

FORACO INTERNATIONAL S.A.

Unaudited Condensed Interim Consolidated Financial Statements

**Three-month and six-month periods ended
June 30, 2022**



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Unaudited condensed interim consolidated balance sheet - Assets

in thousands of US\$	Note	June 30, 2022	December 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	(5)	38,786	39,681
Goodwill	(6)	64,896	63,504
Deferred income tax assets		19,210	20,356
Other non-current assets		1,011	854
		123,903	124,395
Current assets			
Inventories, net	(7)	43,868	37,057
Trade receivables, net		51,610	32,237
Other current assets		10,999	11,179
Cash and cash equivalents		23,592	23,924
		130,069	104,397
Total assets		253,972	228,792

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Unaudited condensed interim consolidated balance sheet – Equity and Liabilities

in thousands of US\$	Note	June 30, 2022	December 31, 2021
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		2,499	2,499
Share premium, reserves and retained earnings		56,172	53,480
		58,671	55,979
Non-controlling interests		9,652	6,549
Total equity		68,323	62,528
LIABILITIES			
Non-current liabilities			
Borrowings - Non-current portion of long-term debt	(8)	94,694	94,101
Lease obligations – Non current portion	(8)	4,228	4,684
Deferred income tax liabilities		2,374	2,485
Provisions for other liabilities and charges	(9)	575	568
Current liabilities			
Trade payables		32,880	26,401
Other payables		33,128	23,830
Current income tax liabilities		1,868	3,182
Borrowings - Current portion of long-term debt	(8)	7,525	7,584
Borrowings - Current portion of drawn credit lines	(8)	6,459	1,382
Lease obligations - Current portion	(8)	1,772	1,913
Provisions for other liabilities and charges	(9)	145	135
Total liabilities		185,649	166,264
Total equity and liabilities		253,972	228,792
Net debt including operating lease obligations under IFRS 16		91,085	85,741

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

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Unaudited condensed interim consolidated income statement

In thousands of US\$	Note	Three-month period ended June 30		Six-month period ended June 30,	
		2022	2021	2022	2021
Revenue	(4)	86,498	75,668	154,239	130,219
Cost of sales	(11)	(67,711)	(59,859)	(125,891)	(108,369)
Gross profit		18,787	15,809	28,348	21,850
Selling, general and administrative expenses	(11)	(6,170)	(5,760)	(12,121)	(10,998)
Other operating income / (expense), net		-	-	-	-
Operating profit / (loss)		12,617	10,049	16,227	10,852
Finance costs		(2,778)	(2,563)	(5,354)	(4,643)
Profit / (loss) before income tax		9,839	7,486	10,872	6,209
Income tax (expense) / profit	(12)	(2,675)	(1,830)	(2,930)	(1,518)
Profit for the period		7,164	5,656	7,942	4,691
Attributable to:					
Equity holders of the Company		5,059	3,805	4,887	2,809
Non-controlling interests		2,105	1,851	3,055	1,882
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share):					
- basic	(15)	5.12	4.27	4.95	3.15
- diluted	(15)	4.99	4.15	4.82	3.06
Operating profit before depreciation, amortization and non-cash share based compensation expenses		17,867	14,705	26,394	19,819

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Unaudited condensed interim consolidated statement of changes in equity

in thousands of US\$	Attributable to equity holders of the Company			Non-controlling interests	Total Equity
	Share Capital	Share Premium, reserves and retained earnings	Total		
Balance at January 1, 2021	1,772	11,154	12,927	4,875	17,802
Profit / (loss) for the period	-	2,809	2,809	1,882	4,691
Currency translation differences	-	4,134	4,134	355	4,489
Employee share-based compensation	-	100	100	-	100
Impact in modification of share par value	509	(509)	-	-	-
Treasury shares purchased (see Note 10)	-	(226)	(226)	-	(226)
Dividend paid to non controlling interests	-	-	-	-	-
Balance at June 30, 2021	2,281	17,465	19,744	7,113	26,858
Balance at January 1, 2022	2,499	53,480	55,979	6,549	62,528
Profit / (loss) for the period	-	4,886	4,886	3,055	7,941
Currency translation differences	-	(1,595)	(1,595)	48	(1,547)
Employee share-based compensation	-	150	150	-	150
Treasury shares purchased (see Note 10)	-	(749)	(749)	-	(749)
Dividend paid to non controlling interests	-	-	-	-	-
Balance at June 30, 2022	2,499	56,172	58,671	9,652	68,323

