FORACO

FORACO INTERNATIONAL

2012 Annual Report

A GLOBAL LEADER

23 countries across five continents.

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 23 countries across five continents.

MINING

Mining is a cyclical industry.

The success of a mining company is dependent on their ability to maintain a sustainable pipeline of profitable projects to meet demand in the short, mid and long term. Whether this is to develop new projects through exploration and feasibility studies or extending current reserves through life of mine activities, drilling plays a critical role. As ore grades decline drilling also becomes instrumental in defining and securing resources for future production. Each stage of mine life has an inherent cycle and their combination results in a cyclical industry where long term success requires diversification of services, commodities and geography.

- **Reverse circulation**
- **Diamond core**
- **Rotary**
- **Down-the-hole hammer**
- **Direct circulation**
- **Air core**
- **Rotary air blast**

WATER

50 years of water well drilling.

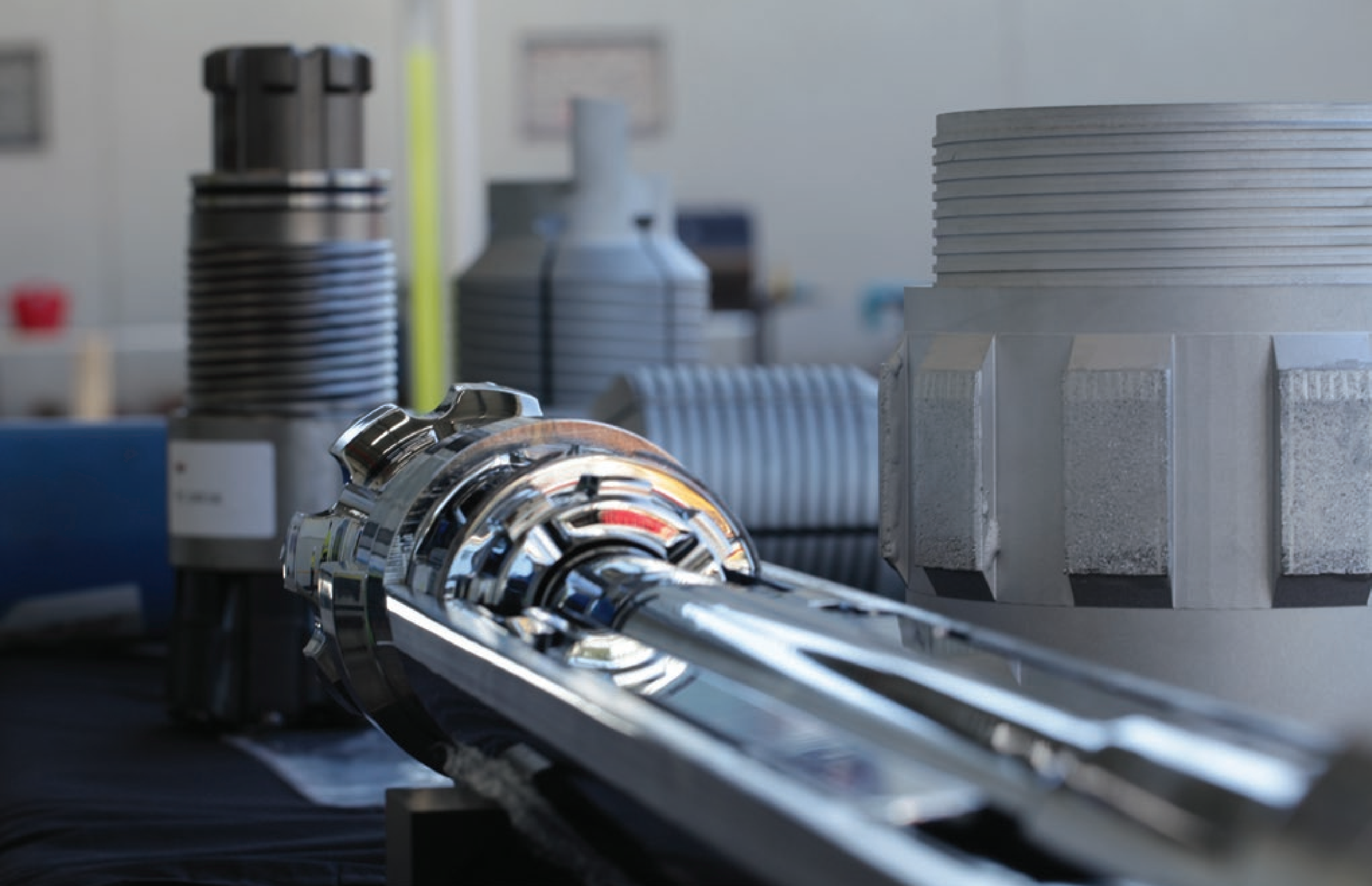
Foraco has extensive experience drilling for water. We focus on drilling water wells for people and also drilling for water in mines. In both activities, larger and deeper wells are becoming more frequent in accessing water tables, or ensuring the dewatering of a mine. Water is a vital commodity, and Foraco's standard practice of utilizing safe and environmentally friendly techniques, has made us world leaders in this field.

- Reverse circulation
- Rotary
- Down-the-hole hammer
- Direct circulation
- Casing while drilling

DRILLING SOLUTIONS

Best-in-class safety standards.

Foraco offers best-in-class safety standards, supported by a professional and well-trained international work force. Our practices and procedures have been honed through extensive global drilling experience in geologically complex formations and extreme natural terrain, Foraco has developed customized sophisticated drilling solutions to meet the needs of our customers. Including; deep directional drilling, hydrogeological drilling, metallurgical sampling and large diameter drilling.

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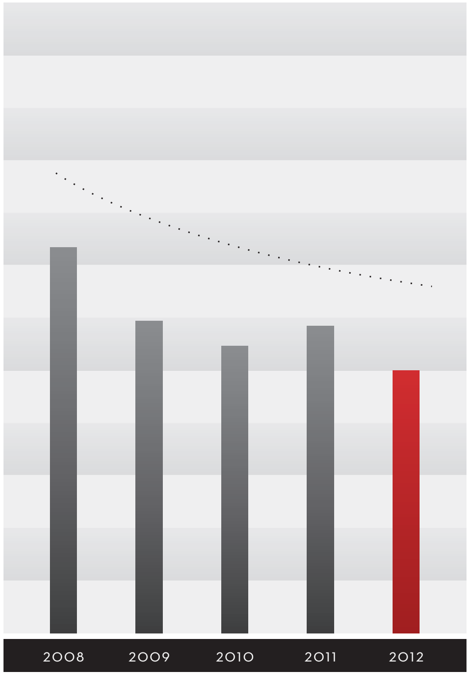
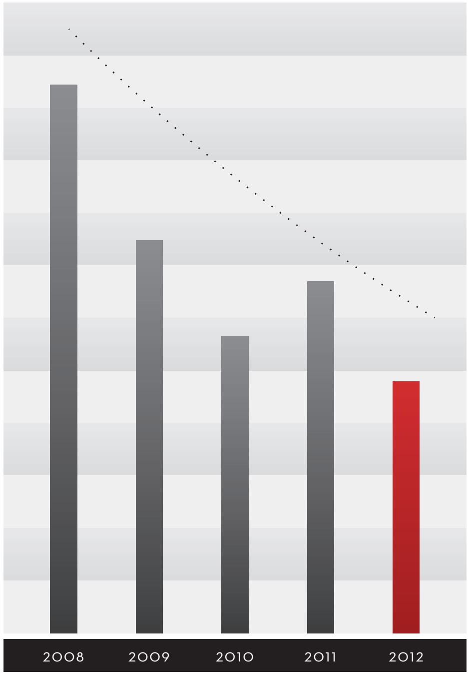
CONTINUOUS SAFETY FOCUS

Lost Time Injury Frequency Rates



Total Recordable Incident Frequency



ENGINEERING FOCUS

Nearly 25% of Foraco's rigs were designed in house consisting today of 12 distinct designs. These proprietary rig designs increase safety and productivity and can be customized for specific clients needs.

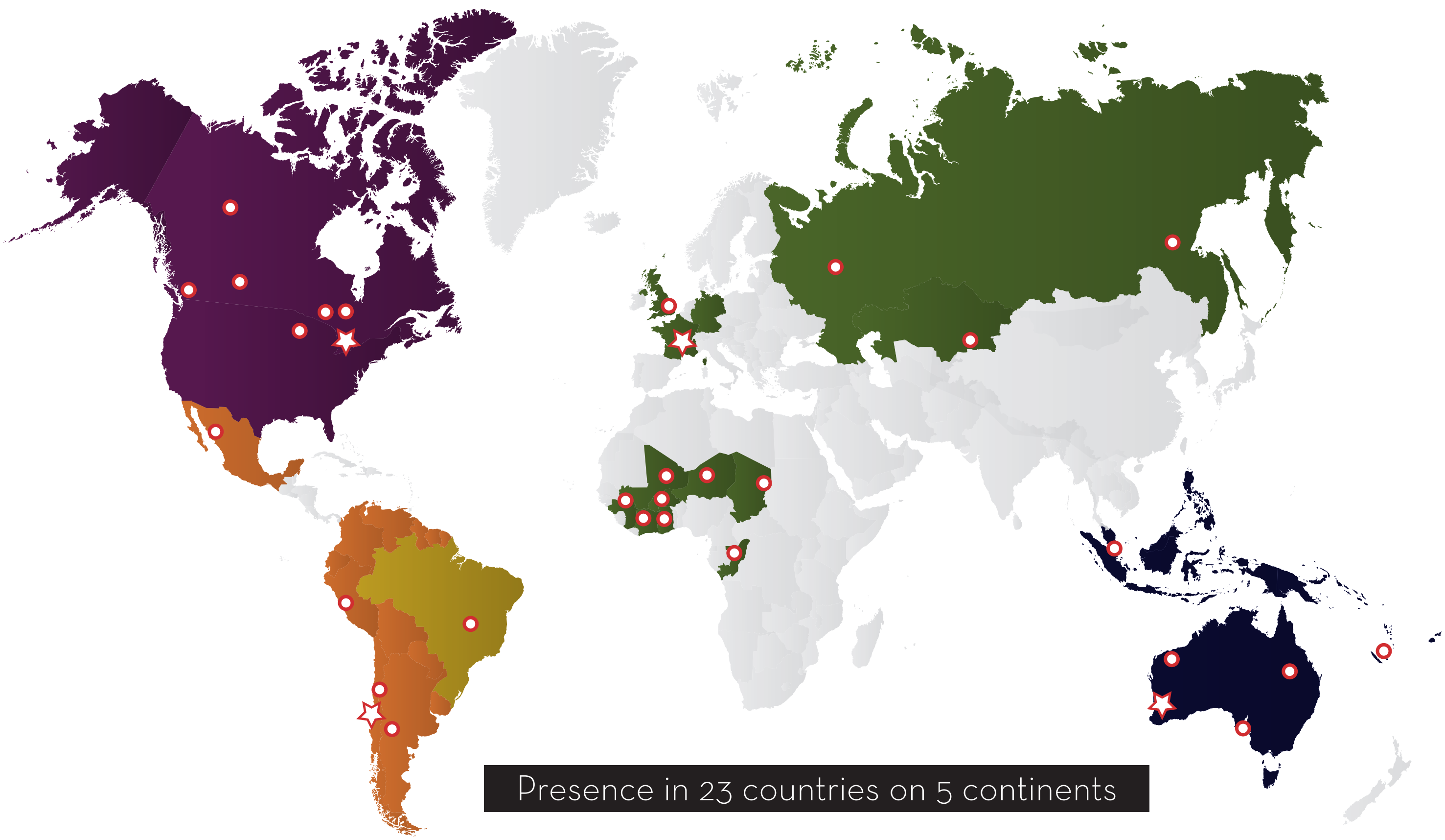
FACTS

308	3,300	$367.5	$83.1
Drill Rigs	Employees	Million Revenue FY 2012	Million EBITDA 2012
			23% of Revenue

Dividend declared CAD 5.5 cents per share in 2013.

*Subject to the approval of the General Meeting to be held on May 22, 2013.

GLOBAL FOOTPRINT



Presence in 23 countries on 5 continents

NORTH AMERICA
Canada, United States

LATIN AMERICA
Argentina, Chile, Mexico, Peru

BRAZIL

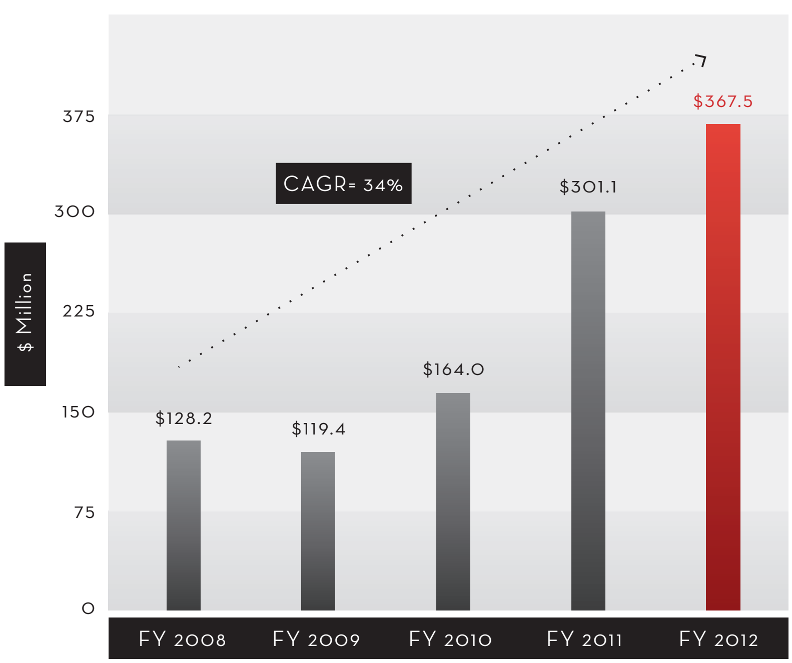
ASIA PACIFIC
Australia, New Caledonia, Singapore

EUROPE, MIDDLE EAST, AFRICA
Russia, Kazakhstan, France, Germany, England, Burkina Faso, Chad, Republic of Congo, Ivory Coast, Ghana, Guinea, Mali, Niger

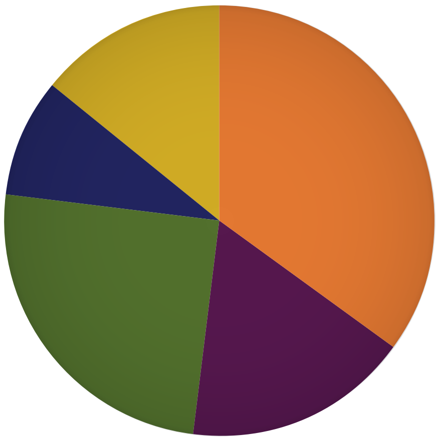
PROFITABLE OPERATIONS

In US$ Million	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenue	128.2	119.4	164.0	301.1	367.5
EBITDA*	32.9	33.5	37.8	73.3	83.1
EBITDA %	25.7%	28.1%	23.0%	24.3%	22.6%
Net Profit	15.5	13.8	11.3	30.4	30.4
Number of Rigs	115	119	180	192	308

ANNUAL REVENUE GROWTH



REGION, COMMODITY & CUSTOMER BASE



35% Latin America

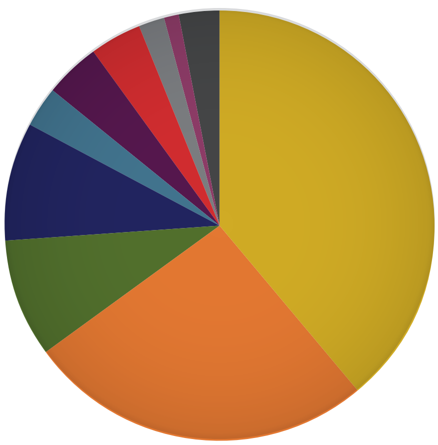
17% North America

25% EMEA

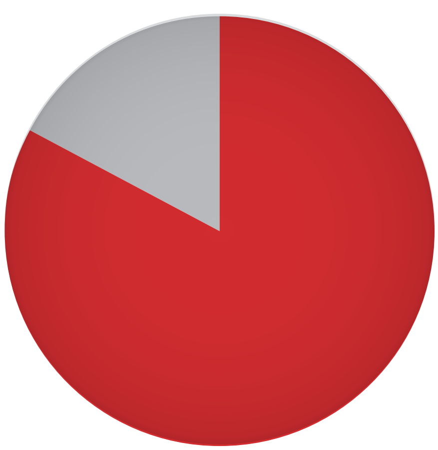
9% Asia Pacific *

14% Brazil *

* JND 1 month consolidated and Servitec 8 months consolidated



39%	Gold	4%	Uranium
26%	Copper	4%	Coal
9%	Iron	2%	Oil & Gas
9%	Nickel	1%	Potash
3%	Water	3%	Base Metals



83% Majors and Multinational Institutions

17% Juniors

BOARD OF DIRECTORS

DANIEL SIMONCINI
Chairman and Co-CEO

CLAUDE DUROCHER
COO

JEAN-PIERRE CHARMENSAT
Co-CEO and CFO

BRUNO CHABAS
Director

GONZALO VAN WERSCH
Director

WARREN HOLMES
Director

JORGE HURTADO
Director

JEAN-PAUL CAMUS
Director

& MANAGEMENT TEAM

TIMOTHY BREMNER
SR VP North America

PETER JACOBS
SR VP Asia Pacific

SANTIAGO MARIN CRUCHAGA
SR VP Latin America

OLIVIER DEMESY
VP of EMEA

PHILIPPE VIOLLE
VP Engineering and Technical Services

WALID KHAOULE
General Manager, Brazil

FERNANDO JOSE CORDERIO DE PAIVA
General Manager, Brazil

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

We are pleased once again to report on our company's activities and results for the fiscal year 2012.

