FORACO INTERNATIONAL S.A.

MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period and year ended December 31, 2019

FORACO INTERNATIONAL S.A.

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis (“MD&A”) relates to the results of operations, liquidity and capital resources of Foraco International S.A. (“Foraco” or the “Company”). This report has been prepared by Management and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three-month period and year ended December 31, 2019, including the notes thereto. These quarterly unaudited interim financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”). Following the decision taken by the Accounting Standards Board, IFRS became the accounting standards for all issuers in Canada on January 1, 2011. The Company adopted IFRS and made an explicit and unreserved statement that its consolidated financial statements comply with IFRS in 2004.

Except as otherwise stated in Note 2 to the unaudited interim condensed consolidated financial statements, these quarterly unaudited condensed interim consolidated financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the Company’s audited consolidated financial statements for the year ended December 31, 2018. Except when otherwise stated, all amounts presented in this MD&A are denominated in US Dollars (“US$”). The discussion and analysis within this MD&A are as of March 2, 2020.

Caution concerning forward-looking statements

This document may contain “forward-looking statements” and “forward-looking information” within the meaning of applicable securities laws. These statements and information include estimates, forecasts, information and statements as to Management's expectations with respect to, among other things, the future financial or operating performance of the Company and capital and operating expenditures. Often, but not always, forward-looking statements and information can be identified by the use of words such as “may”, “will”, “should”, “plans”, “expects”, “intends”, “anticipates”, “believes”, “budget”, and “scheduled” or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company’s expectations are disclosed under the heading “Risk Factors” in the Company's Annual Information Form dated March 29, 2019, which is filed with Canadian regulators on SEDAR (www.sedar.com). The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise. All written and oral forward-looking statements and information attributable to Foraco or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements.

This MD&A is presented in the following sections:

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Business Overview

Headquartered in Marseille, France, Foraco is a worldwide drilling service provider with presence in 22 countries and 5 continents. On December 31, 2019, the Company had 1,946 employees and operated 302 drill rigs worldwide, providing a diverse range of drilling services to its customer base. The Company has developed and acquired significant expertise in destructive and non-destructive drilling, as well as proprietary drill rig design capabilities. These capabilities allow Foraco to tailor solutions to meet the specific conditions and drilling requirements of certain customers, such as mining companies, governmental organizations and international development funds. Through its global operations the Company services a range of industries focusing on mining and water.

Foraco specializes in drilling in harsh environments and isolated locations including arctic, desert and mountainous regions, generally under conditions where operations are challenged by logistical matters and geographic barriers. The Company's engineers and technicians have developed special drilling methods which respond to the requirements of certain areas in which geology prevents the use of standard techniques and equipment. The Company has specialized equipment for, among other uses, helicopter-based drilling campaigns, combination rigs able to perform multi-drilling technique contracts, desert-suited rigs and large diameter core sampling systems.

Interim Consolidated Financial Highlights

Financial highlights

(In thousands of US$) *(unaudited)*	Three-month period ended December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Revenue	**48,379**	**47,992**	**205,444**	**180,046**
Gross profit / (loss) (1)	**8,920**	**5,447**	**32,100**	**21,885**
As a percentage of sales	*18.4%*	*11.3%*	*15.6%*	*12.2%*
EBITDA	**8,230**	**4,370**	**29,251**	**18,081**
As a percentage of sales	*17.0%*	*9.1%*	*14.2%*	*10.0%*
Operating profit / (loss)	**3,584**	**182**	**10,952**	**1,114**
As a percentage of sales	*7.4%*	*0.4%*	*5.3%*	*0.6%*
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)
EPS (in US cents)				
Basic	3.07	(4.37)	1.21	(11.83)
Diluted	2.99	(4.37)	1.18	(11.83)

(1) includes amortization and depreciation expenses related to operations.

Three-month period ended December 31, 2019 – Q4 2019

Revenue

- Q4 2019 revenue amounted to US$ 48.4 million compared to US$ 48.0 million in Q4 2018, an increase of 1%.
- The rigs utilization rate was 45% in Q4 2019 compared to 51% in Q4 2018 mainly due to the mixed effect of lower activity in South America compensated by increased activity in Australia where revenue per rig is higher.

