MAJOR
Drilling Group International Inc.

Reaching New Heights

Board of Directors

Paul E. Légère, CFO
Major Drilling Group Int. Inc.

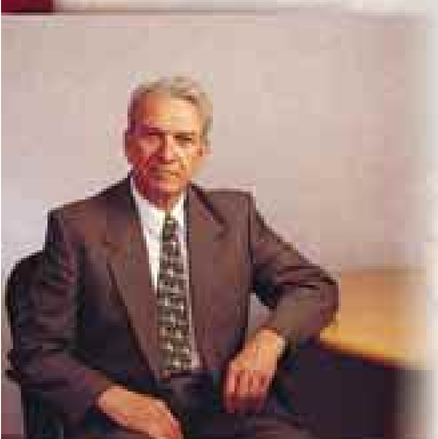
Mr. Légère obtained a Bachelor of Business Administration degree from the Université de Moncton in 1977 and a chartered accountant's designation in 1979. Prior to joining the company in 1989 as Chief Financial Officer and a Director, Mr. Légère was the Vice-President, Finance and Administration, for Cavendish Farms Inc.

Ronald J. Goguen, President & CEO
Major Drilling Group Int. Inc.

Mr. Goguen is the President and Chief Executive Officer and a Director of Major Drilling Group International Inc. He is also a member of the board of directors of Roycefield Resources Ltd., a junior mining company, and a member of the board of directors of Northeast Bancorp. Mr. Goguen was the recipient of the 1995 Atlantic Canada Entrepreneur of the Year award.

Robert H. Morgan, General Manager
Major Drilling Group Int. Inc.

Mr. Morgan graduated in 1976 from St. Francis Xavier University with both a Bachelor of Science degree in geology and a degree in business administration. Mr. Morgan acted as a Director of the Canadian Diamond Drilling Assoc. (1986-89) and as Vice-President (1989) of that organization. He has served as Project Geologist for Dominik Drilling and is currently a Regional Manager for Major Drilling Group Int. Inc.

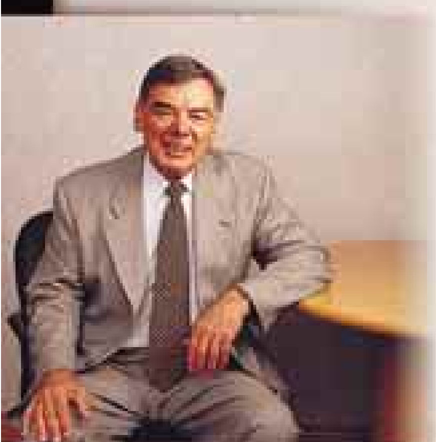


John D. Harvey, former president
Noranda Exploration Company

Mr. Harvey graduated with a Bachelor of Science degree in geology from the University of New Brunswick in 1959. He served as President and Chief Executive Officer of Hemlo Gold Mines Inc. from 1989 to 1991. He also held the position of President of Noranda Exploration Company Limited from May 1982 to October 1994. Mr. Harvey is currently a member of the Canadian Institute of Mining and Metallurgy and the Professional Engineers of Ontario.

John H. Schiavi, President
Schiavi Enterprises

Mr. Schiavi obtained a Bachelor of Business Administration degree from Babson College in 1961 and a master's degree in business administration from New York University in 1962. He is President of Schiavi Enterprises, a diversified real estate holding company based in Oxford, Maine. In addition to his directorship in Major Drilling Group International Inc., Mr. Schiavi is a Director of Roycefield Resources Ltd., Consumers Water Co., an investor-owned water utility operating in seven states, and Key Bank of Maine, a Maine bank holding company.



Harvey L. Doane, former partner
Doane Raymond

Dr. Doane is a retired partner and former chairperson of Doane Raymond, Chartered Accountants and continues as a consultant for that firm. He currently serves as Chairperson of the Halifax-Dartmouth Bridge Commission and has served as Chairperson of the Canadian Institute of Chartered Accountants and the Canadian Tax Foundation.

David B. Tennant, Partner
McCarthy Tétrault

David Tennant is a partner with McCarthy Tétrault, Canada's largest law firm, and serves as legal counsel to the corporation from time to time. Mr. Tennant specializes in corporate finance and mergers and acquisitions, and is a former lecturer at Osgoode Hall Law School in Toronto. He is a director of several corporations and charitable organizations.

Investing in a Winning Formula

"Major Drilling is on the move as never before. Our commitment to superior performance, in all its forms, is enabling us to reach new heights of success. We know that prosperity depends on growth and that growth depends on knowledgeable people with the authority to take the initiative when the time is right. That's our winning formula."

Ronald J.Goguen
President and CEO

Highlights

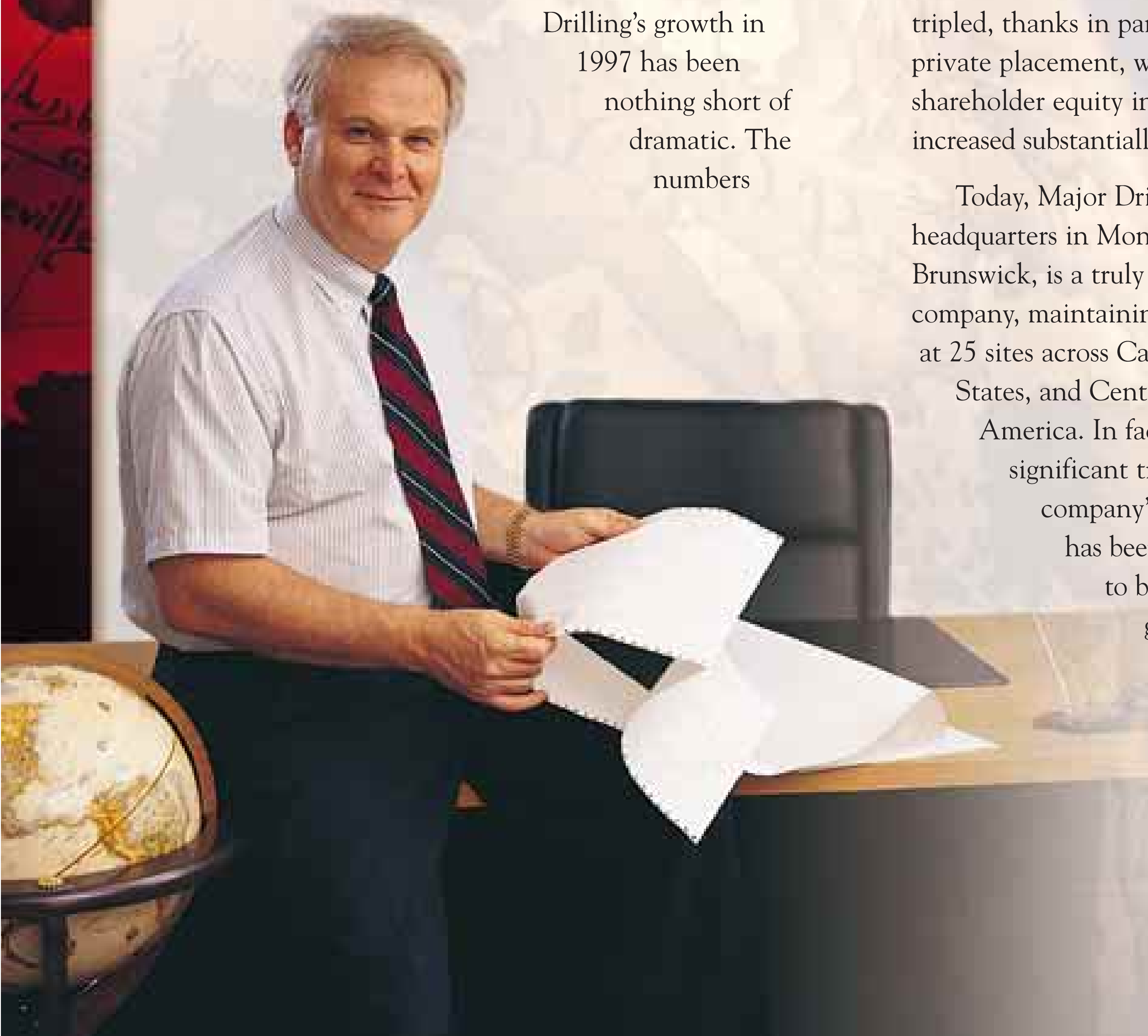
000s (Except Earnings Per Share)	**1997**	1996
Revenues	**$ 88,855**	$ 52,768
Cash Flow (adjusted EBITDA)	**$ 18,517**	$ 8,017
Net Earnings	**$ 10,020**	$ 4,049
Earnings Per Share	**$ 1.51**	$ 0.73

Milestones

- Net earnings up 147 per cent to $10,020,000.
- Total system-wide revenues increase 68 per cent to $88,855,000.
- International revenues up 95 per cent to $52,478,000.
- Market capitalization more than triples since 1996 to more than $150,000,000.