2012 was a year of two contrasting halves for Foraco, and the mineral drilling industry in general. While the first half of the year was quite busy, an extension of the robust activity that continued from 2011; the second half saw a quick downturn triggered by industry wide uncertainty for future metal prices. Despite these rapidly changing conditions, 2012 was overall a good year for Foraco, particularly in terms of strategy implementation. We completed two acquisitions: Servitec in Brazil in April, and JND in Australia in November, adding approximately 1000 employees and 100 rigs to our global capacity. These acquisitions gave us an immediate and significant position in two markets that we believe are sources of key future activities.

In 2012 the global macro economy continued to slowly improve but uncertainty around growth in the Chinese market resulted in a retreat in iron ore prices to below 90 USD, which triggered a shift towards an overall negative sentiment for demand in the commodity sector. In addition, a disconnect between metal price growth and the share price of many major mining companies continued to widen, as many producers struggled to deal with cost inflation, budget overruns due to late delivery of projects, and write offs incurred through acquisitions made during the recent market peak. Furthermore, the Board of Directors at many major mining companies recently brought in new CEOs that cut discretionary spending and initiated reviews of ongoing and planned projects, further slowing exploration and development activities in the second half of the year.

As reported by the SNL Metals Economics Group (MEG), the global mining exploration budget for 2012 amounted to US$21.5 billion for nonferrous exploration spending, a new record high. Although this was a significant increase from last year's US $16.3 billion it was unevenly distributed with late 2012 budget cuts and early project shut downs. This affected the industry in Q4 as most of the drilling contractors saw their businesses contract by 30% in Q4, year-over-year. The change in spending levels during 2012 is reflected in the latest MEG estimates, which predict that exploration funding will decrease by 20 percent for 2013.

This rapid evolution had a significant impact on investor sentiment for commodity related stocks in general, and our share price, like most of our peers, declined during the second half of the year. After reaching a record high of $5.28 in May, we trended downwards and closed the year at $2.41. Despite this overall market trend, we saw a significant improvement in our liquidity in 2012 and trading volume was up nearly 90% from 2011 levels, averaging 35,000 shares per day, net of our Normal Course Issuer Bid (NCIB) purchases, which we used in acquisitions and for our employee free share plan.

The key contributor to our growth in 2012 came from our two latest acquisitions. We posted record high revenue of $365.7 million, a 22% increase from 2011. Our EBITDA was 83.1 million, an increase from last year in absolute terms, with however, a lower percentage of overall revenue, 23% compared to 24% in 2011. This reduction in profitability was primarily due to a slowdown in activity but was also impacted directly by nonrecurring costs in Chile. Our net profit after tax amounted to $32.6 million and our earnings per share, fully diluted, came in at US $0.35 compared to US$ 0.34 in 2011. Our year end order book is $342 million in 2012, compared with $418 million at the end of 2011: this reflects the market global contraction, the lengthened bidding season and the end of three major multi-year contracts in Chile.

In Canada our three regional business units delivered excellent results throughout the country, which continued until the market slowed in Eastern Canada during the last four months of the year. Our diversified range of services and our long term relationships with our main customers allowed us to maintain our operations at a strong level in 2012. During the year we continued to make significant progress in safety management, we dispatched state of the art rigs in Western Canada, we achieved a leadership position in Central Canada for coal drilling activity, and we strengthened our management organization with the onboarding of new, talented managers.

As we identified in past news releases, 2012 was a challenging year in our South American region, comprised of Chile and Argentina. Mid-year, we replaced the management team in Chile, and hired a new Vice President for South America. These changes where necessitated by the persistently poor profitability and overall weak performance of our Chilean business along with the growing dis-alignment of the previous management team with our values and business ethics. These changes created a disruption in the local operations, which was aggravated by the fact that more than anywhere else in the world – with the exception of Australia - we experienced a severe and unexpected contraction of a number of our main long term contracts, with an adverse effect on profitability. On top of these events, we also experienced an exceptionally heavy and longer than usual bidding season, as a large number of long term contracts ended in late in 2012 or early into 2013, and were retendered. Despite these challenges, we are confident in our new team and our ability to re-establish a profitable business in this country in the near term.

During the first half of the year our activity and performance in Africa was very strong, especially with our bigger projects. However, in line with the worldwide contraction in customer activity, the second half of the year saw operational reductions in most countries across the continent. Guinea and Congo were the most impacted by iron ore project cutbacks, which occurred for both political and pricing reasons. This limited our ability to build upon our strong performance with majors that we have served successfully over the last three years in these markets. On the positive side, Ivory Coast and Niger showed strong growth in mining activity, and we were able to safely maintain operations in southern Mali, even as security concerns impacted the northern region.

In Europe we resumed operations in France, while Russia delivered a strong year – despite a volatile market – with excellent operations and safety performance in very hostile weather and challenging logistical conditions.

The Asia-Pacific Region was the first to feel the impact of the slowdown in mid-2012 when the iron ore market ground to a halt as iron ore prices fell and BHP, Rio Tinto, Vale and FMG all slowed their activity levels. With a heavy focus on iron ore projects, our operations in Western Australia slowed significantly. Strategically we recognized the need to increase our footprint and diversify our activity portfolio in Australia to strengthen our platform and complement our current operation with new technologies and additional commodities. When JND came up for sale in the second quarter of 2012, we seized the opportunity to build a nationwide business in a country which is, and will remain, a major commodities producer, and where we are committed to providing a first class technical offering. Established in 1980, JND has grown to become a leading drilling services provider delivering diamond, reverse circulation and water related drilling services in Australia. With 15 active rigs and activities in all of the main mining states in Australia, JND has developed specialized expertise and a proven track record in iron ore, coal, coal seam gas (CSG), as well as water well drilling, with 100% of its revenue sourced from global majors. The JND transaction closed in November and the integration has brought together two very strong teams who are eager to offer unparalleled services to a high-demand, industry leading market.

In the Asia Pacific region outside of Australia our business in New Caledonia delivered another strong year and we were able to renew long term contracts to ensure continued strong performance going forward.

Brazil, our newest region, contributed to eight months of our fiscal 2012 performance. When we purchased Servitec in April, we were eager to enter a market that we considered to be underserviced in terms of drilling technologies and world-class quality services. When we approached the Servitec shareholders, the company was the second largest mineral drilling company in Brazil and had provided diamond and reverse circulation drilling services for major and junior mining companies in Brazil since 2000. Servitec had activities in all of the main mining states of Brazil and owned 86 rigs. Approximately two thirds of Servitec's business is derived from gold exploration, with 75% of its total revenue sourced from majors. We saw a very good fit between the two companies, and became convinced that the combination of our knowledge and skills could create a new leader in Brazil.

The transaction closed in April and since then we have begun to use new techniques and send new rigs into the country. Meanwhile, the market, although experiencing earlier than normal seasonal shut downs in Q4, maintained a relatively consistent demand for drilling services. Our near-term plans are to grow the business in Brazil via an increased range of services, while reinforcing the management structure and finalizing the integration of this business unit which now includes more than 1,000 employees.

After reaching an employment peak in June of last year, we had to reduce our global head count by 556 people and we ended the year with 3,449 employees. Aligned with the slow start of 2013 we will further reduce our workforce and we expect this to stabilize in Q2 2013. As drilling is a skilled people business, and because our success is directly correlated to the quality of our people, we have been very conscious with our employee reductions.

With the significant growth of our overall headcount over the past few years we made the decision to implement a worldwide HR system to enable more effective talent management and development. This new tool box will help us to further strengthen our HR practices and processes and help ensure all our employees are able to perform at industry leading levels.

With specific respect to health, safety and the environment, the Foraco team delivered a very strong performance in 2012 as we decreased our Loss Time Injury (LTI) Rate by 40% and our Total Recordable Incident Frequency (TRIF) Rate by 28% year-over-year while we increased our exposure and volume of worked hours by 2 million. This strong performance was made possible by the dedication of our managers, proactive HSE practices and the dedicated participation of all Foraco employees in programs and initiatives to increase awareness and reduce the risks faced during operations. We remain fully committed to continuous improvement in HSE performance and will continue to focus on ensuring our people are positioned to deliver safe and effective services.

We ended 2012 with 308 rigs, compared to 192 just one year ago. 105 rigs were purchased through acquisitions, 18 new rigs were delivered for organic growth and 7 were retired from service. During the fall, our engineering team delivered the first batch of our new modular diamond drilling system, the 136 series, which can be configured for hands-free rod handling, significantly reducing the manpower and physical labor required at the rig site, and able to operate across a wide range of topographies and climatic conditions. We believe going forward our customers will continue to push us to reduce both the HSE exposure and the total costs of drilling, and this new series of rigs has been designed to meet these demands.

Early in 2012 we strengthened our executive management structure with the appointment of a Chief Operating Officer, Claude Durocher. With the dramatic growth of Foraco over the past few years many of our systems and processes had become strained and the Foraco culture for reliable services was in danger of being diluted. The dynamic market conditions in 2012 resulted in a shift from a focus on growth to a focus on cost and resource optimization. Claude has demonstrated significant organizational skills and has strengthened the platform of open communication and collaboration between regions.

In the past year we've seen the mining industry swiftly enter into a period of rapid optimization and reorganization. In the short term, performing precise capital allocation exercises, implementing cost cutting measures, and returning value to the shareholders will be the top priorities for most of the mining companies' new CEOs. As they reduce costs, and see some sustainability return to metal prices, their long term need to create value will necessitate a renewed focus on the drivers of their future business growth – specifically, exploration for life-of-mine extension, and the discovery of new ore bodies with high grades. It is at this point that we believe global demand for drilling services will surge. It will be the drilling companies, like Foraco, who have kept and developed their best people and continued to invest in cost-effective, high-efficiency equipment that will benefit in full from this pendulum effect.

Our strategy over the past six years has been to create a world-leading drilling company offering comprehensive and reliable services to the mineral and water industry; we will continue to implement this strategy through innovation, enhanced cost effectiveness and a strong belief in our industry. Like our best mining clients, we see the current downturn as an opportunity to organize ourselves and optimize our internal processes, improving efficiencies and responsiveness, and ultimately reinforcing our company so that we are strongly positioned to seize opportunities when activity begins to ramp up again.

The long term drivers of our business are positive – we have a strong and resilient financial position, and we remain poised for future growth. Our high quality services are well diversified across both geographies and commodities. We maintain industry-leading safety standards and we are supported by a strong management team, and highly skilled employees. We look forward to the future.

On behalf of our dedicated employees, senior management, and Foraco's Board of Directors, we thank you for your continued support.

Daniel Simoncini
Chairman & Co-CEO

Jean-Pierre Charmentsat
Co-CEO & CFO

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 annual consolidated financial statements for the year ended December 31, 2012, including the notes thereto. These consolidated 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 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 4, 2013.

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 forwardlooking 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 April 2, 2013, 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:

- Business Overview
- Financial Highlights
- Results of Operations
- Seasonality
- Effect of Exchange Rates
- Liquidity and Capital Resources
- Related-Party Transactions
- Capital Stock
- Critical Accounting Estimates
- Non-IFRS Measures
- Litigation
- Subsequent Events
- Outlook
- Disclosure Controls and Procedures and Internal Control over Financial Reporting
- Risk Factors

BUSINESS OVERVIEW

Headquartered in Marseille, France, Foraco is a worldwide drilling service provider with presence in 23 countries and five continents. On December 31, 2012, the Company had 3,349 employees and operated 308 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.

FINANCIAL HIGHLIGHTS

(In thousands of US$)	2012	2011
Revenue	**367,519**	**301,139**
Gross profit (1)	**67,933**	**69,425**
As a percentage of sales	*18.5%*	*23.1%*
EBITDA	**83,097**	**73,306**
As a percentage of sales	*22.6%*	*24.3%*
Operating profit	**44,989**	**43,419**
As a percentage of sales	*12.2%*	*14.4%*
Profit for the period	**32,617**	**31,414**
EPS (in US cents)		
Basic	33.15	34.51
Diluted	32.69	34.25
EPS (in US cents) including the impact of the considered acquisition of the noncontrolling interest of Servitec		
Basic	35.67	34.51
Diluted	35.18	34.25

(1) includes amortization and depreciation expenses related to operations

Acquisitions of businesses and non-controlling interests

SERVITEC

On April 20, 2012, the Company completed the acquisition of a 51% shareholding in WFS Sondagem S.A. ("Servitec"), a Brazilian drilling service provider, for an amount of US$ 44.2 million through a combination of US$ 20.2 million in cash and 4,816,509 Foraco shares at US$ 4.99 each representing US$ 24.0 million. As part of this agreement, the Company has an option to acquire, and the current shareholders of Servitec have an option to sell, the remaining 49% after three years. The corresponding purchase consideration will depend upon a formula based on the average 2012, 2013 and 2014 EBITDA of Servitec and on the net cash as at December 31, 2014. The maximum amount payable for this tranche is capped at US$ 75 million. A first estimate at transaction date of the present value of the amount payable was US$ 57.0 million. As a result of the change in market conditions towards the end of the year, the Company has revised this estimate and now considers that the present value of the amount payable should approximate US$ 43.7 million. The adjustment amounting to US$ 13.3 million has been accounted for within other operating income and expense in accordance with IFRS 3.

Servitec has been consolidated into the Foraco International financial statements since April 20, 2012. The financial statements as at December 31, 2012 include eight months of Servitec activity.

JOHN NITSCHKE DRILLING

On November 19, 2012, the Company acquired a 100% shareholding in John Nitschke Drilling, ("JND"), an Australian drilling service provider, through a combination of AU$ 30 million (US$ 31.2 million) in cash, an earn out amount, and 6,000,000 warrants giving the right to acquire, for no additional consideration, 6,000,000 Foraco International shares, with the possibility to issue up to an additional 1,000,000 warrants depending on certain market conditions. The warrants will be automatically convertible on the occurrence of certain events on or after 9 months from the closing date. The earn out payable was based on the calendar year 2012 EBITDA of JND. As a result of the change in market conditions over the year, the Company has assessed that JND will not achieve the EBITDA threshold which would generate a payment and therefore, no earn out payable is expected.

Revenue

- 2012 revenue amounted to US$ 367.5 million compared to US$ 301.1 million in 2011, an increase of 22% or US$ 66.4 million including US$ 53.9 million generated by the acquisitions.

Profitability

- 2012 gross profit, including depreciation within cost of sales, decreased to US$ 67.9 million (18.5% of revenue) compared to US$ 69.4 million (23.1% of revenue) in 2011, a decrease of 2%.
- 2012 EBIT amounted to US$ 45.0 million, a 3.6% increase compared to 2011 (US$ 43.4 million). During the last quarter, the Company reestimated at US$ 43.7 million the present value of the amount payable related to the second phase of the Servitec acquisition, compared to US$57.0 million at the acquisition date. The adjustment amounting to US$ 13.3 million has been recorded in other operating income and expense within operating profit in accordance with IFRS 3.
- 2012 EBITDA amounted to US$ 83.1 million (22.6% of revenue) compared to US$ 73.43 million in 2011 (24.3% of revenue). 2012 EBITDA includes US$ 2.2 million one-off transaction costs related to Servitec and JND (nil in 2011).
- 2012 net profit after tax amounted to US$ 32.6 million (8.9% of revenue), an increase of 7% compared to US$ 30.4 million (10.1% of revenue) in 2011.
- 2012 earnings per share attributable to the equity holders of the Company including the non-controlling interests corresponding to Servitec which the Company is in the process of acquiring amounted to 35.67 US cents (basic) and 35.18 US cents (diluted), compared to 34.51 US cents (basic) and 34.25 US cents (diluted) for 2011.

