

FORACO INTERNATIONAL S.A.

MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month and nine-month periods ended September 30, 2022



FORACO INTERNATIONAL S.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") relates to the results of operations, liquidity and capital resources of Foraco International S.A. ("Foraco" or the "Company"). This report has been prepared by Management and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended September 30, 2022, including the notes thereto. These quarterly unaudited interim financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). Following the decision taken by the Accounting Standards Board, IFRS became the accounting standards for all issuers in Canada on January 1, 2011. The Company adopted IFRS and made an explicit and unreserved statement that its consolidated financial statements comply with IFRS in 2004.

Except as otherwise stated in Note 2 to the unaudited interim condensed consolidated financial statements, these quarterly unaudited condensed interim consolidated financial statements were prepared using accounting policies and methods consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended December 31, 2021. 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 at October 28, 2022.

Caution concerning forward-looking statements

This document may contain "forward-looking statements" and "forward-looking information" within the meaning of applicable securities laws. These statements and information include estimates, forecasts, information and statements as to Management's expectations with respect to, among other things, the future financial or operating performance of the Company and capital and operating expenditures. Often, but not always, forward-looking statements and information can be identified by the use of words such as "may", "will", "should", "plans", "expects", "intends", "anticipates", "believes", "budget", and "scheduled" or the negative thereof or variations thereon or similar terminology. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned that any such forward-looking statements and information are not guarantees and there can be no assurance that such statements and information will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed under the heading "Risk Factors" in the Company's Annual Information Form dated March 30, 2022, which is filed with the 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**
- **Interim Consolidated 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 and claims**
- **Subsequent Events**
- **Strategy**
- **Risk Factors**

Business Overview

Headquartered in Marseille, France, Foraco is a worldwide drilling service provider and is present in 22 countries and 5 continents. On September 30, 2022, the Company had 2,904 employees and operated 302 drill rigs worldwide, providing a diverse range of drilling services to its customer base. The Company has developed and acquired significant expertise in destructive and non-destructive drilling, as well as proprietary drill rig design capabilities. These capabilities allow Foraco to tailor solutions to meet the specific conditions and drilling requirements of certain customers such as mining companies, governmental organizations and international development funds. Through its global operations the Company services a range of industries focusing on mining and water.

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

Interim Consolidated Financial Highlights

Income Statement

(In thousands of US\$) (unaudited)	Three-month period ended September 30,		Nine-month period ended September 30,	
	2022	2021	2022	2021
Revenue	91,414	70,574	245,652	200,793
Gross profit / (loss) (1)	24,446	14,858	52,793	36,708
<i>As a percentage of sales</i>	<i>26.7%</i>	<i>21.1%</i>	<i>21.5%</i>	<i>18.3%</i>
EBITDA	23,024	13,802	49,418	33,621
<i>As a percentage of sales</i>	<i>25.2%</i>	<i>19.6%</i>	<i>20.1%</i>	<i>16.7%</i>
Operating profit / (loss)	18,156	8,988	34,382	19,840
<i>As a percentage of sales</i>	<i>19.9%</i>	<i>12.7%</i>	<i>14.0%</i>	<i>9.9%</i>
Profit / (loss) for the period	11,151	32,093	19,093	36,785
Attributable to:				
Equity holders of the Company	8,351	30,408	13,238	33,219
Non-controlling interests	2,800	1,685	5,855	3,566
EPS (in US cents)				
Basic	8.46	30.91	13.41	35.78
Diluted	8.25	29.90	13.07	34.60

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

Three-month period ended September 30, 2022 – Q3 2022

Revenue

- Revenue for Q3 2022 amounted to US\$ 91.4 million compared to US\$ 70.6 million in Q3 2021, an increase of 30%.
- Rig utilization rate was 57% in Q3 2022 similar to Q3 2021 with a higher part of our revenue coming from the utilization of larger rigs.

Profitability

- Q3 2022 gross margin including depreciation within cost of sales was US\$ 24.4 million (or 26.7% of revenue) compared to US\$ 14.9 million (or 21.1% of revenue) in Q3 2021, an increase of 65%. This reflects the combination of solid operating performances and increases in selling prices.
- During the quarter, EBITDA amounted to US\$ 23.0 million compared to US\$ 13.8 million for the same quarter last year, an increase of 67 %.
- Q3 2022 EBITDA was 25.2% of revenue compared to 19.6% of revenue in Q3 2021.