A Word from the President

It has been a banner 12 months for Major Drilling. The past year has fulfilled the promise of earlier ones, and has positioned our company to expand aggressively both in terms of operations and financial performance. If there is a theme that characterizes how we, as a company, function in the global economy, then that theme is growth. So, it is only fitting, and gratifying, that Major Drilling's growth in 1997 has been nothing short of dramatic. The numbers quickly tell the story. Over the past year, total system-wide sales jumped more than 68 per cent to almost $89 million compared with $53 million in 1996. During the period, our net earnings increased 147 per cent to $10 million, representing $1.51 per share, while cash flow (adjusted EBITDA) rose to more than $18.5 million from $8 million in 1996. At the same time, market capitalization more than tripled, thanks in part to a $25-million private placement, while total shareholder equity in our company increased substantially.



Today, Major Drilling, with headquarters in Moncton, New Brunswick, is a truly international company, maintaining operations at 25 sites across Canada, the United States, and Central and South America. In fact, the most significant trend in our company's development has been, and continues to be, our steady geographic expansion and diversification into new markets.

International operations currently account for 60 per cent of our annual sales, while our Canadian and U.S. holdings contribute 30 per cent and 10 per cent, respectively. Our growing focus on offshore markets is the natural result of servicing clients wherever they may operate. Our determination to compete globally is further fed by our continuing belief in the growth opportunities that exist beyond our immediate borders.

Over the past 24 months, we have accelerated our rate of international branch openings, launching operations in each of Argentina, Honduras and Nicaragua. Additionally, in 1997, we established or are establishing operations in Panama, Costa Rica, Dominican Republic and Brazil. Meanwhile, operations started only a few years earlier, such as our Mexican, Venezuelan and Peruvian branches, are now generating substantial returns. As a result, through 1997, international revenues were up almost 100 per cent from the previous year, with our established international branches showing a 60-per-cent improvement. Complementing all of this were robust sales and profits generated from our Canadian operations, where revenues rose by more than 60 per cent, year over year.

I want to extend my sincere appreciation to our more than 600 employees who have worked hard to generate the results we are now enjoying. Our corporate philosophy has always emphasized, and will continue to emphasize, the individual initiative of our people who are empowered to make the critical and often difficult on-the-ground decisions that are fundamental to the way we do business.

Major Drilling is on the move as never before. Our commitment to superior performance, in all its forms, is enabling us to reach new heights of success. We know that prosperity depends on growth, and that growth depends on knowledgeable people with the authority to take the initiative when the time is right. That's our winning formula.

Ronald J.Goguen
President and CEO

Getting Down to Fundamentals

How We Operate

Launched in 1980, Major Drilling Group International Inc. began its corporate life with the objective of growing into one of the world's leading contract drilling companies, serving both the private sector and government operations. With a workforce in excess of 600, Major Drilling invests in the people it hires, enabling them to guide the company's domestic and international business on the local fronts on which they operate. This decentralized approach to management ensures that all of the company's branches are able to provide complete, timely service where and when it counts. At the same time,

Major Drilling's corporate office provides branch operations with the technical and human resources necessary to succeed in the field.

Currently, the company maintains 25 separate operations, covering its core business segments of mineral exploration drilling, as well as environmental and geotechnical drilling.

Our Commitment to Growth

Major Drilling's commitment to growth is a matter of record. Over the past two years the company has dramatically expanded its international base of business. The company's emphasis is on geographical expansion through incorporation or acquisition in areas where opportunities for business growth are promising. In this regard, Major Drilling's strategic focus to date has been on Central and South America, where it is working to build strong, lasting relationships for future commercial ventures.

The longer-term strategy involves expansion into manufacturing, producing drilling related equipment both for Major Drilling's use and for sale to domestic and international markets. As well, the company will continue to expand through further acquisitions and new branch openings in a number of diverse markets.

As one of the world's largest drilling and exploration companies, Major Drilling's growth strategy involves combining the strengths of the independent and successful operations that it sets up or acquires. This accumulation of experience and

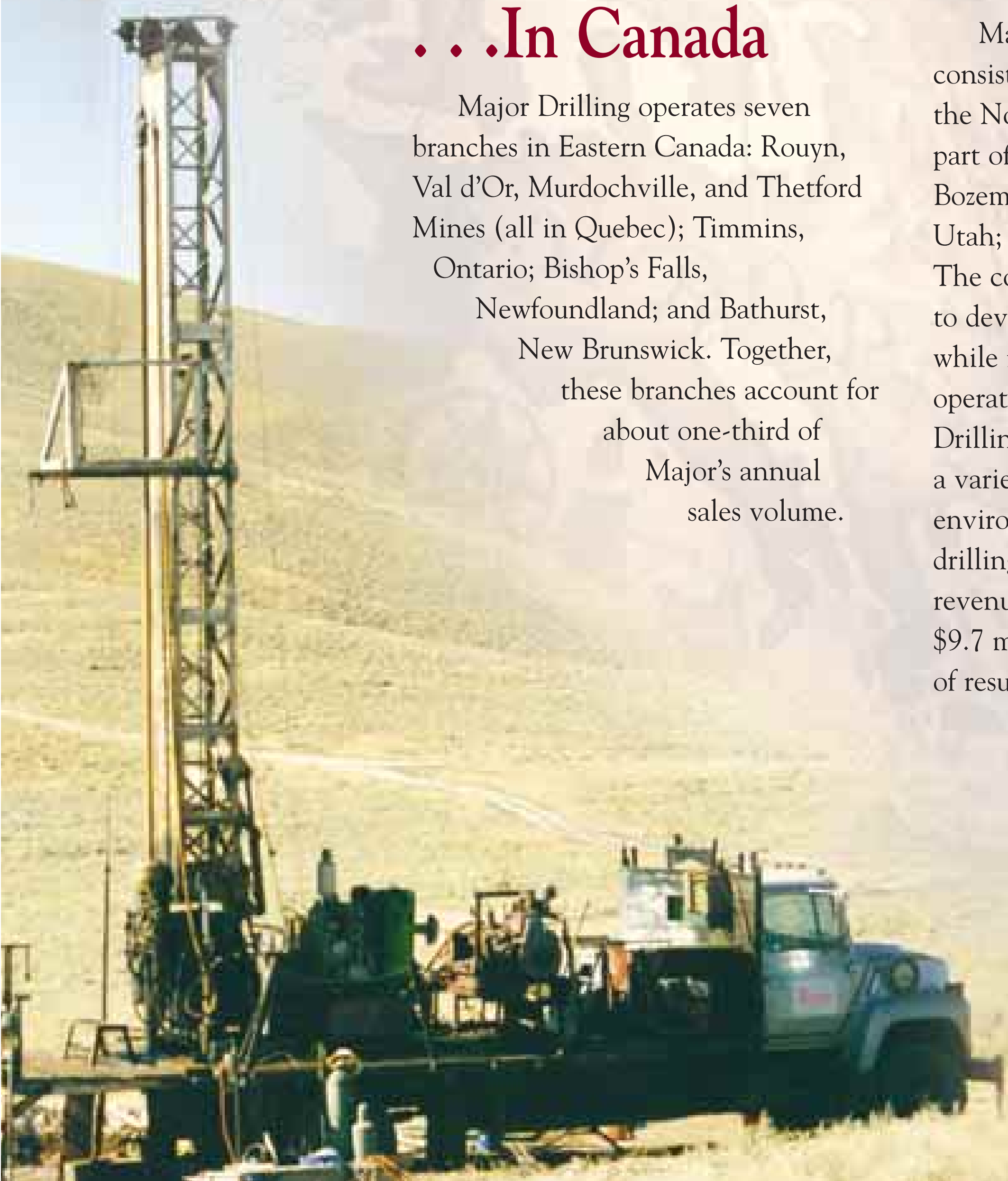
technical capabilities ensures widespread customer satisfaction. Major Drilling strengthens this platform for growth by supporting its companies in all parts of the system with the human resources and expertise of a worldwide corporation.