Unaudited statement of comprehensive income

in thousands of US\$	June 30, 2022	June 30, 2021
Net profit / (loss) for the period	7,941	4,691
Currency translation differences	(1,547)	4,489
Total comprehensive profit / (loss) for the period	6,394	9,180
<i>Attributable to:</i>		
<i>Equity holders of the Company</i>	<i>3,291</i>	<i>6,943</i>
<i>Non-controlling interests</i>	<i>3,103</i>	<i>2,237</i>

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Unaudited condensed interim consolidated cash flow statement

in thousands of US\$	Six-month period ended	
	2022	2021
Profit / (loss) for the period	7,942	4,691
Adjustments for:		
- Depreciation, amortization and impairment (see note 11)	10,018	8,867
- Share-based compensation expenses (see note 11)	150	100
- Income tax expenses / (profit) (see note 12)	2,930	1,517
- Finance (profit) / cost, net (see note 16)	5,354	4,642
Cash generated from operations before changes in operating assets and liabilities	26,394	19,817
Changes in operating assets and liabilities:		
- Inventories	(4,488)	(3,695)
- Trade accounts receivable and other receivables	(18,824)	(13,724)
- Trade accounts payable and other payables	10,884	14,408
Cash generated from / (used in) operations	13,966	16,806
- Interest paid, net	(4,645)	(775)
- Income tax paid	(3,980)	(3,126)
Net cash flow from / (used in) operating activities	5,341	12,905
Purchase of property, plant and equipment (*)	(8,574)	(10,463)
Net cash generated from / (used in) investing activities	(8,574)	(10,463)
Proceeds from issuance of borrowings, net of issuance costs	-	187
Repayments of borrowings	(627)	(3,049)
Repayments of lease obligations	(1,220)	(720)
Proceeds from / (repayment of) short term credit facilities	5,099	450
Acquisition of treasury shares (see note 10)	(749)	(225)
Dividends paid to Company's shareholders	-	-
Dividends paid to non-controlling interests	-	-
Net cash generated from / (used in) financing activities	2,503	(3,357)
Exchange differences on cash and cash equivalents	397	36
Net increase / (decrease) in cash and cash equivalents	(332)	(879)
Cash and cash equivalents at beginning of the period	23,924	20,960
Cash and cash equivalents at end of the period	23,592	20,084
<i>(*) Excluding acquisition financed through leases and right of use</i>	922	None

Selected notes to the unaudited condensed interim consolidated financial statements

1. Basis of preparation

These unaudited condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. All material intercompany balances have been eliminated. Because all the disclosures required by IFRS are not included, these interim statements should be read in conjunction with the audited financial statements of Foraco International S.A. and its subsidiaries (“Foraco” or the “Company”) for the year ended December 31, 2021.

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

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

2.1. Accounting policies

The accounting policies have been consistently applied with those of the annual financial statements for the year ended December 31, 2021 except for the following: during the year, the income tax expense is recognized based on Management’s best estimate of the average annual income tax rate expected for the full financial year on a tax jurisdiction by tax jurisdiction basis. In the last quarter of each fiscal year, Management determines the effective income tax rate for the full year based on the anticipated actual tax returns to be filed and the effective contribution of each tax jurisdiction to the consolidated financial statements.

2.2. Seasonal fluctuations

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

2.3. General economic environment

The Company continues to report improved key profitability indicators compared to pre-Covid-19 activity levels in the context of favourable market conditions for the industry in which the Company operates. However, the economic instability resulting from continuing health crisis and the recent geopolitical events has impacted the Company's activity with challenges such as supply chains, availability of workforce and inflationary pressures. While the favourable market conditions prevailing in the industry show no sign of slowing down, there does remain a level of uncertainty.

