

FORACO INTERNATIONAL S.A.

Unaudited Condensed Interim Consolidated Financial Statements

**Three-month period and year ended
December 31, 2019**



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Foraco International S.A.**Unaudited condensed interim consolidated financial statements as of December 31, 2019****Unaudited condensed interim consolidated balance sheet - Assets**

in thousands of US\$	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	(5)	35,197	31,821
Goodwill	(6)	75,936	78,229
Deferred income tax assets		27,677	28,477
Other non-current assets		1,147	1,068
		139,957	139,595
Current assets			
Inventories, net	(7)	32,873	32,932
Trade receivables, net		31,189	31,853
Other current assets		10,270	11,547
Cash and cash equivalents		16,053	11,088
		90,385	87,420
Total assets		230,342	227,015

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Unaudited condensed interim consolidated balance sheet – Equity and Liabilities

in thousands of US\$	Note	December 31, 2019	December 31, 2018
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,772	1,772
Share premium and retained earnings		151,559	150,474
Other reserves		(122,335)	(114,478)
		30,996	37,768
Non-controlling interests		5,682	3,026
Total equity		36,678	40,794
LIABILITIES			
Non-current liabilities			
Borrowings - Non-current portion of long term debt	(8)	133,961	131,863
Lease obligations - Non current portion	(8)	2,910	-
Deferred income tax liabilities		3,457	2,870
Provisions for other liabilities and charges	(9)	405	388
Current liabilities			
Trade payables		20,301	22,361
Other payables		19,012	17,095
Current income tax liabilities		1,084	1,540
Borrowings - Current portion of long term debt	(8)	2,817	2,740
Borrowings - Current portion of drawn credit lines	(8)	8,149	6,900
Lease obligations - Current portion	(8)	1,241	-
Provisions for other liabilities and charges	(9)	328	465
Total liabilities		193,665	186,222
Total equity and liabilities		230,342	227,015
Net debt excluding operating lease obligations under IFRS 16		128,874	130,415

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 December 31,		Year ended December 31,	
		2019	2018	2019	2018
Revenue	(4)	48,379	47,992	205,444	180,046
Cost of sales	(11)	(39,459)	(42,545)	(173,344)	(158,161)
Gross profit		8,920	5,447	32,100	21,885
Selling, general and administrative expenses	(11)	(5,336)	(5,265)	(21,149)	(20,771)
Other operating income / (expense), net		-	-	-	-
Operating profit / (loss)		3,584	182	10,951	1,114
Finance costs		(2,128)	(2,400)	(8,454)	(8,891)
Profit / (loss) before income tax		1,456	(2,218)	2,497	(7,777)
Income tax (expense) / profit	(12)	813	(1,415)	135	(2,853)
Profit / (loss) for the period		2,269	(3,633)	2,632	(10,630)
Attributable to:					
Equity holders of the Company		2,756	(3,931)	1,085	(10,616)
Non-controlling interests		(487)	298	1,547	(546)
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share):					
- basic	(15)	3.07	(4.37)	1.21	(11.83)
- diluted	(15)	2.99	(4.37)	1.18	(11.83)

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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, 2018	1,772	160,980	(97,902)	64,850	4,297	69,147
Profit / (loss) for the period	-	(10,616)	-	(10,616)	(14)	(10,630)
Currency translation differences	-	-	(16,570)	(16,570)	(770)	(17,340)
Employee share-based compensation	-	-	181	181	-	181
Exercise of share-based compensation	-	110	(110)	-	-	-
Treasury shares purchased (see Note 10)	-	-	(77)	(77)	-	(77)
Dividend paid to non controlling interests	-	-	-	-	(487)	(487)
Balance at December 31, 2018	1,772	150,474	(114,478)	37,768	3,026	40,794
Balance at January 1, 2019	1,772	150,474	(114,478)	37,768	3,026	40,794
Profit / (loss) for the period	-	1,085	-	1,085	1,547	2,632
Currency translation differences	-	-	(8,017)	(8,017)	964	(7,053)
Employee share-based compensation	-	-	180	180	-	180
Increased Capital	-	-	-	-	1,192	1,192
Treasury shares purchased (see Note 10)	-	-	(19)	(19)	-	(19)
Dividend paid to non controlling interests	-	-	-	-	(1,046)	(1,046)
Balance at December 31, 2019	1,772	151,558	(122,335)	30,996	5,682	36,679