Nine-month period ended September 30, 2022 – YTD Q3 2022

Revenue

- YTD Q3 2022 revenue amounted to US\$ 245.7 million compared to US\$ 200.8 million for YTD Q3 2021 an increase of 22%.

Profitability

- YTD Q3 2022 gross margin including depreciation within cost of sales was US\$ 52.8 million (or 21.5% of revenue) compared to US\$ 36.7 million (or 18.3% of revenue) for YTD Q3 2021.
- During the period, EBITDA amounted to US\$ 49.4 million (or 20.1% of revenue), compared to US\$ 33.6 million (or 16.7% of revenue) for the same period last year.

Results of Operations

Comparison of the three-month periods ended September 30, 2022 and September 30, 2021

Revenue

The following table provides a breakdown of the Company's revenue for Q3 2022 and Q3 2021 by reporting segment and geographic region:

(In thousands of US\$) - (unaudited)	<u>Q3 2022</u>	<u>% change</u>	<u>Q3 2021</u>
<u>Reporting segment</u>			
Mining	79,027	28%	61,793
Water	<u>12,387</u>	<u>41%</u>	<u>8,781</u>
Total revenue	<u>91,414</u>	<u>30%</u>	<u>70,574</u>
<u>Geographic region</u>			
North America.....	27,870	11%	25,131
Europe, Middle East and Africa	18,988	-4%	19,684
South America.....	29,398	109%	14,057
Asia Pacific	<u>15,158</u>	<u>30%</u>	<u>11,702</u>
Total revenue	<u>91,414</u>	<u>30%</u>	<u>70,574</u>

Revenue for the quarter increased from US\$ 70.6 million in Q3 2021 to US\$ 91.4 million in Q3 2022 (+ 30%).

The increase in revenue in the Mining and Water segment is the result of the favorable market dynamics with long-term rolling contracts which began in 2021, coupled with the capacity of the Company to deliver.

Activity in North America increased by 11% with revenue at US\$ 27.9 million in Q3 2022 compared to US\$ 25.1 million in Q3 2021. The growth in the region is penalized by continuing crewing issues.

In the EMEA, revenue for the quarter was US\$ 19.0 million compared to US\$ 19.7 million in Q3 2021, a decrease of 4% mainly due to a Euro / US\$ adverse foreign exchange variance.

Revenue in South America increased by 109% to US\$ 29.4 million in Q3 2022 (US\$ 14.1 million in Q3 2021). This increase is mainly linked to new long-term contracts mobilized during the quarter.

In Asia Pacific, Q3 2022 revenue amounted to US\$ 15.2 million, an increase of 30% reflecting quarter over quarter the ongoing improvement of the activity with two significant long-term contracts initiated during the period.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for Q3 2022 and Q3 2021:

(In thousands of US\$) - (unaudited)	<u>Q3 2022</u>	<u>% change</u>	<u>Q3 2021</u>
<u>Reporting segment</u>			
Mining.....	20,523	57%	13,076
Water.....	<u>3,923</u>	<u>120%</u>	<u>1,782</u>
Total gross profit	<u>24,446</u>	<u>65%</u>	<u>14,858</u>

The Q3 2022 gross margin including depreciation within cost of sales was US\$ 24.4 million (or 26.7% of revenue) compared to US\$ 14.9 million (or 21.1% of revenue) in Q3 2021. The Company benefited from increased selling prices. Most ongoing contracts reported solid performances despite a tight labor market and inflationary pressure.

Selling, General and Administrative Expenses

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

(In thousands of US\$) - (unaudited)	<u>Q3 2022</u>	<u>% change</u>	<u>Q3 2021</u>
Selling, general and administrative expenses	6,290	7%	5,870

SG&A increased compared to the same quarter last year mainly due to the level of activity. As a percentage of revenue, SG&A decreased from 8.3% in Q3 2021 to 6.9% in Q2 2022.