Profitability

- The Q4 2019 gross margin including depreciation within cost of sales was US$ 8.9 million (or 18.4% of revenue) compared to US$ 5.4 million (or 11.3% of revenue) in Q4 2018. This increase is due to improved performance on contracts and continued effective cost control over our operating expenses.
- During the quarter, EBITDA amounted to US$ 8.2 million (or 17.0% of revenue), a 88% increase compared to US$ 4.4 million (or 9.1% of revenue) for the same quarter last year.

Year ended December 31, 2019 – FY 2019

Revenue

- FY 2019 revenue amounted to US$ 205.4 million compared to US$ 180.0 million in FY 2018, an increase of 14%.

- The rigs utilization rate was 48% in FY 2019 compared to 45% in FY 2018 mainly due to Australia, Brazil and Russia increase in activity.

Profitability

- FY 2019 gross margin including depreciation within cost of sales was US$ 32.1 million (or 15.6% of revenue) compared to US$ 21.9 million (or 12.2% of revenue) in FY 2018. This increase is due to improved performance on contracts, better absorption of fixed operational costs and continued effective cost control over our operating expenses.

- During the period, EBITDA amounted to US$ 29.3 million (or 14.2% of revenue), compared to US$ 18.1 million (or 10.0% of revenue) for the same period last year.

Net debt

- The net debt excluding the impact of the implementation of IFRS 16 was US$ 128.9 million as at December 31, 2019 compared to US$ 130.4 million as at December 31, 2018. This decrease is mainly linked to the free cash flow generated during the period (US$ 8.0 million) offset by the capitalized interest (US$ 5.5 million). The net debt including the impact of IFRS 16 is US$ 133.0 million as at December 31, 2019.

Backlog

- As at December 31, 2019, the Company's order backlog for continuing operations was US$ 269.1 million of which US$ 158.1 million is expected to be executed during the FY 2020. Last year at the same period, the order backlog for continuing operations was US$ 266.0 million of which US$ 133.9 million was expected to be executed during FY 2019.

Results of Operations

Comparison of the three-month periods ended December 31, 2019 and December 31, 2018

Revenue

The following table provides a breakdown of the Company's revenue for Q4 2019 and Q4 2018 by reporting segment and geographic region:

(In thousands of US$) - *(unaudited)*	Q4 2019	% change	Q4 2018
Reporting segment			
Mining	46,499	0%	46,566
Water	1,880	32%	1,426
Total revenue	***48,379***	***1%***	***47,992***
22			
Geographic region			
Europe, Middle East and Africa	12,931	17%	11,087
South America	10,145	-20%	12,605
North America	16,245	-5%	17,096
Asia Pacific	9,058	26%	7,204
Total revenue	***48,379***	***1%***	***47,992***

Revenue of the quarter slightly increased from US$ 48.0 million in Q4 2018 to US$ 48.4 million in Q4 2019 (+1%).

In EMEA revenue for the quarter was US$ 12.9 million compared to US$ 11.1 million in Q4 2018, an increase of 17%. Each area showed improved activity. In Africa, the Company mobilized new deep-water wells contracts which will continue through 2020. In Russia, most of the contracts will continue during 2020.

Revenue in South America decreased by 20% at US$ 10.1 million in Q4 2019 (US$ 12.6 million in Q4 2018). The activity in Brazil decreased by 20% linked to the end of certain contracts with Junior companies. In Chile, the activity slowed down as political troubles affected the rotation of crews.

Activity in North America remained sustained with revenue at US$ 16.2 million in Q4 2019 compared to US$ 17.1 million in Q4 2018. Extreme weather conditions affected our operations at the end of the quarter.

In Asia Pacific, Q4 2019 revenue amounted to US$ 9.1 million, an increase of 26% mainly due to the increased volume with existing clients and start-up of new contracts.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for Q4 2019 and Q4 2018:

(In thousands of US$) - *(unaudited)*	Q4 2019	% change	Q4 2018
Reporting segment			
Mining	8,669	50%	5,793
Water	251	n/a	(347)
Total gross profit / (loss)	***8,920***	***64%***	***5,446***

The Q4 2019 gross margin including depreciation within cost of sales was US$ 8.9 million (or 18.4% of revenue) compared to US$ 5.4 million (or 11.3% of revenue) in Q4 2018. This increase is due to improved performance on contracts and continued effective cost control over our operating expenses.

