

FORACO INTERNATIONAL S.A.

**Unaudited Condensed Interim Consolidated Financial
Statements**

**Three-month and six-month periods ended
June 30, 2020**



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Unaudited condensed interim consolidated balance sheet - Assets

in thousands of US\$	Note	June 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	(5)	31,181	35,197
Goodwill	(6)	64,096	75,936
Deferred income tax assets		24,445	27,677
Other non-current assets		790	1,147
		120,512	139,957
Current assets			
Inventories, net	(7)	29,703	32,873
Trade receivables, net		34,716	31,189
Other current assets		8,635	10,270
Cash and cash equivalents		16,423	16,053
		89,477	90,385
Total assets		209,989	230,342

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Unaudited condensed interim consolidated balance sheet – Equity and Liabilities

in thousands of US\$	Note	June 30, 2020	December 31, 2019
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,772	1,772
Share premium and retained earnings		151,242	151,559
Other reserves		(143,370)	(122,335)
		9,644	30,996
Non-controlling interests		5,511	5,682
Total equity		15,155	36,678
LIABILITIES			
Non-current liabilities			
Borrowings - Non-current portion of long term debt	(8)	137,395	133,961
Lease obligations - Non current portion	(8)	2,286	2,910
Deferred income tax liabilities		3,398	3,457
Provisions for other liabilities and charges	(9)	441	405
Current liabilities			
Trade payables		15,437	20,301
Other payables		26,756	19,012
Current income tax liabilities		894	1,084
Borrowings - Current portion of long term debt	(8)	1,909	2,817
Borrowings - Current portion of drawn credit lines	(8)	4,834	8,149
Lease obligations - Current portion	(8)	1,239	1,241
Provisions for other liabilities and charges	(9)	246	328
Total liabilities		194,835	193,665
Total equity and liabilities		209,989	230,342
Net debt excluding operating lease obligations under IFRS 16		127,716	128,874

Net debt excluding operating lease obligations is a non IFRS measure and corresponds to the current and non-current portion of borrowings, net of cash and cash equivalents

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Unaudited condensed interim consolidated income statement

In thousands of US\$	Note	Three-month period ended June 30,		Six-month period ended June 30,	
		2020	2019	2020	2019
Revenue	(4)	47,351	54,093	97,022	99,295
Cost of sales	(11)	(36,187)	(45,627)	(80,594)	(86,592)
Gross profit		11,164	8,466	16,427	12,703
Selling, general and administrative expenses	(11)	(5,102)	(5,487)	(10,241)	(10,650)
Other operating income / (expense), net		-	-	-	-
Operating profit / (loss)		6,062	2,979	6,186	2,053
Finance costs		(2,065)	(1,934)	(4,495)	(4,202)
Profit / (loss) before income tax		3,997	1,045	1,691	(2,149)
Income tax (expense) / profit	(12)	(720)	246	(479)	(493)
Profit / (loss) for the period		3,277	1,291	1,212	(2,642)
Attributable to:					
Equity holders of the Company		1,726	597	(316)	(3,382)
Non-controlling interests		1,551	694	1,529	740
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share):					
- basic	(15)	1.88	0.66	(0.35)	(3.77)
- diluted	(15)	1.92	0.66	(0.35)	(3.77)

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Unaudited condensed interim consolidated statement of changes in equity

in thousands of US\$	Attributable to equity holders of the Company				Non-controlling interests	Total Equity
	Share Capital	Share Premium and Retained Earnings	Other Reserves	Total		
Balance at January 1, 2019	1,772	150,474	(114,478)	37,768	3,026	40,794
Profit / (loss) for the period	-	(3,382)	-	(3,382)	740	(2,642)
Currency translation differences	-	-	(348)	(348)	927	579
Employee share-based compensation	-	-	90	90	-	90
Exercise of share-based compensation	-	-	-	-	-	-
Treasury shares purchased (see Note 10)	-	-	(14)	(14)	-	(14)
Dividend paid to non controlling interests	-	-	-	-	-	-
Balance at June 30, 2019	1,772	147,092	(114,750)	34,114	4,693	38,807
Balance at January 1, 2020	1,772	151,558	(122,335)	30,996	5,682	36,678
Profit / (loss) for the period	-	(316)	-	(316)	1,529	1,213
Currency translation differences	-	-	(21,126)	(21,126)	(1,024)	(22,150)
Employee share-based compensation	-	-	90	90	-	90
Treasury shares purchased (see Note 10)	-	-	-	-	-	-
Dividend paid to non controlling interests	-	-	-	-	(676)	(676)
Balance at June 30, 2020	1,772	151,242	(143,371)	9,644	5,511	15,155