Our Operations

Major Drilling operates on many geographic fronts: Canada, the United States and many countries around the world. While the company places special emphasis on developing its international business, its domestic operations bring key commercial and financial success.

. . .In Canada

Major Drilling operates seven branches in Eastern Canada: Rouyn, Val d'Or, Murdochville, and Thetford Mines (all in Quebec); Timmins, Ontario; Bishop's Falls, Newfoundland; and Bathurst, New Brunswick. Together, these branches account for about one-third of Major's annual sales volume.



In 1997, Canadian revenues amounted to $27 million, an increase of roughly 60 per cent from the previous year.

. . .In the United States

Major Drilling's U.S. business consists of four operations located in the Northeast and across the western part of the country: Ashland, Maine; Bozeman, Montana; Centerville, Utah; and Roseville, California. The company's primary focus has been to develop its U.S. business gradually while maintaining tight controls on operating costs and overhead. Major Drilling is currently performing a variety of governmental, environmental and geotechnical drilling contracts. In 1997, U.S. revenues amounted to about $9.7 million, marginally ahead of results from the previous year.

. . .Around the World

Major Drilling's expansion of its international business has resulted in the establishment of branches in various countries around the world, though mainly in Central and South America. Currently, the company operates 14 such operations: Hermosillo, Mexico; Tegucigalpa, Honduras; Managua, Nicaragua; Mendoza, Argentina; Santiago, Chile; Puerto Ordaz, Venezuela; Georgetown, Guyana; Cayenne, French Guiana; Paramaribo, Suriname; Lima, Peru, as well as branches operating in Panama, Costa Rica, Dominican Republic and Turkey. Operations in Belo Horizonte, Brazil, will commence soon. International revenues account for about 60 per cent of the company's annual revenues, or roughly $53 million in 1997, an increase of almost 100 per cent over the previous year.

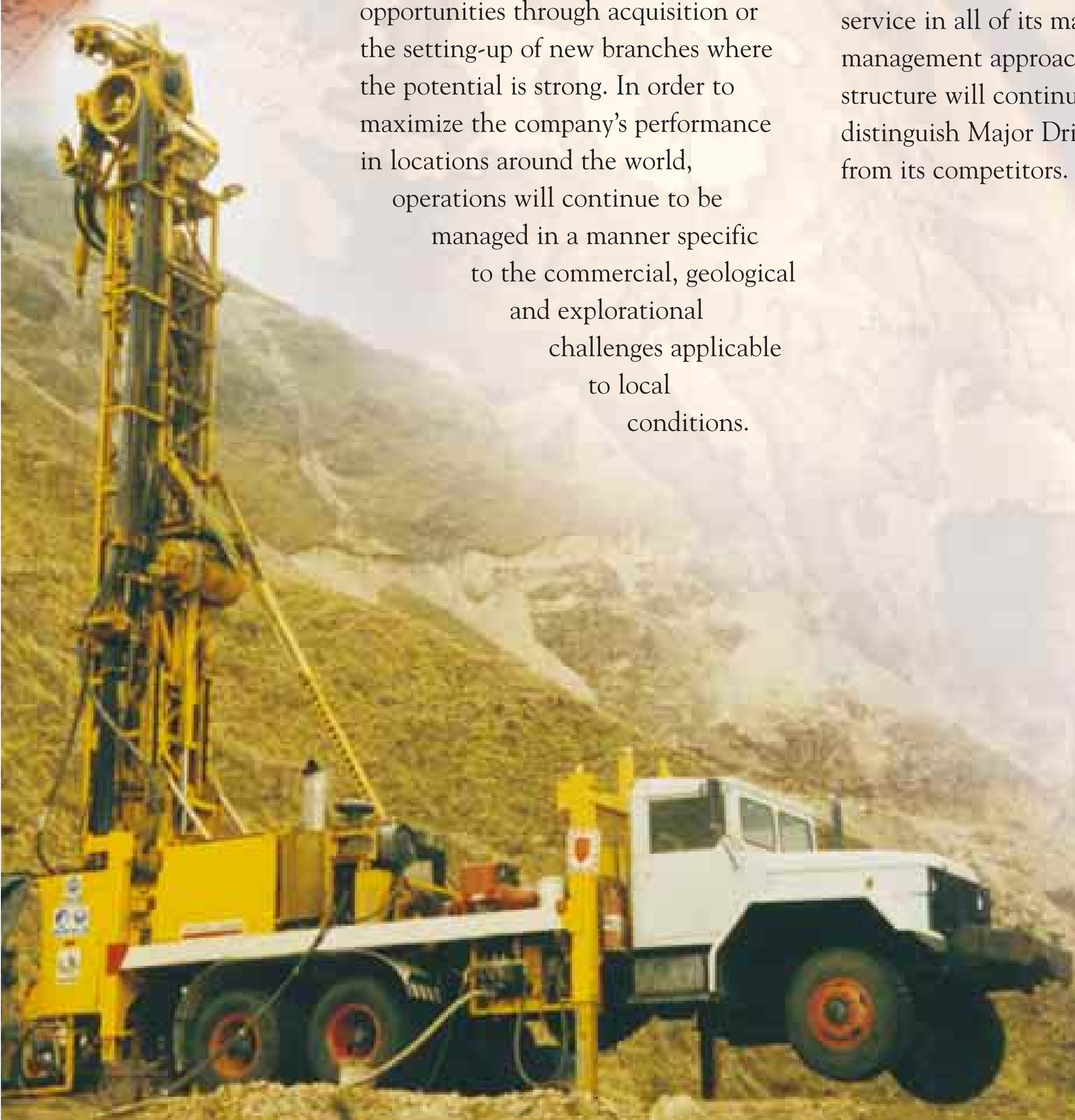
Major Drilling: The Big Picture

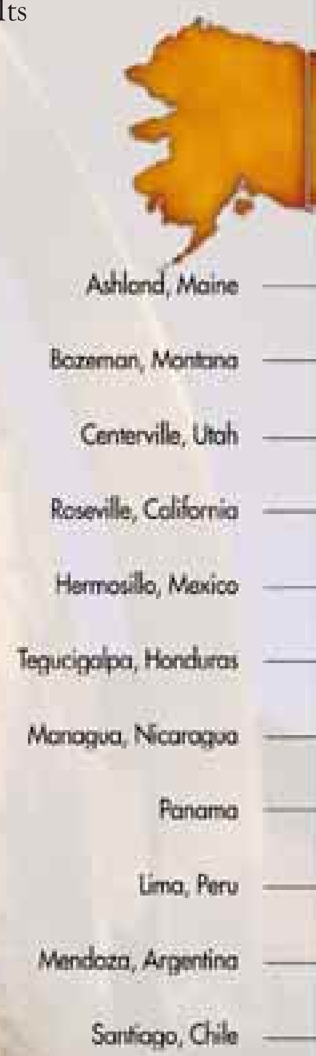
The Look Ahead

Major Drilling's geographic expansion in 1997 is a continuation of its strategic advancements the year before. The company will continue to seek and develop new expansion opportunities through acquisition or the setting-up of new branches where the potential is strong. In order to maximize the company's performance in locations around the world, operations will continue to be managed in a manner specific to the commercial, geological and explorational challenges applicable to local conditions.

Major Drilling will continue to expand into economically promising markets around the world, including untapped regions of South America, Western Africa and Australia.

The company will work to provide the same level of customer service in all of its markets. Its management approach and structure will continue to distinguish Major Drilling from its competitors.