2.4. Impairment testing

As at December 31, 2021, the Company performed impairment tests at the level of each geographic region using the carrying value of the Company's long lived assets based on the expected discounted cash flows method. Based on the internal forecasts and projections made, the expected discounted future cash flows exceeded each of the long-lived asset's carrying amount for each geographic region and accordingly no impairment was recognized as at December 31, 2021.

Based on the current activity trend, the Company considers that there is no triggering event which would justify an impairment testing as at June 30, 2022.

2.5. Deferred tax valuation allowance

The Company's policy is to recognize deferred tax assets only when they can be recovered within a reasonable timeframe. As a general rule, the Company recognizes deferred tax assets only when they can be used against taxable profit, generally within five years or when available tax opportunities exist. On this basis, the Company has adopted a partial recognition-based approach and has recorded certain valuation allowances.

2.6. New accounting pronouncements

The consolidated interim financial statements have been prepared using the same accounting policies and methods of evaluation as in the December 31, 2021 annual financial statements.

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

Standards, amendments and interpretations to existing standards that are applicable on or after January 1, 2022

- IAS 16 amendments regarding proceeds before intended use - "Plant and equipment - proceeds before intended use".
- IAS 37 amendments regarding onerous contracts - "Cost of fulfilling a contract".
- IFRS 3 amendments to business combination - "Accounting using the acquisition method".

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The application of these amendments has not had any material impact on the consolidated financial statements of the Company.

Standards, amendments and interpretations to existing standards that are applicable on or after January 1, 2023

- IAS 1 amendments on presentation and classification - applicable on or after January 1, 2023 with early adoption permitted – “Classification of liabilities as current or non-current”,
- Amendments to IFRS 17 - applicable on January 1, 2023 – “Insurance contract”,
- IAS 8 amendments on accounting estimates - applicable on or after January 1, 2023 with early adoption permitted – “Definition of accounting estimates”,
- IAS 12, "Income Taxes" – applicable on January 1, 2023 with early adoption permitted - implementation of a 'comprehensive balance sheet method'.

The impact on the consolidated financial statements of the Company of these standards, amendments and improvements is currently being evaluated.

3. Financial risk management

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

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

4. Segment information

The business segment information for the three-month periods ended June 30, 2022 and June 30, 2021 is as follows:

Three-month period ended	Mining		Water		Group	
	June 30,		June 30,		June 30,	
	2022	2021	2022	2021	2022	2021
Revenue	73,453	64,737	13,045	10,931	86,498	75,668
Gross profit / (loss)	15,511	12,870	3,276	2,939	18,787	15,809
Operating profit / (loss)	10,272	7,942	2,345	2,107	12,617	10,049
Finance profit / (costs)	n/a	n/a	n/a	n/a	(2,778)	(2,563)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	9,839	7,486
Income tax profit / (expense)	n/a	n/a	n/a	n/a	(2,675)	(1,830)
Profit / (loss) for the period	n/a	n/a	n/a	n/a	7,164	5,656

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The business segment information for the six-month periods ended June 30, 2022 and June 30, 2021 is as follows:

Six-month period ended	Mining		Water		Group	
	June 30,		June 30,		June 30,	
	2022	2021	2022	2021	2022	2021
Revenue	132,804	109,939	21,435	20,380	154,239	130,319
Gross profit / (loss)	23,226	17,622	5,121	4,228	28,348	21,850
Operating profit / (loss)	12,773	8,363	3,453	2,489	16,227	10,852
Finance profit / (costs)	n/a	n/a	n/a	n/a	(5,354)	(4,643)
Profit / (loss) before income tax	n/a	n/a	n/a	n/a	10,872	6,209
Income tax profit / (expense)	n/a	n/a	n/a	n/a	(2,930)	(1,518)
Profit / (loss) for the period	n/a	n/a	n/a	n/a	7,942	4,691