Operating result

The following table provides a breakdown of the Company's operating result for Q3 2022 and Q3 2021 by reporting segment:

(In thousands of US\$) - (unaudited)	<u>Q3 2022</u>	<u>% change</u>	<u>Q3 2021</u>
<u>Reporting segment</u>			
Mining	15,085	90%	7,936
Water	<u>3,071</u>	<u>192%</u>	<u>1,052</u>
Total operating profit (loss)	<u>18,156</u>	<u>102%</u>	<u>8,988</u>

The operating profit was US\$ 18.2 million, resulting in a US\$ 14.5 million increase thanks to the increased activity and improved margins.

Finance costs

Net financial expenses were US\$ 2.9 million in Q3 2022 compared to US\$ 2.1 million in Q3 2021 linked to the 3.1% increase of the Libor 3 months interest rate. On July 7, 2021, the Company finalized its financial reorganization through the raising of US\$ 100 million in new bonds and the early redemption of its euro-denominated bonds with a one-off gain before income tax of US\$ 34.6 million.

Income tax

Applying a recognized income tax expense 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, the corporate income tax expense for Q3 2022 was US\$ 4.1 million compared to US\$ 9.4 million (including US\$ 9.0 million non-cash related to the gain on refinancing) in the same period for the previous year.

Comparison of the nine-month periods ended September 30, 2022 and September 30, 2021

Revenue

The following table provides a breakdown of the Company's revenue for YTD Q3 2022 and YTD Q3 2021 by reporting segment and geographic region:

(In thousands of US\$) - (unaudited)	<u>YTD Q3 2022</u>	<u>% change</u>	<u>YTD Q3 2021</u>
<u>Reporting segment</u>			
Mining	211,831	23%	171,632
Water	<u>33,822</u>	<u>16%</u>	<u>29,161</u>
Total revenue	<u>245,652</u>	<u>22%</u>	<u>200,793</u>
<u>Geographic region</u>			
North America	76,068	10%	69,489
Europe, Middle East and Africa	55,145	-12%	62,985
South America	75,097	106%	36,456
Asia Pacific	<u>39,342</u>	<u>24%</u>	<u>31,863</u>
Total revenue	<u>245,652</u>	<u>22%</u>	<u>200,793</u>

In a favorable economic context for the industry, the Company reports a YTD Q3 2022 revenue amounting to US\$ 245.6 million compared to US\$ 200.8 million for YTD Q3 2021, an increase of 22%.

Revenue in North America increased by 10% to US\$ 76.1 million in YTD Q3 2022 from US\$ 69.5 million in YTD Q3 2021, a growth driven by long term contracts which started during the period.

In EMEA, revenue decreased by 12%, to US\$ 55.1 million in YTD Q3 2022 from US\$ 63.0 million in YTD Q3 2021. In Africa, activity decreased by 32% compared to YTD Q3 2021 mainly due to the phasing of contracts, logistic challenges and adverse foreign exchange. The activity remained stable in the other regions (Europe and CIS).

Revenue in South America increased by 106% to US\$ 75.1 million in YTD Q3 2022 (US\$ 36.5 million in YTD Q3 2021). This increase is mainly linked to new long-term contracts mobilized during the period.

In Asia Pacific, YTD 2022 revenue amounted to US\$ 39.3 million, an increase of 24% reflecting the ongoing improvement of the activity with significant long-term contracts mobilized during the period.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for YTD Q3 2022 and YTD Q3 2021:

(In thousands of US\$) - (unaudited)	<u>YTD Q3 2022</u>	<u>% change</u>	<u>YTD Q3 2021</u>
<u>Reporting segment</u>			
Mining.....	43,749	43%	30,698
Water.....	<u>9,044</u>	<u>51%</u>	<u>6,010</u>
Total gross profit / (loss)	<u>52,793</u>	<u>44%</u>	<u>36,708</u>

In the context of a solid demand and good operating performances and despite global inflationary pressures and supply chain challenges, margins continue to improve. The YTD Q3 2022 gross margin including depreciation within cost of sales was US\$ 52.8 million compared to US\$ 36.7 million in YTD Q3 2021 (+44%).