Rouyn, Québec
Val d'Or, Québec
Murdochville, Québec
Bishop's Falls, Newfoundland
Bathurst, New Brunswick
Thetford Mines, Québec
Timmins, Ontario
Santo Domingo, Dominican Republic
Costa Rica
Puerto Ordaz, Venezuela
Georgetown, Guyana
Cayenne, French Guiana
Paramaribo, Suriname
Belo Horizonte, Brazil


1997
Annual
REPORT
MAJOR
Drilling Group International Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and Notes. The Company divides its operations into three geographic segments, being Canada, the United States, and International, which is primarily Latin America. The analysis of operating results makes reference to international markets that are Mature and New. The Company defines a New market as any location that has not been operating for 24 months as of April 30, 1997.

The following table presents selected financial information for the Company for each of the last five fiscal years :

	Year ended April 30				
	1997	1996	1995 (thousands)	1994	1993
Contract Revenues by Region					
Canada	$26,639	$16,681	$12,512	$11,779	$8,070
United States	9,738	9,171	13,292	14,580	13,723
International	52,478	26,916	19,852	10,153	3,008
Total	$88,855	$52,768	$45,656	$36,512	$24,801
Gross Profits as a Percentage of Contract Revenues	35.4%	34.1%	37.1%.	34.3%	31.2%
General and Administrative Expenses					
Total	$12,970	$9,975	$7,459	$6,017	$5,571
As a percentage of contract revenues	14.6%	18.9%	16.3%	16.5%	22.5%
Interest	$611	$1,102	$1,064	$1,224	$913
Depreciation and Amortization	$2,751	$2,138	$2,178	$1,805	$1,561
Cash Flow (Adjusted EBITDA) (1)	$18,517	$8,017	$9,466	$6,513	$2,172
Net Earnings (Net Loss)	$10,020	$4,049	$4,567	$2,267	$(252)

(1) Earnings before interest, income taxes, depreciation and amortization and other revenue or expense items.

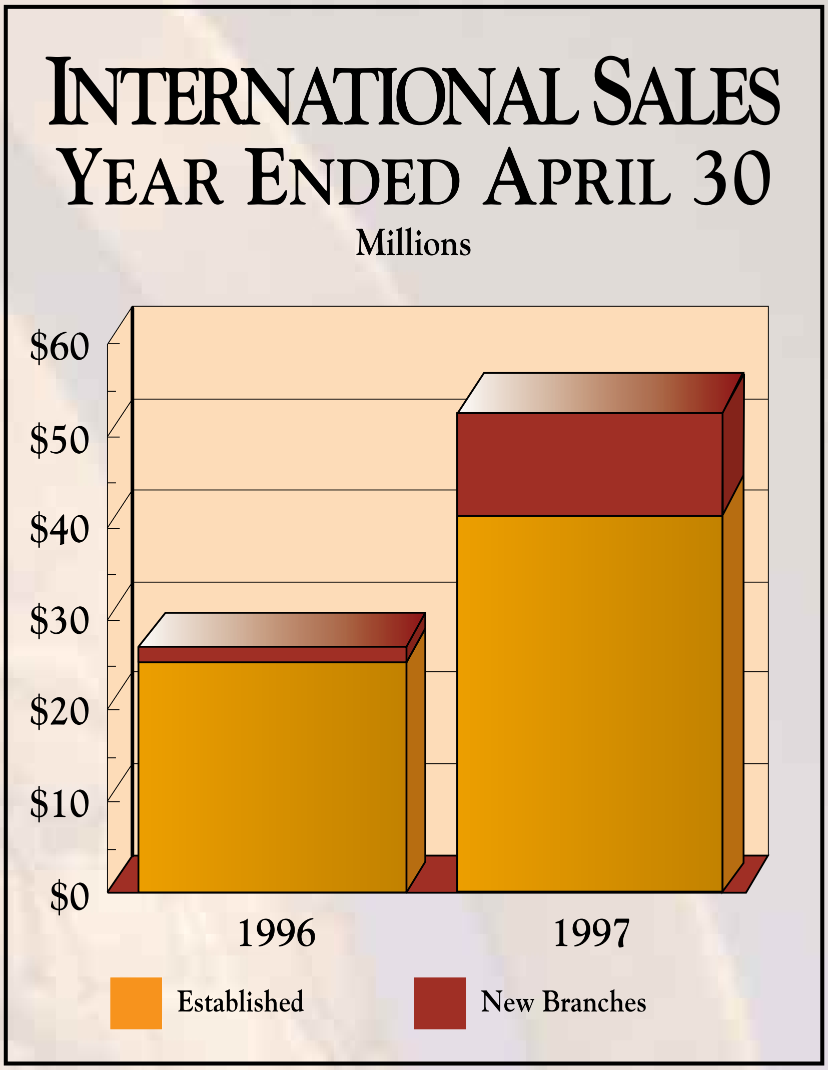
1997 fiscal year compared with 1996 fiscal year

Overview

All geographic segments experienced revenue growth in 1997. Record total revenues of $88.9 million coupled with gross profit margins that improved over the prior year were the main reasons the Company achieved record earnings of $10.0 million. This was an improvement of 147% on earnings of $4.1 million in 1996.

Revenues

Total contract revenues increased 68.4% in 1997 to $88.9 million. All geographic segments experienced revenue growth, with the United States up 6.2% to $9.7 million, Canada up 59.7% to $26.6 million, and International up 95.0% to $52.5 million. Approximately $10.1 million of the total $25.6 million increase in International revenues were generated by New operations. The Mature International branches continued to expand with sales growth of 60.5%. Sales growth in Canada of $10.0 million (59.7%) reflects the continued growth in exploration expenditures in the Canadian marketplace.



Gross Profits

Gross profits as a percentage of revenues for the 1997 fiscal year increased over 1996 (35.4% compared with 34.1%). Most geographic segments including Mature International segments showed improved gross profits, offset slightly by lower margins for New International operations. This general improvement coupled with a higher percentage of sales in the higher margin international segment enabled the Company to improve its gross profits.

General & Administrative expenses

General & Administrative expenses were $13.0 million in fiscal 1997 as compared to $10.0 million in fiscal 1996. New International operations in the Dominican Republic, Argentina, Brazil and Central America accounted for $2.2 million of the $3.0 million increase with employee bonuses based on increased corporate profitability representing a significant portion of the balance.

Other Items

Other revenues and expenses resulted in net revenues of $1.1 million in 1996 and net expenses of $0.3 million in 1997. The main difference was a gain of approximately $0.9 million in 1996 on short-term investments.

During 1997 the Company was able to generate record net earnings of $10.0 million while absorbing start-up losses of $1.0 million in the New International operations. The Company maintains its policy of not deferring such costs and recording them as expenses in the year they are incurred.

Liquidity and Capital Resources

The Company's ongoing requirements for cash consist principally of amounts required for working capital, to finance capital expenditures and to fund debt service obligations. The Company expects to rely upon its internally generated cash flow and available credit facilities to satisfy such cash requirements. The Company will consider issuing additional capital stock, if needed, to take advantage of acquisition or other investment opportunities that could emerge.

Working Capital

The working capital needs of the Company to finance its operations are principally determined by the levels and turnover of its inventory and accounts receivable. The Company's policy of ensuring that spare parts and other inventory items are available on a timely basis requires the Company to increase its inventory as it expands its business.

The Company's working capital ratio (current assets to current liabilities) was 1.93 at April 30, 1995, 1.59 at April 30, 1996, and 2.67 at April 30, 1997.

Capital Expenditures

The Company's business is not capital intensive, although there is a continuing need to purchase, refurbish and replace drilling rigs and related equipment. The majority of capital expenditures over the last few years have been focused on expanding the Latin American operations. It is anticipated that future acquisitions and capital spending will be funded primarily from cash on hand and available credit facilities.

Borrowing Capacity

A Canadian chartered bank has made available three credit facilities to the Company. The maximum amount available under these facilities is $22.0 million. The first facility is a $8.0-million operating line secured by Canadian and U.S. accounts receivable, Canadian inventory up to $1 million and specific International receivables. The second facility is a $4.0-million revolving term line that can be divided into term loans with amortization of up to five years. The third facility is a $10.0-million revolving term line established to assist in acquisitions of similar businesses. Outstanding balances on this third line may be carved out in $0.5-million increments into term loans with amortization of up to five years, or remain revolving with a 366-day term and no set principal repayment requirements. The Company was using $1.7 million on the $4.0-million term line on April 30, 1997.