Unaudited statement of comprehensive income

in thousands of US\$	Year ended	
	December 31, 2019	December 31, 2018
Net profit / (loss) for the period	2,632	(10,630)
Currency translation differences	(7,054)	(17,340)
Total comprehensive loss for the period	(4,422)	(27,970)
<i>Attributable to:</i>		
<i>Equity holders of the Company</i>	<i>(6,932)</i>	<i>(27,186)</i>
<i>Non-controlling interests</i>	<i>2,511</i>	<i>(784)</i>

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Unaudited condensed interim consolidated cash flow statement

in thousands of US\$	Year ended December 31,	
	2019	2018
Profit / (loss) for the period	2,632	(10,630)
Adjustments for:		
- Depreciation, amortization and impairment (see Note 11)	18,119	16,787
- Non-cash changes in provisions and considerations payable	-	112
- (Gain) / loss on sale and disposal of assets	-	-
- Share-based compensation expenses (see Note 11)	180	181
- Income tax expenses / (profit) (see Note 12)	(135)	2,853
- Finance costs, net	8,455	8,891
Cash generated from operations before changes in operating assets and liabilities	29,251	18,194
Changes in operating assets and liabilities:		
- Inventories	55	(1,962)
- Trade accounts receivable and other receivables	2,071	(9,317)
- Trade accounts payable and other payables	(2,763)	4,433
Cash generated from / (used in) operations	28,614	11,348
- Interest paid, net	(3,364)	(3,374)
- Income tax paid	(4,696)	(2,404)
Net cash flow from / (used in) operating activities	20,554	5,570
Purchase of property, plant and equipment (*)	(12,533)	(12,743)
Net cash generated from / (used in) investing activities	(12,533)	(12,743)
Proceeds from issuance of borrowings, net of issuance costs	938	518
Proceeds from issuance of bonds, net of issuance costs	-	5,863
Repayments of borrowings	(2,629)	(2,503)
Repayments of lease obligations	(864)	-
Proceeds from / (repayment of) short term credit facilities	1,394	1,423
Acquisition of treasury shares (see Note 10)	(19)	(77)
Dividends paid to non-controlling interests	(1,046)	(487)
Net cash generated from / (used in) financing activities	(2,226)	4,737
Exchange differences on cash and cash equivalents	(830)	(1,051)
Net increase / (decrease) in cash and cash equivalents	4,965	(3,487)
Cash and cash equivalents at beginning of the period	11,089	14,575
Cash and cash equivalents at end of the period	16,054	11,088
(*) 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, 2018.

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, 2018 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.

2.3. Going concern

Going concern is assessed based on internal forecasts and projections that take into account the trend in the business in which the Company operates and its capacity to address the market and deliver its services. On the basis of the above, the Company believes that it will have adequate financial resources to continue in operation for a period of at least twelve months. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

As part of the May 2017 debt reorganization, certain key financial covenants were set including minimum cash, leverage ratio and limitation to capital expenditure. As at December 31, 2019, the Company met its covenants. Nothing indicates that the Company will not respect its covenants going forward within the next twelve month period.

2.4. Impairment testing

As at December 31, 2019, the Company performed impairment tests at the level of each geographic region using the carrying value of the Company's long-lived assets based on the expected discounted cash flows method. Based on the internal forecasts and projections made, the expected discounted future cash flows exceeded each of the long-lived asset's carrying amount for each geographic region and accordingly no impairment was recognized as at December 31, 2019.

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.

2.6. New accounting pronouncements

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

- IFRS 16, Leases (January 1, 2019)
- Amendments to IAS 19
- Annual improvement 2014 – 2016; amendments to IFRS 3, IFRS 11, IAS 23 and IAS 12.

The adoption of IFRS 16 resulted in the recognition on rights-of-use assets and lease obligations of US\$ 4.4 million as at January 1, 2019. The Company applied the simplified transition method, where the cumulative effect of initially applying the Standard is recognized at the date of initial application.

