



FORACO INTERNATIONAL REPORTS Q3 2019

Significant growth with revenue + 25% yoy and EBITDA + 64% yoy

Toronto, Ontario/Marseille, France - November 4, 2019. Foraco International SA (TSX:FAR) (the “Company” or “Foraco”), a leading global provider of mineral drilling services, today released its unaudited financial results for the third quarter 2019. All figures are expressed in US Dollars (US\$) unless otherwise indicated.

“The fundamentals driving our business continued to improve during this quarter. We posted US\$ 57.8 million in revenue in Q3 2019, a 25% increase compared to Q3 last year and confirm our growth in market share in most regions. We delivered double digit growth rates in South America, EMEA and Australia with North America remaining at a near record high level of activity. The utilization rate of our fleet of rigs continued to improve at 52% in Q3 2019 compared to 50% in Q2 2019 and 46% in Q3 last year. Overall, we report our best activity level since Q3 2013.” Commented Daniel Simoncini, Chairman and Co-CEO of Foraco. “In 2019, thanks to our unique expertise, we secured long term contracts in the field of water related services with growing demand coming both from the mining and the water supply sectors. We more than doubled revenue in 2019 in this activity which we have been mastering for decades and which becomes a real challenge everywhere as evidenced by the level of projects currently being launched.”

“The 25% revenue growth translated into a 64% increase in EBITDA at US\$ 10.2 million and a net profit of US\$ 3.0 million for this quarter. The cash generated by the operations was US\$ 10.2 million in Q3 2019. We invested US\$ 3.6 million in capex mainly for rigs overhauls, ancillary equipment and rods. The free cash flow before debt servicing was \$ 2.7 million during the quarter.” Added Jean-Pierre Charmensat, Co-CEO and Chief Financial Officer. “Our objective is to continue to focus on free cash flow generation through enhanced operational efficiency driven by our continued revenue growth, improved productivity and cost control, higher synergies between regions and taking advantage of our technical leadership to grow in the high end of our market.”

Highlights - Q3 2019

Revenue

- Q3 2019 revenue amounted to US\$ 57.8 million compared to US\$ 46.4 million in Q3 2018, an increase of 25%.
- The rigs utilization rate was 52% in Q3 2019 compared to 50% in Q2 19 and 46% in Q3 2018.

Profitability

- The Q3 2019 gross margin including depreciation within cost of sales was US\$ 10.5 million (or 18.1% of revenue) compared to US\$ 7.3 million (or 15.7% of revenue) in Q3 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 quarter, EBITDA amounted to US\$ 10.3 million (or 17.7% of revenue), a 64% increase compared to US\$ 6.3 million (or 13.5% of revenue) for the same quarter last year.

Highlights - YTD Q3 2019

Revenue

- YTD Q3 2019 revenue amounted to US\$ 157.1 million compared to US\$ 132.1 million in YTD Q3 2018, an increase of 19%.

Profitability

- YTD Q3 2019 gross margin including depreciation within cost of sales was US\$ 23.2 million (or 14.8% of revenue) compared to US\$ 16.4 million (or 12.4% of revenue) in YTD Q3 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\$ 21.0 million (or 13.4% of revenue), compared to US\$ 13.7 million (or 10.4% of revenue) for the same period last year.

Net debt

- The net debt excluding the impact of the implementation of IFRS 16 was US\$ 128.2 million as at September 30, 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\$ 3.5 million) and the positive impact of foreign exchange rates which more than compensated the capitalized interests (US\$ 3.6 million). The net debt including the impact of IFRS 16 is US\$ 131.9 million as at September 30, 2019

Selected financial data

(In thousands of US\$) (<i>unaudited</i>)	Three-month period ended September 30,		Nine-month period ended September 30,	
	2019	2018	2019	2018
Revenue	57,771	46,353	157,066	132,055
Gross profit (1)	10,478	7,286	23,181	16,439
<i>As a percentage of sales</i>	<i>18.1%</i>	<i>15.7%</i>	<i>14.8%</i>	<i>12.4%</i>
EBITDA	10,233	6,260	21,020	13,712
<i>As a percentage of sales</i>	<i>17.7%</i>	<i>13.5%</i>	<i>13.4%</i>	<i>10.4%</i>
Operating profit / (loss)	5,315	2,089	7,368	933
<i>As a percentage of sales</i>	<i>9.2%</i>	<i>4.5%</i>	<i>4.7%</i>	<i>0.7%</i>
Profit / (loss) for the period	3,004	(855)	362	(6,995)
Attributable to:				
Equity holders of the Company	2,451	(737)	(885)	(6,683)
Non-controlling interests	553	(118)	1,247	(312)
EPS (in US cents)				
Basic	2.73	(0.82)	(0.99)	(7.45)
Diluted	2.66	(0.82)	(0.99)	(7.45)

(1) This line item includes amortization and depreciation expenses related to operations