Unaudited statement of comprehensive income

in thousands of US\$	June 30, 2020	June 30, 2019
Net profit / (loss) for the period	1,213	(2,642)
Currency translation differences	(22,150)	579
Total comprehensive loss for the period	(20,937)	(2,063)
<i>Attributable to:</i>		
<i>Equity holders of the Company</i>	<i>(21,442)</i>	<i>(3,730)</i>
<i>Non-controlling interests</i>	<i>505</i>	<i>1,667</i>

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Unaudited condensed interim consolidated cash flow statement

in thousands of US\$	Six month ended June 30,	
	2020	2019
Profit / (loss) for the period	1,212	(2,642)
Adjustments for:		
- Depreciation, amortization and impairment (see Note 11)	8,350	8,645
- Non-cash changes in provisions and considerations payable	-	-
- (Gain) / loss on sale and disposal of assets	-	-
- Share-based compensation expenses (see Note 11)	90	90
- Income tax expenses / (profit) (see Note 12)	479	493
- Finance costs, net	4,495	4,202
Cash generated from operations before changes in operating assets and liabilities	14,626	10,788
Changes in operating assets and liabilities:		
- Inventories	225	(1,011)
- Trade accounts receivable and other receivables	(4,034)	(4,056)
- Trade accounts payable and other payables	1,632	4,893
Cash generated from / (used in) operations	12,449	10,614
- Interest paid, net	(1,451)	(1,707)
- Income tax paid	(928)	(1,540)
Net cash flow from / (used in) operating activities	10,070	7,367
Purchase of property, plant and equipment (*)	(4,147)	(5,736)
Net cash generated from / (used in) investing activities	(4,147)	(5,736)
Proceeds from issuance of borrowings, net of issuance costs	417	641
Proceeds from issuance of bonds, net of issuance costs	-	-
Repayments of borrowings	(889)	(1,260)
Repayments of lease obligations	(500)	(408)
Proceeds from / (repayment of) short term credit facilities	(3,211)	(540)
Acquisition of treasury shares (see Note 10)	-	(14)
Dividends paid to non-controlling interests	(676)	-
Net cash generated from / (used in) financing activities	(4,859)	(1,581)
Exchange differences on cash and cash equivalents	(694)	(755)
Net increase / (decrease) in cash and cash equivalents	370	(705)
Cash and cash equivalents at beginning of the period	16,053	11,089
Cash and cash equivalents at end of the period	16,423	10,384
(*) Excluding acquisition financed through leases	None	None

Selected notes to the unaudited condensed interim consolidated financial statements

1. Basis of preparation

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. All material intercompany balances have been eliminated. Because all the disclosures required by IFRS are not included, these interim statements should be read in conjunction with the audited financial statements of Foraco International S.A. and its subsidiaries (“Foraco” or the “Company”) for the year ended December 31, 2019.

Except when otherwise stated, all amounts are presented in thousands of US\$, which is the presentation currency of the Company.

2. Selected notes on critical accounting policies and new accounting pronouncements

2.1. Accounting policies

The accounting policies have been consistently applied with those of the annual financial statements for the year ended December 31, 2019 except for the following: during the year, the income tax expense is recognized based on Management’s best estimate of the average annual income tax rate expected for the full financial year on a tax jurisdiction by tax jurisdiction basis. In the last quarter of each fiscal year, Management determines the effective income tax rate for the full year based on the anticipated actual tax returns to be filed and the effective contribution of each tax jurisdiction to the consolidated financial statements.

2.2. Seasonal fluctuations

The worldwide presence of the Company reduces its overall exposure to seasonality and its influence on business activity, the first quarter being the weakest. In West Africa, most of the Company’s operations are suspended between July and October due to the rainy season. In Canada, seasonal slow periods occur during the winter freeze and spring thaw or break-up periods. Depending on the latitude, this can occur anytime from October until late December (freezing) and from mid-April through to mid-June (break-up). Operations at mining sites continue throughout the year. Russia is also affected by the winter period during which operations are suspended. In Asia Pacific and in South America, where the Company operates exclusively in the Mining segment, a seasonal slowdown in activity occurs around year-end during the vacation period. Certain contracts are also affected in Chile in July and August when the winter season peaks.