Selling, General and Administrative Expenses

The following table provides an analysis of the selling, general and administrative expenses (SG&A):

(In thousands of US$) - *(unaudited)*	**Q4 2019**	**% change**	**Q4 2018**
Selling, general and administrative expenses	5,336	1%	5,265

SG&A was stable compared to the same quarter last year.

Operating result

The following table provides a breakdown of the Company's operating result for Q4 2019 and Q4 2018 by reporting segment:

(In thousands of US$) - *(unaudited)*	**Q4 2019**	**% change**	**Q4 2018**
Reporting segment			
Mining	3,540	n/a	685
Water	44	n/a	(503)
Total operating profit (loss)	**3,584**	***n/a***	**182**

The operating profit was US$ 3.6 million, a US$ 3.4 million improvement as a result of increased activity, improved gross margin and controlled SG&A expenses.

Finance costs

Net financial expenses decreased to US$ 2.1 million in Q4 2019 from US$ 2.4 million in Q4 2018. This decreased is mainly explained by an improved cash position and favorable exchange rates.

Income tax

In Q4 2019, the corporate income tax was a profit of US$ 0.8 million compared to a charge of US$ 1.4 million in the same period for the previous year. This income tax charge corresponds to taxable income in profitable jurisdictions and the recognition of deferred tax assets only when they can be used against taxable profit within a reasonable timeframe (generally five years).

Comparison of the year ended December 31, 2019 and December 31, 2018

Revenue

The following table provides a breakdown of the Company's revenue for FY 2019 and FY 2018 by reporting segment and geographic region:

(In thousands of US$) - *(unaudited)*	FY 2019	% change	FY 2018
Reporting segment			
Mining	199,327	14%	174,940
Water	6,117	20%	5,106
Total revenue	***205,444***	***14%***	***180,046***
Geographic region			
Europe, Middle East and Africa	52,386	17%	44,603
South America	46,404	27%	36,479
North America	70,499	4%	68,012
Asia Pacific	36,155	17%	30,952
Total revenue	***205,444***	***14%***	***180,046***

FY 2019 revenue amounted to US$ 205.4 million compared to US$ 180.0 million in FY 2018, an increase of 14%.

In EMEA, revenue increased by 17%, to US$ 52.4 million in FY 2019 from US$ 44.6 million in FY 2018, as a result of increased activity in Russia and a stable activity in France and Africa.

Revenue in South America increased by 27% at US$ 46.4 million in FY 2019 (US$ 36.5 million in FY 2018). Brazil showed improved activity with major clients and junior companies.

Revenue in North America increased by 4% to US$ 70.5 million in FY 2019 from US$ 68.0 million in FY 2018. In FY 2019, the Company benefited from sustained activity with major clients and secured new long-term contracts in the underground sector.

In Asia Pacific, FY 2019 revenue amounted to US$ 36.2 million, an increase of 17% mainly due to the increased volume with our existing clients and start of new contracts in Australia.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for FY 2019 and FY 2018:

(In thousands of US$) - *(unaudited)*	FY 2019	% change	FY 2018
Reporting segment			
Mining	31,285	42%	22,101
Water	815	*n/a*	(216)
Total gross profit / (loss)	***32,100***	***47%***	***21,885***

The FY 2019 gross margin including depreciation within cost of sales was US$ 32.1 million (or 15.6% of revenue) compared to US$ 21.9 million (or 12.2% of revenue) in FY 2018. This increase is due to improved performance on contracts, better absorption of fixed operational costs and continued effective cost control over our operating expenses.

Selling, General and Administrative Expenses

The following table provides an analysis of the selling, general and administrative expenses (SG&A):

(In thousands of US$) - *(unaudited)*	FY 2019	% change	FY 2018
Selling, general and administrative expenses	21,149	2%	20,771

SG&A increased by 2% compared to the same period last year. As a percentage of revenue, SG&A decreased from 11.5% in FY 2018 to 10.3% in FY 2019.

