

FORACO INTERNATIONAL S.A.

MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2023



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 period ended March 31, 2023, 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, 2022. 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 April 27, 2023.

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 thereof 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 3, 2023, 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:

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Business Overview

Headquartered in Marseille, France, Foraco is a worldwide drilling service provider and is present in 22 countries and 5 continents. On March 31, 2023, the Company had 2,860 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. Through its global operations the Company services a range of industries focusing on mining and water.

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, an optimal commodities mix including battery metals and gold - 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 addressed the environmental, social and governance (ESG) requirements, and implements a pragmatic and measurable approach to ESG with quantitative KPIs to maximize improvement and efficiencies.

Interim Consolidated Financial Highlights

Income Statement

(In thousands of US\$) (unaudited)	Three-month period ended March 31,	
	2023	2022
Revenue	88,378	67,740
Gross profit (1)	21,118	9,560
<i>As a percentage of sales</i>	<i>23.9%</i>	<i>14.1%</i>
EBITDA	19,130	8,527
<i>As a percentage of sales</i>	<i>21.6%</i>	<i>12.6%</i>
Operating profit	14,214	3,609
<i>As a percentage of sales</i>	<i>16.1%</i>	<i>5.3%</i>
Net profit for the period	8,001	778
Attributable to:		
Equity holders of the Company	6,335	428
Non-controlling interests	1,366	350
EPS (in US cents)		
Basic	6.70	0.43
Diluted	6.56	0.42

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

Three-month period ended March 31, 2023 – Q1 2023

The Company is present in Russia through its 50% stake in Eastern Drilling Company (EDC). On April 5, 2023, the Company signed a preliminary agreement to sell its shares to its Russian partners which is subject to the approval of the Russian authorities expected in the second quarter of 2023. In the first quarter of 2023, EDC's contribution to Foraco's consolidated revenues and net income was US\$ 3.8 million and US\$ 0.1 million, respectively (US\$22.7 million and US\$2.0 million respectively for fiscal year 2022).

Revenue

- Revenue for Q1 2023 amounted to US\$ 88.4 million compared to US\$ 67.7 million in Q1 2022, an increase of 30%. Long term contracts were remobilized earlier than last year and reported solid performances.

Profitability

- Q1 2023 gross margin including depreciation within cost of sales was US\$ 21.1 million (or 23.9% of revenue) compared to US\$ 9.6 million (or 14.1% of revenue) in Q1 2022, an increase of 121% linked to the good performance of contracts, improved selling prices and more added value drilling services.
- During the quarter, EBITDA amounted to US\$ 19.1 million (or 21.6% of revenue) compared to US\$ 8.5 million (or 12.6% of revenue) for the same quarter last year, an increase of 124%.
- The Free Cash Flow for the period was US\$ (5.9) million mainly explained by the capex required in the first quarter to support the upcoming activity and the related working capital requirements in this context of strong growth.

Results of Operations

Comparison of the three-month periods ended March 31, 2023 and March 31, 2022

Revenue

The following table provides a breakdown of the Company's revenue for Q1 2023 and Q1 2022 by reporting segment and geographic region:

(In thousands of US\$) - (unaudited)	<u>Q1 2023</u>	<u>% change</u>	<u>Q1 2022</u>
<u>Reporting segment</u>			
Mining.....	74,519	26%	59,350
Water.....	<u>13,859</u>	<u>65%</u>	<u>8,390</u>
Total revenue	<u>88,378</u>	<u>30%</u>	<u>67,740</u>
<u>Geographic region</u>			
South America.....	31,142	50%	20,698
North America.....	29,726	38%	21,600
Asia Pacific.....	16,008	56%	10,274
Europe, Middle East and Africa.....	<u>11,502</u>	<u>-24%</u>	<u>15,168</u>
Total revenue	<u>88,378</u>	<u>30%</u>	<u>67,740</u>

Revenue for the quarter increased from US\$ 67.7 million in Q1 2022 to US\$ 88.4 million in Q1 2023 (+ 30%).

Rigs utilization rate was 53% in Q1 2023, stable compared to Q1 2022. The revenue increase results from a combination of (i) improved selling prices (ii) more added value drilling services, and (iii) a decreased utilization in some areas due to political and economic uncertainties.

The increase in revenue in the Mining and Water segment is the result of the favorable market dynamics with long-term rolling contracts which were renegotiated and extended since last year, coupled with the capacity of the Company to deliver.

Activity in North America increased by 38% with revenue at US\$ 29.7 million in Q1 2023 compared to US\$ 21.6 million in Q1 2022. This increase is linked to the early remobilization of long-term contracts renewed last year with senior majors.

Revenue in South America increased by 50% to US\$ 31.1 million in Q1 2023 (US\$ 20.7 million in Q1 2022). All countries increased their level of activity driven by new long-term contracts with senior miners.

In Asia Pacific, Q1 2023 revenue amounted to US\$ 16.0 million, an increase of 56% reflecting quarter over quarter an increased demand and gain of market share.

In the EMEA, revenue for the quarter was US\$ 11.5 million compared to US\$ 15.2 million in Q1 2022, a decrease of 24%. Revenue in Southern Europe and Africa increased slightly compared to Q1 2022. The activity in CIS decreased by 44% linked to the political and economic uncertainties in these countries.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for Q1 2023 and Q1 2022:

(In thousands of US\$) - (unaudited)	<u>Q1 2023</u>	<u>% change</u>	<u>Q1 2022</u>
<u>Reporting segment</u>			
Mining.....	17,644	129%	7,715
Water.....	<u>3,474</u>	<u>88%</u>	<u>1,845</u>
Total gross profit	<u>21,118</u>	<u>121%</u>	<u>9,560</u>

The Q1 2023 gross margin including depreciation within cost of sales was US\$ 21.8 million (or 23.9% of revenue) compared to US\$ 9.6 million (or 14.1% of revenue) in Q1 2022. This reflects the solid operating performances of contracts.