Selling, General and Administrative Expenses

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

(In thousands of US\$) - (unaudited)	<u>YTD Q3 2022</u>	<u>% change</u>	<u>YTD Q3 2021</u>
Selling, general and administrative expenses	18,411	9%	16,868

SG&A increased by 9% compared to the same period last year. As a percentage of revenue, SG&A decreased from 8.4% to 7.5% of revenue.

Operating result

The following table provides a breakdown of the Company's operating result for YTD Q3 2022 and YTD Q3 2021 by reporting segment:

(In thousands of US\$) - (unaudited)	<u>YTD Q3 2022</u>	<u>% change</u>	<u>YTD Q3 2021</u>
<u>Reporting segment</u>			
Mining	27,858	71%	16,299
Water.....	<u>6,524</u>	<u>84%</u>	<u>3,541</u>
Total operating gain (loss)	<u>34,382</u>	<u>73%</u>	<u>19,840</u>

The operating profit was US\$ 34.4 million in YTD Q3 2022, a US\$ 14.5 million improvement compared to YTD Q3 2021 as a result of the increase in activity and the continued control over the operations and SG&A expenses.

Finance costs

Net financial expenses increased to US\$ 8.3 million in YTD Q3 2022 from US\$ 6.9 million in YTD Q3 2021 linked to the increase of the Libor 3 months interest rate. On July 7, 2021, the Company finalized its financial reorganization through the raising of US\$ 100 million in new bonds and the early redemption of its euro-denominated bonds with a one-off gain before income tax of US\$ 34.6 million.

Income tax

In YTD Q3 2022, the corporate income tax expense was US\$ 7.0 million, compared to US\$ 10.9 million including US\$ 9.0 million non-cash related to the gain on refinancing) for the same period last year. The income tax loss 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.

Seasonality

The worldwide presence of the Company reduces its overall exposure to seasonality and the influence this can have on the 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. Russia is also affected by the winter period during which operations are suspended. In Asia Pacific and in South America, where the Company operates exclusively in the Mining segment, a seasonal slowdown in activity occurs around year-end, during the vacation period. Certain contracts are also affected in Chile in July and August when the winter season peaks.

Effect of Exchange Rates

The Company operates in a large number of countries with functional currencies (Euros, Canadian Dollars, Australian Dollars, Chilean Pesos, Brazilian Reals and Russian Rubles) and therefore not with the US Dollar which is the presentation currency of the Group. The significant variations in the value of the US Dollar over the previous quarters have had a substantial impact on the Company's financial statements.

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

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

	Average Q3 2022	Average Q2 2022	Average Q1 2022	Average Q3 2021	Average Q2 2021	Average Q1 2021	Closing Q3 2022	Closing Q4 2021
€	0.99	0.94	0.89	0.85	0.83	0.83	1.03	0.88
CAD	1.30	1.28	1.27	1.26	1.23	1.27	1.37	1.28
AUD	1.46	1.40	1.38	1.36	1.30	1.29	1.54	1.38
CLP	929	842	809	772	716	723	959	849
BRL	5.24	4.91	5.23	5.23	5.31	5.47	5.39	5.64
RUB	59.90	67.60	88.43	73.43	74.17	74.39	57.75	74.47

Liquidity and Capital Resources

The following table provides a summary of the Company's cash flows for YTD 2022 and YTD Q3 2021:

(In thousands of US\$)	<u>YTD Q3 2022</u>	<u>YTD Q3 2021</u>
Cash generated by operations before working capital requirements	49,417	33,621
Working capital requirements	(18,526)	(5,643)
Income tax paid	(5,685)	(4,670)
Purchase of equipment in cash	(14,096)	(14,677)
Free Cash Flow before debt servicing	11,109	8,631
Proceeds from issuance of bonds, net of issuance costs	-	95,564
Repayments of Bonds including costs paid	(5,000)	(96,125)
Repayments of borrowings and others	7,355	(4,600)
Interests paid	(7,097)	(839)
Acquisition of treasury shares	(927)	(263)
Dividends paid to non-controlling interests	(1,098)	(1,217)
Net cash generated / (used in) financing activities	(6,767)	(7,480)
Net cash variation	4,342	1,151
Foreign exchange differences	(635)	207
Variation in cash and cash equivalents	<u>3,708</u>	<u>1,359</u>
Cash and cash equivalents at the end of the period	<u>27,631</u>	<u>22,319</u>

In YTD Q3 2022, the cash generated from operations before working capital requirements amounted to US\$ 49.4 million compared to US\$ 33.6 million in YTD Q3 2021.