RESULTS OF OPERATIONS

Revenue

The following table provides a breakdown of the Company's revenue for 2012 and 2011 by reporting segment and geographic region:

(In thousands of US$)	2012	% change	2011
Reporting segment			
Mining	357,375	25%	286,444
Water	10,144	-31%	14,695
Total revenue	***367,519***	***22%***	***301,139***
Geographic region			
South America	180,034	53%	117,779
Europe, Middle East and Africa	92,228	-3%	95,135
North America	61,568	10%	55,754
Asia Pacific	33,688	4%	32,472
Total revenue	***367,519***	***22%***	***301,139***

Since Q3 2012, Europe, Africa and Middle East have been grouped into one geographic region for management and reporting purposes (EMEA). Previously, Africa and Europe were presented separately.

2012 revenue amounted to US$ 367.5 million, an increase of 22% compared to 2011 (US$ 301.1 million). Excluding the impact of acquisitions performed during fiscal year 2012, revenue increased by 4% as a result of a strong activity during the first half of 2012 followed by the reduction of activity due to the sharp fall of the exploration budgets of mining companies in the last quarter of 2012.

Revenue in South America amounted to US$ 180.0 million in 2012 (US$ 117.8 million in 2011), an increase of 53%. This growth is mainly generated by the addition of Brazilian operations enabled by the Servitec acquisition in Q2 2012. Excluding this acquisition, revenue increased by 11%.

In EMEA, revenue decreased by 3%, from US$ 95.1 in 2011 to US$ 92.2 million in 2012. This is mainly due to reduced activity levels in Africa during the last quarter which has only partially been offset by a 7% increased activity in Russia.

Revenue in North America increased by 10%, from US$ 55.8 million in 2011 to US$ 61.6 million in 2012. This increase has been realized through increased activity in long term contracts with major companies.

In Asia-Pacific, 2012 revenue amounted to US$ 33.7 million, an increase of 4% compared to 2011, including the integration of JND activity since November 19, 2012. Excluding this acquisition, revenue decreased by 9% compared to 2011.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for 2012 and 2011:

(In thousands of US$)	2012	% change	2011
GROSS PROFIT			
Reporting segment			
Mining	65,145	-2%	66,165
Water	2,788	-14%	3,260
Total gross profit	***67,933***	***-2%***	***69,425***

Overall, 2012 gross profit amounted to US$ 67.9 million compared to US$ 69.4 million in 2011.

All contracts performed well as expected excluding certain contracts in Chile which strongly impacted the gross margin in the second half of 2012.

In Chile two key contracts had a negative impact on gross profit estimated at US$ 6.7 million in 2012, caused by the combination of a significant number of rigs being shut down at the client's request, preexisting unfavorable contract conditions aggravated by the significant downsizing of the allocated fleet, and lower production rates during the winter season. These two contracts are due to expire in mid 2013 and are being re tendered. Negotiations are in progress to recognize contractual compensations and better conditions for the renewal of these long term contracts.

The Company remains focused to adapting its structure and fixed costs to the market conditions, to the integration of newly acquired businesses, and to risk management.

Selling, General and Administrative Expenses

The following table provides an analysis of the selling, general and administrative expenses (SG&A), which represent the vast majority of operating expenses other than cost of sales, for 2012 and 2011:

(In thousands of US$)	2012	% change	2011
Selling, general and administrative expenses	65,145	-2%	66,165
As a percentage of revenue	*9.9*	*8.6%*	

During the year, SG&A expenses included US$ 2.6 million for the one-off costs associated with the business acquisitions in Brazil and Australia. The integration of Servitec and JND contributed US$ 1.4 million to the SG&A expenses. In addition SG&A expenses included costs associated with the relocation and reinforcement of the corporate structure.

Operating Profit

The following table provides a breakdown of the Company's operating profit for 2012 and 2011 by reporting segment:

(In thousands of US$)	2012	% change	2011
OPERATING PROFIT			
Reporting segment			
Mining	43,161	*4%*	41,441
Water	1,828	-8%	1,978
Total gross profit	***44,989***	***4%***	***43,419***

Operating profit increased to US$ 45.0 million in 2012 compared to US$ 43.4 million in 2011. During the last quarter, as a result of the change in market conditions, the Company reestimated at US$ 43.7 million the present value of the amount payable related to the second phase of the Servitec acquisition, compared to US$57.0 million at the acquisition date. The adjustment amounting to US$ 13.3 million has been recorded in other operating income and expense within operating profit in accordance with IFRS 3.

FINANCE COSTS

Net financial expenses amounted to US$ 4.6 million in 2012, compared to US$ 3.4 million last year. This increase is mainly due to the impact of the bank loan and the discounting of the consideration payable related to the second phase of the Servitec acquisition.

INCOME TAX

The effective corporate income tax rate is affected by the relative weight of income tax payable in the various tax jurisdictions where the Company operates. For the year ended December 31, 2012, the effective corporate income tax rate was 19%, compared to 24% last year. Excluding the impact of the re assessment of the second phase of the Servitec acquisition, the income tax rate was 29%in line with the contribution of each various tax jurisdiction and related income tax rate.

SEASONALITY

The continuing geographical expansion of the Company progressively reduces its overall exposure to seasonality and its influence on business activity. 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 mine 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 and in Argentina in July and August when the winter season peaks.

EFFECT OF EXCHANGE RATES

The Company mitigates its exposure to foreign currency fluctuations by balancing its costs, revenues and financing in local currencies, resulting in a natural hedge.

The exchange rates for the years under review are as follows against the US$:

	Closing 2012	Average 2012	Closing 2011	Average 2011
€	0.76	0.78	0,77	0.72
CAD	1.00	1.00	1,02	0.99
AUD	0.96	0.97	0,98	0.97
CLP	478	488	519	485
BRL	2.05	2.02		

LIQUIDITY AND CAPITAL RESOURCES

The following table provides a summary of the Company's cash flows for 2012 and 2011:

(In thousands of US$)	2012	2011
Cash generated from operations before working capital requirement	70,119	74,088
Working capital requirements, interest and tax	(28,326)	(6,320)
Net cash flow from operating activities	**41,973**	**67,768**
Purchase of equipment in cash	(39,512)	(35,702)
Consideration payable related to acquisitions	(49,435)	(7,600)
Net cash used in investing activities	**(88,947)**	**(43,302)**
Proceeds from credit facilities, net	68,835	(7,981)
Acquisition of treasury shares	(3,667)	(3,272)
Dividends paid	(7,068)	(2,957)
Net cash from financing activities	**58,100**	**(14,210)**
Exchange differences	458	(863)
Variation in cash and cash equivalents	**11,584**	**9,393**

For the year ended December 31, 2012, cash generated from operations before changes in operating assets and liabilities decreased to US$ 70.1 million in 2012 compared to US$ 74.1 million in 2011.

After working capital requirements, interest and income tax paid the net cash generated from operations was US$ 41.4 million in 2012 compared to US$67.8 million in 2011. The significant increase in the working capital requirements is mainly due to the increased year on year activity and to

US$12.1 million of income tax paid related to the 2011 profit. The income tax payable may differ from the income tax charge in a given period due to the timing difference between the recognition of the charge and the payment to the tax authorities.

During the year, the Company acquired operating equipment through US$ 41.6 million in cash purchases and financial leases. This compares to a total of US$ 51.3 million in cash purchases and finance leases during 2011.

In 2012 the cash paid for the acquisitions of Servitec and JND net of the cash available in the companies amounted to US$ 48.8 million.

During the year, the Company paid dividends to its minority shareholders in Russia amounting to US$ 2.1 million and dividends to its shareholders amounting to US$ 4.9 million.

As at December 31, 2012, cash and cash equivalents totaled US$ 35.9 million compared to US$ 24.3 million as at December 31, 2011. Cash and cash equivalents are held at or invested within top tier financial institutions.

On December 31, 2012, financial debts and equivalents amounted to US$ 175.0 million (US$ 49.2 million as at December 31, 2011), including two new long term loans amounting to US$ 53 million related to finance the Servitec and JND acquisitions made during the year. The financial debt also includes the present value of the consideration payable in 2015 for the acquisition of the remaining shares of Servitec totaling US$ 43.7 million.

As at December 31, 2012, the maturity of the financial debts (borrowing and other financial debts) breaks down as follows (in thousands of US$):

Maturity	Less than one year	Between one and five years	More than five years	Total
Bank overdraft	26,115	—	—	26,115
Assignment of trade receivables with recourse	13,026	—	—	13,026
Bank financing	18,043	56,305	—	74,348
Capital lease obligations	10,117	5,428	—	15,545
Total financial debt	**67,301**	**61,733**	**—**	**29,034**

Assignment of trade receivables with recourse, which is presented in the table above as "less than one year", is backed by trade receivables and can be renewed as necessary. The Company has used and unused short-term credit facilities of US$ 106 million available as at December 31, 2012 (US$ 82.6 million as at December 31, 2011), corresponding to bank overdrafts and the assignment of trade receivables. US$ 39.1 million has been drawn down as at December 31, 2012.

As at December 31, 2012, the net debt (debt net of cash) amounted to US$ 139.1 million. The ratio of debt (net of cash) to shareholders' equity increased to 0.67 from 0.15 as at December 31, 2011 mainly as a result of the Servitec and JND acquisitions.

Bank guarantees as at December 31, 2012, totaled US$ 22.8 million compared to US$ 19.2 million as at December 31, 2011.

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 the payments are collected in countries where there are no such restrictions. No excess cash is held in countries where cash transfer restrictions exist.

OFF-BALANCE SHEET ITEMS

Off-balance sheet items mainly relate to advance payment guarantees and performance guarantees for an amount of US$ 19.0 million as at December 31, 2012 (US$ 13.4 million as at December 31, 2011). For details on other offbalance sheet items, please refer to Note 26 of the consolidated financial statements.

RELATED-PARTY TRANSACTIONS

For details on related-party transactions, please refer to Note 27 of the consolidated financial statements.

CAPITAL STOCK

As at December 31, 2012, the capital stock of the Company amounted to US$ 1,629 thousand, divided into 82,951,798 common shares. Warrants issued as part the acquisition of Adviser were converted for no consideration into 4,756,539 common shares in May 2012. Warrants issued as part of the acquisition of JND will be converted for no consideration between 6,000,000 and 7,000,000 common shares to be converted before or in 9 months from the transaction date. The common shares of the Company are distributed as follows:

	Number of shares and warrants	%
Common shares held directly or indirectly by principal shareholders	37,596,497	41.95%
Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors *	2,254,322	2.52%
Common shares held by the Company**	724,898	0.81%
Common shares held by the public (including 6,665,620 warrants)	49,041,701	54.72%
Total common shares and warrants issued and outstanding	**89,617,418**	
Common shares held by the Company	(724,898)	
Total common shares and warrants issued and outstanding excluding shares held by the Company	**88, 892,520**	

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

***724,898 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 consolidated financial statements have been prepared in accordance with IFRS. The Company's significant accounting policies are described in Note 2 to the annual 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.

The reconciliation of the EBITDA with the operating profit is as follows:

(In thousands of US$) (unaudited)	2012	2011
Operating profit	44,989	43,419
Depreciation expense	36,540	28,804
Non-cash employee share-based compensation	1,566	1,083
EBITDA	***83,095***	***73,306***

The 2012 EBITDA includes the US$ 13.3 million change in estimate of the present value of the consideration payable for Servitec.

LITIGATION

There is no significant pending litigation.

SUBSEQUENT EVENTS

On March 4, 2013, the Board of Directors proposed a Dividends payment of Cdn$0.055 per common share to be approved by shareholders at the Company's Annual General Meeting on May 22, 2013.

OUTLOOK

The Company's business strategy is to reinforce its existing platform and to develop and optimize the services it offers across geographical regions and industry segments. Foraco expects to continue to execute its strategy through a combination of organic growth and development and acquisitions of complementary businesses in the drilling services industry.

As at December 31, 2012, the Company's order backlog for continuing operations was US$ 342 million, of which US$ 221 million is expected to be executed during the 2013 fiscal year. This compares to an order backlog as at December 31, 2011 of US$ 418 million of which US$ 294 million was expected to be executed during the 2012 fiscal year. As mentioned above, certain significant contracts in Chile are in the process of being re-tendered. These contracts are not included in the backlog as at December 31, 2012.

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 might not be indicative of actual operating results for any subsequent period.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Pursuant to NI 52-109, the directors of the Company are required to certify annually as to the design and operations of their (i) disclosure controls and (ii) internal controls over financial reporting.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure. It covers the preparation of Management's Discussion and Analysis and the Annual Consolidated Financial Statements. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS).

The section below is the result of an analysis carried out in conjunction with the management, the Audit Committee and the various employees involved in the control activity within the Company.

Internal control framework

Internal control is a process implemented by management with the objective of ensuring (i) the effectiveness and efficiency of the Company's operations, (ii) the reliability of financial reporting and disclosures, and (iii) compliance with applicable laws and regulations, including those promoted by the Toronto Stock Exchange (TSX).

The organization of the internal control environment of the Company is based upon the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The inherent limitation in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

Responsibilities over internal control

The Company's Board of Directors is the primary sponsor of the internal control environment. The Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee are the specific bodies acting in the field of internal control and reporting to the Board of Directors. These committees comprise a majority of independent members.

AUDIT COMMITTEE

The Audit Committee meets at least every quarter before the Board of Directors meeting authorizing for issuance the quarterly and annual consolidated financial statements. The main responsibilities of the Audit Committee are the examination of the quarterly and annual financial statements including related disclosures, the internal control environment and the oversight of the work performed by the external auditors. The question of internal control over financial reporting is a core subject discussed by the Audit Committee. During 2012 financial year, the Audit Committee met four times.

COMPENSATION COMMITTEE

The principal responsibilities of the Compensation Committee are the examination of the Company's remuneration policy, in particular changes in the global payroll, and the review of the collective and individual objectives. The Compensation Committee meets at least once a year. During 2012 financial year, the Compensation Committee met twice.

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee meets at least every quarter before the Board of Directors. It reports to the Board of Directors and is in charge of the supervision of the governance of the Company and its relationship with senior management. The Corporate Governance and Nominating Committee met four times during the 2012 financial year.

Internal control organization within the Company

The Company operates in various different countries worldwide and has organized its internal reporting process into a monthly centralized system which allows the flows of relevant operating and financial data upstream to management. The subsidiaries report under standardized forms which are prepared in accordance with IFRS. These forms include financial information such as detailed income statement data, cash flow and working capital data, capital expenditures and other relevant operational data. This reporting, combined with a comprehensive budgeting process and systematic reforecasting, reflects the latest operating conditions and market trends and allows management to perform thorough variance analysis. Management considers that this monthly reporting process provides a reasonable assurance over the monitoring of its operating and financial activities and an effective tool for the operating decision makers.

The financial controlling function is organized by region, internal control being a significant part of the regional controllers' duties. Timely on site reviews are performed by operating and financial representatives from corporate. Considering this organization, there is no dedicated internal control department.

In recent years, the Company saw a significant expansion through their acquisitions in South America, Russia and Australia. As part of the integration process and throughout 2012, the Company strengthened the internal control processes in these locations and enforced the implementation of Group procedures. Specific attention was paid to processes such as the follow-up of contract margins at completion, inventory and treasury.

Approach implemented by the Company

The Company implements an approach consisting of (i) evaluating the design of its control environment over financial reporting and (ii) documenting the related control activities and key controls in a risk control matrix. This approach is implemented at every significant location of the Company. Management also focuses on the integration of newly acquired businesses over which the Company's two step approach on internal control is implemented within a reasonable time period.

The Company views its internal control procedure as a process of continuous improvement and will make changes aimed at enhancing the effectiveness of its internal control and to ensure that processes evolve with the business.

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In 2012, the Company performed a risk assessment which consisted of evaluating the likelihood and the magnitude of the risks to which it is exposed. The conclusions were used to reassess the adequacy of the Company's risk control matrix. The assessment did not reveal any significant deficiencies in the design of the Company's controls.

The Company has evaluated the effectiveness of the internal control procedures over financial reporting as at December 31, 2012 and has concluded that, subject to its inherent limitations, these were effective at a reasonable assurance level. The Company has evaluated the effectiveness of the Company's disclosure controls and concluded that, subject to its inherent limitations, the disclosure controls were effective for the year ended December 31, 2012.