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

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 2015 – 2017: modifications to IFRS 9 Financial instruments and IFRS 16 Leases

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 business segment information for the three-month periods ended December 31, 2019 and December 31, 2018 is as follows:

Three-month period ended	Mining		Water		Group	
	December 31,		December 31,		December 31,	
	2019	2018	2019	2018	2019	2018
Revenue	46,499	46,566	1,880	1,426	48,379	47,992
Gross profit / (loss)	8,669	5,794	251	(347)	8,920	5,447
Operating profit / (loss)	3,540	685	44	(503)	3,584	182
Finance costs	n/a	n/a	n/a	n/a	(2,128)	(2,400)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	1,456	(2,218)
Income tax profit / (expense)	n/a	n/a	n/a	n/a	813	(1,415)
Profit / (Loss) for the period	n/a	n/a	n/a	n/a	2,269	(3,633)

The business segment information for the year ended December 31, 2019 and December 31, 2018 is as follows:

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Year ended	Mining		Water		Group	
	December 31,		December 31,		December 31,	
	2019	2018	2019	2018	2019	2018
Revenue	199,327	174,940	6,117	5,106	205,444	180,046
Gross profit / (loss)	31,286	22,101	815	(216)	32,101	21,885
Operating profit / (loss)	10,784	2,234	168	(1,120)	10,952	1,114
Finance costs	n/a	n/a	n/a	n/a	(8,454)	(8,890)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	2,498	(7,776)
Income tax profit / (expense)	n/a	n/a	n/a	n/a	135	(2,853)
Profit / (Loss) for the period	n/a	n/a	n/a	n/a	2,633	(10,629)

The following is a summary of sales to external customers by geographic area for the three-month periods ended December 31, 2019 and December 31, 2018:

Three-month period ended	December 31, 2019	December 31, 2018
Europe, Middle East and Africa	12,931	11,087
South America	10,145	12,605
North America	16,245	17,096
Asia Pacific	9,058	7,204
Net sales	48,379	47,992

The following is a summary of sales to external customers by geographic area for the year ended December 31, 2019 and December 31, 2018:

Year ended	December 31, 2019	December 31, 2018
Europe, Middle East and Africa	52,386	44,603
South America	46,404	36,479
North America	70,499	68,012
Asia Pacific	36,155	30,952
Net sales	205,444	180,046

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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, 2018						
Opening net book amount	2,073	32,447	3,230	302	-	38,054
Additions	35	12,354	437	145	-	12,971
Exchange differences	(101)	(1,866)	(505)	(26)	-	(2,498)
Disposals or retirements	(1)	(120)	(8)	(1)	-	(130)
Depreciation expense	(216)	(14,889)	(1,337)	(134)	-	(16,576)
Closing net book value	1,790	27,926	1,817	286	-	31,821
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

As part of IFRS 16 implementation, the Company recognized rights of use asset amounting to US\$ 4,389 thousand as at January 1st, 2019. This mainly relates to rentals of operational facilities.

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

Year ended	December 31, 2019	December 31, 2018
Cost of sales	17,527	16,758
Selling, general and administrative expenses	592	29
Total depreciation and amortization	18,119	16,787

In the period ended December 31, 2019, the depreciation expense includes US\$ 1,065 thousand of depreciation expense of rights of use (nil in the period ended September 30, 2018), US\$ 318 thousand have been classified in Selling, general and administrative expenses.

6. Goodwill

Goodwill can be analyzed as follows:

	December 31, 2019	December 31, 2018
Goodwill at beginning of period	78,229	89,169
Exchange differences	(2,293)	(10,940)
Goodwill at end of the period	75,936	78,229

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Goodwill is allocated to the following geographic regions: South America (US\$ 53.9 million), North America (US\$ 8.7 million), Asia Pacific (US\$ 7.1 million) and Europe, Middle East and Africa (US\$ 6.2 million). The exchange differences are mainly generated by the variation in exchange rate between the Brazilian Real and the US Dollar.

