularly with respect to accounts receivable and inventory, expands. While receivables from senior and larger intermediate mining exploration companies remain a significant component of total receivables, accounts receivable from junior mining companies typically increase as a proportion of total receivables. In many cases, capital markets are the only source of funds available to these juniors and any change in the outlook for the sector or the lack of success of a specific exploration program can quickly impair the ability of these juniors to raise capital to pay for their drilling programs. The Company manages this potential risk by closely monitoring accounts receivable aging, and the level of junior financing activity in the capital markets, and requiring, in some instances, deposits or letters of credit, as considered appropriate.

Levels of inventory typically increase as a result of increased activity levels. In addition to direct volume related increases however, inventory levels also increase due to an expansion of activity in remote locations at the end of long supply chains where it is necessary to increase inventory to ensure an acceptable level of continuing service, which is part of the Company's competitive advantage. In the event of a sudden downturn of activities related either to a specific project or to the sector as a whole, it is more difficult and costly to redeploy this remote inventory to other regions where it can be consumed. In order to minimize its exposure to this risk, the Company works closely with its customers to anticipate and plan for scheduled reductions in their drilling programs and with its suppliers to set up consignment arrangements where possible. The Company also closely monitors its inventory levels in these remote operations and attempts to appropriately balance its exposure to inventory risk against the risk of loss of productivity as a result of insufficient drilling consumables or spares when required.

Country Risk

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

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

Foreign Currency

The Company conducts a significant proportion of its business outside of Canada and consequently has exposure to currency movements, principally in U.S. and Australian dollars. In order to reduce its exposure to foreign exchange risks associated with currencies of developing countries, where a substantial portion of the Company's business is conducted, the Company has adopted a policy of contracting in U.S. dollars, where legally permitted.

Foreign exchange translations now have a greater impact on year-to-year comparisons because of the changing geographic distribution of the Company's activities. With the U.S. acquisition as well as the significant growth in areas where revenues are denominated in U.S. dollars, U.S. dollar revenues have grown relative to revenues denominated in Canadian dollars. For a full discussion of this impact, see the "Foreign Exchange" section of this report. Year-over-year revenue comparisons have been affected by the rising Canadian dollar against both the U.S. and Australian dollars. Margin performance however is less affected by currency fluctuations as a large proportion of costs are typically in the same currency as revenues. In future quarters, year-to-year comparisons of revenues could be significantly affected by changes in foreign exchange rates.

Operational Risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and/or systems or from external events. Operational risk is present in all of the Company's business activities, and incorporates exposure relating to fiduciary breaches, regulatory compliance failures, legal disputes, business disruption, pandemics, technology failures, processing errors, business integration, theft and fraud, damage to physical assets and employee safety. The Company manages operational risk by attempting to ensure that effective infrastructure, controls, systems and individuals are in place. This is supported by strong principles of governance, an employee code of ethics and business conduct, audits, and other compliance related activities.

Dependence on Key Contracts
From time to time, the Company may be dependent on a small number of customers for a significant portion of overall revenue and net income. Upon the expiration or termination of such contracts, there can be no guarantee that the Company will obtain sufficient replacement contracts to maintain the existing revenue and income levels. Consequently, the Company continues to work to expand its client base and geographic field of operations to mitigate its exposure to any single client, commodity or mining region.

Expansion and Acquisition Strategy
The Company intends to continue to grow through acquisitions and internal expansion. It is not possible to ensure that future acquisition opportunities will exist on acceptable terms, or that newly acquired or developed entities will be successfully integrated into the Company's operations. Additionally, the Company cannot give assurances that it will be able to secure the necessary financing on acceptable terms to pursue this strategy.

Interest Rate Risk
The Company partially mitigates its exposure to interest rate changes by maintaining a mix of both fixed and floating rate debt. The Company has entered into interest rate swap transactions, from time to time, in order to manage the fixed and floating components of its debt. Currently the Company is operating at a relatively high level of floating rate debt in order to take advantage of low interest rates and in the expectation that debt levels will be significantly reduced over the next several years.

Legal and Regulatory Risk
Regulatory risk incorporates exposure relating to the risk of non-compliance with applicable legislation and regulatory directives. Legal risk incorporates non-compliance with legal requirements, including the effectiveness of preventing or handling litigation. Local management is responsible for managing day-to-day regulatory risk. In meeting this responsibility local management receives advice and assistance from such corporate oversight functions as legal, compliance and audit. Compliance and audit test the extent to which operations meet regulatory requirements, as well as the effectiveness of internal controls. Internal and external counsel work with local management to identify areas of potential legal risk. The General Counsel is involved in the management of significant litigation matters.

Extreme Weather Conditions and the Impact of Natural or Other Disasters
The Company operates in a variety of locations, some of which are prone to extreme weather conditions. From time to time these conditions, as well as natural or other disasters, could have an adverse financial impact on operations located in the regions where these conditions occur.