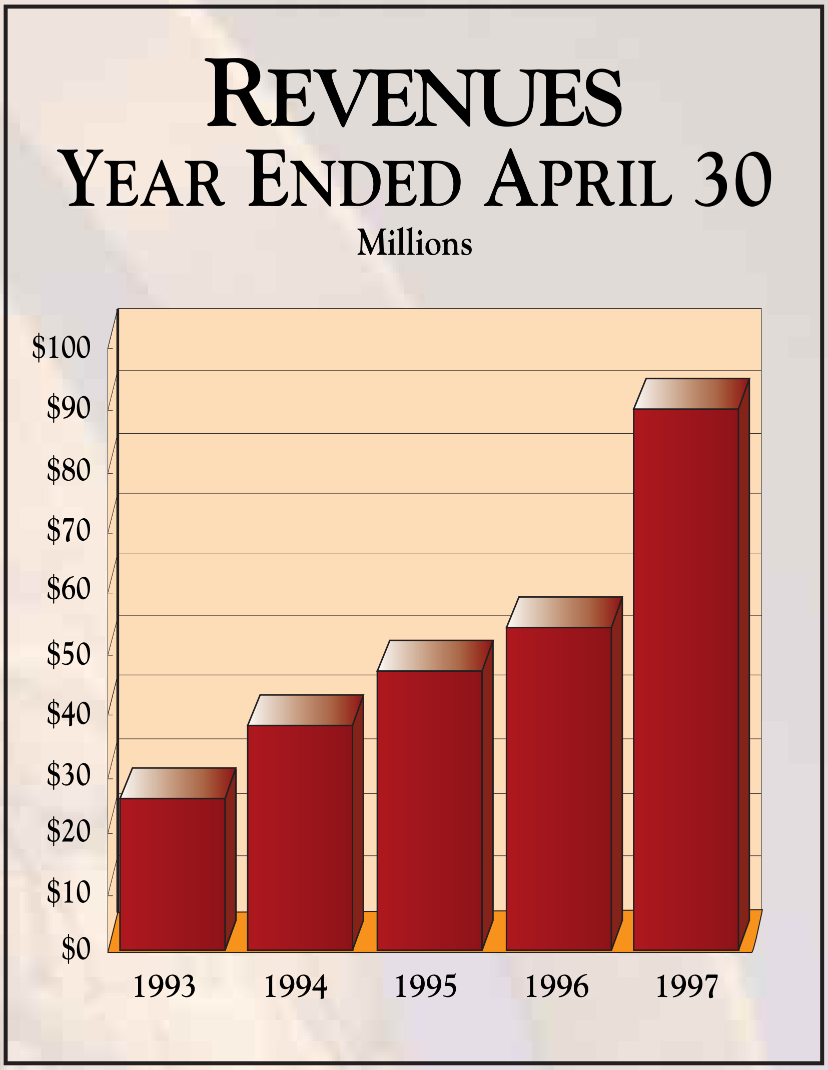
Growth Strategy

Sales and net earnings for the Company have increased dramatically in the past few years. This growth has occurred mainly as a result of the expansion of current operations and new International branch openings. More recently, the Company has grown by way of acquisition, acquiring the J.T. Thomas group of companies, which carry on business in Canada, Mexico and Costa Rica, in May 1997, and Mining World Limited, which carries on business in Australia, in July 1997.

The J.T. Thomas group of companies have shown revenues, based on their unaudited financial statements, for the years ended April 30, 1995 and 1996, of $13.3 million and $15.9 million respectively, and for the 10 month period ended February 28, 1997, of $22.2 million. The ongoing businesses of Mining World Limited reported revenues of A$23.9 million and earnings before interest and taxes of A$1.7 million for the six-month period ended December 31, 1996.

Additionally, the Company has signed a letter of intent to purchase the Australian drilling company Pontil Pty. Limited, which had revenues from drilling operations for the fiscal years ended June 30, 1995 and 1996, and for the nine-month period ended March 31, 1997, of A$25.3 million, A$29.4 million, and A$23.2 million respectively. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the same periods were A$4.1 million, A$5.7 million, and A$2.3 million respectively. The purchase of this company is scheduled to occur on August 28, 1997.

The financial impact of these recent acquisitions is not reflected in the 1997 financial results of the Company. Subsequent to these acquisitions, the Company continues to maintain a strong balance sheet to enable it to make additional acquisitions, should the opportunity arise.



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, 1997 and 1996 and the consolidated statements of earnings, retained earnings and changes in financial position 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 consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 misstatement. 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, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

LeBlanc Nadeau Bujold

LeBlanc Nadeau Bujold
Chartered Accountants

Moncton, New Brunswick
June 20, 1997
(except with respect to notes 10 and 16 as to which the date is August 1, 1997)

Consolidated Statement of Earnings

Year ended April 30, 1997 (in thousands of Canadian dollars, except per share information)

	(Note)	1997	1996
CONTRACT REVENUES		$88,855	$52,768
DIRECT CONTRACT COSTS		57,368	34,776
GROSS PROFIT		31,487	17,992
OPERATING EXPENSES			
General and administrative		12,970	9,975
Interest		611	1,102
Depreciation and amortization		2,751	2,138
		16,332	13,215
EARNINGS FROM OPERATIONS		15,155	4,777
OTHER REVENUES (EXPENSES)	(13)	(296)	1,098
EARNINGS BEFORE INCOME TAXES		14,859	5,875
INCOME TAXES	(14)		
Current		3,774	1,522
Deferred		1,065	304
		4,839	1,826
NET EARNINGS		$10,020	$4,049
EARNINGS PER SHARE	(15)	$1.51	$0.73

Consolidated Statement of Retained Earnings

Year ended April 30, 1997 (in thousands of Canadian dollars)

	1997	1996
BALANCE AT BEGINNING	$13,639	$9,590
Net earnings	10,020	4,049
BALANCE AT END	$23,659	$13,639

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Balance Sheet

Year ended April 30, 1997 (in thousands of Canadian dollars)

	(Note)	1997	1996
ASSETS			
CURRENT ASSETS			
Cash		$15,738	$–
Temporary investments		598	139
Accounts receivable	(3)	21,828	10,654
Inventories		12,881	8,647
Prepaid expenses		1,413	1,051
		52,458	20,491
LONG-TERM INVESTMENT	(4)	2,151	–
PROPERTY AND EQUIPMENT	(5)	26,559	17,928
		$81,168	$38,419
LIABILITIES			
CURRENT LIABILITIES			
Demand loans	(6)	$–	$2,471
Accounts payable		14,846	7,425
Income taxes payable		2,174	402
Deferred income taxes		565	457
Current portion of long-term debt	(7)	2,040	2,117
		19,625	12,872
LONG-TERM DEBT	(7)	3,162	4,795
DEFERRED INCOME TAXES		944	94
		23,731	17,761
SHAREHOLDERS' INTERESTS			
Capital stock and warrants	(8)	33,451	6,787
Retained earnings		23,659	13,639
Cumulative translation adjustment	(9)	327	232
		57,437	20,658
		$81,168	$38,419

Contingencies (note 10)

APPROVED BY THE BOARD OF DIRECTORS

(signed) Ronald J. Goguen, Director

Paul E. Légère, Director

Consolidated Statement of Changes in Financial Position

Year ended April 30, 1997 (in thousands of Canadian dollars)

	(Note)	1997	1996
OPERATING ACTIVITIES			
Net earnings		$10,020	$4,049
Operating items not involving cash and cash equivalents:			
Depreciation and amortization		2,751	2,138
Gain on disposal of property and equipment		(67)	(25)
Deferred income taxes		996	551
		13,700	6,713
Changes in non-cash operating working capital items		(7,079)	(5,379)
		6,621	1,334
FINANCING ACTIVITIES			
Additional long-term financing		389	5,420
Repayment of long-term debt		(2,185)	(3,677)
Issuance of common shares and warrants		26,664	124
		24,868	1,867
INVESTING ACTIVITIES			
Acquisition of property and equipment		(11,435)	(6,724)
Proceeds from disposal of property and equipment		208	88
Acquisition of long-term investment		(2,151)	–
		(13,378)	(6,636)
OTHER ACTIVITIES			
Foreign exchange translation adjustment		98	5
CASH AND CASH EQUIVALENTS INCREASE (DECREASE)		18,209	(3,430)
CASH AND CASH EQUIVALENTS POSITION AT BEGINNING		(2,471)	959
CASH AND CASH EQUIVALENTS POSITION AT END	(11)	$15,738	($2,471)