The following is a summary of sales to external customers by geographic area for the three-month periods ended June 30, 2022 and June 30, 2021:

Three-month period ended	June 30, 2022	June 30, 2021
North America	26,598	25,723
South America	25,001	12,819
Europe, Middle East and Africa	20,989	24,474
Asia Pacific	13,910	12,652
Net sales	86,498	75,668

The following is a summary of sales to external customers by geographic area for the six-month periods ended June 30, 2022 and June 30, 2021:

Six-month period ended	June 30, 2022	June 30, 2021
North America	48,198	44,358
South America	45,700	22,399
Europe, Middle East and Africa	36,158	43,302
Asia Pacific	24,184	20,160
Net sales	154,239	130,219

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5. Property, plant and equipment

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

	Land & Buildings	Drilling equipment & tools	Automotive equipment	Office furniture & other equipment	Rights of use	Total
Period ended December 31, 2021						
Opening net book amount	1,803	25,426	3,102	348	5,411	36,090
Additions	90	17,785	1,351	210	3,210	22,646
Exchange differences	(90)	(72)	(83)	(23)	(143)	(411)
Disposals or retirements	-	(32)	(1)	-	-	(33)
Depreciation expense	(107)	(15,522)	(986)	(148)	(1,914)	(18,676)
Closing net book value	1,696	27,647	3,384	388	6,564	39,681
Period ended June 30, 2022						
Opening net book amount	1,696	27,647	3,384	388	6,564	39,681
Additions	11	7,866	998	198	738	9,811
Exchange differences	(55)	(150)	139	14	(159)	(211)
Disposals or retirements	-	(372)	(113)	(1)	(28)	(514)
Depreciation expense	(47)	(8,154)	(572)	(99)	(1,109)	(9,981)
Closing net book value	1,605	26,837	3,836	500	6,006	38,786

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

Period ended	June 30, 2022	December 31, 2021
Cost of sales	9,098	17,311
Selling, general and administrative expenses	920	1,370
Total depreciation and amortization	10,018	18,681

6. Goodwill

Goodwill can be analyzed as follows:

	June 30, 2022	December 31, 2021
Goodwill at beginning of period	63,504	69,482
Exchange differences	1,393	(5,978)
Goodwill at end of period	64,896	63,504

Goodwill is denominated in the functional currency of its primary economic environment and is allocated to the following geographic regions: South America (US\$ 42.3 million), North

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America (US\$ 8.8 million), Asia Pacific (US\$ 7.0 million) and Europe, Middle East and Africa (US\$ 6.8 million).

7. Inventories

Inventories break down as follows:

	June 30, 2022	December 31, 2021
Spare parts and consumables, gross	43,868	37,057
Less inventory allowance	-	-
Inventories, net	43,868	37,057

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

8. Financial debt and lease obligations

As at June 30, 2022, the maturity of financial debt can be analyzed as presented in the table below:

	June 30, 2022
Credit lines	6,459
Long-term debt	
Within one year	7,525
Between 1 and 2 years	10,194
Between 2 and 3 years	9,954
Between 3 and 4 years	74,546
Total	108,677

Borrowings presented above are mainly denominated in US\$.

As part of the implementation of IFRS 16, the Company recognized lease obligations amounting to US\$ 6,000 thousand as at June 30, 2022.

9. Provisions

Provisions comprise the following elements:

	Pension and retirement indemnities	Provision for tax uncertainty	Claims	Total
As at January 1, 2022	568	-	135	703
Charged to consolidated income statement				
- Addition to provisions	68	-	-	68
- Used amounts reversed	-	-	-	-
- Unused amounts reversed	-	-	-	-
- Exchange differences	(61)	-	10	(51)
As at June 30, 2022	575	-	145	720

All of the Group's employees, with the exception of those in France and Africa, are covered under Government sponsored health and life insurance benefit plans. In France and Africa, the Group 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 Company operates in various countries and may be subject to tax audits and other employee related risks. The Company is currently facing such risks in certain countries but there is no existing or contingent liability at the balance sheet date. The Company regularly reassesses its exposure and accounts for provisions accordingly.