Specialized Skill and Knowledge

Generally speaking, drilling activity related to metals and minerals is broadly linked to price trends in the metals and minerals sector. One limiting factor in this industry, that has occurred as the industry has transitioned from a cyclical downturn to a cyclical upturn, is a shortage of qualified drillers. The Company is addressing this issue by attempting to become the "employer of choice" for drillers in the industry, as well as by hiring and training more locally-based drillers. Historically, most of the Company's drillers have been Australian or Canadian. Development of local drillers has already had a positive impact in South American and Indonesian operations, and is expected to continue to play an important role in alleviating this factor.

Reputational Risk

Negative publicity, whether true or not, regarding practices, actions or inactions, could cause a decline in the Company's value, liquidity, or customer base. Reputational risk cannot be managed in isolation from other types of risk, since all risks can have an impact on reputation. Every employee and representative of the Company has a responsibility to contribute positively to the Company's reputation. This means that ethical practices are to be followed at all times, that interaction with the Company's stakeholders is positive, and that the Company complies with applicable policies, legislation, and regulations.

DISCLOSURE CONTROLS

The Chief Executive Officer and the Chief Financial Officer together with other management, after evaluating the effectiveness of the Company's disclosure controls and procedures as of April 30, 2006, have concluded that the Company's disclosure controls and procedures are adequate and effective.

OUTSTANDING SHARE DATA

The authorized capital of the Corporation 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 Corporation. Each common share carries the right to one vote in person or by proxy at all meetings of the shareholders of the Corporation. As of June 30, the Company's share capital was composed of the following:

(amounts in thousands)	As at June 30, 2006	As at June 30, 2005
Common Shares	23,073	22,584
Stock options outstanding	919	1,303

Management's Responsibility

Management is responsible for presentation and preparation 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.

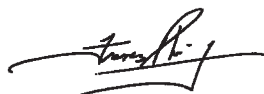
Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements and the MD&A necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to June 7, 2006. 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 external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' 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 external 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 external auditors. The external 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.



Francis P. McGuire
President & Chief Executive Officer

Michael A. Pavey
Executive Vice-President and Chief Financial Officer

June 7, 2006

Auditors' Report

To the Shareholders of
Major Drilling Group International Inc.

We have audited the consolidated balance sheets of Major Drilling Group International Inc. as at April 30, 2006 and 2005 and the consolidated statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2006 and 2005 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

Deloitte & Touche LLP

Chartered Accountants
Saint John, New Brunswick

June 1, 2006, except as to Note 17,
which is as of June 7, 2006

Consolidated Statements of Operations and Retained Earnings

For the years ended April 30, 2006 and 2005
(in thousands of Canadian dollars, except per share information)

	2006	2005
TOTAL REVENUE	$ 350,330	$ 269,291
DIRECT COSTS	250,655	197,316
GROSS PROFIT	99,675	71,975
OPERATING EXPENSES		
General and administrative	32,717	28,093
Other expenses	5,575	3,565
Foreign exchange loss	999	737
Interest on short-term debt	908	701
Interest on long-term debt	2,671	1,722
Amortization	17,617	14,107
	60,487	48,925
EARNINGS BEFORE INCOME TAX AND NON-CONTROLLING INTEREST	39,188	23,050
INCOME TAX - PROVISION (note 14)		
Current	7,112	6,175
Future	3,070	1,367
	10,182	7,542
EARNINGS BEFORE NON-CONTROLLING INTEREST	29,006	15,508
NON-CONTROLLING INTEREST	(364)	30
NET EARNINGS	28,642	15,538
RETAINED EARNINGS, BEGINNING OF THE YEAR	20,993	5,455
RETAINED EARNINGS, END OF THE YEAR	$ 49,635	$ 20,993
EARNINGS PER SHARE (note 15)		
Basic	$ 1.26	$ 0.71
Diluted	$ 1.23	$ 0.70

Consolidated Balance Sheets

As at April 30, 2006 and 2005
(in thousands of Canadian dollars)

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash	$ 11,987	$ 6,523
Marketable securities (market value - $1,332 ; 2005 - $299)	135	210
Accounts receivable	63,409	58,104
Income tax receivable	3,947	614
Inventories (note 4)	58,642	57,228
Prepaid expenses	3,867	3,436
Future income tax assets (note 14)	4,402	2,345
	146,389	128,460
CAPITAL ASSETS (note 5)	119,153	120,261
FUTURE INCOME TAX ASSETS (note 14)	3,839	5,112
OTHER ASSETS	1,682	2,024
	$ 271,063	$ 255,857
LIABILITIES		
CURRENT LIABILITIES		
Demand loans (note 6)	$ 16,721	$ 17,951
Accounts payable and accrued charges	49,001	42,473
Income tax payable	4,282	3,102
Current portion of long-term debt (note 7)	12,220	12,198
	82,224	75,724
LONG -TERM DEBT (note 7)	22,669	33,822
FUTURE INCOME TAX LIABILITIES (note 14)	6,715	2,984
DEFERRED GAIN (note 8)	619	822
NON-CONTROLLING INTEREST	434	99
	112,661	113,451
SHAREHOLDERS' EQUITY		
Share capital (note 9)	135,050	132,423
Contributed surplus	3,964	2,823
Retained earnings	49,635	20,993
Cumulative translation adjustments	(30,247)	(13,833)
	158,402	142,406
	$ 271,063	$ 255,857

