

FORACO INTERNATIONAL S.A.

Unaudited Condensed Interim Consolidated Financial Statements

**Three-month period and year ended
December 31, 2022**



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Unaudited condensed interim consolidated balance sheet - Assets

in thousands of US\$	Note	December 31, 2022	December 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	(5)	39,536	39,681
Goodwill	(6)	64,055	63,504
Deferred income tax assets		18,791	20,356
Other non-current assets		1,053	854
		123,435	124,395
Current assets			
Inventories, net	(7)	44,030	37,057
Trade receivables, net		42,439	32,237
Other current assets		10,232	11,179
Cash and cash equivalents		29,409	23,924
		126,110	104,397
Total assets		249,545	228,792

Unaudited condensed interim consolidated balance sheet – Equity and Liabilities

in thousands of US\$	Note	December 31, 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		62,688	53,480
		65,187	55,979
Non-controlling interests		10,305	6,549
Total equity		75,492	62,528
LIABILITIES			
Non-current liabilities			
Borrowings - Non-current portion of long-term debt	(8)	84,771	94,101
Lease obligations – Non current portion	(8)	3,276	4,684
Deferred income tax liabilities		2,292	2,485
Provisions for other liabilities and charges	(9)	563	568
Current liabilities			
Trade payables		28,717	26,401
Other payables		30,243	23,830
Current income tax liabilities		6,524	3,182
Borrowings - Current portion of long-term debt	(8)	13,166	7,584
Borrowings - Current portion of drawn credit lines	(8)	2,323	1,382
Lease obligations - Current portion	(8)	2,032	1,913
Provisions for other liabilities and charges	(9)	144	135
Total liabilities		174,053	166,264
Total equity and liabilities		249,545	228,792
Net debt including operating lease obligations under IFRS 16		76,161	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

Unaudited condensed interim consolidated income statement

In thousands of US\$	Note	Three-month period ended December 31		Year ended December 31	
		2022	2021	2022	2021
Revenue	(4)	84,903	68,896	330,555	269,689
Cost of sales	(11)	(66,424)	(58,784)	(259,283)	(222,869)
Gross profit		18,479	10,112	71,272	46,820
Selling, general and administrative expenses	(11)	(6,477)	(5,825)	(24,888)	(22,693)
Other operating income / (expense), net		-	-	-	-
Operating profit		12,002	4,287	46,384	24,127
Finance costs		(3,523)	(2,618)	(11,800)	(9,368)
Gain on refinancing		-	(350)	-	34,233
Profit before income tax		8,479	1,319	34,585	48,992
Income tax (expense) / profit	(12)	(1,792)	907	(8,805)	(9,982)
Profit for the period		6,687	2,226	25,780	39,010
Attributable to:					
Equity holders of the Company		6,523	2,269	19,761	35,487
Non-controlling interests		164	(43)	6,019	3,523
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share):					
- basic	(15)	6.61	2.26	20.01	37.65
- diluted	(15)	6.48	2.20	19.59	36.71
Operating profit before depreciation, amortization and non-cash share based compensation expenses		17,126	9,420	66,544	43,041

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 for the period	-	35,486	35,486	3,523	39,010
Currency translation differences	-	(9,165)	(9,165)	(72)	(9,237)
Employee share-based compensation	-	233	233	-	233
Impact in modification of share par value	507	(507)	-	-	-
Share capital increase (See Note 16)	220	16,831	17,051	-	17,051
Treasury shares purchased (see Note 10)	-	(552)	(552)	-	(552)
Dividend paid to non controlling interests	-	-	-	(1,778)	(1,778)
Balance at December 31, 2021	2,499	53,480	55,979	6,549	62,528
Balance at January 1, 2022	2,499	53,480	55,979	6,549	62,528
Profit for the period	-	19,761	19,761	6,019	25,780
Currency translation differences	-	(9,850)	(9,850)	(549)	(10,399)
Employee share-based compensation	-	330	330	-	330
Treasury shares purchased (see Note 10)	-	(1,032)	(1,032)	-	(1,032)
Dividend paid to non controlling interests	-	-	-	(1,714)	(1,714)
Balance at December 31, 2022	2,499	62,688	65,188	10,305	75,492

Unaudited statement of comprehensive income

in thousands of US\$	December 31, 2022	December 31, 2021
Net profit for the period	25,780	39,010
Currency translation differences	(10,399)	(9,237)
Total comprehensive profit for the period	15,381	29,773
<i>Attributable to:</i>		
<i>Equity holders of the Company</i>	<i>9,911</i>	<i>26,321</i>
<i>Non-controlling interests</i>	<i>5,470</i>	<i>3,451</i>