Notes to Consolidated Financial Statements

Year ended April 30, 1997 (in thousands of Canadian dollars)

1. STATUS AND NATURE OF ACTIVITIES

The Company is incorporated under the Canada Business Corporations Act. The principal source of revenue consists of drilling for mineral exploration. The Company has operations in Canada, Argentina, Chile, Costa Rica, Dominican Republic, French Guiana, Guyana, Honduras, Mexico, Nicaragua, Panama, Peru, Suriname, Turkey, the United States and Venezuela and is also commencing drilling operations in Brazil.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the following subsidiaries:

- Forage Major Kennebec Drilling Ltd.
- Forage Major Ideal Drilling (Nfld.) Ltd.
- Maine Diamond Drilling, Inc.
- PC Exploration, Inc.
- Coates Drilling, Inc.
- Major Drilling International Inc.
- Major Perforaciones Nicaraguenses, S.A.
- Majortec Perforaciones, S.A. (Venezuela)
- Major Drilling de Mexico, S.A. de C.V.
- Major Peru, S.A.
- Major Drilling Guyana Limited
- Major Perforaciones, S.A. (Argentina)
- Forage Major Guyane SARL
- Major Drilling do Brasil Ltda.
- Perfoeste, S.A.

Certain subsidiaries included in these financial statements have a different year-end than Major Drilling Group International Inc. Accordingly, adjustments were made to reflect the operations on an April 30th year-end basis.

Recognition of revenues

Revenues from drilling contracts are recognized on the basis of actual footage drilled for each contract. Revenues from ancillary services normally arise when the services are rendered.

Earnings per share

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

Inventories

The Company maintains an inventory of operating supplies, drilling rods and drill bits. The inventories are valued at the lower of cost and replacement cost.

Depreciation of property and equipment

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

	Residual value	Useful life
Drilling equipment	0 - 15 %	5 - 15 years
Automotive and off-road equipment	0 - 10 %	5 - 10 years

Costs for repairs and maintenance are charged to expense as incurred. Significant improvements are capitalized and depreciated over the useful life of the property.

Deferred income taxes

The Company follows the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates. Deferred taxes result from potential tax reductions available through the application of losses and from various timing differences between allowable deductions for tax reporting and book purposes. The primary timing differences are between capital cost allowance claimed and depreciation charged, and inventory allowances for tax purposes of a foreign subsidiary.

Translation of foreign currency

All amounts are represented in Canadian dollars. The financial statements include companies that have operations in the United States. Maine Diamond Drilling, Inc., PC Exploration, Inc. and Coates Drilling, Inc. are classified as self-sustaining foreign operations. The assets and liabilities of self-sustaining foreign operations are translated at the exchange rate in effect at the balance sheet date. Revenue and expense items of such corporations are translated at average rates of exchange for the year. The resulting foreign currency translation gain or loss is reported as a separate component of shareholders' interests.

Major Drilling International Inc., Majortec Perforaciones S.A., Major Drilling de Mexico, S.A. de C.V., Major Peru, S.A., Major Drilling Guyana Limited, Major Perforaciones, S.A., Forage Major Guyane SARL, Major Perforaciones Nicaraguenses, S.A, Major Drilling do Brasil Ltda. and Perfoeste, S.A. are classified as integrated foreign operations. The financial statements of integrated foreign operations are translated as follows: monetary items are translated at the rate of exchange in effect at the balance sheet date; non-monetary items are translated at historical rates; revenue and expense items are translated at the average rate of exchange for the year; and depreciation is translated at historical rates. Gains or losses resulting from these translations are accounted for in net earnings.

3. ACCOUNTS RECEIVABLE

	1997	1996
Trade	$20,953	$10,251
Other	875	403
	$21,828	$10,654

4. LONG-TERM INVESTMENT

The investment is recorded at cost and represents a 17.7% ownership in Mining World Limited, an Australian public company (see additional information in Note 16, Subsequent events).

5. PROPERTY AND EQUIPMENT

	1997			1996
	Cost	Accumulated Depreciation	Net Value	Net Value
Land	$584	$–	$584	$334
Buildings	2,089	585	1,504	1,117
Drilling equipment	33,711	15,353	18,358	11,946
Automotive	10,456	5,560	4,896	3,604
Other	2,220	1,003	1,217	927
	$49,060	$22,501	$26,559	$17,928

6. DEMAND LOANS

The demand loans are secured by a deed of movable hypothecation (Québec), a registered Province of Newfoundland demand debenture, a general assignment of book debts and/or Uniform Customs Code filings in the applicable Canadian and U.S. jurisdictions, and security under section 427 of the Bank Act (Canada) with replacement cost fire insurance coverage on inventory and equipment

7. LONG-TERM DEBT

	1997	1996
Term loans, with interest at rates ranging from 7.2% to 8.875%, payable in monthly installments of $11,279, maturing through 2000 and secured by chattel mortgages on equipment and buildings.	$1,666	$2,116
Chattel mortgages, bearing interest at rates ranging from 3.9% to 8.75%, maturing between the years 1997 and 2000.	156	175
Term loans -US$449,463 (1996 - US$545,634), with interest at rates ranging from 7.2% to 12%, payable in monthly installments of US$19,624, secured by equipment, maturing through 2002.	628	743
Term loans - US$437,363 (1996 - US$478,203), payable in monthly installments of US$6,876 including principal and interest at rates ranging from 8% to prime, secured by deeds of trust and security agreements, maturing in 2002.	611	651
Term loans - US$134,988 (1996 - US$387,831), with interest at 9%, balance payable in August 1997, secured by 100% of the capital stock of PC Exploration, Inc.	189	528
Line of credit payable to GE Capital Corporation, US$1,397,064 (1996 - US$1,981,610) repayable by monthly installments of US$61,411 including principal and interest at a rate of 9.062%, secured by machinery and equipment, maturing in 2000.	1,952	2,699
	5,202	6,912
Current portion	2,040	2,117
	$3,162	$4,795

The above loans are secured by various debentures and mortgages which limit the Company from incurring additional debt and disposing of certain assets based on certain covenants. The security for the debentures and mortgages include fixed and floating charges against the property and equipment, assignments of book debts, section 427 Bank Act (Canada) security on inventories, life insurance proceeds and a pledge of common shares of PC Exploration, Inc.

The annual installments on long-term debt over the next five years are as follows:

1998 - $2,040
1999 - $1,795
2000 - $763
2001 - $170
2002 - $144

8. CAPITAL STOCK AND WARRANTS

Authorized

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

Issued and fully paid	**1997**	1996
8,501,582 Common shares		
(1996 - 5,593,832)	$32,817	$6,787
1,057,150 Warrants	634	–
	$33,451	$6,787

Common shares

During the year, the Company issued 2,907,750 common shares under a new issue (described below) and under the Company stock option and compensation option plans, and received net proceeds of $26,663,275. The capital stock of the company is shown net of issue costs and underwriters' commissions of $2,817,766.

Stock options

As at April 30, 1997, the Company has employee stock options outstanding to purchase a total of 32,675 common shares at a price of $6.50 per share and 186,100 common shares at a price of $7.04 per share (see Note 16 for additional stock options granted). On November 23, 1994, the Company granted stock options under the stock option plan in respect of an aggregate of 54,250 common shares. Of this initial grant of options, 4,500 options were granted to one of the Company's executive officers and the balance of those options was granted to a total of 33 other employees. The exercise price for these options is equal to $6.50. All of these options have vested. On August 8, 1996, the Company granted additional stock options in respect of an aggregate of 199,900 common shares at a price of $7.04 per share. Of these, options to purchase 42,000 common shares were granted to two Executive Officers. The balance was granted to a total of 55 other employees and directors. One-third of the options vested when they were granted, one-third will vest on August 8, 1997, and the remaining third will vest on August 8, 1998.

All of these stock options expire on the first of any of the following:

- 10 years from the date of the grant,
- three months after the termination of an optionee's employment, due to death, disability or normal early retirement,
- immediately on termination for cause,
- one month in the event of termination for any other reason, or
- 30 days within closure of the business.