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2.3. Going concern

The Covid-19 pandemic significantly impacted the world in the first half of 2020. For Foraco, the first priority was to ensure the health and well-being of its employees, customers and business partners. During the quarter, the Company managed to keep its operations running at a reasonable level. The pandemic affected revenue in certain important operations centers, particularly in North and South America but the Company recorded solid activities in other areas and managed to limit the negative impact of the pandemic on its costs structure thanks to satisfactory control of operations, flexibility of its organization and the support from certain clients and governments.

As at June 30, 2020, the Company met its financial covenants. Despite the current economic environment, and assuming that the health crisis does not deteriorate further, the Company believes that it will have adequate financial resources to continue in operation for a period of at least twelve months.

2.4. Impairment testing

As at December 31, 2019, the Company conducted impairment testing for goodwill at the level of each geographic region using the expected discounted cash flows method. Based on the internal forecasts and projections made, the expected discounted future cash flows generally exceeded, and sometimes significantly, the goodwill carrying amounts. As at March 31, 2020, given the uncertainties regarding the business impacts of the Covid-19 pandemic the Company reperformed an impairment testing for the regions which presented a lower headroom. No impairment charge was required. Based on the current financial performance, the information available including customers' feedback and the Company's backlog, there is no triggering event for conducting impairment tests as at June 30, 2020.

2.5. Deferred tax valuation allowance

The Company's policy is to recognize deferred tax assets only when they can be recovered within a reasonable timeframe. As a general rule, the Company recognizes deferred tax assets only when they can be used against taxable profit generally within five years or when available tax opportunities exist. On this basis, the Company has adopted a partial recognition based approach and has recorded certain valuation allowances. During the period, the Company did not recognize or use any deferred tax asset.

2.6. New accounting pronouncements

Standards, amendments and interpretations to existing standards that were adopted by the Company during the period

- Amendments to IFRS 3
- Amendment to IAS 1 and IAS 8
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The application of the other standards and amendments has not had any material impact on the consolidated financial statements.

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Standards, amendments and interpretations to existing standards that are not yet mandatory effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2020, but have not been early adopted by the Group:

- Annual improvement 2018 – 2020

The application of the new amendments is not expected to have a material impact on the consolidated financial statements.

3. Financial risk management

The Company is exposed to a variety of financial risks through its activity, including: liquidity risk, currency risk, cash transfer restriction, interest rate / re-investment risk, financial counter-party risk and credit risk.

A significant portion of the cash flows of the Company are denominated in Canadian Dollars, Euros, Australian Dollars, Brazilian Real, Chilean Pesos, Russian Rubbles and US Dollars. The financial performance and position as reported in US\$ are dependent on the fluctuations of the US\$ against the other mentioned currencies of the Group.

4. Segment information

The long-standing presence of the Company in the water segment enabled it to develop unique applications for the mining sector. These applications which require the use of certain specific assets and which now represent a growing part of the Company's revenue led the chief operating decision makers to assess the performance of these activities separately from the mining sector. These activities which include the mining dewatering are now classified in the water segment. The historical figures presented in the table above have been restated to present comparative data in a homogeneous manner.

The business segment information for the three-month periods ended June 30, 2020 and June 30, 2019 is as follows:

Three-month period ended	Mining		Water		Group	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue	40,129	48,920	7,222	5,173	47,351	54,093
Gross profit / (loss)	8,650	7,768	2,514	698	11,164	8,466
Operating profit / (loss)	4,326	2,783	1,736	196	6,062	2,979
Finance costs	n/a	n/a	n/a	n/a	(2,065)	(1,934)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	3,997	1,045
Income tax profit / (expense)	n/a	n/a	n/a	n/a	(720)	246
Profit / (Loss) for the period	n/a	n/a	n/a	n/a	3,277	1,291

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The business segment information for the six-month periods ended June 30, 2020 and June 30, 2019 is as follows:

Six-month period ended	Mining		Water		Group	
	June 30,		June 30,		June 30,	
	2020	2019	2020	2019	2020	2019
Revenue	80,509	90,324	16,513	8,971	97,022	99,295
Gross profit / (loss)	12,169	11,385	4,258	1,318	16,427	12,703
Operating profit / (loss)	3,667	1,653	2,519	400	6,186	2,053
Finance costs	n/a	n/a	n/a	n/a	(4,495)	(4,202)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	1,691	(2,149)
Income tax profit / (expense)	n/a	n/a	n/a	n/a	(479)	(493)
Profit / (Loss) for the period	n/a	n/a	n/a	n/a	1,212	(2,642)

The following is a summary of sales to external customers by geographic area for the three-month periods ended June 30, 2020 and June 30, 2019:

Three-month period ended	June 30, 2020	June 30, 2019
Europe, Middle East and Africa	17,758	15,936
South America	6,718	12,892
North America	11,570	15,370
Asia Pacific	11,305	9,895
Net sales	47,351	54,093

During the second quarter 2020, the Covid-19 pandemic significantly impacted the exchange rates between currencies. The evolution of sales by region presented above is largely driven by the impact of exchange rate fluctuations. The Company mitigates its net exposure to foreign currency fluctuations by balancing its costs, revenues and financing in local currencies, resulting in a natural hedge.