Contingencies, commitments and subsequent events (notes 11, 12 and 17)

Approved by the Board of Directors

David Tennant
Chairman of the Board

Jonathan Goodman
Chairman of Audit Committee

Consolidated Statements of Cash Flows

For the years ended April 30, 2006 and 2005
(in thousands of Canadian dollars)

	2006	2005
OPERATING ACTIVITIES		
Net Earnings	$ 28,642	$ 15,538
Operating items not involving cash		
Amortization	17,617	14,107
(Gain) loss on disposal of assets	(716)	51
Non-controlling interest	364	(30)
Future income tax	3,070	1,367
Stock-based compensation	1,141	656
	50,118	31,689
Changes in non-cash operating working capital items (note 10)	(11,658)	(16,662)
Cash flow from operating activities	38,460	15,027
FINANCING ACTIVITIES		
Repayment of long-term debt	(14,733)	(7,615)
Additional long-term debt	2,052	17,361
(Repayment of) increase in demand loans	(1,230)	7,431
Issuance of common shares	2,627	1,500
Cash flow (used in) from financing activities	(11,284)	18,677
INVESTING ACTIVITIES		
Business acquisitions (note 3)	-	(18,710)
Acquisition of capital assets, net of direct financing (note5)	(27,511)	(14,067)
Proceeds from disposal of capital assets	5,502	1,945
Other	(401)	(206)
Cash flow used in investing activities	(22,410)	(31,038)
OTHER ACTIVITIES		
Foreign exchange translation adjustment	698	768
INCREASE IN CASH	5,464	3,434
CASH POSITION, BEGINNING OF THE YEAR	6,523	3,089
CASH POSITION, END OF THE YEAR	$ 11,987	$ 6,523

Years ended April 30, 2006 and 2005
(in thousands of Canadian dollars, except per share information)

1. NATURE OF ACTIVITIES

The Company is incorporated under the Canada Business Corporations Act. The principal sources of revenue consist of contract drilling for companies primarily involved in mining and mineral exploration, and the manufacture of drill rigs and distribution of drilling supplies. The Company has operations in Canada, the United States, Mexico, South and Central America, Australia, Europe, 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 revenues 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 capital assets for amortization purposes, inventory valuation, valuation of future income taxes, assumptions used in compilation of stock-based compensation, and amounts recorded as accrued liabilities.

Revenue recognition
Revenues from drilling contracts are recognized on the basis of actual meterage drilled for each contract. Revenues for manufacturing under contract are recognized on a percentage of completion basis using a standard markup on cost incurred to date. Other revenues from manufacturing and distribution are recognized as the goods are shipped. Revenues from ancillary services are recorded when the services are rendered. Revenues are recognized when collection is reasonably assured.

Earnings per share
Earnings per share are calculated using the weighted daily 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 the stock options based on the treasury stock method.

Marketable securities
Marketable securities are valued at the lower of cost and fair market value.

Inventories
The Company maintains an inventory of operating supplies, drill rods, drill bits, materials for manufacturing, and work in progress.

Inventories are valued at the lower of cost and replacement cost, primarily using First in – First out (FIFO). 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.

Capital assets
Capital assets 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:

	Residual value (%)	Useful life (years)
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.

Intangible assets
Other assets include intangible assets from the acquisition of non-patented technology and processes resulting from the Raematt acquisition. The non-patented technology and processes are stated at the estimated value at the date of acquisition. Amortization is calculated on a straight-line basis over a useful life of five years. The value of the non-patented technology and processes will be periodically tested for impairment. Any impairment loss revealed by this test would be reported in earnings for the period during which the loss occurred.

Asset valuation
The Company assesses long-lived assets for recoverability whenever indications of impairment exist. When the carrying value of a long-lived asset is less than its net recoverable 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 capital assets and finance costs, and the tax benefit of non-capital losses carried forward.

Translation of foreign currencies
All amounts are presented in Canadian dollars. The Company's international operations are classified as self-sustaining foreign operations. Revenue and expense items of such operations are translated at average rates of exchange for the year. The assets and liabilities of self-sustaining foreign operations are translated at the exchange rate in effect at the balance sheet date. The resulting foreign currency translation gain or loss is reported as a separate component of shareholders' equity. The change in the amount primarily reflects the relative strength of the Australian and U.S. dollars 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 accounting principles generally accepted in Canada. 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.

3. BUSINESS ACQUISITIONS

Raematt Drilling
Effective May 15, 2004, the Company acquired the drill rigs, related equipment, inventory and drilling contracts owned by Raematt Drilling for a total purchase price of $6,557. Net assets acquired at fair market value at acquisition are as follows:

Assets acquired	
Inventories	$ 832
Capital assets	4,243
Intangibles	1,482
Net assets	$ 6,557
Consideration	
Cash	$ 4,655
Note payable	1,902
	$ 6,557

Dynatec Corporation Drilling Services Division
Effective March 15, 2005, the Company acquired the drill rigs, related equipment, inventory and drilling contracts owned by Dynatec Corporation Drilling Services Division for a total purchase price of $20,237. Net assets acquired at fair market value at acquisition are as follows:

Assets acquired	
Inventories	$ 8,359
Capital assets	13,843
	22,202
Liabilities assumed	
Long-term debt	1,965
Net assets	$ **20,237**
Consideration	
Cash	$ 14,055
Common shares	6,182
	$ **20,237**

4. INVENTORIES

	2006	2005
Drilling parts and supplies	$ **45,149**	$ 45,904
Manufacturing materials	**8,383**	7,518
Manufacturing work-in progress	**5,110**	3,806
	$ **58,642**	$ 57,228

5. CAPITAL ASSETS

			2006			2005
		Accumulated	Net		Accumulated	Net
	Cost	amortization	value	Cost	amortization	value
Land	$ **994**	$ **-**	$ **994**	$ 1,210	$ -	$ 1,210
Buildings	**3,629**	**703**	**2,926**	3,784	637	3,147
Drilling equipment	**116,888**	**28,544**	**88,344**	114,783	26,732	88,051
Automotive and off-road equipment	**34,218**	**15,058**	**19,160**	33,492	12,644	20,848
Other	**17,176**	**9,447**	**7,729**	16,301	9,296	7,005
	$ **172,905**	$ **53,752**	$ **119,153**	$ 169,570	$ 49,309	$ 120,261

Capital expenditures were $32,629 and $21,237 for the years ended April 30, 2006 and 2005, respectively. The Company obtained direct financing of $5,118 and $7,170 in the years ended April 30, 2006 and 2005, respectively.

6. DEMAND CREDIT FACILITIES

The Company has credit facilities available in Canada of $30,000 bearing interest at the bank's prime lending rate or the bankers' acceptance rate plus 1.50%. The demand loans are primarily secured by fixed and floating charges on selected Canadian capital assets, a general assignment of book debts, inventories and corporate guarantees of companies within the group. The Company has a credit facility of $1,500 for credit cards for which interest rate and repayment are as per the cardholder agreement.

The Company also has credit facilities in Australia, Chile and China amounting to $1,837 (2005 - $1,494) bearing interest at rates ranging from 3.0% to 31.7% secured by accounts receivable, and selected land and buildings in Australia.

There was $16,721 (2005 - $17,951) drawn on these facilities as at April 30, 2006.

7. LONG-TERM DEBT

	2006	2005
Non-revolving acquisition loan, payable in quarterly installments of $401 and maturing in September 2008, bearing interest at either the bank's prime rate plus 0.5% or the bankers' acceptance rate plus 2.0%.	$ 2,214	$ 5,620
Non-revolving loan – US$10,000, payable in monthly installments of US$167 and maturing in May 2010, bearing interest at either the US bank's prime rate plus 0.5% or the bank's London Inter Bank Offer Rate, plus 2.0%.	9,126	12,586
Revolving equipment loan (authorized $15,000), bearing interest at either the bank's prime rate plus 0.5% or the bankers' acceptance rate plus 2.0%, payable in monthly installments of $100, maturing through 2010, secured by certain capital assets.	3,899	3,350
Term loans bearing interest at rates ranging from 1.75% to 7%, payable in monthly installments of $285, secured by certain equipment, maturing through 2011.	10,520	10,032
Term loans - A$7,256 (2005 – A$10,306), payable in monthly installments of A$329, interest included, at rates ranging from 5.33% to 8.39%, secured by certain equipment, maturing through 2009.	6,156	10,125
Notes payable, bearing interest at rates ranging from prime plus 1% to 7.5%, maturing through fiscal 2008.	2,974	4,307
	34,889	46,020
Current portion	12,220	12,198
	$ 22,669	$ 33,822

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

2007	$ 12,220
2008	11,583
2009	6,409
2010	4,169
2011	475
Thereafter	33
	$ 34,889

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.

8. DEFERRED GAIN

In 2002, the Company sold two of its buildings as part of a sale/lease back arrangement. The net proceeds on these sales were $4,000, resulting in gains on sale of $1,280. The resultant gains have been deferred and are being amortized over 10 years, the length of the leases.

9. SHARE CAPITAL

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

Issued	2006	2005
23,047,840 common shares (2005 - 22,571,617)	$ 135,050	$ 132,423

Common shares
On March 15, 2005, the Company issued 527,485 common shares to Dynatec Corporation USA as a partial consideration for the acquisition of its drilling division.

Stock option plan
The Company has a Stock Option Plan for directors, executive officers and other employees of the Company. The Plan provides that the Board of Directors of the Company may grant options to purchase common shares on terms set out in the Plan. The aggregate number of common shares reserved for issuance under the Plan is limited to 3,000,000 common shares, provided that no options be issued if to do so would result in the number of outstanding stock options exceeding 15% of the total issued and outstanding shares of the Company. The exercise price for an option issued under the Plan is the fair market value of the common shares on the grant date of the option. Vested options 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. The Plan also provides that no options may be issued to insiders (directors and officers) of the Company if to do so would result in the number of shares reserved for issuance pursuant to stock options granted to insiders exceeding 10% of the outstanding number of common shares. The Board of Directors determines vesting requirements.