New issue

On October 3, 1996, 2,564,300 Special Warrants were issued under a Special Warrant Indenture. Each Special Warrant was issued at $9.75, other than the 30,800 Special Warrants issued at $10.00 and sold to two Executive Officers. The portion of the issue price of each Special Warrant allocated to the common shares issuable upon the exercise of the Special Warrants was $9.45 per common share. In December 1996, each Special Warrant was exercised into one common share of MDGI and one-half of a common share purchase warrant (a whole common share purchase warrant being referred to as a "Warrant"). Each of the 1,282,150 Warrants entitles the holder to purchase one common share at a price of $10.50 at any time on or before March 30, 1999. The aggregate number of outstanding Warrants as at April 30, 1997 was 1,057,150.

9. CUMULATIVE TRANSLATION ADJUSTMENT

Cumulative translation adjustment represents deferred foreign exchange gains (losses) on the translation of the accounts of self-sustaining foreign operations in the United States.

10. CONTINGENCIES

The Minister of Revenue for the Province of Québec has issued a reassessment for $815,000 including interest relating to the reasonableness of management fees paid by a predecessor company to a related party for the years 1987, 1988 and 1989. Management is appealing this reassessment and no liability has been recorded. It is not possible at this time to determine the amount of taxes, if any, that may become payable.

Forage Major Kennebec Drilling Ltd. ("Kennebec"), a subsidiary, is a co-defendant in a negligence action brought in Québec. The plaintiffs in the action, Hydro Québec and others, are seeking $789,000 in respect of alleged damages resulting in connection with work performed by Kennebec when acting as a subcontractor under the direction of the contractor. Management believes that the Company has a good defense to the claim and that, even if the claim is successful, the amount claimed will be covered by insurance.

The Company is also involved in various other claims and legal notices arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's financial position.

Any amounts awarded as a result of these actions will be reflected in the year incurred.

11. CASH AND CASH EQUIVALENTS

	1997	1996
Cash	$15,738	$29
Demand loans	–	(2,500)
	$15,738	($2,471)

12. CONTRACTUAL AGREEMENTS

The Company is committed to two lease agreements with a related party to pay annual rents of $36,624 and $46,600 until the years 2000 and 2002 respectively. The Company also has commitments with arms-length parties as follows: annual rent of $50,000 until 2002, vehicle leases of $30,884 until 1998.

13. OTHER REVENUES (EXPENSES)

	1997	1996
Gain on sale of investments	$88	$941
Foreign exchange loss	(132)	(174)
Other	(252)	331
	($296)	$1,098

14. INCOME TAXES

The Company's effective tax rate for 1997 is 32.56% (1996 - 31.08%). This tax rate differs from the combined Canadian corporate tax rate of approximately 44.8% due principally to lower effective income tax rates on earnings of foreign subsidiaries, permanent timing differences and unrecorded income tax benefits arising from losses of subsidiaries.

15. EARNINGS PER SHARE

Fully diluted earnings per share

Fully diluted earnings per share figures for the current year would have been $1.39 for 1997 had all outstanding stock options, compensation options and warrants outstanding as at April 30, 1997, been exercised into common shares when granted or issued.

For the purposes of this calculation, the earnings applicable to common shares was increased by the interest, after income taxes ($200,000), calculated at 3% of the exercise price on the above instruments, and the number of common shares adjusted to reflect the additional weighted daily average that would have resulted on exercise (722,185 shares).

16. SUBSEQUENT EVENTS

J.T. Thomas Enterprises Ltd.

Effective May 1, 1997, the Company acquired the drilling rigs and related equipment owned by J.T. Thomas Enterprises Ltd. and the shares in several subsidiaries of that company whose assets consisted of drilling contracts and inventory. Of these subsidiaries, J.T. Thomas Diamond Drilling (1980) Ltd. carries on business in British Columbia and the Yukon, J.T. Thomas Diamond Drilling Ltd. carries on business in Ontario and the Northwest Territories, and J.T. Thomas Canadian Drilling Ltd. carries on business through its, wholly-owned subsidiaries J.T. Thomas de Mexico S.A. de C.V., which conducts drilling in Mexico and J.T. Thomas Perforaciones Canadienses Ltda. which conducts drilling in Costa Rica.

The purchase price was $13,500,000, paid by way of the issuance of 148,148 common shares in the Company at a deemed price of $13.50 per share, and the payment of $11,500,000 in cash. The purchase price was allocated as follows: $8,430,000 to tangible assets; $3,070,000 to inventory; and $2,000,000 to goodwill.

The Company also issued 100,000 stock options to Jean Marc Thomas. The exercise price for the options is $13.50 per share and the options expire May 21, 2000.

Mining World Limited

Effective July 4, 1997, the Company acquired control of Mining World Limited, an Australian publicly listed company, by virtue of acquiring in excess of 50% of the issued and outstanding ordinary shares in that company. The acquisition was made through a takeover bid launched on May 9, 1997, at a price of A$0.85 in cash for each of the ordinary shares of Mining World not already held by the Company, with a potential purchase price, if all shares are tendered, totalling A$12,300,000 (approximately C$13,300,000). As of July 14, 1997, the Company owned or was entitled to slightly in excess of 90% of the said shares. The bid has been extended to remain open until August 29, 1997.

Mining World conducts, through its subsidiaries, three main businesses: the manufacturing and marketing of drill rigs and the marketing of drilling rods (through The Universal Drilling Systems (UDR) subsidiary); the distribution of drill and blast bits, consumable bits, drill steel, couplings and adaptors, drill rods and wireline consumables to the mining and drilling industries (through the Mining World and Mining World Drill and Blast subsidiaries); and the manufacturing and/or distribution of PVC and rubber hoses and related products to the mining and agricultural industries (through the Rubicon Industrial Hose subsidiary).

Pontil Pty. Limited

On June 17, 1997, the Company entered into a letter of intent to acquire all of the issued and outstanding shares of Australia-based Pontil Pty. Limited, a privately held mineral exploration drilling company conducting business both in Australia and Africa. The purchase price for the transaction is A$10,700,000 (approximately C$10,900,000 based on the exchange rate of A$1 to C$1.0222 as at July 25, 1997) consisting of the issuance of 205,385 common shares in the Company at a deemed price of C$18.75 (approximately A$18.34 based on the same exchange rate) per share together with A$7,000,000 in cash (approximately C$7,200,000 based on the same exchange rate).

Additionally, in consideration of one of the previous shareholders entering into an employment contract and remaining as an employee of Pontil and, at the discretion of MDGI, as a director and an officer of Pontil, MDGI agreed to grant him stock options exercisable into 100,000 common shares of MDGI, such options to be exercisable at a price of $18.75 per share for a period of three years. The letter of intent also specifies the terms and conditions that will be further reflected in an agreement to be entered into between the parties to the letter of intent. The transaction is scheduled to close on or before August 28, 1997.

Issuance of Special Warrants

On June 5, 1997, the Company entered into an agreement with Midland Walwyn Capital Inc. as lead underwriter to issue 2,500,000 Special Warrants at a price of $18.00 per Special Warrant, for aggregate gross proceeds of $45,000,000. Each Special Warrant will convert, without further consideration and upon prospectus clearance in the relevant provinces, into one common share.

The Company will file a prospectus to qualify the common shares issuable upon exercise of the Special Warrants. If within 90 days after the closing of the private placement all necessary receipts for the final prospectus have not been received, each Special Warrant will be exercisable into 1.1 common shares. Closing of the Special Warrant financing occurred on June 24, 1997, at which time the funds, net of $2,250,000 for commissions, were received by the Company. The net proceeds of the offering are being used to fund further expansion and for the repayment of bank debt.

Additional stock options

On June 25, 1997, the Company granted stock options under the Stock Option Plan in respect of an aggregate of 81,450 common shares. Of these, options to purchase 12,000 common shares were granted to two Executive Officers of the Company. The balance was granted to a total of 63 other employees and directors. The exercise price for these options is $18.65 per share. One-third of the options vested when granted, one-third will vest on June 25, 1998 and the remaining third will vest on June 25, 1999. The provisions governing the expiry of these stock options are the same as those provisions described in Note 8.