Financial results

Revenue

(In thousands of US\$) - (unaudited)	<u>Q3 2019</u>	<u>% change</u>	<u>Q3 2018</u>	<u>YTD Q3 2019</u>	<u>% change</u>	<u>YTD Q3 2018</u>
<u>Reporting segment</u>						
Mining	56,985	26%	45,285	152,828	19%	128,374
Water.....	786	-26%	1,068	4,237	15%	3,680
Total revenue.....	<u>57,771</u>	<u>25%</u>	<u>46,353</u>	<u>157,065</u>	<u>19%</u>	<u>132,054</u>
<u>Geographic region</u>						
Europe, Middle East and Africa	14,321	42%	10,094	39,454	18%	33,517
South America	13,610	74%	7,832	36,259	52%	23,875
North America	19,792	3%	19,274	54,255	7%	50,914
Asia Pacific	10,048	10%	9,153	27,097	14%	23,748
Total revenue.....	<u>57,771</u>	<u>25%</u>	<u>46,353</u>	<u>157,065</u>	<u>19%</u>	<u>132,054</u>

Q3 2019

Q3 2019 revenue amounted to US\$ 57.8 million compared to US\$ 46.4 million in Q3 2018, an increase of 25%.

In EMEA, revenue increased by 42%, to US\$ 14.3 million in Q3 2019 from US\$ 10.1 million in Q3 2018, as a result of increased activity in Russia only compensated by a slight decrease in Africa.

Revenue in South America improved by 74% at US\$ 13.6 million in Q3 2019 (US\$ 7.8 million in Q3 2018). The activity in Brazil increased by 74% thanks to sustained activity with major clients and restart of activity with junior companies. Chile and Argentina also contributed to the growth.

Activity in North America remained sustained with revenue increasing by 3% at US\$ 19.8 million in Q3 2019 compared to US\$ 19.3 million in Q3 2018.

In Asia Pacific, Q3 2019 revenue amounted to US\$ 10.0 million, an increase of 10% mainly due to the increased volume with our existing clients.

YTD Q3 2019

YTD Q3 2019 revenue amounted to US\$ 157.1 million compared to US\$ 132.1 million in YTD Q3 2018, an increase of 19%.

In EMEA, revenue increased by 18%, to US\$ 39.5 million in YTD Q3 2019 from US\$ 33.5 million in YTD Q3 2018, as a result of increased activity in Russia partially compensated by a lower activity in France and Africa.

Revenue in South America increased by 52% at US\$ 36.3 million in YTD Q3 2019 (US\$ 23.9 million in YTD Q3 2018). The activity in Brazil improved by 73% thanks to growing activity with major clients and restart of activity with junior companies.

Revenue in North America increased by 7% to US\$ 54.3 million in YTD Q3 2019 from US\$ 50.9 million in YTD Q3 2018. This increase is mainly due to new developments in underground activity since last year, as well as continued sustained activity with major clients.

In Asia Pacific, YTD Q3 2019 revenue amounted to US\$ 27.1 million, an increase of 14% mainly due to the increased volume with our existing clients and start of new contracts.

Gross profit

(In thousands of US\$) - (unaudited)	<u>Q3 2019</u>	<u>% change</u>	<u>Q3 2018</u>	<u>YTD Q3 2019</u>	<u>% change</u>	<u>YTD Q3 2018</u>
<i>Reporting segment</i>						
Mining.....	10,353	44%	7,194	22,617	39%	16,308
Water	125	36%	92	564	n/a	131
Total gross profit / (loss)	<u>10,478</u>	<u>44%</u>	<u>7,286</u>	<u>23,181</u>	<u>41%</u>	<u>16,439</u>

Q3 2019

The Q3 2019 gross margin including depreciation within cost of sales was US\$ 10.5 million (or 18.1% of revenue) compared to US\$ 7.3 million (or 15.7% of revenue) in Q3 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.

YTD Q3 2019

The YTD Q3 2019 gross margin including depreciation within cost of sales was US\$ 23.2 million (or 14.8% of revenue) compared to US\$ 16.3 million (or 12.7% of revenue) in YTD Q3 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

(In thousands of US\$) - (unaudited)	<u>Q3 2019</u>	<u>% change</u>	<u>Q3 2018</u>	<u>YTD Q3 2019</u>	<u>% change</u>	<u>YTD Q3 2018</u>
Selling, general and administrative expenses	5,163	-1%	5,197	15,813	2%	15,506

Q3 2019

SG&A was stable compared to the same quarter last year. As a percentage of revenue, SG&A decreased from 11.2% in Q3 2018 to 8.9% in Q3 2019.

YTD Q3 2019

SG&A increased by 2% compared to the same period last year. As a percentage of revenue, SG&A decreased from 11.7% in YTD Q3 2018 to 10.1% in YTD Q3 2019.

Operating result

(In thousands of US\$) - (unaudited)	<u>Q3 2019</u>	<u>% change</u>	<u>Q3 2018</u>	<u>YTD Q3 2019</u>	<u>% change</u>	<u>YTD Q3 2018</u>
<i>Reporting segment</i>						
Mining	5,260	148%	2,117	7,244	n/a	1,550
Water.....	55	n/a	(28)	124	n/a	(617)
Total operating profit / (loss) .	<u>5,315</u>	<u>154%</u>	<u>2,089</u>	<u>7,368</u>	<u>n/a</u>	<u>933</u>

Q3 2019

The operating profit was US\$ 5.3 million, a US\$ 3.2 million improvement as a result of increased activity, improved gross margin and controlled SG&A expenses.