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 April 2, 2013, under the heading "Risk Factors", which has been filed with Canadian regulators on SEDAR (www.sedar.com).

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Foraco International SA

Report on the Consolidated Financial Statements

INTRODUCTION

We have audited the accompanying consolidated financial statements of Foraco International SA and its subsidiaries which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

MANAGEMENTS RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Foraco International SA and its subsidiaries as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers Audit

Marseille, France
March 4, 2013

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CONSOLIDATED BALANCE SHEET — ASSETS

In thousands of US$		As at December 31,		
	Note	**2012**	**2011**	**2010**
ASSETS				
Non-current assets				
Property and equipment	(6)	146,780	92,500	78,289
Goodwill	(7)	133,675	50,629	50,667
Deferred income tax assets	(16)	23,111	7,984	10,805
Other non-current assets	(8)	1,416	1,006	1,699
		304,982	**152,119**	**141,460**
Current assets				
Inventories,net	(9)	52,288	40,754	32,384
Trade receivables, net	(10)	54,931	45,490	40,996
Other current receivables	(11)	16,381	12,464	17,195
Cash and cash equivalents	(12)	35,897	24,313	14,920
		159,497	**123,021**	**105,495**
Total assets		**464,479**	**275,140**	**246,955**

CONSOLIDATED BALANCE SHEET — EQUITY & LIABILITIES

In thousands of US$		As at December 31,		
	Note	2012	2011	2010
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share capital	(13)	1,629	1,468	1,468
Share premium and retained earnings	(13)	219,682	159,434	137,342
Other reserves	(13)	(7,820)	(3,393)	4,131
		213,491	**157,509**	**142,941**
Non-controlling interests	(13)	8,415	5,033	3,811
Total equity		**221,906**	**162,542**	**146,751**
LIABILITIES				
Non-current liabilities				
Borrowings	(14)	61,733	17,292	11,359
Consideration payable related to acquisitions	(15)	44,358	—	—
Deferred income tax liabilities	(16)	8,756	3,976	7,213
Provisions for other liabilities and charges	(17)(18)	871	677	1,597
		115,718	**21,945**	**20,169**
Current liabilities				
Trade and other payables	(19)	53,463	51,535	39,024
Current income tax liabilities		3,568	5,840	2,374
Borrowings	(14)	67,301	31,912	30,332
Consideration payable related to acquisitions	(15)	—	470	7,941
Derivative financial instrument	(7)	1,609	—	—
Provisions for other liabilities and charges	(17)	914	896	364
Total current liabilities		**126,855**	**90,655**	**80,035**
Total equity and liabilities		**464,479**	**275,140**	**246,955**

CONSOLIDATED INCOME STATEMENT — BY FUNCTION OF EXPENSE

In thousands of US$		**Year Ended December 31,**		
	Note	**2012**	**2011**	**2010**
Revenue	(5)	367,519	301,139	164,040
Cost of sales	(20)	(299,586)	(231,714)	(127,932)
Gross Profit		**67,933**	**69,425**	**36,108**
Selling, general and administrative expenses	(20)	(36,247)	(25,983)	(19,508)
Other operating income/(expense), net	(7)	13,303	(23)	301
Operating Profit		**44,989**	**43,419**	**16,901**
Finance income	(22)	1,201	417	212
Finance expense	(22)	(5,831)	(3,806)	(1,637)
Profit before income tax		**40,359**	**40,030**	**15,475**
Income tax expense	(23)	(7,742)	(9,616)	(4,144)
Profit for the year		**32,617**	**30,414**	**11,331**
Attributable to:				
Equity holders of the Company	(24)	27,130	27,027	9,073
Non-controlling interests		5,487	3,387	2,258
		32,617	**30,414**	**11,331**
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US cents per share)				
—basic	(24)	33.15	34.51	12.85
—diluted	(24)	32.69	34.25	12.69
Earnings per share for profit attributable to the equity holders of the Company during the year including the non-controlling interests corresponding to Servitec which the Company is in the process of acquiring and for which the consideration payable is recorded as a liability (expressed in US cents per share)				
—basic	(24)	35.67	34.51	12.85
—diluted	(24)	35.18	34.25	12.69

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of US$	Year Ended December 31,		
	2012	2011	2010
Profit for the year	**32,617**	**30,414**	**11,331**
Net investment hedge, net of tax	(940)	(2,348)	1,175
Currency translation differences	(24)	(5,047)	(4,454)
Other comprehensive income for the year	**(964)**	**7,395)**	**(3,279)**
Total comprehensive income for the year	**31,654**	**23,019**	**8,052**
Attributable to:			
Equity holders of the Company	28,272	19,720	5,789
Non-controlling interests	3,382	3,299	2,263

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of US$	Share Capital	Share Premium and Retained Earnings	Other Reserves (see Note 13)	Total	Non-controlling Interests	Total Equity
	Attributable to Equity Holders of the Company					
Balance at January 1, 2010	**1,190**	**84,134**	**7,043**	**92,367**	**224**	**92,590**
Profit for the year	—	9,073	—	9,073	2,258	11,331
Other comprehensive income for the year	—	—	(3,284)	(3,284)	5	(3,279)
Effect of the adoption of IFRS 3(R)	—	(416)	—	(416)	—	(416)
Employee share-based compensation (Note 21)	—	—	838	838	—	838
Acquisition of Adviser Drilling SA (Note 7)	278	46,418	—	46,696	—	46,696
Purchase of treasury shares (Note 13)	—	(373)	—	(373)	—	(373)
Dividends declared relating to 2009	—	(2,007)	—	(2,007)	(29)	(2,036)
Vesting of share-based compensation (Note 13)		466	(466)	—	—	—
Acquisition of non-controlling interests	—	47	—	47	(65)	(18)
Acquisition of Eastern Drilling Company LLC (Note 7)	—	—	—	—	1,419	1,419
Balance at December 31, 2010	**1,468**	**137,342**	**4,131**	**142,941**	**3,811**	**146,751**
Balance at January 1, 2011	**1,468**	**137,342**	**4,131**	**142,941**	**3,811**	**146,751**
Profit for the year	—	27,027	—	27,027	3,387	30,414
Other comprehensive income for the year	—	—	(7,307)	(7,307)	(88)	(7,395)
Employee share-based compensation (Note 21)	—	—	1,083	1,083	—	1,083
Purchase of treasury shares (Note 13)	—	(3,272)	—	(3,272)	—	(3,272)
Dividends declared relating to 2009	—	(2,962)	—	(2,962)	(2,077)	(5,039)
Vesting of share-based compensation (Note 13)		1,300	(1,300)	—	—	—
Balance at December 31, 2011	**1,468**	**159,434**	**(3,393)**	**157,510**	**5,033**	**162,542**
Balance at January 1, 2012	**1,468**	**159,434**	**(3,393)**	**157,510**	**5,033**	**162,542**
Profit for the year	—	27,130	—	27,130	5,487	32,617
Non controlling interests recorded as a liability	—	2,068	—	—	(2,068)	—
Other comprehensive income for the year	—	—	(927)	(927)	(37)	(964)
Employee share-based compensation (Note 21)	—	—	1,566	1,566	—	1,566
Purchase of treasury shares (Note 13)	—	(3,667)	—	(3,667)	—	(3,667)
Conversion of warrants	91	(91)	—	—	—	—
Acquisition of Servitec and JND through:						
Issuance of equity instruments (Note 13)	70	34,684	—	34,754	—	34,754
Use of treasury shares (Note 13)	—	3,735	(3,735)	—	—	—
Dividends declared relating to 2011	—	(4,943)	—	(4,943)	—	(4,943)
Vesting of share-based compensation (Note 13)		1,331	(1,331)	—	—	—
Balance at December 31, 2012	**1,629**	**219,682**	**(7,820)**	**213,491**	**8,415**	**221,906**

CONSOLIDATED STATEMENT OF CASH FLOW

In thousands of US$	Note	2012	Year ended December 31, 2011	2010
Cash flows from operating activities				
Profit for the year		**32,617**	**30,414**	**11,331**
Adjustments for:				
Depreciation, amortization and impairment	(20)	36,540	28,804	20,018
Changes in non-current portion of provisions and other liabilities		(13,052)	374	55
Loss on sale and disposal of assets		73	409	—
Non-cash share-based compensation expenses	(21)	1,566	1,083	838
Income taxes expense	(23)	7,743	9,615	3,798
Finance income and expenses, net	(22)	4,631	3,389	1,426
Cash generated from operations before changes in operating assets and liabilities		**70,119**	**74,088**	**37,466**
Changes in operating assets and liabilities:				
Inventories		(3,609)	(9,168)	(2,450)
Trade accounts receivable and other receivable		556	(1,649)	(10,106)
Trade accounts payable and other payable		(9,271)	7,717	2,767
Cash generated from operations		**57,795**	**70,988**	**27,677**
Interest received/(paid)		(3,731)	(2,989)	(1,386)
Income tax paid		(12,091)	(231)	(8,928)
Net cash flow fromoperating activities		41,973	67,768	17,363
Cash flows from investing activities				
Purchase of Property and equipment and intangible assets (*)	(6)	(39,512)	(35,702)	13,735)
Acquisition of Servitec, net of cash acquired	(7)	(18,223)	—	—
Acquisition of JND, net of cash acquired	(7)	(31,212)	—	—
Acquisition of Adviser Drilling SA, net of cash acquired (**)	(7)	—	—	(2,700)
Repayment of Adviser Drilling former shareholder's loan	(7)	—	—	467
Acquisition of Eastern Drilling Company, net of cash acquired (***)	(7)	—	(7,600)	(1,588)
Acquisition of Mosslake Drilling Services Pty Ltd, net of cash acquired (**) / (***)	(7)	—	—	(3,180)
Acquisition of non-controlling interests		—	—	(18)
Net cash used in investing activities		**(88,947)**	**(43,302)**	**(20,754)**
Cash flows from financing activities				
Acquisition of treasury shares	(13)	(3,667)	(3,272)	(373)
Repayments of borrowings	(14)	(18,430)	(20,525)	(14,520)
Proceeds from issuance of borrowings, net of issuance costs	(14)	67,104	8,634	7,039
Net increase/(decrease) in bank overdrafts and short-term loans	(14)	20,161	3,910	5,327
Dividends paid to Company's shareholders	(25)	(4,943)	(2,957)	(2,007)
Dividends paid to non-controlling interests		(2,125)	—	(32)
Net cash provided by / (used in) financing activities		**58,100**	**(14,210)**	**(4,566)**
Exchange differences in cash and cash equivalents		458	(863)	(3,028)
Net increase/(decrease) in cash and cash equivalents		**11,584**	**9,393**	**(10,985)**
Cash and cash equivalents at beginning of the year	(12)	24,313	14,920	25,905
Cash and cash equivalents at the end of the year	**(12)**	**35,897**	**24,313**	**14,920**
(*) Excluding acquisition financed through finance leases		*2,128*	*15,608*	*4,402*
(**) Excluding portion of purchased through shares, warrants and treasury shares		—	—	*46,697*
(***) Excluding deferred cash consideration to be paid in future periods		—	*470*	*7,941*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Foraco International SA (the Company) and its subsidiaries (together, the Group or Foraco Group) trade mainly in the mining, geological and hydraulic drilling sectors.

The principle sources of revenue consist of drilling contracts for companies primarily involved in mining and water exploration. The Company has operations in Europe, Middle East and Africa, North America, South America and Asia Pacific.

The Company is a “société anonyme” incorporated in France. The address of its registered office is 26, plage de l’Estaque, 13016 Marseille, France.

These consolidated financial statements were authorized for issue by the Board of Directors on March 4, 2013.

The Company is listed on the Toronto Stock Exchange (TSX) under the symbol “FAR”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of Preparation

The consolidated financial statements of Foraco Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets recognized at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Except otherwise stated, all amounts are presented in thousands of US$.

The Company is a drilling service provider and as such IFRS 6, ‘Exploration for and evaluation of mineral resources’ is not applicable to its operations.

Standards, amendments and interpretations to existing standards that have been adopted by the Company on January 1, 2012 with no material impact on the consolidated financial statements

- Amendment to IAS 12 – “Income taxes” – deferred taxes accounting for investment properties
- IFRS 7 – “Financial instruments: Disclosures”– disclosures on transfers of financial assets
- Improvements to IFRS 2011

Standards, amendments and interpretations to existing standards that are not yet 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, 2013 or later periods, but the Group has not early adopted them:

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint arrangements
- IFRS 12 – Disclosure of interests in other entities
- IFRS 13 – Fair value measurement
- Amendment to IAS 1 – Presentation of financial statements
- Amendment to IAS 19 – Employee benefits
- Amendment to IAS 27 – Separate financial statements
- Amendment to IAS 28 – Associates and joint ventures
- IFRS 7 – Financial instruments – Disclosures
- Amendment to IAS 32 – Financial instruments: presentation
- IFRIC 20 – Stripping costs in the production phase of a surface mine

The impact resulting from the application of these standards, amendments and interpretations is currently being assessed.

2.2 Consolidation

(A) SUBSIDIARIES

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company applies the acquisition method to account for business acquisitions. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets and acquired liabilities assumed (Note 7).

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(B) TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The effects of all transactions with non-controlling interests have to be recorded in equity if there is no change in control and these transactions no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

The accounting treatment for put and call options on non controlling interests is presented in further details in Note 7.

2.3 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management (Chief Executive Officer and vice Chief Executive Officer).

The Group reports its financial performance based on its business segments. Segment reporting disclosures are provided in Note 5.

2.4 Foreign Currency translation

(A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). In accordance with IAS 21.38, the Company has elected to report its consolidated financial statements using the US Dollar as its presentation currency.

(B) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions' valuation where items are re-measured. The exchange rates prevailing at the dates of the transactions are approximated by a single rate per currency for each month (unless these rates are not reasonable approximations of the cumulative effect of the rates prevailing on the transaction dates). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement except when deferred in other comprehensive income as qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or expense. All other foreign exchange gains and losses are presented in the income statement within ‘other operating income / (expense), net’.

(C) GROUP COMPANIES

None of the Company’s entities has the functional currency of a hyperinflation economy. The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of income are translated at a monthly average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income and as a separate component of equity within “Other reserves”.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders’ other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

2.5 Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major refurbishment work and improvements are capitalized with the carrying amount of the replaced part derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Borrowing costs are capitalized as part of the cost of property and equipment. There was no significant borrowing cost capitalized over the periods presented.

Depreciation of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life (Note 6).

The useful lives are as follows:

Buildings.. 10 years
Drills.. 3 to 10 years
Other drilling equipment...................................... 1 to 5 years
Automotive equipment.. 3 to 5 years
Office equipment and furniture .... 2 to 5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period.

When the Company leases assets under the terms of a long-term contract or other agreements that substantially transfer all of the risks and rewards of ownership to the Company, the value of the leased property is capitalized and depreciated (as described above) and the corresponding obligation is recorded as a liability within borrowings.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within ‘Other operating income/ (expense), net’ in the income statement.

2.6 Intangible Assets

GOODWILL

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired, is recorded as goodwill. Goodwill on acquisitions of subsidiaries is presented on the consolidated balance sheet under the line item “Goodwill”.

Goodwill is tested annually for impairment (or when events or changes in circumstances indicate a potential impairment) and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment (see Note 5).

2.7 Impairment of Non-financial Assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial Assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables originated by the Company are included in trade and other current receivables in the consolidated balance sheet.

The Group holds certain financial assets presented within cash and cash equivalents that are treated as financial assets at fair value with changes recognized through net income.

2.9 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The Group does not enter into hedging activities.

2.10 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income within operating expenses on a straight-line basis over the period of the lease.

Where the Group has substantially all the risks and rewards of ownership, the lease is classified as finance lease. Finance leases are capitalized at the lease's commencement date at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.11 Inventories

The Company maintains an inventory of operating supplies and drill consumables such as bits additives and chunks.

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average weighted unit cost method. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

Drilling work is periodically approved by customers. Accordingly, revenues and receivables are accounted for when services have been approved. The amount of revenue is not considered to be reliably measurable until all contingencies relating to services rendered have been resolved. Contracts in progress at the closing date are accounted for using the percentage of completion method whereby revenues and directly attributable costs are recognized in each period based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs including the cost for mobilizing and demobilizing drilling equipment.

When the global income from a contract cannot be reliably estimated, no gross profit is recognized during the period.

Under either of the policies mentioned above, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. This loss is equal to the total estimated loss on the project minus the loss already accounted for and is first applied against the project's receivables. Any excess is then credited to provisions.