7. Inventories

Inventories break down as follows:

	December 31, 2019	December 31, 2018
Spare parts and consumables, gross	32,873	32,932
Less inventory allowance	-	-
Inventories, net	32,873	32,932

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 December 31, 2019, the maturity of financial debt can be analyzed as presented in the table below:

	December 31, 2019
Credit lines	8,149
Long-term debt	
Within one year	2,817
Between 1 and 2 years	1,051
Between 2 and 3 years	132,626
Between 3 and 4 years	284
Between 4 and 5 years	-
Total	144,927

The borrowing above is mainly denominated in Euros.

The reconciliation of the financial debt between December 31, 2018 and September 30, 2019 is as follows:

Debt as at December 31, 2018	(141,503)
Proceeds from issuance of borrowings	(938)
Repayment of borrowings	2,629
Net increase in bank overdrafts	(1,394)
Capitalized Interests	(5,516)
Foreign exchange	1,795
Debt as at December 31, 2019	(144,927)

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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 December 31, 2019, the corresponding amount is US\$ 4,151 thousand.

9. Provisions

Provisions comprise the following elements:

	Pension and retirement indemnities	Provision for tax uncertainty	Claims	Total
As at January 1, 2019	387	126	341	853
Charged to consolidated income statement				
- Addition to provisions	109	-	-	109
- Used amounts reversed	(84)	-	(25)	(109)
- Unused amounts reversed	-	(126)	-	(126)
- Exchange differences	(6)	-	11	5
As at December 31, 2019	406	-	327	733

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\$ 327 thousand has been provided for as at December 31, 2019.

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 December 31, 2019, 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

Change in equity

The Company increased the share capital of its subsidiary in Brazil through a capitalization of the intercompany account with Foraco International. The minority shareholder

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contributed US\$ 1,194 thousands to keep unchanged its percentage of shareholding in the subsidiary.

Treasury shares

As at December 31, 2019, the Company owns 74,769 of its own shares (16,269 as at December 31, 2018).

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 December 31,		Year ended December 31, ended	
	2019	2018	2019	2018
Depreciation and amortization	(4,601)	(4,143)	(18,119)	(16,787)
Accruals increases / (reversals)	72	594	69	965
Raw materials, consumables used and external charges	(21,098)	(23,548)	(94,779)	(84,323)
Employee benefit expense	(19,018)	(20,217)	(79,624)	(76,316)
Taxes other than on income	(79)	(269)	(1,322)	(1,547)
Other operating (expenses) / profit, net	(71)	(227)	(717)	(924)
Total operating expenses	(44,795)	(47,810)	(194,492)	(178,932)

Share-based compensation expenses recognized within Employee benefit expense for the period ended December 31, 2019 amount to US\$ 180 thousand (US\$ 180 thousand in 2018).

12. Income tax expense

During the year ended December 31, 2019, the Company recognized an income tax profit amounting to US\$ 135 thousand, corresponding mainly to the recognition of losses carrying forward where the company generated profit only partially compensated by tax payable in countries where no losses carried forward are available.

13. Commitments and contingencies

Guarantees given are as follows:

	December 31, 2019	December 31, 2018
Bid bonds	530	83
Advance payment guarantees and performance guarantees	5,628	505
Retention guarantees	181	184
Financial guarantees	155	886
Total	6,494	1,658

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The Company benefits from a contract guarantee line of €12.7 million (US\$ 14.2 million) confirmed until May 2022.

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 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\$ 271 thousand for the year ended December 31, 2019 (US\$ 265 thousand for the year ended December 31, 2018).

Compensation paid to key management for the year ended December 31, 2019 amounted to US\$ 2,778 thousand (US\$ 2,737 thousand for the year ended December 31, 2018).

15. Earnings per share calculation

For the three-month period ended December 31, 2019, the weighted basic average number of shares was 89,871,257 (89,959,589 in 2018) and the weighted diluted average number of shares was 92,187,926 (91,508,828 in 2018).

For the year ended December 31, 2019, the weighted basic average number of shares was 89,732,232 (89,745,911 in 2018) and the weighted diluted average number of shares was 92,222,879 (91,973,458 in 2018).

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

On December 30, 2019, the Company was notified of the outcome of a pending commercial claim whereby certain services non previously recognized would become due. In accordance with the Company policy, the net proceeds estimated at US\$ 1.6 million will be accounted for in the period when the profit is deemed certain and the cash is received.