YTD Q3 2019

The operating profit was US\$ 7.4 million, a US\$ 6.4 million improvement as a result of increased activity, improved operating performance and effective cost control over SG&A expenses.

Financial position

The following table provides a summary of the Company's cash flows for YTD Q3 2019 and YTD Q3 2018:

(In thousands of US\$)	<u>YTD Q3 2019</u>	<u>YTD Q3 2018</u>
Cash generated by operations before working capital requirements	21,021	13,824
Working capital requirements	(2,398)	(7,913)
Income tax paid (received)	(3,204)	(1,548)
Purchase of equipment in cash	(9,379)	(9,433)
Free Cash Flow before debt servicing	6,040	(5,070)
Debt variance	141	3,127
Interests paid	(2,550)	(2,659)
Acquisition of treasury shares	(19)	(58)
Dividends paid to non-controlling interests	(558)	
Net cash generated / (used in) financing activities	(2,986)	410
Net cash variation	3,054	(4,660)
Foreign exchange differences	(871)	(895)
Variation in cash and cash equivalents	<u>2,183</u>	<u>(5,555)</u>

In YTD Q3 2019, the cash generated from operations before working capital requirements amounted to US 21.0 million compared to US\$ 13.8 million in YTD Q3 2018.

In YTD Q3 2019, the working capital requirement was US\$2.4 million compared to US\$ 7.9 million in the same period last year impacted by the significant upturn in activity which started end of 2017.

During the period, Capex amounted to US\$ 9.4 million in cash, stable with H1 2018. The Capex mainly relates to major rigs overhauls, ancillary equipment and rods.

Free cash flow before debt servicing was US\$ 6.0 million in YTD Q3 2019 compared to US\$ (5.1) million in YTD Q3 2018.

As at September 30, 2019, cash and cash equivalents totaled US\$ 13.3 million compared to US\$ 9.0 million as at December 31, 2018. Cash and cash equivalents are mainly held at or invested within top tier financial institutions.

As at September 30, 2019, net debt excluding IFRS 16 implementation amounted to US\$ 128.2 million (US\$ 130.4 million as at December 31, 2018).

Bank guarantees as at September 30, 2019 totaled US\$ 1.5 million compared to US\$ 1.7 million as at December 31, 2018. The Company benefits from a confirmed contract guarantee line of € 12.7 million (US\$ 14.4 million).

Going concern and impairment testing

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. In December 2018, a new set of covenants applicable to the year 2019 was agreed with the lenders. As at September 30, 2019, the Company met its covenants. Nothing indicates that the Company will not respect its covenants going forward within the next 12 month period.

Currency exchange rates

The exchange rates for the periods under review are provided in the Management's Discussion and Analysis of Q3 2019.

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.

Reconciliation of the EBITDA is as follows:

(In thousands of US\$) (unaudited)	<u>Q3 2019</u>	<u>Q3 2018</u>	<u>YTD Q3 2019</u>	<u>YTD Q3 2018</u>
Operating profit / (loss).....	5,315	2,089	7,368	933
Depreciation expense	4,873	4,126	13,518	12,644
Non-cash employee share-based compensation	45	45	135	135
EBITDA	<u>10,233</u>	<u>6,260</u>	<u>21,020</u>	<u>13,712</u>

IFRS 16 implementation had a positive impact of US\$ 0.3 million in Q3 2019 and US\$ 0.8 million in YTD Q3 2019.

Outlook

The Company's business strategy is to actively prepare for the next growth phase of the metallic commodities cycle in the best possible conditions through the development and optimization of its services offered across its range of geographical regions, industry sectors, commodities and customers. The Company expects it will execute its strategy primarily through organic growth in the near future.

Conference call and webcast

On November 4th, 2019, Company Management will conduct a conference call at 12:00 pm ET to review the financial results. The call will be hosted by Daniel Simoncini, Chairman and co-CEO, and Jean-Pierre Charmensat, co-CEO and CFO.

You can join the call by dialing 1-888-231-8191 or 1-647-427-7450. You will be put on hold until the conference call begins. A live audio webcast of the Conference Call will also be available through:

<https://event.on24.com/wcc/r/2128333/B7FFD6EB79753E4F1271EC7444CC9A7F>

An archived replay of the webcast will be available for 90 days.

About Foraco International SA

Foraco International SA (TSX: FAR) is a leading global mineral drilling services company that provides a comprehensive and reliable service offering in mining and water projects. Supported by its founding values of integrity, innovation and involvement, Foraco has grown into the third largest global drilling enterprise with a presence in 22 countries across five continents. For more information about Foraco, visit www.foraco.com.

For further information, please contact:

Fabien Sevestre (ir@foraco.com)

Tel: (705) 495-6363

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