

FORACO INTERNATIONAL S.A.

MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month and six-month periods ended June 30, 2024



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 six-month periods ended June 30, 2024, 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, 2023. 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 August 1, 2024.

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 using 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 7, 2024, 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**
- **Risk Factors**

Business Overview

Headquartered in Marseille, France, Foraco is a global provider of drilling services, maintaining a presence in 21 countries across five continents. As of June 30, 2024, the company had close to 2,300 employees and had a fleet of 290 drill rigs worldwide, offering a broad range of drilling services to its clients. The Company has developed and acquired significant expertise including proprietary drill rig design capabilities. Its global operations cater to a variety of industries, with an emphasis on long-term valuable commodities and water.

Foraco's strategy involves assisting its clients in exploring or managing their deposits throughout the entire life cycle, with particular emphasis on activities extending the lifespan of mines. The Company plans to persist in expanding its services worldwide, prioritizing stable jurisdictions, high-tech drilling services, and an optimal mix of commodities, including battery metals and gold. Foraco maintains a substantial presence in water-related drilling services. It is also gradually implementing advanced digital applications. The company anticipates achieving its strategic goals primarily through organic growth and targeted acquisitions.

Foraco is attentive to environmental, social, and governance (ESG) requirements. It has implemented a pragmatic and measurable approach to ESG, using quantitative KPIs to ensure maximum improvements and efficiencies.

Interim Consolidated Financial Highlights

Income Statement

(In thousands of US\$) (unaudited)	Three-month period ended June 30,		Six-month period ended June 30,	
	2024	2023	2024	2023
Revenue	77,884	100,066	154,973	188,444
Gross profit (1)	17,916	25,964	34,728	47,082
<i>As a percentage of sales</i>	<i>23.0%</i>	<i>25.9%</i>	<i>22.4%</i>	<i>25.0%</i>
EBITDA	16,391	23,812	33,964	42,943
<i>As a percentage of sales</i>	<i>21.0%</i>	<i>23.8%</i>	<i>21.9%</i>	<i>22.8%</i>
Operating profit	12,116	18,857	24,740	33,071
<i>As a percentage of sales</i>	<i>15.6%</i>	<i>18.8%</i>	<i>16.0%</i>	<i>17.5%</i>
Net profit for the period	7,809	11,054	16,273	19,055
Attributable to:				
Equity holders of the Company	7,760	8,814	16,606	15,449
Non-controlling interests	49	2,240	(333)	3,606
EPS (in US cents)				
Basic	7.87	8.92	16.84	15.61
Diluted	7.70	8.73	16.48	15.29

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

Three-month period ended June 30, 2024 – Q2 2024

Revenue

- Q2 2024 revenue amounted to US\$ 77.9 million, compared to a record US\$ 100.1 million in Q2 2023.
- Two key regions achieved new record performance for the quarter:
 - North America increased by 3% at US\$ 32.1 million
 - Asia-Pacific (Australia) increased by 33% at US\$ 22.2 million
- In the EMEA region, revenue decreased US\$ 7.8 million following the Company's strategic decision to exit unstable jurisdictions (Russia and some countries in West Africa).
- Revenue in South America decreased by US\$ 20.7 million from last year's record quarter (US\$ 39.0 million), due to a lack of financing in the junior mining sector and an early winter season on high-altitude projects.

Profitability

- Q2 2024 gross margin including depreciation within cost of sales was a solid US\$ 17.9 million (or 23.0% of revenue) compared to US\$ 25.9 million (or 25.9% of revenue) in Q2 2023. Most projects generated solid operating performance which partially offset the under-absorption of fixed costs.
- During the quarter, EBITDA amounted to US\$ 16.4 million (or 21.0% of revenue) compared to US\$ 23.8 million (or 23.8% of revenue) for the same quarter last year.

Six-month period ended June 30, 2024 – H1 2024

Revenue

- For the six-month period ending June 30, 2024 (H1 2024), the revenue amounted to US\$ 155.0 million compared to US\$ 188.4 million in H1 2023.

Profitability

- In H1 2024, the gross margin, inclusive of depreciation within cost of sales, was US\$ 34.7 million (or 22.4% of revenue), compared to US\$ 47.1 million (or 25.0% of revenue) in H1 2023.
- During H1, EBITDA amounted to US\$ 34.0 million (or 21.9% of revenue), compared to US\$ 42.9 million (or 22.8% of revenue) for the same period last year.
- The Free Cash Flow for the period was US\$ (9.7) million mainly explained by the working capital requirements to support the development in North America and Asia Pacific.

Results of Operations

Comparison of the three-month periods ended June 30, 2024 and June 30, 2023

Revenue

The following table provides a breakdown of the Company's revenue for Q2 2024 and Q2 2023 by reporting segment and geographic region:

(In thousands of US\$) - (unaudited)	<u>Q2 2024</u>	<u>% change</u>	<u>Q2 2023</u>
<u>Reporting segment</u>			
Mining.....	69,316	-21%	87,933
Water	8,568	-29%	12,133
Total revenue	<u>77,884</u>	<u>-22%</u>	<u>100,066</u>
<u>Geographic region</u>			
North America.....	32,129	3%	31,176
Asia Pacific.....	22,190	33%	16,731
South America.....	18,255	-53%	39,016
Europe, Middle East and Africa	<u>5,310</u>	<u>-60%</u>	<u>13,143</u>
Total revenue	<u>77,884</u>	<u>-22%</u>	<u>100,066</u>

Revenue for the quarter decreased by US\$ 22.2 million, from US\$ 100.1 million in Q2 2023 to US\$ 77.9 million in Q2 2024. The decline in junior activities, which amounted to US\$ 11.0 million, accounted for nearly half of this decrease and mainly impacted South America. Additionally, the company continued its plan to reduce its exposure in unstable jurisdictions in the EMEA region, which further impacted revenue by US\$ 8.0 million.