17. SEGMENTED INFORMATION

The Company's operations are conducted through three geographic segments. The geographic segments are Canada, the United States and International. Historically, the Company also reported its results in respect of three business segments. These three business segments were mineral exploration drilling, environmental and geotechnical drilling and construction drilling. The importance of both the environmental and geotechnical drilling and construction drilling segments has diminished and will continue to decrease over the years, as mineral exploration drilling operations are growing rapidly. Consequently, Management is of the opinion that the mineral exploration drilling is now the dominant segment and that the business segment figures do not provide useful information. Presented below is data relating to each of the Company's geographic segments.

	1997	1996
Revenues		
Canada	$26,639	$16,681
United States	9,738	9,171
International	52,478	26,916
	$88,855	$52,768
Earnings (loss) from operations		
Canada	$3,427	$1,504
United States	389	(566)
International	14,046	6,622
	17,862	7,560
Eliminations	275	107
	18,137	7,667
Interest expense	(611)	(1,102)
General corporate expenses and unallocated gain, net	(2,667)	(690)
Income taxes	(4,839)	(1,826)
Net earnings	$10,020	$4,049
Identifiable assets		
Canada	$17,770	$13,025
United States	7,840	8,201
International	40,731	19,963
	66,341	41,189
Eliminations	(11,001)	(5,481)
Non-identifiable and corporate assets	25,828	2,711
	$81,168	$38,419

18. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Shareholder Information

Directors

Ronald J. Goguen

Paul E. Légère

Robert H. Morgan

H. Lawrence Doane (1) (2)

John H. Schiavi (1) (2)

John D. Harvey (2)

David B. Tennant(1)

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Officers

Ronald J. Goguen
Director, President and Chief Executive Officer

Paul E. Légère
Director, Chief Financial Officer

Robert H. Morgan
Director and General Manager – Southern Quebec, Atlantic Provinces, Eastern United States, the Guiana Shield Region, Brazil and Africa

Parris Baker
General Manager – Western United States

Daniel Lacharité
General Manager – Northern Quebec, Northern Ontario, Central America and Venezuela

Eli Tennant
General Manager – Mexico, Peru and Argentina

James A. Gibson
General Counsel and Secretary

Transfer Agent
CIBC Mellon Trust Company

Auditors
LeBlanc Nadeau Bujold
Moncton, New Brunswick

Head Office
Major Drilling Group International Inc.
111 St. George Street, Suite 200
Moncton, New Brunswick, Canada E1C 1T7

Tel: 506-857-8636 Fax: 506-857-9211

Annual General Meeting

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

The Royal York Hotel
100 Front Street West, Toronto, Ontario
on the 30th day of September, 1997,
at 11:00 a.m.

Operations & Offices of Major Drilling Group International Inc. Worldwide

Canada Operations

Forage Major Ideal Drilling
365 Acadie St.
Beresford, NB E0B 1H0
Tel: 506-546-9876
Fax: 506-546-8002

Forage Major Ideal Drilling (Nfld) Ltd.
74 Main St. West
Bishop's Falls, NF A0H 1C0
Tel: 709-258-5144
Fax: 709-258-5207

Forage Major Kennebec Drilling Ltd.
P. O. Box 38
Thetford Mines, PQ
G6G 5R9
or
1741 Notre Dame du Sud St.
Robertsonville, PQ G0N 1L0
Tel: 418-338-3141
Fax: 418-335-2894

Forage Major Dominik Drilling
P. O. Box 247 - 1080 Echo St.
Val d'Or, PQ J9P 4P3
Tel: 819-824-6839
Fax: 819-824-4217

Forage Major Dominik Drilling
P. O. Box 479 - 409 King St.
Porcupine, ON P0N 1C0
Tel: 705-235-4545
Fax: 705-235-4612

Forage Major Hosking Drilling
P. O. Box 81 - 20 Tardiff
Rouyn, PQ J9X 5C7
Tel: 819-762-3528
Fax: 819-762-5589

Forage Drilling Group International Inc. (Purchasing Dpt.)
269 Main St. West, Suite 105
North Bay, ON P1B 2T8
Tel: 705-472-5271
Fax: 705-472-5752

Forage Major Drilling Exportation
P. O. Box 247 - 1080 Echo St.
Val d'Or, PQ J9P 4P3
Tel: 819-824-6839
Fax: 819-824-4217

United States Operations

Maine Diamond Drilling Inc.
P. O. Box 466
Ashland, ME 04732
Tel: 207-435-6400
Fax: 207-435-6491

PC Exploration Inc.
1780 Vernon Street #3
Roseville, CA 95678
Tel: 916-783-9733
Fax: 916-783-8124

PC Exploration Inc.
28689 Norris Road
Bozeman, MT 59715
Tel: 406-586-8484
Fax: 406-586-9676

PC Exploration Inc.
1125 West 650 North
Centerville, UT 84014
Tel: 801-295-4238
Fax: 801-292-6529

Barbados Operations

Major Drilling International Inc.
Hasting Towers, Suite 5
Hasting, Christ Church
Barbados, West Indies
Tel: 246-228-6141
Fax: 246-228-6142

Mexico Operations

Major Drilling de Mexico, S.A. de C.V.
Calle de los Nogales No. 29
Esquina Calle de los Pimas
Parque Indusrial de Hermosillo
Hermosillo, Sonora, Mexico
Tel: 52-62-51-02-65
Fax: 52-62-51-02-62

South America Operations

Majortec Perforaciones S.A.
Calles Guarapiche
Zona Industrial
Unare 1, Puerto Ordaz
Edo. Bolivar, Venezuela
Tel: 58-86-51-33-02
Fax: 58-86-51-13-01

Major Peru S.A.
Av. Santa Rosa 342
Urb. Industrial La Aurora
Ate Viearte, Lima, Peru
Tel/Fax: 51-13-26-13-89
or 51-13-26-18-91

Major Perforaciones S.A. and Perfoeste S.A.
Rodriguez Pena 5391
(5591) Coquimbito - Maipu
Mendoza, Argentina
Tel: 54-61-810860
Fax: 54-61-811884

Major Drilling Guyana Ltd.
78 Garnett Street
Lamana Gardens
Georgetown, Guyana
Tel: 592-25-22-59
Fax: 592-25-22-60

Forage Major Guyane SARL
505 Zone Collery 5
97300 Cayenne
Guyane Française
Tel: 594-35-28-26
Fax: 594-35-38-16

Major Drilling do Brasil Ltda.
Rua José Benedito Antão #35
Bairro Aparecida
Belo Horizonte,
Minas Gerais, 3123-0020
Brasil
Tel: 55-31-428-1383
Fax: 55-31-428-3773

Major Drilling Chile S.A.
Providencia 1270 of 22
Casilla 179 T
Santiago, Chile
Tel: 56-2-235-0319
Fax: 56-2-235-5687

Central America Operations

Major Perforaciones Nicaraguenses S.A.
De la Rotonda "El Gueguense"
en Plaza Espana, a C. Arriba
1 C. Al lago y 1/2 arriba,
Managua, Nicaragua
Tel: 50-52-66-20-25
Fax: 50-52-66-70-55

Major Drilling Honduras, S.A.
Centro Commercial
Miramontes, No. 201
Colonia Miramontes
P. O. Box 3494
Tegucigalpa, MDC
Honduras
Tel/Fax: 504-39-01-06

Panama
Panama City
Panama
Tel: 507-727-0630
Fax: 507-727-0631

Costa Rica
Apartado Postal 1041 - 1200
Pavis, San Jose, Costa Rica
Tel/Fax: 506-231-3599

Dominican Republic
Santo Domingo
Dominican Republic
Tel: 51-13-26-13-89

grupo perforaciones
groupe forage
MAJOR
Drilling Group International Inc.

Corporate Offices
111 St. George Street, Suite 200
Moncton, NB E1C 1T7
Tel: 506-857-8636
Fax: 506-857-9211

Purchasing Department
269 Main Street West, Suite 105
North Bay, ON P1B 2T8
Tel: 705-472-5217
Fax: 705-472-5752

grupo perforaciones
groupe forage
MAJOR
Drilling Group International Inc.

Corporate Offices
111 St. George Street Suite 200
Moncton, NB E1C 1T7
Tel: 506-857-8636
Fax: 506-857-9211