Operating result

The following table provides a breakdown of the Company's operating result for FY 2019 and FY 2018 by reporting segment:

(In thousands of US$) - *(unaudited)*	FY 2019	% change	FY 2018
Reporting segment			
Mining	10,784	n/a	2,234
Water	168	n/a	(1,120)
Total operating gain (loss)	**10,952**	***n/a***	**1,114**

The operating profit was US$ 11.0 million, a US$ 8.9 million improvement as a result of increased activity, improved operating performance and effective cost control over SG&A expenses.

Finance costs

Net financial expenses was US$ 8.5 million in FY 2019 compared to US$ 8.9 million in FY 2018, of which capitalized interests represented US$ 5.5 million (US$ 5.0 million in FY 2018).

Income tax

In FY 2019, the corporate income tax was a profit of US$ 0.1 million compared to a charge of US$ 2.9 million last year. This income tax charge corresponds to taxable income in profitable jurisdictions and the recognition of deferred tax assets only when they can be used against taxable profit within a reasonable timeframe (generally five years).

Seasonality

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.

Effect of Exchange Rates

The Company operates in a very large number of countries with functional currencies (Euros, Canadian Dollars, Australian Dollars, Chilean Pesos, Brazilian Reals and Russian Rubles) different than the US Dollar, the presentation currency of the Group. The significant variation of the US Dollar over the last quarters has had a substantial impact on the Company's financial statements. The impact of exchange rates on each significant line item of the income statement is reported above.

However, 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 exchange rates against the US$ for the periods under review are as follows:

	Average Q4 2019	**Average Q4 2018**	**Average FY 2019**	**Average FY 2018**	**Closing Q4 2019**	**Closing Q4 2018**
€	0.90	0.88	0.89	0.85	0.89	0.87
CAD	1.32	1.32	1.33	1.30	1.31	1.36
AUD	1.46	1.39	1.44	1.34	1.43	1.42
CLP	757	680	703	646	745	693
BRL	4.11	3.81	3.94	3.69	4.03	3.88
RUB	63.64	66.68	64.69	62.99	61.94	69.35

Liquidity and Capital Resources

The following table provides a summary of the Company's cash flows for FY 2019 and FY 2018:

(In thousands of US$)	FY 2019	FY 2018
Cash generated by operations before working capital requirements	**29,251**	**18,194**
Working capital requirements	(637)	(6,847)
Income tax paid	(4,696)	(2,404)
Purchase of equipment in cash	(12,533)	(12,743)
Free Cash Flow before debt servicing	**11,385**	**(3,800)**
Debt variance	(1,161)	5,301
Interests paid	(3,364)	(3,374)
Acquisition of treasury shares	(19)	(487)
Dividends paid to non-controlling interests	(1,046)	(77)
Net cash generated / (used in) financing activities	**(5,590)**	**1,363**
Net cash variation	**5,795**	**(2,436)**
Foreign exchange differences	(830)	(1,051)
Variation in cash and cash equivalents	**4,965**	**(3,487)**
Cash and cash equivalents at the end of the period	**16,053**	**11,088**

In FY 2019, the cash generated from operations before working capital requirements amounted to US 29.3 million compared to US$ 18.2 million in FY 2018.

In FY 2019, the working capital requirement was US$0.6 million compared to US$ 6.8 million in the same period last year impacted by the significant upturn in activity which started end of 2017.

During the period, the Capex was US$ 12.5 million in cash, a stable amount compared to FY 2018. The Capex mainly relates to major rigs overhauls, ancillary equipment and rods. The Company acquired 9 rigs in FY 2019 and 9 rigs were removed from service.

Free cash flow before debt servicing was US$ 11.4 million in FY 2019 compared to US$ (3.8) million in FY 2018.

As at December 31, 2019, cash and cash equivalents totaled US$ 16.1 million compared to US$ 11.1 million as at December 31, 2018. Cash and cash equivalents are mainly held at or invested within top tier financial institutions.

As at December 31, 2019, net debt excluding IFRS 16 implementation amounted to US$ 128.9 million (US$ 130.4 million as at December 31, 2018).

Bank guarantees as at December 31, 2019 totaled US$ 6.5 million compared to US$ 1.7 million as at December 31, 2018 linked to new contracts in the water segment. The Company benefits from a confirmed contract guarantee line of € 12.7 million (US$ 14.2 million).