The following is a summary of sales to external customers by geographic area for the six-month periods ended June 30, 2020 and June 30, 2019:

Six-month period ended	June 30, 2020	June 30, 2019
Europe, Middle East and Africa	32,863	25,133
South America	15,804	22,649
North America	29,846	34,463
Asia Pacific	18,509	17,050
Net sales	97,022	99,295

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5. Property, plant and equipment

Property, plant and equipment (PP&E) consists of the following:

	Land & Buildings	Drilling equipment & tools	Automotive equipment	Office furniture & other equipment	Rights of use	Total
Year ended December 31, 2019						
Opening net book amount	1,790	27,926	1,817	286	-	31,821
First-time adoption of IFRS 16	-	-	-	-	4,389	4,389
Additions	13	12,862	898	260	861	14,894
Exchange differences	10	2,555	47	1	(9)	2,604
Disposals or retirements	-	(379)	(17)	-	-	(396)
Depreciation expense	(173)	(15,802)	(931)	(142)	(1,065)	(18,113)
Closing net book value	1,640	27,162	1,814	405	4,176	35,197
Period ended June 30, 2020						
Opening net book amount	1,640	27,162	1,814	405	4,176	35,197
Additions	2	3,697	682	65	-	4,446
Exchange differences	(62)	97	(40)	(42)	(1)	(48)
Disposals or retirements	-	(55)	(10)	-	-	(65)
Depreciation expense	(55)	(7,304)	(308)	(82)	(600)	(8,349)
Closing net book value	1,525	23,597	2,138	346	3,575	31,181

The PP&E depreciation expense and the intangible asset amortization expense have been charged to the income statement as follows:

Period ended	June 30, 2020	June 30, 2019
Cost of sales	7,949	8,645
Selling, general and administrative expenses	400	172
Total depreciation and amortization	8,349	8,817

6. Goodwill

Goodwill can be analyzed as follows:

	June 30, 2020	December 31, 2019
Goodwill at beginning of period	75,936	78,229
Exchange differences	(11,840)	(2,293)
Goodwill at end of the period	64,096	75,936

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Goodwill is denominated in the functional currency of its primary economic environment and is allocated to the following geographic regions: South America (US\$ 43.0 million), North America (US\$ 8.3 million), Asia Pacific (US\$ 7.0 million) and Europe, Middle East and Africa (US\$ 5.8 million).

The significant variations in currency exchange rates during the period resulted in the recognition of unfavorable exchange rates differences mainly in South America (US\$ 11.8 million for H1 2020).

7. Inventories

Inventories break down as follows:

	June 30, 2020	December 31, 2019
Spare parts and consumables, gross	29,703	32,873
Less inventory allowance	-	-
Inventories, net	29,703	32,873

The Company continually assesses spare parts and consumables and writes off obsolete inventories as soon as they are identified.

8. Financial debt and lease obligations

As at June 30, 2020, the maturity of financial debt can be analyzed as presented in the table below:

	June 30, 2020
Credit lines	4,834
Long-term debt	
Within one year	1,909
Between 1 and 2 years	136,676
Between 2 and 3 years	532
Between 3 and 4 years	188
Between 4 and 5 years	-
Total	144,139

The borrowing above is mainly denominated in Euros.

As part of the implementation of IFRS 16, the Company recognized lease obligations amounting to US\$ 4,389 thousand as at January 1st, 2019. As at June, 2020, the corresponding amount is US\$ 3,525 thousand.

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9. Provisions

Provisions comprise the following elements:

	Pension and retirement indemnities	Provision for tax uncertainty	Claims	Total
As at January 1, 2020	406	-	327	733
Charged to consolidated income statement				
- Addition to provisions	30	-	-	30
- Used amounts reversed	-	-	(60)	(60)
- Unused amounts reversed	-	-	-	-
- Exchange differences	2	-	(23)	(21)
As at June 30, 2020	438	-	244	682

A certain number of claims have been filed by former employees of the Brazilian subsidiary. These claims may result in a cash outflow for the Company. Given the uncertainty surrounding such claims, an amount of US\$ 244 thousand has been provided for as at June 30, 2020.