2.13 Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established on a case by case basis when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

The Company transfers certain receivables to banks as collateral under an assignment of receivables program. As risks and rewards related to the trade receivables have been retained by the Group, accounts receivable are not derecognized and a financial liability is accounted for against the consideration received from the lenders.

2.14 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities up to six months or provided that these investments are held to meet short term cash needs and there is no significant risks of change in value as a result of an early withdraw. Bank overdrafts are shown within current liabilities on the consolidated balance sheet.

The Company owns certain highly liquid securities based on the €, RUB and Brazilian Reals currency market. These investments are classified as financial assets at fair value through profit or loss.

2.15 Share Capital

Ordinary shares are classified as equity. The Group did not issue any preference shares.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or re-issued. When such shares are subsequently re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognized only to the extent that is is probable that future taxable profit will be available against which the temporary differences can be utilized. .

The deferred tax liabilities were determined for the withholding tax due on the reserves of the subsidiaries, when distributions are probable.

2.18 Provisions

Provisions for restructuring costs and legal claims are recognized when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

The Group did not experience restructuring over the periods presented.

The Group evaluates outflows of resources expected to be required to settle the obligation based on facts and events known at the closing date, from its past experience and to the best of its knowledge. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passing of time is recognized as interest expense.

The Company does not provide for future operating losses, except when such losses result from loss making contracts in accordance with policy described in note 2.12. The Company had no loss making contract over the periods presented.

2.19 Employee Benefits

(A) PENSION OBLIGATIONS

The Group mainly provides to its employees defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan, such as the mandatory retirement plan in France, is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets (if any). The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise. Changes in amounts recognized in other comprehensive income are detailed in Note 13.

Changes in laws and regulations that affect the amount Company's obligations are accounted for as change in actuarial assumptions. There was no such change that materially affected amounts reported over the periods presented.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Company does not provide other post-employment benefits.

(B) BONUSES

The Company recognizes a liability and an expense for bonuses based on a formula that takes into consideration the Group financial performance. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(C) SHARE-BASED COMPENSATION

The Group operates a limited number of equity-settled, share-based compensation plans under which the Group receives services from its employees as consideration for equity instruments (free shares see note 22). The fair value of the employee services received in exchange for the grant of the free shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted determined at grant date.

Non-market vesting conditions, including service conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the Group issues equity instruments such as warrants as a consideration for services to be received from third parties other than employees, these transactions are accounted for as share-based compensation.

When a portion of the purchase consideration to be paid in a business combination is analyzed as being part of a compensation for services to be received from employees, such portion is deducted from the cost of the business combination and accounted for as a cash-settled compensation (see Note 7).

2.20 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

The trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.21 Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share are computed by dividing net income attributable to equity holders of the Company by the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

A reconciliation of the weighted average number of ordinary shares outstanding during the period and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares, is presented in Note 24.

3. FINANCIAL RISK MANAGEMENT

The Group's activity exposes it to a variety of financial risks through its activity: currency risk , interest rate risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company did not enter into derivative financial instruments to cover its exposure over the periods presented.

The Company's cash investment strategy aims to avoid capital risks and reach a global performance level equivalent to the reference free risk interest rate on the € currency market. In order to achieve this objective, the Company contracts certain short term deposits offering guaranteed capital with or without guaranteed interest rate yields.

3.1 Company's Risk Exposure

(A) CURRENCY RISKS

The Group operates internationally and is therefore exposed to foreign exchange risk on its commercial transactions. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Foraco reports its consolidated financial statements in US dollars. The main currencies used by the Group are Euros, Canadian Dollars, US Dollars, Australian Dollars, Brazilian Reals and Chilean Pesos.

The Company mitigates its exposure to foreign currency fluctuations by balancing its costs, revenues and financing in local currencies, resulting in a natural hedge. In 2012, no hedging transactions have been entered into.

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

	Closing 2012	Closing 2011	Closing 2010	Average 2012	Average 2011	Average 2010
€	0.76	0.77	0.76	0.78	0.72	0.75
CAD	1.00	1.02	1.01	1.00	0.99	1.03
AUD	0.96	0.98	1.01	0.97	0.97	1.09
CLP	478	519	461	486	485	516
BRL	2.05	na	na	2.02	na	na

The sensitivity to foreign currencies against US$ fluctuations of the consolidated revenue for the year presented in US$ is summarized as follows (in thousands of US$):

	As at December 31, 2012	
Effect on revenue of a change	**+5%**	**-5%**
Canadian $ / US$	3,078	(3,078)
€ / US$	1,648	(1,648)
AUD / US$	1,301	(1,301)
CLP / US$	5,403	(5,403)
BRL / US$	2,488	(2,488)

A 5% change of the US$ against all the other currencies used by the Group would have a positive or negative impact of US$ 1,631 thousand on the 2012 consolidated profit.

(B) INTEREST RATE RISK

The Company owns certain interest-bearing assets (short term deposit) classified as cash and cash equivalents. However, the Company's income and operating cash flows are substantially independent of changes in market interest rates as the Company has invested in highly liquid deposits with guaranteed nominal value.

The sensitivity to variable interest rate of short term deposits held by the Group is presented below (in thousands of US$):

	As at December 31,		
	2012	**2011**	**2010**
Average amount of cash and cash equivalent over the year	27,457	18,748	15,352
Increase in financial income following a 50 b.p. increase	137	94	77
Decrease in financial income following a 50 b.p. decrease	(137)	(94)	(77)

For the purpose of this analysis, the average cash equivalent has been defined as the arithmetical average of closing positions at each quarter end.

On the financial liabilities, the Company is not significantly exposed to cash flow risks relating to the fluctuations of interest rates as main financing sources bear interest at a fixed rate.

(C) CREDIT RISK

All significant cash and cash equivalents and deposits with banks and financial institutions are spread over major financial institutions having an investment grade rating.

The Company assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set for each subsidiary. The utilization of credit limits is regularly monitored.

The Company's broad geographical and customer distribution limits the concentration of credit risk. One customer accounted for approximately 13% of the Company's sales during the year ended December 31, 2012 (three customers accounted for approximately 34% in 2011 and one customer accounted for 14% in 2010). No other single customer accounted for more than 10% of the Company's sales during the years ended December 31, 2012, 2011 and 2010.

(D) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and short term deposits, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, management maintains flexibility in funding by maintaining availability under committed credit lines.

The maturity analysis for financial liabilities is presented in Note 14.

3.2 Country Risk

The expansion into new geographic areas via acquisitions brings geographic and currency risks. In Africa, certain countries have experienced political or social instability. There is a risk that the operations, assets, employees or repatriation of revenues could be impaired by factors specific to the regions in which the Company operates. The Company benefits from certain insurance coverage to mitigate these inherent risks.

The Company manages its country risk through a number of risk measures and limits, the most important being the regular review of geopolitical conditions and an effective monitoring of liquidity, inventories and equipment potential exposure.

3.3 Capital Risk Management

The primary objective of the Company's capital management is to ensure that it maintains a prudent liquidity ratio in order to support its growth strategy and maximize shareholders value. The Company monitors financial measures presented in Note 5 on an ongoing basis as well as its net cash level (cash and cash equivalent less borrowings) presented in Notes 12 and 14.

3.4 Estimation of Fair Value of Financial Assets and Liabilities

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at December 31, 2012, the Group holds US$ 13,999 thousand of assets at fair value (2011– US$ 3,253 thousand of assets at fair value and 2010 – US$ 5,121 thousand). These assets were valued using quoted prices in active markets (level 1). The Group does not hold any other financial assets at fair value through profit or loss, derivatives or available-for-sale financial assets over the years presented.

The carrying amount of trade receivables less impairment provision and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments (see Note 14).

3.5 Financial Instruments by Category

	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available-for-sale	Total
December 31, 2012					
Assets as per balance sheet					
Trade and other receivables	71,312	—	—	—	71,312
Cash and cash equivalents.	35,897	—	—	—	35,897
Total	**107,209**	**—**	**—**	**—**	**107,209**

	Liabilities at fair value through the profit and loss	**Derivatives used for hedging**	**Other financial liabilities**	**Total**
Liabilities as per balance sheet				
Borrowings	—	—	129,034	129,034
Trade and other payables	—	—	53,463	53,463
Total	**—**	**—**	**182,497**	**182,497**

	Loans and receivables	Assets at fair value through the profit and loss	Derivatives used for hedging	Available-for-sale	Total
December 31, 2011					
Assets as per balance sheet					
Trade and other receivables	57,954	—	—	—	57,954
Cash and cash equivalents.	21,059	3,253	—	—	24,313
Total	**79,013**	**3,253**	**—**	**—**	**82,266**

	Liabilities at fair value through the profit and loss	**Derivatives used for hedging**	**Other financial liabilities**	**Total**
Liabilities as per balance sheet				
Borrowings	—	—	49,204	49,204
Trade and other payables	—	—	57,375	57,375
Total	**—**	**—**	**106,579**	**106,579**

	Loans and receivables	**Assets at fair value through the profit and loss**	**Derivatives used for hedging**	**Available-for-sale**	**Total**
December 31, 2010					
Assets as per balance sheet					
Trade and other receivables	58,191	—	—	—	58,191
Cash and cash equivalents.	9,799	5,121	—	—	14,920
Total	**67,990**	**5,121**	**—**	**—**	**73,111**

	Liabilities at fair value through the profit and loss	**Derivatives used for hedging**	**Other financial liabilities**	**Total**
Liabilities as per balance sheet				
Borrowings	—	—	49,632	49,632
Trade and other payables	—	—	41,398	41,398
Total	**—**	**—**	**91,030**	**91,030**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Estimated Impairment of Goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 7). No impairment charge has been recognized over periods presented.

As at December 31, 2012 the goodwill is allocated to cash generating units corresponding to the following operating / geographical segments:

Mining activity – Africa	783
Water activity – Africa	2,004
Mining activity – North America.	11,383
Mining activity – Asia-Pacific	9,941
Mining activity – South America	101,384
Mining activity – Europe	8,181
Total goodwill as at December 31, 2012	**133,675**

The Group tests goodwill based on the discounted cash flows related to each cash generating unit based on assumptions disclosed in Note 7. Value in use determination is sensitive to changes in operating profit assumption and discount rate applied.

4.2 Depreciation of Property and Equipment

Equipment is often used in a hostile environment and may be subject to accelerated depreciation. Management considers the reasonableness of useful lives and whether known factors reduce or extend the lives of certain assets. This is accomplished by assessing the changing business conditions, examining the level of expenditures required for additional improvements, observing the pattern of gains or losses on disposition, and considering the various components of the assets.

4.3 Inventory Allowance on Spare Parts and Slow Moving

Spare parts relate to equipment which may be used in a hostile environment. Management assesses the level of provision for spare parts together with its review of the equipment as described above.

4.4 Contracts in Progress

The Company records its profit and its revenue based on the percentage-of-completion method. Key aspects of the method are the determination of the appropriate extent of progress towards completion and the assessment of the margin to be generated. Management follows the contracts in progress and their related margins on a monthly basis. On occasion the finance and control department performs on site controls.

4.5 Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax assets and liabilities in the period in which such determination is made.

4.6 Share-based Payment Transactions

The fair value of share-based payment transactions is based on certain assumptions from management. The main area of estimates relates to the determination of the fair value of equity instruments granted:

•for free shares, the main assumption used in the determination of the share-based payment expense is the turnover assumption retained to assess the number of equity instruments that are expected to vest. In 2012, the Company retained a 10% turnover assumption (in 2010 and 2011 – 0%) which is consistent with the Group's experience of employees' departures.

Details of share-based compensations are disclosed in Note 21.

4.7 Determination of the Fair Value of Assets Acquired and Liabilities Assumed in Business Combinations

The assessment of the fair value of assets acquired and liabilities assumed in business combinations is based on different valuation techniques and management's best estimates. Main areas at judgment relate to the valuation of equity instruments included in the purchase consideration paid, the identification and the valuation of intangible assets acquired and the determination of the market value of equipment acquired.

5. SEGMENT INFORMATION

The chief operating decision makers (Chief Executive Officer and vice-Chief Executive Officer) make decisions about resources to be allocated to the segments and assesses their performance using an analysis from revenues to operating profit for business segments and sales for geographic segments. The Company does not identify or allocate assets, liabilities or cash flows to group's segments nor does management evaluate the segments on this criteria on a regular basis.

5.1 Business Segments

As at December 31, 2012, the Group is organized on a worldwide basis in two main business segments.

- The "Mining" segment covers drilling services offered to the mining and energy industry during the exploration, development and production phases of mining projects.
- The "Water" segment covers all activities linked to the construction of water wells leading to the supply of drinking water, the collection of mineral water, as well as the control, maintenance and renovation of the existing installations. This segment also includes drilling services offered to the environmental and construction industry such as geological exploration and geotechnical drilling.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies as discussed in Note 2.

The business segment information for the years ended December 31, 2012, 2011 and 2010 was as follows:

Year ended December 31, 2012	**Mining**	**Water**	**Company**
Revenue	357,375	10,144	367,519
Gross profit	65,145	2,788	67,933
Operating profit	43,161	1,828	44,989
Finance (costs) / profits	—	—	(4,630)
Profit before income tax	—	—	40,359
Income tax expense	—	—	(7,742)
Profit for the year	**—**	**—**	**32,617**

Year ended December 31, 2011	**Mining**	**Water**	**Company**
Revenue	286,444	14,695	301,139
Gross profit	66,165	3,260	69,425
Operating profit	41,441	1,978	43,419
Finance (costs) / profits	—	—	(3,389)
Profit before income tax	—	—	40,030
Income tax expense	—	—	(9,616)
Profit for the year	**—**	**—**	**30,414**

Year ended December 31, 2010	**Mining**	**Water**	**Company**
Revenue	146,114	17,925	164,040
Gross profit	31,735	4,373	36,108
Operating profit	14,891	2,010	16,901
Finance (costs) / profits	—	—	(1,426)
Profit before income tax	—	—	15,475
Income tax expense	—	—	(4,144)
Profit for the year	**—**	**—**	**11,331**

There is no inter-segment revenue.

Corporate costs and overheads are allocated to each business segment based on their revenue. Management considers this approach to be a reasonable basis for determining the costs attributable to the respective segments.

5.2 Geographical Segments

The Company operates in five main geographical areas, even though the business is managed on a worldwide basis.

The following is a summary of sales to external customers by geographic area for the years ended December 31, 2012, 2011 and 2010:

			December 31,
	2012	2011	2010
South America	180,034	117,779	49,325
Europe, Middle East and Africa	92,228	95,135	60,739
North America	61,568	55,754	29,598
Asia Pacific	33,688	32,472	24,379
Revenue	**367,519**	**301,139**	**164,040**

As a result of the acquisitions of Servitec and Adviser, the Company now benefits from a significant presence in South America. For the purpose of the segment reporting, South America includes Mexico.

Revenues from external customers are based on the customers' billing location. Accordingly, there are no sales transactions between operating segments. The Company does not allocate non-current assets by location for each geographical area.