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, 2006 and 2005, and of changes during the years ending on those dates, is presented below:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,150,289	$ 6.37	1,389,453	$ 5.21
Options granted	246,000	$13.76	200,000	$ 9.32
Options cancelled	(20,917)	$ 9.30	(30,567)	$ 8.31
Options exercised	(476,223)	$ 5.52	(408,597)	$ 3.72
Outstanding at end of year	899,149	$ 8.77	1,150,289	$ 6.37

The following table summarizes information on stock options outstanding at April 30, 2006:

Range of exercise prices	Outstanding at April 30, 2006	Weighted average remaining life (years)	Weighted average exercise price	Exercisable at April 30, 2006	Weighted average exercise price
$ 1.86 - $ 5.00	258,201	5.35	$ 3.27	258,201	$ 3.27
$ 5.25 - $ 9.32	357,973	6.76	$ 8.18	286,999	$ 7.90
$ 12.97 - $ 26.50	282,975	8.02	$ 14.53	113,181	$ 15.77
	899,149	6.75	$ 8.77	658,381	$ 7.44

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:

	2006	2005
Risk-free interest rate	3.38%	3.24%
Expected life	3 years	3 years
Expected volatility	52%	55%
Expected dividend yield	0%	0%

Deferred Share Units

A Deferred Share Unit Plan (the "DSU Plan") was established for outside directors during the 2005 fiscal year. Each deferred share unit ("DSU") represents the right to receive a cash payment, at such time as an outside director ceases to be a director, equal to the market value of the Company's share 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. As at April 30, 2006 there were 3,194 units for a total value of $81 outstanding.

10. ADDITIONAL INFORMATION TO THE STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital

	2006	2005
Accounts receivable	$ (11,385)	$ (22,705)
Inventories	(9,111)	(5,396)
Accounts payable and accrued charges	11,592	10,060
Income taxes	(1,880)	470
Other items	(874)	909
	$ (11,658)	$ (16,662)

Interest and income taxes paid	2006	2005
Interest paid	$ 3,623	$ 2,451
Income taxes paid	$ 9,265	$ 5,884

11. 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 in the year settled.

12. COMMITMENTS

The Company has various commitments, primarily for rental of premises, with arms-length parties as follows: 2007 - $2,114, 2008 - $1,219, 2009 - $667, 2010 - $393, 2011 - $293, thereafter - $309.

13. RELATED PARTY TRANSACTIONS

During the year, the Company carried out a number of transactions with various directors in the normal course of business and these transactions were recorded at their exchange amount, which was estimated to approximate market value. These transactions were for consulting services in the amount of $7 (2005 - $35).

14. INCOME TAXES

Income taxes vary from the amount 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:

	2006	2005
Earnings before income taxes and non-controlling interest	$ 39,188	$ 23,050
Statutory Canadian corporate income tax rate	35%	35%
Expected income tax expense based on statutory rates	$ 13,716	$ 8,068
Non-recognition of tax benefits related to losses	1,263	599
Utilization of previously unrecognized losses	(3,399)	(528)
Other foreign taxes paid	1,001	1,163
Rate variances in foreign jurisdictions	(3,020)	(771)
Other	621	(989)
Total income tax provision	$ 10,182	$ 7,542

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

	2006	2005
Assets:		
Loss carry forwards tax effected	$ 6,855	$ 9,623
Finance costs	296	489
Deferred gain	221	338
Other	1,734	1,148
	9,106	11,598
Valuation allowance	(865)	(4,141)
	8,241	7,457
Liabilities:		
Capital assets	(6,369)	(2,984)
Other	(346)	-
Net future income tax assets	$ 1,526	$ 4,473

Management reduced the carrying value of the future income tax assets by a valuation allowance as it is more likely than not that some portion of the asset will not be realized.

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. In addition, a valuation allowance has been provided against a portion of the Company's future tax assets based on a current assessment of recoverability of these future tax assets. If the Company's assessment changes, any increases or decreases in the valuation allowance will result in decreases or increases in net earnings, respectively.

The Company has accumulated approximately $18,900 in non-capital losses, of which $16,800 are available to reduce future Canadian income taxes otherwise payable and $2,100 are available to reduce future income taxes otherwise payable in foreign jurisdictions. These losses, if unused, will expire as follows:

Date	Amount	Date	Amount
2007	$ 1,095	2015	630
2009	5,995	2016	449
2010	4,853	Indefinite	1,245
2011	4,633		$ 18,900

The Company has accumulated approximately A$9,300 of capital losses which 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.

15. EARNINGS PER SHARE

	2006	2005
Earnings available to common shareholders	$28,642	$15,538
Divided by:		
Weighted average shares outstanding (000's)	22,782	21,848
Net effect of dilutive securities:		
Employees and Directors stock options (000's)	446	455
Adjusted weighted average shares and assumed conversions (000's)	23,228	22,303
Basic earnings per share	$1.26	$0.71
Diluted earnings per share	$1.23	$0.70

The calculation of the diluted earnings per shares for the years ended April 30, 2006 and 2005 excluded the effect of 41,950 options and 52,450 options, respectively, as they were anti-dilutive.