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 capital expenditure limit. In December 2018, a new set of covenants applicable to the year 2019 was agreed with the lenders. 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 12 month period.

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.

Cash Transfer Restrictions

Foraco operates in a number of different countries where cash transfer restrictions may exist. The Company organizes its business so as to ensure that the majority of payments are collected in countries where there are no such restrictions. No excess cash is held in countries where cash transfer restrictions exist.

Related-Party Transactions

For details of related-party transactions, please refer to Note 14 of the unaudited condensed interim consolidated financial statements.

Capital Stock

As at December 31, 2019, the capital stock of the Company amounted to US$ 1,772 thousand, divided into 89,951,798 common shares. The common shares of the Company are distributed as follows:

	Number of shares	%
Common shares held directly or indirectly by principal shareholders	37,594,498	41.79%
Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors *	1,164,754	1.29%
Common shares held by the Company**	74,769	0.08%
Common shares held by the public	51,117,777	56.83%
Total common shares issued and outstanding	**89,951,798**	
Common shares held by the Company	(74,769)	
Total common shares issued and outstanding excluding shares held by the Company	**89,877,029**	

**In the table above, the shares owned indirectly are presented as an amount corresponding to the pro rata of the ownership interest*

***74,769 common shares are held by the Company to meet the Company's obligations under the employee free share plan and for the purposes of potential acquisitions.*

Critical Accounting Estimates

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS. The Company's significant accounting policies are described in Note 2 to the annual and unaudited condensed interim consolidated financial statements. As required by IAS 1, the depreciation of property, plant and equipment related to operations is included within cost of sales.

Non-IFRS measures

EBITDA represents Net income before interest expense, income taxes, depreciation, amortization and non-cash share based compensation expenses. EBITDA is a non-IFRS quantitative measure used to assist in the assessment of the Company's ability to generate cash from its operations. The Company believes that the presentation of EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the drilling industry. EBITDA is not defined in IFRS and should not be considered to be an alternative to Profit for the period or Operating profit or any other financial metric required by such accounting principles.

Net debt corresponds to the current and non-current portions of borrowings and the consideration payable related to acquisitions, net of cash and cash equivalents. The lease obligations is not included in the net debt calculation.

Reconciliation of EBITDA is as follows:

(In thousands of US$) *(unaudited)*	Q4 2019	Q4 2018	FY 2019	FY 2018
Operating profit / (loss)	3,584	182	10,951	1,114
Depreciation expense	4,601	4,143	18,119	16,787
Non-cash employee share-based compensation	45	45	180	180
EBITDA	***8,230***	***4,370***	***29,251***	***18,081***

IFRS 16 implementation had a positive impact of US$ 0.3 million in Q4 2019 and US$ 1.1 million in FY 2019.

Litigation and claims

Generally, the Company is subject to legal proceedings, claims and legal action arising in the ordinary course of business. The Company's Management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Subsequent 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 cash is received.

Outlook

The Company's strategy is to become a leading actor in the mineral drilling services sector, assisting its customers to explore or manage their deposits throughout the whole cycle, with a special focus on life of mines extension activity. The Company intends to develop and grow its services offered across the world with a focus on stable jurisdictions, high tech drilling services, optimal commodities mix - with a significant involvement in water related drilling services and choose carefully its customers. The Company expects it will execute its strategy primarily through organic growth in the near future.

As at December 31, 2019, the Company's order backlog for continuing operations was US$ 269.1 million of which US$ 158.1 million is expected to be executed during the FY 2020. Last year at the same period, the order backlog for continuing operations was US$ 266.0 million of which US$ 133.9 million was expected to be executed during FY 2019. The Company's order backlog consists of sales orders. Sales orders are subject to modification by mutual consent and in certain instances orders may be revised by customers. As a result, the order backlog of any particular date may not be indicative of actual operating results for any subsequent period.

Risk Factors

For a comprehensive discussion of the important factors that could impact the Company's operating results, please refer to the Company's Annual Information Form dated March 29, 2019, under the heading "Risk Factors", which has been filed with Canadian regulators on SEDAR (www.sedar.com).