The Company only bears revenue from its drilling activity and did not account for sales of goods or royalty income over the periods presented.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Land and Buildings Equipment	Drilling Equipment and Tools	Automotive Equipment	Office Furniture and Other Equipment	Total
Year ended December 31, 2010					
Opening net book amount	3,674	32,961	6,477	522	43,636
Additions	154	12,119	3,212	223	15,708
Exchange differences	(133)	3,339	954	(78)	4,082
Disposals or retirements	(1)	(69)	(59)	(5)	(134)
Acquisition of Adviser (Note 7)	228	26,143	3,792	150	30,313
Acquisition of EDC (Note 7)	(1)	4,453	220	6	4,679
Depreciation charge	(324)	(15,481)	(3,958)	(232)	(19,995)
Closing net book amount at December 31, 2010	**3,598**	**63,465**	**10,638**	**586**	**78,289**
Cost	5,238	119,070	28,162	1,870	154,340
Accumulated depreciation	(1,640)	(55,602)	(17,523)	(1,285)	(76,051)
Net book amount	**3,598**	**63,467**	**10,638**	**586**	**78,289**
Year ended December 31, 2011					
Opening net book amount	3,598	63,467	10,638	586	78,289
Additions	2,452	30,656	12,754	743	46,605
Exchange differences	(505)	(2,537)	(101)	(131)	(3,274)
Disposals or retirements	—	(247)	(431)	(32)	(710)
Depreciation charge	(496)	(21,000)	(6,523)	(391)	(28,410)
Closing net book amount at December 31, 2011	**5,049**	**70,337**	**16,337**	**775**	**92,500**

	Land and Buildings Equipment	Drilling Equipment and Tools	Automotive Equipment	Office Furniture and Other Equipment	Total
Cost	7,057	157,635	37,898	2,287	204,877
Accumulated depreciation	(2,008)	(87,297)	(21,559)	(1,513)	(112,377)
Net book amount	**5,049**	**70,337**	**16,337**	**775**	**92,500**
Year ended December 31, 2012					
Opening net book amount	5,049	70,337	16,337	775	92,500
Additions	567	32,500	6,931	901	40,899
Acquisition of Servitec (Note 7)	528	11,357	2,872	494	15,251
Acquisition of JND (Note 7)	—	30,394	2,816	—	33,210
Exchange differences	173	1,276	772	(66)	2,155
Disposals or retirements	(2)	(585)	(112)	(2)	(701)
Depreciation charge	(1,037)	(27,750)	(7,232)	(515)	(36,534)
Closing net book amount at December 31, 2012	**5,278**	**117,529**	**22,384**	**1,587**	**146,780**
Cost	7,972	228,886	50,625	3,719	291,202
Accumulated depreciation	(2,694)	(111,357)	(28,241)	(2,132)	(144,422)
Net book amount	**5,278**	**117,529**	**22,384**	**1,587**	**146,780**

Depreciation and amortization expense has been charged to statement of income as follows:

			December 31,
	2012	**2011**	**2010**
Cost of sale	35,994	28,324	19,638
General and administrative expenses	546	480	380
Total depreciation and amortization	**36,540**	**28,804**	**20,018**

7. GOODWILL

Goodwill can be analyzed as follows:

			December 31,
	2012	**2011**	**2010**
As at January 1,	**50,629**	**50,667**	**14,879**
Earn-out of Northwest Sequoia Drilling Ltd	—	300	—
Acquisition of Servitec	74,255	—	—
Acquisition of JND	8,395	—	—
Acquisition of Eastern Drilling Company LLC	—	—	8,181
Acquisition of Adviser Drilling SA	—	—	27,130
Exchange differences	396	(338)	477
As at December 31,	**133,675**	**50,629**	**50,667**

Year Ended December 31, 2012

SERVITEC SONDAGEM

On April 20, 2012, the Company completed the acquisition of a 51% shareholding in WFS Sondagem S.A. ("Servitec"), a Brazilian drilling service provider, for an amount of US$ 44.2 million through a combination of US$ 20.2 million cash and 4,816,509 Foraco shares at US$ 4.99 representing US$ 24.0 million. As part of this agreement, the Company has an option to acquire and the current shareholders of Servitec have an option to sell the remaining 49% after three years. The corresponding purchase consideration will depend upon a formula based on the average 2012, 2013 and 2014 EBITDA of Servitec and on the net cash as at December 31, 2014. The maximum amount payable for this tranche is capped at US$ 75 million.

The Group's interest in Servitec is consolidated since April 20, 2012.

The estimated purchase price, the fair value of the net assets acquired and the goodwill resulting from the acquisition are as follows:

	In thousands of transaction currency	In thousands of US$
Fair value of cash consideration for the first step		
Cash payable at closing date of the acquisition	35,650 R$	20,163
Foraco International common shares issued for the first step		
Number of common shares issued and treasury shares transferred (1)	4,816,509	
Stock price on April 20, 2012	4.99 US$	
Fair value of shares issued		24,038
Fair value of cash consideration for the second step		
Payable estimated at completion of the second step (2)	61,132 USD	
Discount rate (3)	2.30%	
Expected date of completion	May 31, 2015	
Discounted estimated payable		56,993
Total fair value of the consideration payable		**101,194**

(1)3,516,509 shares issued and 1,300,000 treasury shares transferred

(2) Based on Management's best estimate of the consideration payable at acquisition date

(3) Discount rate using the Foraco marginal interest rate

	Fair value in thousands of US$
Cash and cash equivalents	1,764
Shareholders' loan to be repaid upon closing	149
Customer relationship	405
Equipment	15,251
Intangible assets	62
Inventories	2,697
Trade and other receivables	10,501
Trade and other payables	(8,422)
Provisions	(962)
Borrowings	(6,472)
Deferred taxes, net	11,967
Net assets acquired	**26,939**
Goodwill	**74,255**

The above goodwill is attributable to the expertise of the acquired company in diamond core, directional, geotechnical and large diameter drilling services for top tier companies in the mining industry. This goodwill is allocated to the Mining segment.

Transaction costs related to the acquisition amounted to US$1.2 million and were reported under selling, general and administrative expenses.

During the second half of 2012, Servitec, along with other subsidiaries of the Company, has faced a change in market conditions, which could not have been anticipated at the acquisition date. This has led the Company to reestimate the projected activity and results for the period 2012 to 2014 which serve as the basis for calculation to determine the second phase of the consideration payable in 2015. As a result, the best estimate of the present value of the consideration payable which was initially US$ 56,993 thousand is now US$ 43,689 thousand. The adjustment amounting to US$ 13,303 thousand has been accounted for within other operating income and expense in accordance with IFRS 3.

JOHN NITSCHKE DRILLING PTY LTD

On November 19, 2012, the Company completed the acquisition of a 100% shareholding in John Nitschke Drilling Pty Ltd ("JND"), an Australian drilling service provider, for an amount of US$ 47.2 million.

This purchase price is a combination of:

- A cash consideration,
- Foraco shares: a minimum of 6,000,000 and a maximum of 7,000,000 warrants giving right to a minimum of 6,000,000 to a maximum of 7,000,000 common shares of Foraco International, to be converted before or in 9 months from the transaction date.

The Group's interest in JND is consolidated since November 19, 2012.

The estimated purchase price, the fair value of the net assets acquired and the goodwill resulting from the acquisition are as follows:

	In thousands of transaction currency	In thousands of US$
Cash consideration at completion date		
Payable at completion date	30,000 AUD	31,212
Fair value of warrants to be issued		
Number of warrants to be issued	6,000,000	
Stock price on November 19, 2012	2.40 CAD	2.41
Estimated fair value of warrants to be issued		14,452
Fair value of additional warrants to be issued		**1,541**
Fair value of cash consideration—Earn-out clause		
Estimated EBITDA for the 12 month period ending December 31, 2012	< 11,000 AUD	
Earn-out payable		—
Total fair value of the consideration payable		**47,205**

	Estimated fair value in thousands of US$
Property, plant and equipment	33,210
Inventories, net	3,423
Trade receivables, net	8,933
Other current assets	91
Provisions for other liabilities and charges	(324)
Trade and other payables	(3,503)
Current income tax liabilities	(1,889)
Provisions for other liabilities and charges	(1,132)
Net assets acquired	38,809
Goodwill	**8,395**

Considering the recent date of the acquisition, the purchase price allocation was determined at that stage on a preliminary basis. The Company will reassess the fair value of acquired assets and assumed liabilities during the course of fiscal year 2013. The goodwill resulting from the acquisition is allocated to the Mining segment.

Transaction costs related to the acquisition amounted to US$1.4 million and were reported under selling, general and administrative expenses.

As at December 31, 2012, the fair value of additional warrants to be issued amounts to US$ 1,609 thousand and is recorded as a current liability.

Year Ended December 31, 2011

NORTHWEST SEQUOIA DRILLING LTD

Northwest Sequoia was acquired in September 2008. An earn-out clause stipulated that above a certain ratio of EBITDA to sales, the former shareholders would be entitled to an additional payment. Following the better than expected performance of the company in 2011, the ratio of EBITDA to sales exceeded the threshold. The additional payment amounting to US$0.3 million has been provided for and recorded against goodwill on the basis that the acquisition took place before the entity first applied IFRS 3 (R).

Year Ended December 31, 2010

LLC EASTERN DRILLING COMPANY ACQUISITION

On May 27, 2010, the Company completed the acquisition of a 50% controlling interest in LLC Eastern Drilling Company ("EDC"), a Russian company.

The purchase price includes a cash consideration of US$ 2 million paid in May 2010 and an adjustment based on EDC's 2010 financial performance paid in the first half of 2011.

On February 6, 2011, the Company entered into an agreement settling the final amount payable under the purchase price adjustment provision at US$ 7.6 million, of which US$ 3.8 million will be payable in the first quarter of 2011 and the remainder in the second quarter of 2011 once all closing conditions have been finalized.

The final purchase price, the fair value of the net assets acquired and the goodwill resulting from the acquisition are presented as follows:

	Fair value in thousands of US$
Purchase price including 2011 purchase price adjustment	9,600
Cash and cash equivalents	412
Customers relationship	187
Equipment	4,679
Inventories	3,319
Trade and other receivables	2,500
Trade and other payables	(5,136)
Borrowings	(2,817)
Deferred tax, net	(307)
Net assets before minority interests	2,838
50% shareholding	1,419
Net assets acquired	1,419
Goodwill	**8,181**

The above goodwill is attributable to the specialization of the acquired company in diamond drilling services for major and junior foreign companies in the mining and mineral exploration industry. This goodwill is allocated to the Mining segment.

ACQUISITION OF ADVISER DRILLING SA

In March 2010, the Company entered into a binding agreement with all the shareholders of Adviser Drilling SA ("Adviser") in Chile to acquire 100% of the outstanding shares of Adviser. The Company completed the acquisition on May 26, 2010, from which date the Group's interest in Adviser is consolidated.

The purchase price included (i) a cash consideration of US$ 5.35 million upon the closing of the transaction, (ii) the issuance of 14,935,750 new shares of the Company, (iii) the issuance of 4,756,539 warrants to acquire shares of the Company, exercisable after two years following closing at no additional consideration, warrant holders being indemnified for dividends paid until the exercise date, and (iv) a price adjustment of up to US$ 5.35 million depending on Adviser's 2010 financial performance, to be paid in 2011. The 2010 annual financial performance of Adviser having been affected by various adverse conditions in Chile during the first half of the year, this purchase price adjustment was not applied.

The final purchase price, the fair value of the net assets acquired and the goodwill resulting from the acquisition are presented as follows:

	In thousands of transaction currency	In thousands of US$
Fair value of cash consideration		
Cash paid		5,350
Contingent consideration		—
Foraco International common shares issued		
Number of common shares issued	14,935,750	
Stock price on May 26, 2010	2.55 CAD	
Estimated fair value of shares issued		35,657
Foraco International warrants issued		
Number of warrants issued	4,756,539	
Adjusted stock price on May 26, 2010	2.48 CAD	
Estimated fair value of warrants issued		11,040
Dividend compensation payable		
Number of warrants benefiting from the dividend compensation	4,756,539	
Estimated dividend to be paid	0.0708 CAD	315
Total fair value of the consideration payable		**52,362**

	Estimated fair value in thousands of US$
Cash and cash equivalents	2,650
Shareholder loan to be repaid upon closing	497
Customers relationship	1,261
Equipment	30,314
Other non-current receivables	2
Inventories	6,559
Trade and other receivables	19,643
Trade and other payables	(15,212)
Provision	(129)
Borrowings	(26,836)
Deferred tax, net	6,484
Net assets acquired	25,233
Goodwill	**27,130**

The above goodwill is attributable to the specialization of the acquired company in diamond core and reverse circulation drilling services for top tier companies in the mining and mineral exploration industry. This goodwill is allocated to the Mining segment.

Other Variations of Interests Occurring in 2010

In August 2010, the Company chose to exercise its option to acquire the remaining 49% non-controlling interest in Mosslake Drilling Services Pty Ltd for a cash consideration of AUD 3.5 million. This transaction did not result in any additional goodwill.

Allocation of Goodwill to Cash Generating Units

Goodwill is allocated to the Company's business segments as follows:

	December 31,		
	2012	2011	2010
Mining	131,671	48,666	48,658
Water	2,004	1,963	2,009
Total	**133,675**	**50,629**	**50,667**

Impairment Tests for Goodwill

For the purpose of impairment testing, goodwill is allocated by business segments and geographical areas, which are the following: Mining activity Europe, Middle East and Africa, North America, Asia-Pacific and South America and Water activity Africa. The recoverable amount of cash generating units is determined based on value-in-use calculations. The Group used cash flow projections before tax based on financial three year budgets prepared by management and approved by the Board of Directors. Cash flows beyond the budgeted period are extrapolated using the estimated growth rate of activities.

The key assumptions which are approved by the Board of Directors and used for value-in-use calculations as at December 31, 2012 are as follows:

	Mining	Water
Long-term growth rate used to determine the terminal value	-1%	-1%
Discount rate	13%	13%

In 2012, 2011 and 2010 the Company did not record any goodwill impairment charge.

8. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	December 31,		
	2012	2011	2010
Loans	387	525	846
Software	77	2	1
Investment in unconsolidated affiliates	40	38	37
Deposits and guarantees	288	138	157
Other non-current receivables	623	302	659
Other non-current assets	**1,416**	**1,006**	**1,699**

The investment in unconsolidated affiliates corresponds to the company "Minera Chimù" (Peru), in which the Company holds 18.74%.

9. INVENTORIES

Inventories consist of the following:

	December 31,		
	2012	2011	2010
Spare parts, gross	24,001	16,624	12,562
Consumables, gross	28,287	24,130	19,822
Less inventory allowance	—	—	—
Inventories, net	**52,288**	**40,754**	**32,384**

Spare parts mainly include motors, wire lines and heads. Spare parts are charged to the statement of income when used on equipment. Consumables mainly include destructive tools, hammers, muds and casing. Consumables are charged to the statement of income when delivered to the field. The Company reviews impairment loss on inventories on a regular and item by item basis.

Inventories write-down expense/(reversal) recognized in 2012 in the statement of income under the line item "Cost of sales" amounts to US$ 674 thousand(US$ 516 thousand in 2011 and US$ 134 thousand in 2010).

10. TRADE RECEIVABLES

Trade receivables, net, consist of the following:

	December 31,		
	2012	2011	2010
Trade receivable, gross	56,114	46,979	42,080
Less provision for impairment	(1,183)	(1,489)	(1,084)
Trade receivables, net	**54,931**	**45,490**	**40,996**

Impairment expense/(reversal) recognized in 2012 in the statement of income amounted to US$ (306) thousand (in 2011 US$ 405 thousand and in 2010 US$(68) thousand) under the line item “Cost of sales”.

Movements on the provision for impairment of trade receivables are as follows:

	December 31,		
	2012	2011	2010
Provision for impairment at January 1,	(1,489)	(1,084)	(1,171)
Provision for receivables impairment	(209)	(404)	(106)
Receivables written off during the year as uncollectible	—	—	—
Unused amounts reversed during the year following collection of the receivable	535	25	174
Exchange differences	(20)	(25)	20
Provision for impairment at December 31,	**(1,183)**	**(1,489)**	**(1,084)**

Trade receivables, net, are broken down per location as follows:

	December 31,		
	2012	2011	2010
Europe	316	222	894
New Caledonia	865	742	1,037
Africa	9,805	9,729	8,322
South America	29,775	27,330	24,351
Australia	7,555	2,796	2,754
Canada	6,615	4,671	3,639
Trade receivables, net	**54,931**	**45,490**	**40,996**

The geographical allocation of a receivable is based on the location of the project to which the receivable relates and not to the country where the client is incorporated.

Fair value of trade accounts receivable based on discounted cash flows does not differ from the net book value as the Company does not have trade accounts receivable with payment terms exceeding one year.

Receivables impairment are related to a wide range of customers in both of the Company’s operations segments on which a collectability risk was identified.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivable mentioned above.

As at December 31, 2012, trade receivables of US$ 2,213 thousand (US$ 1,846 thousand in 2011 and US$ 2,109 thousand in 2010) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default or having established practices of long payment terms such as States bodies in the Water segment.

The carrying amounts of the Company's trade receivables are denominated in the following currencies:

	December 31,		
	2012	2011	2010
€, CFA Francs or CFP Francs (1)	7,496	7,808	9,973
Canadian dollars	8,073	5,753	3,639
Australian dollars	7,437	2,752	2,754
US dollars	790	6,427	3,507
Chilean Pesos	21,423	22,750	21,124
Other currencies	9,712	—	—
Trade receivables, net	**54,931**	**45,490**	**40,996**

(1) CFA Francs and CFP Francs have a fixed exchange rate with €

Certain receivables are provided as collateral under financing agreement (see Note 14).

11. OTHER CURRENT RECEIVABLES

Other current receivables consist of the following:

	December 31,		
	2012	2011	2010
VAT / GST and other recoverable taxes	9,857	7,280	11,411
Prepaid expenses	4,666	2,973	3,484
Down payments / credit notes receivable	1,033	1,854	1,516
Other receivables	826	357	784
Other current receivables	**16,381**	**12,464**	**17,195**

Provisions for impairment of other current receivables is nil as at December 2012 (nil in 2011 and nil in 2010).