10. Share capital and change in equity

Number of shares outstanding

As at June 30, 2022, the total common shares of the Company are distributed as follows:

	Number of shares
Common shares held directly or indirectly by principal shareholders	34,155,191
Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors	693,462
Common shares held by the Company	459,754
Common shares held by the public (*)	63,943,391
Total shares issued and outstanding	99,251,798
Common shares held by the Company	(459,754)
Total common shares issued and outstanding	98,792,044

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Treasury shares

The Company filed a notice on September 16, 2021, in respect of a Normal Course Issuer Bid (“NCIB”) with the Toronto Stock Exchange (“TSX”). The Company was entitled to purchase up to 1,000,000 additional common shares. As at June 30, 2022, the Company purchased 556,097 of its own shares at an average purchase price of Can\$2.07.

As at June 30, 2022, the Company owns 459,454 of its own shares (378,460 as at December 31, 2021).

The common shares held by the Company will be used for free share plans.

11. Expenses by nature

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

	Three-month period ended		Six-month period ended	
	June 30		June 30,	
	2022	2021	2022	2021
Depreciation and amortization	(5,170)	(4,606)	(10,018)	(8,867)
Accruals increases / (reversals)	-	(14)	(41)	(77)
Raw materials, consumables used and external charges	(36,534)	(32,689)	(67,318)	(59,584)
Employee benefit expense	(31,821)	(27,743)	(59,826)	(49,923)
Taxes other than on income	(356)	(388)	(809)	(772)
Other operating (expenses) / profit, net	-	(179)	-	(145)
Total operating expenses	(73,881)	(65,619)	(138,013)	(119,368)

Share-based compensation expenses recognized in Employee benefit expense for the period ended June 30, 2022 amount to US\$ 150 thousand (US\$ 100 thousand in 2021).

12. Income tax expense

During the six-month period ended June 30, 2022, the Company recognized an income tax expense amounting to US\$ 2,930 thousand. The income tax is recognized based on Management’s best estimate of the average annual income tax rate expected for the full financial year on a tax jurisdiction by tax jurisdiction basis.

13. Commitments and contingencies

The Company granted a security package in favor of its new lender mainly consisting of a pledge on 100% of the shares held by Foraco International in certain of its subsidiaries and on certain materials and equipment in Canada, Brazil and Australia.

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Guarantees given are as follows:

	June 30, 2022	December 31, 2021
Bid bonds	102	13
Advance payment guarantees	5,498	6,084
Performance guarantees	1716	2,795
Retention guarantees	39	42
Financial guarantees	145	157
Total	7,500	9,048

The Company benefits from a corporate contract guarantee line confirmed until December 2022 amounting to €6.5 million (US\$ 6.8 million) of which €3.6 million (US\$ 3.8 million) was used as at June 30, 2022.

14. Related-party transactions

The Company accounted for certain related party transactions including lease of facility and equipment amounting to US\$ 835 thousand for the period ended June 30, 2022 (US\$ 615 thousand for the period ended June 30, 2021).

Compensation to key management for the six-month period ended June 30, 2022 amounted to US\$ 2,052 thousand (US\$ 2,321 thousand for the period ended June 30, 2021).

15. Earnings per share calculation

For the three-month period ended June 30, 2022, the weighted basic average number of shares was 98,836,162 (89,211,765 in 2021) and the weighted diluted average number of shares was 101,476,476 (91,676,064 in 2021).

For the six-month period ended June 30, 2022, the weighted basic average number of shares was 98,792,301 (89,310,801 in 2021) and the weighted diluted average number of shares was 101,433,016 (91,775,100 in 2021).

Diluted earnings per share

The dilutive earning per share calculation includes the impact of the Company's free share plan as if the related new shares were issued. Dilutive instruments cannot have an anti-dilutive effect in case of a net loss attributable to the equity holders of the Company. Therefore, the basic and diluted earnings per share are the same for loss making periods.

16. Post balance sheet events

There are no significant post balance sheet events.