Unaudited condensed interim consolidated cash flow statement

in thousands of US\$	Year ended December 31	
	2022	2021
Profit for the period	25,780	39,010
Adjustments for:		
- Depreciation, amortization and impairment (see Note 11)	19,830	18,681
- Share-based compensation expenses (see Note 11)	330	233
- Income tax expenses / (profit) (see Note 12)	8,805	9,981
- Finance (profit) / cost, net (see note 16)	11,800	(24,865)
Cash generated from operations before changes in operating assets and liabilities	66,544	43,041
Changes in operating assets and liabilities:		
- Inventories	(7,762)	(6,985)
- Trade accounts receivable and other receivables	(8,539)	(5,628)
- Trade accounts payable and other payables	6,555	8,565
Cash generated from / (used in) operations	56,799	38,992
- Interest paid, net	(10,068)	(3,210)
- Income tax paid	(9,302)	(6,764)
Net cash flow from / (used in) operating activities	37,429	29,018
Purchase of property, plant and equipment (*)	(20,042)	(18,586)
Net cash generated from / (used in) investing activities	(20,042)	(18,586)
Proceeds from issuance of borrowings, net of issuance costs	-	187
Proceeds from issuance of bonds, net of issuance costs	-	95,564
Repayments of Bonds including costs paid	-	(96,125)
Repayments of borrowings	(6,447)	(3,674)
Repayments of lease obligations	(2,620)	(1,534)
Proceeds from / (repayment of) short term credit facilities	1,135	114
Acquisition of treasury shares (see Note 10)	(1,032)	(552)
Dividends paid to Company's shareholders	-	-
Dividends paid to non-controlling interests	(1,714)	(1,778)
Net cash generated from / (used in) financing activities	(10,678)	(7,797)
Exchange differences on cash and cash equivalents	(1,224)	328
Net increase / (decrease) in cash and cash equivalents	5,485	2,963
Cash and cash equivalents at beginning of the period	23,924	20,960
Cash and cash equivalents at end of the period	29,409	23,924
(*) Excluding acquisition financed through leases and right of use	1,234	3,210

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. Due to the fact that 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, 2022.

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, 2022 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 in the context of favourable market conditions for the industry in which it operates. The global demand for electrification continues to fuel an increased market dynamic for battery metals while environmental issues underpin the growth for water services. However, the economic instability with challenges such as supply chains, availability of workforce and inflationary pressures together with the recent geopolitical events has impacted the Company’s activity. While the favourable market conditions prevailing with larger clients show no sign of slowing down, there does remain a level of uncertainty.

The Company is exposed to Russia through its shareholding in a joint venture. The Company is strictly complying with the imposed sanctions and is applying all the regulations to its facilities and operations in Russia. The Company has suspended the provision of supplies and services within the country. In FY 2022, the Company received dividends related to previous periods for an amount of US\$ 1.2 million. As at December 31, 2022, the contribution of the Russian subsidiary to the net assets of the Company is approximately US\$ 7.0 million. The Company is continuing to look into all options that may further reduce its exposure in light of the complex control restrictions.

2.4. Impairment testing

As at December 31, 2022, 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, 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 those disclosed 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".

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, financial counter-party risk and credit risk.

A significant portion of the cash flows of the Company are mainly denominated in Canadian Dollars, Euros, Australian Dollars, Brazilian Real, 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.

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4. Segment information

The business segment information for the three-month periods ended December 31, 2022 and December 31, 2021 is as follows:

Three-month period ended	Mining		Water		Group	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue	74,235	60,724	10,668	8,172	84,903	68,896
Gross profit	16,214	8,645	2,265	1,467	18,479	10,112
Operating profit	10,551	3,552	1,451	735	12,002	4,287
Finance profit / (costs)	n/a	n/a	n/a	n/a	(3,523)	(2,968)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	8,479	1,319
Income tax profit / (expense)	n/a	n/a	n/a	n/a	(1,792)	907
Profit for the period	n/a	n/a	n/a	n/a	6,687	2,226

The business segment information for the year ended December 31, 2022 and December 31, 2021 is as follows:

Year ended	Mining		Water		Group	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue	286,065	232,356	44,490	37,333	330,555	269,689
Gross profit	59,963	39,342	11,309	7,478	71,272	46,820
Operating profit	38,409	19,851	7,975	4,276	46,384	24,127
Finance profit / (costs)	n/a	n/a	n/a	n/a	(11,800)	24,865
Profit before income tax	n/a	n/a	n/a	n/a	34,585	48,992
Income tax profit / (expense)	n/a	n/a	n/a	n/a	(8,805)	(9,982)
Profit for the period	n/a	n/a	n/a	n/a	25,780	39,010

The following is a summary of sales to external customers by geographic area for the three-month periods ended December 31, 2022 and December 31, 2021:

Three-month period ended	December 31, 2022	December 31, 2021
North America	28,277	22,772
South America	29,543	16,341
Europe, Middle East and Africa	13,130	18,889
Asia Pacific	13,954	10,894
Net sales	84,903	68,896

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The following is a summary of sales to external customers by geographic area for the year ended December 31, 2022 and December 31, 2021:

Year ended	December 31, 2022	December 31, 2021
North America	104,345	92,261
South America	104,640	52,797
Europe, Middle East and Africa	68,275	81,875
Asia Pacific	53,295	42,756
Net sales	330,555	269,689