VAT / GST and other recoverable taxes mainly comprise tax receivables from African countries.

Fair value of other current receivables based on discounted cash flows does not differ from the net book value as the Company does not have other current receivables with payment terms exceeding one year.

The carrying amounts of the Company's other receivables are denominated in the following currencies:

	December 31,		
	2012	2011	2010
€, CFA Francs or CFP Francs (1)	7,390	5,315	7,406
Canadian dollars	1,041	604	1,967
Australian dollars	1,954	744	1,746
Chilean Pesos	1,863	1,779	2,478
Russian Rubles	1,240	2,224	2,349
Other currencies	2,893	1,798	1,249
Other current receivables, gross	**16,381**	**12,464**	**17,195**

(1) CFA Francs and CFP Francs have a fixed exchange rate with €

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31,		
	2012	2011	2010
Cash at bank and in hand	21,898	21,059	9,798
Short-term bank deposits	13,999	3,253	5,121
Cash and cash equivalents	**35,897**	**24,313**	**14,920**

Short term bank deposits are analyzed as follows at the end of each period presented:

Financial institution	Type	Index	Fair value as at December 31, 2012 in thousands US$
BNP Paribas	€ 6 months fixed term deposit	Fixed	2,643
Crédit Agricole group	€ 3 months fixed term deposit	Fixed	3,348
Rosbank (Societe Generale Group)	RUB monetary marketable security	Fixed	5,302
Banco do Brasil	BRL monetary marketable security	Fixed	131
Banco Itau	BRL monetary marketable security	Euribor	1,532
Branco Bradesco	BRL monetary marketable security	Fixed	1,043
Total			**13,999**

Financial institution	Type	Index	Fair value as at December 31, 2011 in thousands US$
Crédit Agricole group	€ 1 month fixed term deposit	Fixed	2,476
BNP Paribas	€ 6 months fixed term deposit	Fixed	777
Total			**3,253**

Financial institution	Type	Index	Fair value as at December 31, 2010 in thousands US$
Crédit Mutuel group	€ monetary marketable security	Eonia	1,267
Banques Populaires	€ monetary marketable security	Euribor	540
Crédit Mutuel group	€ 6 months fixed term deposit	Fixed	795
Crédit Agricole group	€ 1 month fixed term deposit	Fixed	796
Banques Populaires	€ 6 months fixed term deposit	Fixed	1,723
Total			**5,121**

13. EQUITY ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS

Consolidated reserves, including net income for the period and other reserves, can be analyzed as follows:

			December 31,
	2012	2011	2010
Foraco International share premium and retained earnings	135,433	119,633	109,533
Reserves of consolidated subsidiaries	84,249	39,801	27,809
Other reserves	(7,820)	(3,393)	4,131
Total consolidated reserves	**211,862**	**156,041**	**141,473**

Under French law, dividends can be paid only from the reserves of the parent company (Foraco International). As at December 31, 2011, the value of distributable reserves amounted to € 98,755 thousand (€ 82,595 thousand as at December 31, 2011 and € 81,706 thousand as at December 31, 2010).

All shares issued by the Company have a par value of € 0.015 and were fully paid.

Items included in other reserves can be analyzed as follows:

			December 31,
	2012	2011	2010
Employee share-based compensation, net of tax	3,370	3,135	3,352
Use of treasury shares (Note 13)	(3,735)	—	—
Currency translation differences and net investment hedge, net of tax	(7,455)	(6,528)	779
Other reserves	**(7,820)**	**(3,393)**	**4,131**

Acquisitions Funded Through Issuance of Shares

In 2010, the Company funded the acquisition of Adviser mainly through the issuance of 14,935,750 new shares of the Company and the issuance of 4,756,539 warrants to acquire shares of the Company, exercisable after two years following closing at no additional consideration, warrant holders being indemnified for dividends paid until the exercise date. The corresponding increase in share capital amounted to US$ 278 thousand with a share premium amounting to US$ 46,418 thousand.

In 2012, the Company funded the acquisition of Servitec partly through the issuance of 3,516,509 new shares of the Company and the transfer of 1,300,000 treasury shares. The corresponding increase in share capital amounted to US$ 70 thousand with a share premium amounting to US$ 20,232 thousand for the portion corresponding to the issuance of new shares and with a share premium amounting to US$ 3,735 thousand for the portion corresponding to the use of treasury shares.

In 2012, the Company funded the acquisition of JND partly through the authorization to issue 7,000,000 common shares purchase warrants which will entitle the vendors to receive for no additional consideration 6,000,000 common shares in Foraco and up to 1,000,000 additional Foraco shares depending on certain market based performance conditions. The corresponding increase in share premium amounted to US$ 14,452 thousand.

Treasury Shares Transactions over the Periods Presented

In 2010, 149,300 shares were acquired under an additional Normal Course Issuer Bid (NCIB) filed with the TSX at an average price of CAD 2.55. In July 2010, the vesting period of the second tranche for the French plan n°1 expired. 253,000 treasury shares were delivered to the beneficiaries that have been continuously employed by the Company throughout the vesting period.

The Company filed a notice on March 11, 2011, in respect of an additional NCIB with the TSX. The Company may purchase additional common shares up to 1,000,000. On December 23, 2011, the Company filed a notice to increase the NCIB from 1,000,000 to 1,500,000 shares. For the year ended December 31, 2011, the Company purchased 1,052,200 of its own shares at an average purchase price of CAD 3.11 per share.

The Company filed a notice on September 27, 2012, in respect of an additional NCIB with the TSX. The Company was entitled to purchase up to 1,500,000 additional common shares. As at December 31, 2012, the Company had purchased 634,400 of its own shares at an average purchase price of CAD 2.66.

As at December 31, 2012, the Company owns 724,898 of its own shares (1,271,700 as at December 31, 2011 and 845,500 as at December 31, 2010).

Equity Incentive Plan ("Free share plan")

The Company implemented in 2007 a free share plan authorized by the ordinary and extraordinary general meeting of shareholders held in June 2007. The total number of shares to be transferred under the free share plan is limited to 3% of the issued and outstanding share capital of the Company on the date grants are made. Such awards are considered as share based payment transactions (see Note 20). A first tranche and second tranche under the free share plan were for 512,000 and 424,000 shares in 2007 and 2008, respectively. Shares to be transferred under the plan upon completion of vesting conditions will be purchased by the Company and there will be no increase in share capital. These awards are taken into account when appropriate in the determination of the Diluted Earnings per share (see Note 24). On July 18, 2009, 165,000 common shares awarded to employees were vested. The corresponding accumulated amount recognized with in Other Reserves was transferred to Share Premium for €290 thousand. On September 25, 2009, the Company granted to employees 531,000 additional common shares corresponding to the third tranche of its Equity Incentive Plan. Those stock awards are subject to certain vesting conditions.

On May 18, 2010, the shareholders general meeting approved the implementation of a new free share plan covering the periods 2010-2012 (2nd free share plan). In October 2010, the Company granted to employees 500,000 additional common shares corresponding to the first tranche of the second Equity Incentive Plan. Those stock awards are subject to certain vesting conditions. In July 2011, 626,000 common shares awarded to employees were vested. The corresponding accumulated amount recognized with in Other Reserves was transferred to Share Premium for US$ 1,300 thousand. In September 2011, the Company granted to employees 809,000 additional common shares corresponding to the second tranche of its second Equity Incentive Plan. Those stock awards are subject to certain vesting conditions.

Reconciliation of the Share Capital and Premium

The reconciliation of the share capital and share premium at the beginning and end of the year presented is summarized as follows:

Financial institution	Number of shares	Ordinary shares in thousand US$	Share Premium in thousands US$
As at January 1, 2010	58,797,800	1,190	33,837
Acquisition of treasury shares	(153,300)	—	(373)
Treasury shares transferred in connection with acquisition	19,692,289	278	46,418
Treasury shares transferred in connection with equity incentive plan (vested shares)	253,000	—	466
As at December 31, 2010	**78,589,789**	**1,468**	**80,348**
Acquisition of treasury shares	(1,052,200)	—	(3,272)
Treasury shares transferred in connection with equity incentive plan (vested shares)	626,000	—	1,300
As at December 31, 2011	**78,163,589**	**1,468**	**78,376**
Acquisition of treasury shares	(1,082,198)	—	(3,667)
Shares issued and treasury shares transferred in connection with acquisition	4,816,509	70	20,232
Treasury shares transferred in connection with equity incentive plan (vested shares)	329,000	—	1,331
Conversion of warrants	—	91	(91)
As at December 31, 2012	**82,226,900**	**1,629**	**96,181**

As at December 31, 2012, the capital stock of the Company amounted to US$ 1,629 thousand, divided into 82,951,798 common shares excluding warrants and including treasury shares. Warrants issued as part the acquisition of JND will be converted in 2013. The total common shares and warrants of the Company are distributed as follows:

	Number of shares
Common shares held directly or indirectly by principal shareholders	37,596,497
Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors *	2,254,322
Common shares held by the Company	724,898
Common shares held by the public	42,376,081
Total common shares and warrants issued and outstanding	**82,951,798**
Common shares held by the Company	(724,898)
Total common shares and warrants issued and outstanding net of treasury shares	**82,226,900**

**In the table above, the shares owned indirectly are presented for an amount corresponding to the prorata of the ownership interest*

As part of the acquisition of JND, the Company is likely to issue shares following the granting of warrants to the benefit of the sellers. The best estimate of the corresponding number of shares to be issued is 6,665,620. These shares not yet issued are not included in the table above.

Number of Shares Outstanding

As at January 1, 2010, 59,743,000 shares were issued, among which 1,049,700 common shares were held by the Company. On May 26, 2010, as a result of the acquisition of Adviser, 14,935,750 new shares were issued along with 4,756,539 warrants at no issuance price. As at December 31, 2010 and 2011, the number of shares was 74,678,750 along with 4,756,539 warrants. During the year 2012, there was an increase in share capital related to the acquisition of Servitec by 3,516,509 shares. As at December 31, 2012, 82,951,798 shares were issued, among which 724,898 common shares were held by the Company.

14. BORROWINGS

Financial debt consists of the following:

			December 31,
	2012	**2011**	**2010**
Non-current			
Other bank financings	56,305	6,205	1,528
Finance lease obligations	5,427	11,087	9,831
	61,733	**17,292**	**11,359**
Current			
Bank overdrafts	26,115	7,640	1,832
Obligation under assignment of trade receivables	13,026	10,886	12,784
Other bank financings	18,043	4,574	5,643
Finance lease obligations	10,117	8,812	10,073
	67,301	**31,912**	**30,332**

As part of the acquisitions of Servitec and JND, the Company obtained bank financings for an amount of € 41,000 thousand bearing interest at 2.3% and reimbursable over 5 years.

Certain European subsidiaries of the Company transferred receivable balances amounting to US$ 13,026 thousand to banks in exchange for cash during the year ended December 31, 2012 (US$ 10,886 thousand in 2011 and US$ 12,784 thousand in 2010). These transactions were accounted for as an assignment of trade receivables with recourse (or collateralized borrowing). In case the entities default under the assignment agreement, banks have the right to receive the cash flows from the receivables transferred. Without default, the entities will collect the receivables and allocate new receivables as collateral.

As at December 31, 2012, maturity of financial debt can be analyzed as follows:

Maturity	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
Bank overdrafts	26,115	—	—	26,115
Obligation under assignment of trade receivables	13,026	—	—	13,026
Other bank financing	18,043	56,305	—	74,349
Finance lease obligations	10,117	5,428	—	15,245
Total financial debt	**67,301**	**61,733**	**—**	**129,034**

As at December 31, 2012, the estimated fair value of financial debt, determined based on the discounted value of future cash flows (principal and interest) at Euribor 3m, plus a spread amounting to 250 b.p., amounted to US$ 132,915 thousand compared to a carrying amount ofUS$ 129,034 thousand.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	December 31,		
	2012	2011	2010
€	85,773	17,292	3,626
Canadian dollars	9,792	787	3,007
Australian dollars	800	744	4,604
US dollars	—	2,409	2,204
Chilean Pesos	25,281	26,945	27,769
Russian Rubles	1,464	1,027	481
Brazilian Real	5,924	—	—
Total financial debt	**129,034**	**49,204**	**41,691**

Used and unused short term credit facilities amount to US$ 106 million out of which US$ 39.1 million was used as at December 31, 2012. These facilities are granted on a yearly basis and subject to review at various dates.

Total financial debts include collateralized borrowings of US$ 28.6 million:

- Obligations under assignment of receivables for US$13,026 thousand are secured for an equivalent amount by receivables that have been transferred; and
- Finance lease obligations amounting to US$15,245 thousand are secured by related leased assets.

15. CONSIDERATION PAYABLE RELATED TO ACQUISITION

In 2012, in connection with the acquisition of Servitec (see note 7), the Company has an option to acquire and the current shareholders of Servitec have an option to sell the remaining 49% after three years. The corresponding purchase consideration will depend on a formula based on the average 2012, 2013 and 2014 EBITDA of Servitec and on the net cash as at December 31, 2014. The present value of the cash consideration payable for this second step of acquisition amounts to US$ 44,358 thousand as at December 31, 2012.

In 2010, in connection with the acquisition of EDC (see note 7), the Company entered into an agreement settling the final amount payable at US$ 7.6 million, of which US$ 3.8million was payable in the first quarter of 2011 and the remainder in the second quarter of 2011 once all closing conditions have been finalized. This amount was classified within current liabilities.

In 2010, in connection with the acquisition of Adviser (see note 7), the Company issued 4,756,539 warrants. Under the terms of the share purchase agreement, warrants are entitled to receive a sum equivalent to dividends paid to common shareholders until the conversion of their warrants. The estimated compensation to be paid to warrant holders amounted to US$ 391 thousand and was recognized as a current liability. This amount was paid in 2012.

16. DEFERRED INCOME TAX

The French companies of the Group fall under the French consolidation tax regime.

The components of the net deferred tax liabilities recorded as at December 31, 2012, 2011 and 2010 are as follows:

	December 31,		
	2012	2011	2010
Assets			
Pension obligations	160	167	121
Property and equipment depreciation differences	1,351	869	1,328
Losses carried forward	2,107	1,258	774
Tax deductible goodwill	15,891	4,966	7,586
Other tax temporary differences	3,602	725	996
Total	**23,111**	**7,984**	**10,805**
To be recovered after 12 months	*17,334*	*3,023*	*7,905*
To be recovered within 12 months	*5,777*	*4,961*	*2,899*

	December 31,		
	2012	2011	2010
Liabilities			
Finance leases	(3,888)	(2,054)	(1,717)
Property and equipment depreciation differences	(1,336)	(106)	(2,180)
Revenue recognition	(675)	(449)	(469)
Other tax temporary differences	(2,857)	(1,367)	(2,846)
Total	**(8,756)**	**(3,976)**	**(7,213)**
To be recovered after 12 months	*(6,567)*	*(2,773)*	*(5,769)*
To be recovered within 12 months	*(2,189)*	*(1,203)*	*(1,443)*

The gross movement on the deferred income tax net position is as follows:

	December 31,		
	2012	2011	2010
Liabilities			
Beginning of the year	4,008	3,592	(1,737)
Acquisition of Subsidiary	12,530	—	6,177
Charged/(Credited) to the statement of income	(2,163)	498	(1,048)
Exchange differences	(20)	(82)	200
End of the year	**14,355**	**4,008**	**3,592**

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. As at December 31, 2012, US$ 3,107 thousand (2011 - US$ 1,844 thousand) in tax losses carried forward are not recognized.

No deferred income tax liabilities have been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries as such amounts are permanently reinvested.

17. PROVISIONS

Provisions comprise of the following elements:

	Pension & Retirement Indemnities Provision	Provision for tax uncertainty	Other Provisions	Total
At January 1, 2010	**400**	**397**	**35**	**832**
Acquisition of Adviser Drilling SA	—	—	129	129
Charged to income statement:				
— Additional provisions	48	886	203	1,137
— Unused amounts reversed	—	—	(34)	(34)
Used during year	—	—	—	—
Exchange differences	(28)	(31)	(44)	(103)
At December 31, 2010	**420**	**1,252**	**289**	**1,961**
At January 1, 2011	**420**	**1,252**	**289**	**1,961**
Charged to income statement:				
— Additional provisions	7	—	—	7
— Unused amounts reversed	—	—	—	—
Used during year	(22)	(328)	—	(350)
Exchange differences	(10)	(28)	(7)	(45)
At December 31, 2011	**395**	**896**	**282**	**1,573**

	Pension & Retirement Indemnities Provision	Provision for tax uncertainty	Other Provisions	Total
At January 1, 2012	**395**	**896**	**282**	**1,573**
Charged to income statement:				
— Additional provisions	73	—	101	174
— Unused amounts reversed	(8)	—	—	(8)
Used during year	(11)	—	—	(11)
Exchange differences	32	12	13	57
At December 31, 2012	**481**	**908**	**396**	**1,785**

The analysis of total provisions is as follows:

			December 31,
	2012	**2011**	**2010**
Current	914	896	364
Non-current (retirement and litigation)	871	677	1,597
Provisions	**1,785**	**1,573**	**1,961**

The Company faces various forms of litigation and legal proceedings throughout the normal course of business. The Company records a provision for these risks based on its past experience and on facts and circumstances known on the balance sheet date. The Company's Management is of the opinion that the expenses to be incurred in resolving such affairs will not have a significant additional impact on its consolidated financial situation, income or cash flows.