In YTD Q3 2022, the working capital requirement was US\$ 18.5 million compared to US\$ 5.6 million in the same period last year. The increase of the working capital requirement is a result of the activity's ramp-up.

During the period, Capex totaled US\$ 14.1 million in cash compared to US\$ 14.7 million in YTD Q3 2021. Capex relates essentially to the acquisition of rigs, major rig overhauls, ancillary equipment and rods.

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

<i>In thousands US\$</i>	September 30, 2022
Credit lines	11,375
Long-term debt	
Within one year	12,912
Between 1 and 2 years	10,157
Between 2 and 3 years	9,787
Between 3 and 4 years	64,836
Total	109,067
IFRS 16	5,435
Cash	27,631
Net Debt	86,871

As at September 30, 2022, cash and cash equivalents totaled US\$ 27.6 million compared to US\$ 23.9 million as at December 31, 2021. Cash and cash equivalents are mainly held at or invested within top tier financial institutions.

As at September 30, 2022, the net debt including operational lease obligations (IFRS 16) amounted to US\$ 86.9 million (US\$ 85.7 million as at December 31, 2021).

Bank guarantees as at September 30, 2022 totaled US\$ 7.9 million compared to US\$ 9.0 million as at December 31, 2021. The Company benefits from a confirmed contract guarantee line of € 6.5 million (US\$ 6.3 million).

Cash Transfer Restrictions

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

Related-Party Transactions

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

Capital Stock

As at September 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 (**)	589,129
Common shares held by the public	63,814,016
Total shares issued and outstanding	99,251,798
Common shares held by the Company	(589,129)
Total common shares issued and outstanding	98,662,669

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

**589,129 common shares are held by the Company to meet the Company's obligations under the employee free share plan.

Critical Accounting Estimates

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

Non-IFRS measures

EBITDA represents Net income before interest expense, income taxes, depreciation, amortization and non-cash share based compensation expenses. EBITDA is a non-IFRS quantitative measure used to assist in the assessment of the Company's ability to generate cash from its operations. The Company believes that the presentation of EBITDA is useful to investors as this 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 as an alternative to Profit for the period or Operating profit or any other financial metric required by such accounting principles.

Net debt corresponds to the current and non-current portions of borrowings and the consideration of payables related to acquisitions, net of cash and cash equivalents. The Company's lease obligations are included in the net debt calculation.

Reconciliation of EBITDA is as follows:

(In thousands of US\$) (unaudited)	<u>Q3 2022</u>	<u>Q3 2021</u>	<u>YTD</u> <u>Q3 2022</u>	<u>YTD</u> <u>Q3 2021</u>
Operating profit / (loss).....	18,156	8,988	34,382	19,840
Depreciation expense	4,777	4,764	14,795	13,631
Non-cash employee share-based compensation.....	90	50	240	150
EBITDA	<u>23,024</u>	<u>13,802</u>	<u>49,417</u>	<u>33,621</u>

Litigation and claims

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

Subsequent Events

There are no significant post balance sheet events.

Strategy

The Company's strategy is to assist its customers in exploring or managing their deposits throughout the entire cycle, with a special focus on the life of mines extension activity. The Company intends to continue developing and growing its services across the world with a focus on stable jurisdictions, high tech drilling services, optimal commodities mix - with a significant presence in water related drilling services - and a gradual implementation of advanced digital applications. The Company expects to execute its strategy primarily through organic growth and targeted acquisitions.

The Company anticipated the increased environmental, social and governance (ESG) requirements, and is implementing a pragmatic and measurable approach to ESG with quantitative KPIs to maximize improvement and efficiencies.

Risk Factors

For a comprehensive discussion of the important factors that could impact the Company's operating results, please refer to the Company's Annual Information Form dated March 30, 2022, under the heading "Risk Factors", which has been filed with the Canadian regulators on SEDAR (www.sedar.com).