The Company operates in various countries and may be subject to tax audits and employee related risks. The Company is currently facing such risks in certain countries. The Company regularly reassesses its exposure and accounts for provisions accordingly.

10. Share capital and change in equity

Number of shares outstanding

As at June 30, 2020, the total common shares of the Company are distributed as follows:

	Number of shares
Common shares held directly or indirectly by principal shareholders	37,594,498
Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors	1,164,754
Common shares held by the Company	74,769
Common shares held by the public	51,117,777
Total shares issued and outstanding	89,951,798
Common shares held by the Company	(74,769)
Total common shares issued and outstanding	89,877,029

Treasury shares

The Company filed a notice on June 17, 2020, in respect of an additional NCIB with the TSX. The Company was entitled to purchase up to 1,000,000 additional common shares.

As at June 30, 2020, the Company owns 74,769 of its own shares (74,769 as at December 31, 2019).

The common shares held by the Company can be used for potential future free share plans, bonus schemes and for other general purposes.

11. Expenses by nature

Operating expenses / (income), net by nature are as follows:

	Three-month period ended June 30,		Six-month period ended June 30,	
	2020	2019	2020	2019
Depreciation and amortization	(4,054)	(4,320)	(8,350)	(8,645)
Accruals increases / (reversals)	(2)	(62)	(110)	63
Raw materials, consumables used and external charges	(23,159)	(25,946)	(49,808)	(48,093)
Employee benefit expense	(17,741)	(20,204)	(35,789)	(39,835)
Taxes other than on income	(187)	(453)	(722)	(848)
Other operating (expenses) / profit, net	(72)	(128)	18	117
Total operating expenses	(45,215)	(51,113)	(94,761)	(97,241)

The US\$ 2.0 million net profit corresponding to the successful conclusion of a contract has been allocated to the related expenses for the purpose of the table above.

Share-based compensation expenses recognized within Employee benefit expense for the period ended June 30, 2020 amount to US\$ 90 thousand (US\$ 90 thousand in 2019).

12. Income tax expense

During the three-month period ended June 30, 2020, the Company recognized an income tax expense amounting to US\$ 720 thousand. The income tax is recognized based on Management's best estimate of the average annual income tax rate expected for the full financial year on a tax jurisdiction by tax jurisdiction basis.

13. Commitments and contingencies

Guarantees given are as follows:

	June 30, 2020	December 31, 2019
Bid bonds	222	530
Advance payment guarantees	6,450	3,537
Performance guarantees	1,981	2,091
Retention guarantees	185	181
Financial guarantees	156	155
Total	8,994	6,494

The Company benefits from a contract guarantee line confirmed until May 2022 of €12.7 million (US\$ 14.0 million) of which €4.3 million (US\$ 4.8 million) was used as at June 30, 2020.

As part of the debt reorganization in 2017, the Company granted in favor of its lenders a pledge (i) on 100% of the shares held by Foraco International in certain of its subsidiaries in

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France, Chile, Canada, Brazil and Australia, (ii) on certain intercompany receivables, (iii) over certain bank accounts, (iv) over materials and equipment for the subsidiaries in Australia, Chile and Brazil and (v) over inventories of subsidiaries in Australia and Chile.

14. Related-party transactions

The Company accounted for certain related party transactions including lease of facility and equipment amounting to US\$ 413 thousand for the period ended June 30, 2020 (US\$ 128 thousand for the period ended June 30, 2019).

Compensation paid to key management for the period ended June 30, 2020 amounted to US\$ 596 thousand (US\$ 1,152 thousand for the period ended June 30, 2019).

15. Earnings per share calculation

For the three-month period ended June 30, 2020, the weighted basic average number of shares was 89,868,851 (89,904,095 in 2019) and the weighted diluted average number of shares was 91,917,469 (92,625,630 in 2019).

For the six-month period ended June 30, 2020, the weighted basic average number of shares was 89,868,940 (89,709,220 in 2019) and the weighted diluted average number of shares was 91,917,559 (92,248,039 in 2019).

Diluted earnings per share

Dilutive instruments cannot have an anti-dilutive effect in case of a net loss attributable to the equity holders of the Company. Therefore, the basic and diluted earnings per share are the same for loss making periods.

16. Post balance sheet events

There are no significant post balance sheet events.