The Company operates in various tax jurisdictions and is subject on a regular basis to tax audits. A provision amounting to US$ 908 thousand was recognized as at December 31, 2012 (US$ 896 thousand as at December 31, 2011 and US$ 1,252 thousand as at December 31, 2010) to reflect the Company's best estimate of its exposure.

18. RETIREMENT BENEFIT OBLIGATIONS

Substantially all of the Company's employees, with the exception of those in France, are covered under Government-sponsored health and life insurance benefit plans. Accordingly, the Company has no significant liability to its employees in terms of post-retirement benefits other than pensions and therefore no provision is made.

In France, the Company contributes to the national pension system whereby its obligations to employees in terms of pensions are restricted to a lump-sum length of service award payable at the date the employee reaches retirement age, such an award being determined for each individual based upon years of service provided and projected final salary.

The pension obligation has been estimated on the basis of actuarial assumptions and retirement ages conforming with the law applicable in France, including:

			December 31,
	2012	**2011**	**2010**
Discount rate	2.8%	4.6%	4.6%
Inflation rate	2.25%	2.25%	2.25%

These retirement indemnities are not funded nor covered by pension plan assets. Except in France, the Group does not maintain defined benefit obligations in other country where it operates.

Payments made by the Company for defined contribution plans are accounted for as expenses in the income statement during the period in which they were incurred.

19. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following:

			December 31,
	2012	2011	2010
Trade payables	24,791	27,953	21,773
Social security and other taxes	17,471	12,304	9,744
VAT / GST and other tax payable	5,269	5,382	4,026
Down payments from customers	5,781	3,756	3,191
Deferred income	16	15	197
Non-controlling interest dividends payable	—	2,077	—
Other miscellaneous payable	135	48	93
Trade and other payables	**53,463**	**51,535**	**39,024**

VAT / GST and other tax payable mainly comprise tax payables to African countries.

Trade and other payables are denominated in the following currencies:

			December 31,
	2012	2011	2010
€, CFA Francs or CFP Francs *(1)*	8,589	15,043	10,905
Canadian dollars	5,036	6,130	5,976
Australian dollars	6,204	3,868	2,494
US dollars	1,636	2,686	1,359
Chilean Pesos & UF	21,936	16,761	13,749
Russian Rubles	992	2,984	2,368
Other currencies	9,070	4,063	2,173
Trade and other payables	**53,463**	**51,535**	**39,024**

(1) CFA Francs and CFP Francs have a fixed exchange rate with €

20. EXPENSES BY NATURE

			December 31,
	2012	2011	2010
Depreciation, amortization and impairment charges	36,540	28,804	20,018
Provision increase/(reversal)	251	373	(55)
Raw materials, consumables used, and other external costs	158,227	125,414	71,088
Employee benefit expense	138,479	101,307	54,651
Other tax expense	2,408	2,149	1,476
Other operating expense/(income), net	(13,375)	(328)	(40)
Total of operating expenses	**322,530**	**257,719**	**147,139**
Number of employees (unaudited)	*3,349*	*2,759*	*1,988*

21. SHARE-BASED COMPENSATION

The effect on the income statement of equity instruments awarded as part of the IPO and the Company's Equity Incentive Plan are as follows:

			December 31,
	2012	2011	2010
512,000 free common shares in 2007	—	115	220
424,000 free common shares in 2008	47	66	244
531,000 free common shares in 2009	45	230	274
500,000 free common shares in 2010	333	417	100
809,000 free common shares in 2011	983	255	—
804,000 free common shares in 2012	158	—	—
Total of non-cash share-based compensation expenses	**1,566**	**1,083**	**838**

Movements in the number of free shares and warrants outstanding date are as follows:

	Free shares	Warrants
Granted in 2007.	512,000	833,350
Granted in 2008.	424,000	—
Granted in 2009.	531,000	—
Vested in 2009.	(156,000)	—
Forfeited in 2009	(7,000)	(833,350)
Granted in 2010	500,000	—
Vested in 2010	(253,000)	—
Forfeited in 2010	(10,000)	—
Granted in 2011	809,000	—
Vested in 2011	(626,000)	—
Forfeited in 2011	(123,000)	—
Granted in 2012	804,000	—
Vested in 2012	(329,000)	—
Forfeited in 2012	(298,000)	—
Outstanding as at December 31, 2012	**1,778,000**	**—**

Considering the vesting conditions described below, free shares outstanding at year end have the following expiry date:

			December 31,
	2012	2011	2010
2011	—	—	687,000
2012	—	329,000	374,000
2013	502,000	529,000	193,000
2014	426,000	268,000	287,000
2015	309,000	475,000	—
2016	309,000	541,000	—
Free shares outstanding	**1,778,000**	**1,601,000**	**1,541,000**

Other share-based payment transaction with employees (see Note 13)

Awards under the Company's free share plan are within the scope of IFRS 2, Share-based payment as they are issued at a price that is less than the fair value of those equity instruments. From grant date, the Company will amortize over the corresponding vesting period the fair value of the free common shares granted to employees. There is no performance condition under Company's equity incentive plan.

The main provisions of this share plan are as follows:

FIRST TRANCHE AWARDED IN 2007

- Grant date .... September 2007
- Number of free shares issued 512,000
- Vesting period for the French plan .... 2 years (1)
- Vesting period for the International plan .... 4 years
- Fair value of common shares at grant date........................... CAD 2.70
- Anticipated turnover.. Nil
- Total fair value of the plan .... CAD 1,382 thousand

SECOND TRANCHE AWARDED IN 2008

- Grant date .... October 2008
- Number of free shares issued 424,000
- Vesting period for the French plan .... 2 years (1)
- Vesting period for the International plan .... 4 years
- Fair value of common shares at grant date........................... CAD 1.95
- Anticipated turnover.. Nil
- Total fair value of the plan .... CAD 827 thousand

THIRD TRANCHE AWARDED IN 2009

- Grant date .... September 2009
- Number of free shares issued 531,000
- Vesting period for the French plan .... 2 years (1)
- Vesting period for the International plan .... 4 years
- Fair value of common shares at grant date........................... CAD 1.51
- Anticipated turnover.. Nil
- Total fair value of the plan .... CAD 802 thousand

Second Free Share plan

FIRST TRANCHE AWARDED IN 2010

- Grant date .... October 2010
- Number of free shares issued 500,000
- Vesting period for the French plan .... 2 years (1)
- Vesting period for the International plan .... 4 years
- Fair value of common shares at grant date........................... CAD 2.39
- Anticipated turnover.. Nil
- Total fair value of the plan .... CAD 1,195 thousand

SECOND TRANCHE AWARDED IN 2011

- Grant date .... September 2011
- Number of free shares issued 809,000
- Vesting period for the French plan .... 2 years (1)
- Vesting period for the International plan .... 4 years
- Fair value of common shares at grant date........................... CAD 3.59
- Anticipated turnover.. Nil
- Total fair value of the plan .... CAD 1,705 thousand

THIRD TRANCHE AWARDED IN 2012

- Grant date .... September 2012
- Number of free shares issued 804,000
- Vesting period for the French plan .... 2 years (1)
- Vesting period for the International plan .... 4 years
- Fair value of common shares at grant date........................... CAD 3.16
- Anticipated turnover.. 10%
- Total fair value of the plan .... CAD 1,798 thousand

(1) Plus an additional 2-year lock up period following vesting date.

The impact of these non cash share-based compensations is presented within "Cost of sale" or "General and administrative expenses" depending on the employee benefiting from the award.

The dilutive effect of these awards, if any, is taken into account in the calculation of the diluted earnings per share (see Note 24).

22. FINANCE INCOME AND FINANCIAL EXPENSE

Financial income and expense consists of the following:

			December 31,
	2012	**2011**	**2010**
Interest expense	(4,374)	(3,806)	(1,637)
Gains on short term deposits	218	66	212
Other	(474)	351	—
Finance costs	**(4,630)**	**(3,389)**	**(1,425)**

23. INCOME TAX EXPENSE

The income tax rate applicable in France is 33.33% in 2012 excluding the impact of certain additional considerations depending upon the size of the company. The Group also operates in certain countries in which effective rates of tax may be different.

Income tax expense is presented as follows:

			December 31,
	2012	**2011**	**2010**
Current tax	(5,579)	(9,117)	(3,096)
Deferred tax	(2,163)	(498)	(1,048)
Total	**(7,742)**	**(9,616)**	**(4,144)**

The reconciliation between the income tax expense using the French statutory rate and the Company's effective tax rate can be analyzed as follows:

			December 31,
	2012	**2011**	**2010**
Income (loss) before taxes and share of profit from associates	**40,359**	**40,030**	**15,475**
Tax calculated at French tax rate (33.33% for 2012)	13,453	13,782	5,125
Impact of the adjustment of the consideration payable for the second phase of the acquisition of Servitec	(4,434)	—	–
Effect of different tax rates	(2,602)	(5,190)	(2,785)
Tax provision (see Note 19)	—	—	886
Share-based payment expense	522	361	279
Change in tax rate at French level	—	25	—
Expenses not deductible for tax purposes	382	198	128
Unrecognized tax assets	421	439	510
Total	**7,742**	**9,616**	**4,144**

24. EARNINGS PER SHARE

EXCLUDING THE IMPACT OF THE CONSIDERED ACQUISITION OF THE NON-CONTROLLING INTEREST RELATED TO SERVITEC

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding shares purchased by the Company and held as treasury shares. The Company has issued certain dilutive equity instruments under its free share plans (see Note 13 and 21).

			December 31,
	2012	2011	2010
Profit attributable to equity holders of the Company in thousands of US$	**27,130**	**27,027**	**9,073**
Weighted average number of ordinary shares in issue before dilution	81,849,841	78,323,743	70,634,453
Basic earnings per share (US cents per share)	**33.15**	**34.51**	**12.85**
Weighted average number of ordinary shares in issue after dilution (1)	82,987,554	78,901,466	71,491,989
Diluted earnings per share (US cents per share)	**32.69**	**34.25**	**12.69**

(1) Reflect the effect of free shares issued and outstanding at each reporting period end (see Note 21). A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value attached to outstanding free shares and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued. Only free shares have a dilutive effect over the period presented.

INCLUDING THE IMPACT OF THE CONSIDERED ACQUISITION OF THE NON-CONTROLLING INTEREST RELATED TO SERVITEC

The Company is in the process of acquiring the non-controlling interests of Servitec for which the consideration payable is recorded as a liability and for which no dividends will be paid prior to the acquisition. The earnings per share assuming that the acquisition of the non-controlling interest has taken place on April 20, 2012 are as follows.

			December 31,
	2012	2011	2010
Basic earnings per share (US cents per share)	**35.67**	**34.51**	**12.85**
Diluted earnings per share (US cents per share)	**35.18**	**34.25**	**12.69**

25. DIVIDENDS PER SHARE

On March 4, 2013, the Board of Directors proposed a dividend payment of CAD 0.055 per common share (€ 0.053 in 2011 and € 0.028 in 2010) to be approved by shareholders at the Company's Annual General Meeting on May 22, 2013.

26. COMMITMENTS AND CONTINGENCIES

The guarantees given are the following:

			December 31,
	2012	2011	2010
Bid bonds	364	197	482
Advance payment guarantees and performance guarantees	19,013	13,364	18,351
Retention guarantees	1,319	2,805	4,545
Financial guarantees	2,113	2,785	4,243
Total	**22,809**	**19,151**	**27,622**

The Company entered into an operating lease with a related party in respect of its premises in Lunel (see Note 27) for a term of nine years with an annual rent of € 200 thousand. This lease will end in 2015 representing a total remaining commitment amounting to € 600 thousand.

Other operating lease commitments for future periods are not material as at December 31, 2012, 2011 and 2010.

Generally, the Company is subject to legal proceedings, claims and legal actions 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.

27. RELATED PARTY TRANSACTIONS

As at December 31, 2012, the companies under the control of management hold 45.3% of the shares before dilutive instruments. 51.5% of the shares are listed on the Toronto Stock Exchange (excluding treasury shares owned by the Company).

The key management compensation is as follows:

In thousands €	Wages, attendance fees and bonuses	Share-based payment expense	Other benefits	Total
Key management	1,611	—	—	1,611
Board of Directors members other than key management	100	—	—	100
Year ended December 31, 2012	**1,711**	**—**	**—**	**1,711**
Key management	1,321	—	—	1,321
Board of Directors members other than key management	70	—	—	70
Year ended December 31, 2011	**1,391**	**—**	**—**	**1,391**
Key management	1,163	—	—	1,163
Board of Directors members other than key management	62	—	—	62
Year ended December 31, 2010	**1,225**	**—**	**—**	**1,225**

The Company did not contribute to any special pension scheme for management.

The Company paid during the year to a related party certain lease rentals amounting to € 200 thousand (€ 200 thousand in 2011 and € 196 thousand in 2010).

During 2011, the Company entered into a drilling contract with a company of which one of Foraco's Board members is a Director. This transaction was negotiated independently from the related party and represented US$2,129 thousand revenue for the period ended December 31, 2011. During 2012, there is no drilling contract with a company of which one of Foraco's Board members is a Director.

The Company has not carried out any other transactions with related parties.

28. EVENTS AFTER THE BALANCE SHEET DATE

On March 4, 2013, the Board of Directors proposed a dividend payment of CAD $0.055 per common share to be approved by shareholders at the Company's Annual General Meeting on May 22, 2013.

29. CONSOLIDATED SUBSIDIARIES

The consolidated subsidiaries are as follows:

Subsidiaries	Country of incorporation	Direct and indirect percentage of shareholdings
Foraco International S.A.	France	n.a.
Foraco SASU	France	100%
Géode International SASU	France	100%
Foraco Management SASU	France	100%
Foraco Resources SASU	France	100%
Forafrique International SASU	France	100%
Foraco Canada Ltd.	Canada	100%
Foraco Pacifique SASU	New Caledonia	100%
Foraco Australia Pty Ltd	Australia	100%
John Nitschke Drilling Pty Ltd	Australia	100%
Foraco CI S.A	Ivory Coast	100%
Foremi S.A.	Ivory Coast	51%
Foraco Subsahara	Chad	100%
Foraco Senegal	Senegal	100%
Foraco Niger S.A.	Niger	100%
Foraco Sahel Sarl	Mali	100%
Foraco Guinée Sarl	Guinea	100%
Foraco Ghana Ltd	Ghana	100%
Foraco Congo Sarl	Congo	100%
Foraco Burkina Faso	Burkina Faso	100%
Foraco Peru SAC	Peru	100%
Foraco Chile SA	Chile	100%
Foraco Argentina SA	Argentina	100%
Adviser Mexico SA	Mexico	100%
Eastern Drilling Company Llc	Russia	50%
WFS Sondagem S.A.	Brazil	51%

NOTES

NOTES

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Jean Paul Camus
Bruno Chabas
Jean-Pierre Charmensat
Warren Holmes
Jorge Hurtado
Gonzalo Van Wersch

Transfer Agent

Computershare Trust Company of Canada
510 Burrard Street
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Auditors

PricewaterhouseCoopers

Legal Counsel

Fasken Martineau DuMoulin LLP

Market Data

Shares of Foraco International S.A.
are listed on the Toronto Stock Exchange under the symbol FAR

Annual General Meeting

May 22, 2013, at 10:00am
26, Plage de L'Estaque
13016 Marseille, France

Investor Contact

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Integrity.

We run our business with the highest level of integrity and this value is embedded in all of our daily operations, from the field to our corporate offices.

Innovation.

The global economic, political and geographic landscape is constantly changing and as a result, so is our work environment.

Involvement.

A winning culture and entrepreneurial spirit are two of our key differentiators in the insudtry. We practice a fluid bottom-up-top-down communication.

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