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 December 31, 2022						
Opening net book amount	1,696	27,647	3,384	388	6,564	39,681
Additions	205	17,222	2,579	536	1,234	21,776
Exchange differences	(74)	(800)	(207)	12	(288)	(1,357)
Disposals or retirements	-	(587)	(134)	(1)	(28)	(750)
Depreciation expense	(124)	(16,129)	(1,179)	(176)	(2,206)	(19,814)
Closing net book value	1,703	27,353	4,443	759	5,276	39,536

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

Period ended	December 31, 2022	December 31, 2021
Cost of sales	18,050	17,311
Selling, general and administrative expenses	1,780	1,370
Total depreciation and amortization	19,830	18,681

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6. Goodwill

Goodwill can be analyzed as follows:

	December 31, 2022	December 31, 2021
Goodwill at beginning of period	63,504	69,482
Exchange differences	552	(5,978)
Goodwill at end of period	64,055	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\$ 43.2 million), North America (US\$ 8.4 million), Asia Pacific (US\$ 6.9 million) and Europe, Middle East and Africa (US\$ 5.5 million).

7. Inventories

Inventories break down as follows:

	December 31, 2022	December 31, 2021
Spare parts and consumables, gross	44,030	37,057
Less inventory allowance	-	-
Inventories, net	44,030	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 December 31, 2022, the maturity of financial debt can be analyzed as presented in the table below:

	December 31, 2022
Credit lines	2,323
Long-term debt	
Within one year	13,166
Between 1 and 2 years	10,112
Between 2 and 3 years	74,551
Between 3 and 4 years	109
Total	100,261

Borrowings presented above are mainly denominated in US\$.

As part of the implementation of IFRS 16, the Company recognized lease obligations amounting to US\$ 5,308 thousand as at December 31, 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	38			38
- Used amounts reversed				
- Unused amounts reversed	(16)			(16)
- Exchange differences	(27)		9	(18)
As at December 31, 2022	563	-	144	707

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 December 31, 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	265,573
Common shares held by the public (*)	64,137,572
Total shares issued and outstanding	99,251,798
Common shares held by the Company	(265,573)
Total common shares issued and outstanding	98,986,225

Treasury shares

On September 16, 2021, the Company issued a notice with the Toronto Stock Exchange ("TSX") in respect of a Normal Course Issuer Bid ("NCIB"). The Company was entitled to purchase up to 1,000,000 additional common shares. As at December 31, 2022, the Company purchased 685,472 of its own shares at an average purchase price of Can\$2.02.

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On September 30, 2022, the Company issued a notice with the Toronto Stock Exchange (“TSX”) in respect of a Normal Course Issuer Bid (“NCIB”). The Company was entitled to purchase up to 1,000,000 additional common shares. As at December 31, 2022, the Company purchased 102,444 of its own shares at an average purchase price of Can\$1.36.

As at December 31, 2022, the Company owns 265,573 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 December 31		Year ended December 31,	
	2022	2021	2022	2021
Depreciation and amortization	(5,034)	(5,050)	(19,830)	(18,681)
Accruals increases / (reversals)	(32)	(20)	(74)	(116)
Raw materials, consumables used and external charges	(35,718)	(30,905)	(139,563)	(120,645)
Employee benefit expense	(30,412)	(28,448)	(121,519)	(104,868)
Taxes other than on income	(1,195)	(851)	(2,451)	(1,916)
Other operating (expenses) / profit, net	(510)	-	(735)	-
Total operating expenses	(72,901)	(65,274)	(284,171)	(246,227)

Share-based compensation expenses recognized in Employee benefit expense for the period ended December 31, 2022 amount to US\$ 330 thousand (US\$ 233 thousand for the period ended December 31, 2021).

12. Income tax expense

During the year ended December 31, 2022, the Company recognized an income tax expense amounting to US\$ 8,805 thousand (US\$ 9,982 thousand for the period ended December 31, 2021).

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.

Guarantees given are mainly related to contracts and are as follows:

	December 31, 2022	December 31, 2021
Bid bonds	85	13
Advance payment guarantees	6,993	6,084
Performance guarantees	2,196	2,795
Retention guarantees	39	42
Financial guarantees	148	157
Total	9,372	9,048

14. Related-party transactions

The Company accounted for certain related party transactions including lease of facility and equipment amounting to US\$ 1,656 thousand for the period ended December 31, 2022 (US\$ 1,337 thousand for the period ended December 31, 2021).

Compensation to key managers for the period ended December 31, 2022 amounted to US\$ 2,998 thousand (US\$ 3,017 thousand for the period ended December 31, 2021).

15. Earnings per share calculation

For the three-month period ended December 31, 2022, the weighted basic average number of shares was 98,721,125 (98,485,678 in 2021) and the weighted diluted average number of shares was 100,737,997 (101,095,694 in 2021).

For the year ended December 31, 2022, the weighted basic average number of shares was 98,773,993 (94,252,613 in 2021) and the weighted diluted average number of shares was 100,862,425 (96,666,257 in 2021).

16. Post balance sheet events

There are no significant post balance sheet events.