16. FINANCIAL INSTRUMENTS

Recognized financial instruments
The carrying values of cash, accounts receivable, demand loans and accounts payable approximate their fair value due to the relatively short period to maturity of the instruments. The book value of long-term debt approximates its fair market value. The fair market value was established using discounted cash flow analysis, based on current borrowing rates for similar types of financing arrangements.

Concentration of credit risk
The Company provides credit to its customers in the normal course of its operations. It 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 23% (26% in 2005) of the total revenues, with no one customer representing more than 10% of its revenues for 2006 or 2005.

Currency risk
A significant portion of the Company's operations are located outside of Canada. The accounting 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 labor and material expenses. Monetary assets denominated in foreign currencies are exposed to foreign currency fluctuations.

Interest rate risk
The long-term debt of the Company generally bears a floating rate of interest, which exposes the Company to interest rate fluctuations.

17. SUBSEQUENT EVENTS

Taking effect as of June 7, 2006, the Company completed the sale of its manufacturing operations (UDR). The sale price for the all cash transaction was A$46 million, subject to customary working capital related post closing adjustments. The estimated proceeds, net of applicable taxes and minority interest, are some A$36 million (C$30 million). These funds will be utilized initially to reduce debt, to partially fund the Company's capital program, any future acquisitions, and for general corporate purposes.

As of April 30, 2006 negotiations with the purchaser were preliminary and there was no formal agreement in place, and no reasonable expectation that such an agreement would occur. For those reasons the assets were not classified as held for sale as of April 30, 2006.

Refer to the Segmented Information (Note 18) for more details on the transaction's impact on the financial statements as UDR represented the full manufacturing segment.

Agreement to purchase drills
As part of the sale agreement, the Company has committed to certain minimum annual purchase requirements for drills, equipment, parts and services combined, until June 30, 2009.

18. SEGMENTED INFORMATION

The Company has two reportable business segments, drilling and manufacturing. The Company's drilling operations are divided into three geographic segments. The reportable geographic segments are Canada - U.S., South and Central America (includes Turkey), and Australasia 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 profit or loss from operations in these three geographic segments and the manufacturing segment before interest and income taxes. Data relating to each of the Company's reportable segments is presented as follows:

	2006	2005
Revenues – drilling		
Canada - U.S.	$ 119,127	$ 82,099
South and Central America	81,501	62,418
Australasia and Africa	117,888	101,763
	318,516	246,280
Revenues – manufacturing	42,945	32,027
	361,461	278,307
Eliminations	(11,131)	(9,016)
	$ 350,330	$ 269,291

Canada - U.S. include revenues in 2006 of $72,330 (2005 - $69,901) for Canadian operations and capital assets at April 30, 2006 of $23,372 (2005 - $25,525).

	2006	2005
Earnings from operations – drilling		
Canada - U.S.	$ 17,532	$ 7,772
South and Central America	12,205	9,846
Australasia and Africa	15,524	10,263
Earnings from operations - manufacturing	6,752	3,135
	52,013	31,016
Eliminations	(841)	230
	51,172	31,246
Interest	3,579	2,423
General corporate expenses	8,405	5,773
Income tax	10,182	7,542
Non-controlling interest	364	(30)
Net earnings	$ 28,642	$ 15,538
Identifiable assets – drilling		
Canada - U.S.	$ 71,112	$ 69,433
South and Central America	72,360	65,928
Australasia and Africa	92,211	91,270
Identifiable assets – manufacturing	21,921	18,456
	257,604	245,087
Eliminations	(3,904)	(3,609)
Unallocated and corporate assets	17,363	14,379
	$ 271,063	$ 255,857
Amortization – drilling		
Canada - U.S.	$ 4,846	$ 2,778
South and Central America	3,460	2,787
Australasia and Africa	6,359	7,100
Amortization - manufacturing	352	328
	15,017	12,993
Unallocated and corporate assets	2,600	1,114
	$ 17,617	$ 14,107

Australasian and African and manufacturing amounts include revenues in 2006 of $88,540 (2005 - $81,749) for Australian and manufacturing operations and capital assets as at April 30, 2006 of $24,314 (2005 - $32,984).

Corporate Governance

Since 2002, there have been significant developments in the area of corporate governance throughout North America, including the Sarbanes-Oxley Act of 2002, adopted in the United States, and various initiatives of the members of the Canadian Securities Administrator that have been adopted in Canada. In light of these changes, the Company has undertaken a number of initiatives to enhance and protect the Corporation's integrity and promote its commitment to good corporate governance. The Corporation meets all of the CSA governance requirements contained in National Policy 58-201 Corporate Governance Guidelines.

The Major Drilling Board of Directors (the "Board") consists of ten members, only one of whom is an employee of the Corporation. Additionally, to further ensure Board independence, the Board has an independent Chairman, Mr. David Tennant. In fiscal 2006 the Board held four meetings. The activities of the Board are supported by four committees, as more particularly set out and described below.