Selling, General and Administrative Expenses

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

(In thousands of US\$) - <i>(unaudited)</i>	<u>Q1 2023</u>	<u>% change</u>	<u>Q1 2022</u>
Selling, general and administrative expenses	6,904	16%	5,951

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 8.8% in Q1 2022 to 7.8% in Q1 2023.

Operating result

The following table provides a breakdown of the Company's operating result for Q1 2023 and Q1 2022 by reporting segment:

(In thousands of US\$) - <i>(unaudited)</i>	<u>Q1 2023</u>	<u>% change</u>	<u>Q1 2022</u>
<i>Reporting segment</i>			
Mining	11,823	373%	2,501
Water.....	<u>2,391</u>	<u>116%</u>	<u>1,108</u>
<i>Total operating profit</i>	<u>14,214</u>	<u>294%</u>	<u>3,609</u>

The operating profit reached US\$ 14.2 million, resulting in a US\$ 10.6 million increase driven by increased activity and improved margins.

Finance costs

Net financial expenses were US\$ 3.6 million in Q1 2023 compared to US\$ 2.6 million in Q1 2022 linked to the increase of the 3 months Libor interest rate.

Income tax

Q1 is a quarter that is seasonally lower. The income tax expense being 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, the corporate income tax expense for Q1 2023 amounted to US\$ 2.6 million compared to US\$ 0.3 million in the same period for the previous year.

Seasonality

The worldwide presence of the Company reduces its overall exposure to seasonality and the influence this can have on the business activity. 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. 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 Q1 2023	Average Q1 2022	Closing Q1 2023	Closing Q4 2022
€	0.93	0.89	0.92	0.94
CAD	1.35	1.27	1.35	1.35
AUD	1.46	1.38	1.49	1.47
CLP	810	809	790	853
BRL	5.19	5.23	5.12	5.28
RUB	73.22	88.43	77.16	73.11

Liquidity and Capital Resources

The following table provides a summary of the Company's cash flows for Q1 2023 and Q1 2022:

(In thousands of US\$)	<u>Q1 2023</u>	<u>Q1 2022</u>
Cash generated by operations before working capital requirements	19,130	8,527
Working capital requirements	(10,541)	(12,615)
Income tax paid	(2,402)	(2,586)
Purchase of equipment in cash	(8,572)	(5,235)
Free Cash Flow before debt servicing	(2,385)	(11,910)
Proceeds from / (repayment of) debt	5,250	5,422
Interests paid	(3,314)	(2,365)
Acquisition of treasury shares	(393)	(313)
Dividends paid to non-controlling interests	(398)	-
Net cash generated / (used in) financing activities	1,145	2,745
Net cash variation	(1,241)	(9,165)
Foreign exchange differences	(556)	232
Variation in cash and cash equivalents	(1,796)	(8,933)
Cash and cash equivalents at the end of the period	<u>27,611</u>	<u>14,991</u>

In Q1 2023, the cash generated from operations before working capital requirements amounted to US\$ 19.1 million compared to US\$ 8.5 million in Q1 2022.

In Q1 2023, the working capital requirement was US\$ 10.5 million compared to US\$ 12.6 million in the same period last year. The working capital requirement is a result of the seasonality of the activity.

During the period, Capex totaled US\$ 8.6 million in cash compared to US\$ 5.2 million in Q1 2022. Capex relates essentially to the acquisition of rigs, major rig overhauls, ancillary equipment and rods. Two large rigs were added to the fleet during the quarter.

As at March 31, 2023, the maturity of financial debt can be analyzed as presented in the table below:

<i>In thousands US\$</i>	March 31, 2023
Credit lines	7,072
Long-term debt	
Within one year	13,553
Between 1 and 2 years	10,393
Between 2 and 3 years	74,853
Between 3 and 4 years	565
Total	106,436
IFRS 16	6,428
Cash	27,611
Net Debt	85,253

As at March 31, 2023, cash and cash equivalents totaled US\$ 27.6 million compared to US\$ 29.4 million as at December 31, 2022. Cash and cash equivalents are mainly held at or invested within top tier financial institutions.

As at March 31, 2023, the net debt including operational lease obligations (IFRS 16) amounted to US\$ 85.3 million (US\$ 76.2 million as at December 31, 2022).

The Net debt to EBITDA ratio as at March 31, 2023 was 1.1 (1.1 at year-end 2022).

Bank guarantees as at March 31, 2023 totaled US\$ 8.2 million compared to US\$ 9.4 million as at December 31, 2022.

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 March 31, 2023, 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 (*)	698,462
Common shares held by the Company (**)	302,065
Common shares held by the public	64,096,080
Total shares issued and outstanding	99,251,798
Common shares held by the Company	(302,065)
Total common shares issued and outstanding	98,949,733

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

**302,065 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>Q1 2023</u>	<u>Q1 2022</u>
Operating profit / (loss).....	14,214	3,609
Depreciation expense	4,826	4,848
Non-cash employee share-based compensation.....	90	70
EBITDA	<u>19,130</u>	<u>8,527</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

As described above, the Company signed a preliminary agreement on April 5, 2023 to sell its shares in EDC Russia to its Russian partners, subject to the approval of the Russian authorities expected in the second quarter of 2023.

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 3, 2023, under the heading "Risk Factors", which has been filed with the Canadian regulators on SEDAR (www.sedar.com).