AUDIT COMMITTEE

The Audit Committee, during fiscal 2006, was comprised of Jonathan Goodman, Chairman, and David Fennell, both of whom meet Audit Committee independence standards. The third member of the Committee at the beginning of fiscal 2006, Mr. H. Lawrence Doane, retired from the Committee in September, 2005 and was replaced by Mr. David Hope. Both gentlemen also meet Audit Committee independence standards. The Committee meets with the Corporation's senior and financial management and with its external auditors, separately, at least four times per year, in order to assist the Board of Directors in, among other duties; (i) its oversight of the integrity of the financial statements of the Corporation; (ii) its management of the effectiveness of the financial aspects of the governance structure of the Corporation; (iii) its oversight of adherence to requisite legal and regulatory requirements and (iv) its oversight of the performance of the Corporation's internal and external audit function. In the discharge of its duties the Committee reviews, among other things, the Corporation's financial reporting practices and procedures, the Corporation's quarterly and annual financial statements prior to their release and filing with appropriate regulatory agencies, actual and prospective changes in significant accounting policies and their impact on the Corporation, and the adequacy of internal accounting and other control systems. The Committee is also responsible for the scope of pre-approved audit and non-audit services to be provided by the external auditors, ensuring external auditor independence, and, subject to shareholder approval, the appointment of, and remuneration for, the external auditors. The Committee held four meetings during fiscal 2006.

COMPENSATION COMMITTEE

The Compensation Committee, during the initial portion of fiscal 2006, was comprised of H. Lawrence Doane, Chairman, David Tennant, and John Schiavi, all independent directors. In September 2005, David Tennant and H. Lawrence Doane left the Committee and were replaced by Colin Benner, Chairman, and Terry MacGibbon, both of whom are also independent directors. The Committee is responsible for approving corporate goals and objectives relating to CEO compensation, and for evaluating the CEO against those goals and objectives. The Committee also reviews the compensation programs and individual salaries for the Corporation's other executive officers and for its directors, Committee members and Board and Committee Chairs. This responsibility includes approval of any employment contracts with, and salaries of, senior officers of the Corporation, bonuses, other payments, pension or benefit plans or programs to or for such officers, and any action that would materially increase or decrease a benefit to any such officer as well as responsibility for the administration and interpretation of the stock option plan or any other similar plan applicable to directors or officers. The Committee held two meetings during fiscal 2006.

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee, during fiscal 2006, was comprised of David Tennant, Chairman, John Schiavi, and Terry MacGibbon, all independent directors. The Committee is responsible for assisting the Board in identifying qualified individuals as potential directors, as well as determining the composition of the Board and its various committees. The Committee also facilitates the formal Board process for assessing the overall performance of the Board of Directors, as well as individual Board members for their contribution. This process is carried out through the analysis, by the Chairman of the Committee, of questionnaires, completed anonymously, whereby Board members evaluate the performance of the overall Board, other directors, management, and themselves. The Committee believes that the Board of Directors is functioning efficiently and that all members of the Board contribute to effective management and to the strategic direction of the Corporation. The Committee held two meetings during fiscal 2006.

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE

The Environment, Health and Safety Committee, during fiscal 2006, was comprised of John Harvey, Chairman, David Fennell, and Colin Benner, all independent directors. The Committee is responsible for assisting the Board in matters of the Corporation related to environment, health and safety matters. As such, the Committee is mandated to satisfy itself that the Corporation has developed, is implementing, and is maintaining policies, practices and procedures that will ensure its compliance with legislation regulating health and safety, and the environment, in the various jurisdictions in which it conducts its business. The Committee held two meetings during fiscal 2006.

GENERAL

In a continuing pursuit of Corporate Governance "best practices", the individual committees and the Board have developed and implemented Committee Charters, a Board of Directors mandate, an Auditor Fee Policy, and a Code of Ethics, all as disclosed on the Corporation's web site at www.majordrilling.com. The Corporation also has written position descriptions for its Chairman, the Chairs of each Committee, and for its directors.

A portion of each Board meeting is dedicated to updating directors on developments within the Corporation. At the end of each Board meeting there is an in camera session without the attendance of management.

Finally, the Corporation has adopted general whistleblowing procedures, which are contained in the Corporation's Code of Ethics and Business Conduct. Any reported violations of the Code of Ethics are to be handled promptly, professionally, and with as much confidentiality as possible, and individuals voicing concern in good faith about a violation or potential violation will not be disciplined or discriminated against in any way.

Historical Summary

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	(in millions of Canadian dollars, except per share information)								
OPERATING SUMMARY									
Revenue by region									
Canada-U.S.	$ 119	$ 82	$ 61	$ 59	$ 46	$ 51	$ 43	$ 58	$ 59
South and Central America	82	62	33	25	17	32	29	23	29
Australasia and Africa	118	102	82	60	36	33	30	43	36
Manufacturing revenues, net of eliminations	31	23	18	18	10	14	14	17	23
Total	**350**	**269**	**194**	**162**	**109**	**130**	**116**	**141**	**147**
Gross profit	**100**	**72**	**47**	**40**	**24**	**36**	**30**	**37**	**46**
Gross profit margin	28.5%	26.7%	24.1%	24.4%	22.3%	27.9%	25.8%	26.0%	31.3%
General & admin expense	33	28	24	21	20	22	26	26	25
G & A as percent of revenue	9.3%	10.4%	12.4%	13.2%	18.6%	16.7%	22.7%	18.6%	17.3%
Earnings (loss) from continuing operations (1)	29	16	5	3	(8)	1	(6)	(0)	9
Net earnings (loss)	29	16	5	2	(10)	(9)	(0)	(14)	9
Cash flow (2)	50	32	14	11	(2)	8	(0)	5	15
Net earnings (loss) per share									
Basic	1.26	0.71	0.25	0.15	(0.91)	(0.84)	(0.02)	(1.25)	0.85
Diluted	1.23	0.70	0.24	0.14	(0.91)	(0.84)	(0.02)	(1.25)	0.75
BALANCE SHEET SUMMARY									
Current assets	146	128	92	70	58	63	71	79	83
Capital assets	119	120	100	83	76	75	74	79	74
Other assets	6	7	7	4	4	8	15	12	9
Current liabilities	82	76	53	45	27	34	33	39	35
Long-term debt	23	33	19	20	18	28	31	30	12
Other liabilities	8	4	3	1	1	-	-	1	1
Shareholders' equity	158	142	124	91	92	84	96	100	118

(1) before write down of investment, goodwill and non-controlling interest
(2) from (used in) operating activities, before non-cash operating working capital items

Shareholder Information

Groupe Forage
MAJOR
Drilling Group International Inc.

DIRECTORS

Colin Benner

Edward Breiner

David Fennell

Jonathan Goodman

John Harvey

David Hope

Terry MacGibbon

Francis McGuire

John Schiavi

David Tennant

OFFICERS

Francis McGuire
President and Chief Executive Officer

Michael Pavey
Executive Vice President

Denis Larocque
Chief Financial Officer

James Gibson
General Counsel and Secretary

Robert Morgan
Vice President Business Development
and Latin American Operations

Robert Newburn
Vice President North American Operations

Robert Leibbrandt
Vice President Australian, Asian and African Operations

TRANSFER AGENT

CIBC Mellon Trust Company

AUDITORS

Deloitte & Touche LLP

CORPORATE OFFICE

Major Drilling Group International Inc.
111 St. George Street, Suite 200
Moncton, New Brunswick E1C 1T7 Canada
Tel: 506-857-8636 Toll-free: 866-264-3986
Fax: 506-857-9211
Web site: www.majordrilling.com
E-mail: info@majordrilling.com

ANNUAL GENERAL MEETING

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

The Ontario Club
Engineers' Room
Commerce Court South
30 Wellington Street West – 5th Floor
Toronto, Ontario

September 6, 2006 at 11:00 am Eastern

Worldwide Operations of Major Drilling Group International Inc.

North American Drilling Operations

Canada

Winnipeg, MB
Tel: 204-885-7532
Fax: 204-888-4767

Val d'Or, QC
Tel: 819-824-6839
Fax: 819-824-4217

Sudbury, ON
Tel: 705-560-5995
Fax: 705-560-0402

Flin Flon, MB
Tel: 204-687-3483
Fax: 204-687-5739

Yellowknife, NT
Tel: 867-873-4037
Fax: 867-873-6803

Newfoundland
Office situated in Sudbury

U.S.A.

Salt Lake City, UT
Tel: 801-974-0645
Fax: 801-973-2994

Nana Major Drilling, LLC*
Salt Lake City, UT
Tel: 801-974-0645
Fax: 801-973-2994

Elko, NV
Tel: 775-738-1808
Fax: 775-753-5048

Geotechnical Drilling Operations

Canada

Thetford Mines, QC
Tel: 418-338-3141
Fax: 418-335-2894

South and Central American Drilling Operations

Barbados

Durants
Tel: 246-420-4363
Fax: 246-420-5200

Mexico

Hermosillo
Tel: 52-662-251-0265
Fax: 52-662-251-0262

Chile

Coquimbo
Tel: 56-51-241-815
Fax: 56-51-241-593

Guyana Shield & Suriname Regional Office

Tel: 819-824-6749
Fax: 819-824-4217

Venezuela

Puerto Ordaz
Tel: 58-286-922-2297
Fax: 58-286-923-4594

Argentina

Mendoza
Tel: 54-261-461-0162
Fax: 54-261-461-0165

French Guiana

Mont Joly
Tel: 594-594-35-28-26
Fax: 594-594-35-38-16

Dominican Republic

Office situated in Mexico

Australasian/African Drilling Operations

Australia

Brisbane, QLD
Tel: 61-7-3715-4750
Fax: 61-7-3715-4760

Stawell, Victoria
Tel: 61-3-5358-5528
Fax: 61-3-5358-1047

Garbutt, QLD
Tel: 61-7-4774-8177
Fax: 61-7-4774-8110

Cobar, NSW
Tel: 61-2-6836-3622
Fax: 61-2-6836-1304

Kalgoorlie, WA
Tel: 61-8-9091-6966
Fax: 61-8-9091-7544

Indonesia

West Papua
Tel: 62-901-351-040
Fax: 62-901-351-039

Mongolia

Ulaanbaatar
Tel: 976-11-319951
Fax: 976-11-319950

China

Beijing
Tel: 86-10-5873-1948
Fax: 86-10-5873-1949

Tanzania

Mwanza
Tel: 255-28-2-560207
Fax: 255-28-2-561395

* 50% ownership