Activity in North America reported its best quarter ever, with a 3% increase in revenue (5% excluding adverse foreign exchange rates) to US\$ 32.1 million in Q2 2024, compared to US\$ 31.2 million in Q2 2023. This increase is attributed to strong operational performance on ongoing long-term contracts.

In Asia Pacific, Q2 2024 revenue amounted to US\$ 22.2 million, marking the best quarter ever with a 33% increase compared to Q2 2023. This growth is primarily attributed to increased demand and the acquisition and commissioning of new rigs.

Revenue in South America decreased by 53% to US\$ 18.3 million in Q2 2024, down from US\$ 39.0 million in Q2 2023. The region was affected by an early winter season on high-altitude projects and the withdrawal of junior companies due to a lack of financing.

In the EMEA region, revenue for the quarter was US\$ 5.3 million, compared to US\$ 13.1 million in Q2 2023, representing a 60% decrease. This decline was primarily due to the company's exit from Russia and the reduction of its exposure in Africa.

Overall, rigs utilization rate in Q2 2024 was 40% compared to 59% in Q2 2023.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for Q2 2024 and Q2 2023:

(In thousands of US\$) - (unaudited)	<u>Q2 2024</u>	<u>% change</u>	<u>Q2 2023</u>
<u>Reporting segment</u>			
Mining	15,396	-33%	22,846
Water	<u>2,520</u>	<u>-19%</u>	<u>3,118</u>
Total gross profit	<u>17,916</u>	<u>-31%</u>	<u>25,964</u>

The Q2 2024 gross margin including depreciation within cost of sales was a solid US\$ 17.9 million (or 23.0% of revenue) compared to US\$ 26.0 million (or 25.9% of revenue) in Q2 2023. Most projects generated solid operating performance which partially offset the under-absorption of fixed costs.

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>Q2 2024</u>	<u>% change</u>	<u>Q2 2023</u>
Selling, general and administrative expenses	5,800	-18%	7,107

SG&A decreased 18% compared to the same quarter last year. As a percentage of revenue, SG&A remained stable around 7.0% of the revenue.

Operating result

The following table provides a breakdown of the Company's operating result for Q2 2024 and Q2 2023 by reporting segment:

(In thousands of US\$) - (unaudited)	<u>Q2 2024</u>	<u>% change</u>	<u>Q2 2023</u>
<u>Reporting segment</u>			
Mining	10,234	-38%	16,601
Water.....	<u>1,882</u>	<u>-17%</u>	<u>2,256</u>
Total operating profit	<u>12,116</u>	<u>-36%</u>	<u>18,857</u>

The operating profit was US\$ 12.1 million compared to US\$ 18.9 million in the same quarter last year.

Finance costs

Net financial expenses were US\$ 1.9 million in Q2 2024 compared to US\$ 3.5 million in Q2 2023. This decrease is attributable to the more favorable interest rate of the new financing secured in Q4 2023.

Income tax

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. The corporate income tax expense for Q2 2024 amounted to US\$ 2.4 million compared to US\$ 4.3 million in the same period for the previous year.

Comparison of the six-month periods ended June 30, 2024 and June 30, 2023

Revenue

The following table provides a breakdown of the Company's revenue for H1 2024 and H1 2023 by reporting segment and geographic region:

(In thousands of US\$) - (unaudited)	<u>H1 2024</u>	<u>% change</u>	<u>H1 2023</u>
<u>Reporting segment</u>			
Mining	138,363	-15%	162,452
Water	<u>16,610</u>	<u>-36%</u>	<u>25,992</u>
Total revenue	<u>154,973</u>	<u>-18%</u>	<u>188,444</u>
<u>Geographic region</u>			
North America	59,151	-3%	60,902
Asia Pacific	36,861	13%	32,738
South America	43,830	-38%	70,158
Europe, Middle East and Africa.....	<u>15,130</u>	<u>-39%</u>	<u>24,645</u>
Total revenue	<u>154,973</u>	<u>-18%</u>	<u>188,444</u>

H1 2024 revenue amounted to US\$ 155.0 million compared to US\$ 188.4 million in H1 2023, a decrease of 18%.

Revenue in North America was US\$ 59.2 million compared to US\$ 60.9 million, a decrease of 3% mainly due to the adverse exchange rate between the US dollar and the Canadian dollar.

In Asia Pacific, H1 2024 revenue amounted to US\$ 36.9 million, an increase of 13%. This increase is mainly linked to the increase in demand and the acquisition and commissioning of new rigs.

Revenue in South America amounted to US\$ 43.8 million in H1 2024 (US\$ 70.2 million in H1 2023), a decrease of 38%. Several clients delayed issuing orders to remobilize long-term contracts at the beginning of the year, while Q2 activity was impacted by the withdrawal of junior companies due to a lack of financing and an early winter season on high-altitude projects.

In EMEA, revenue decreased by 39% (from US\$ 24.7 million in H1 2023 to US\$ 15.1 million in H1 2024). The Company sold its participation in Russia in Q1 2024 and continued to pursue its exposure reduction plan in unstable jurisdictions.

Gross Profit

The following table provides a breakdown of the Company's gross profit by reporting segment for H1 2024 and H1 2023:

(In thousands of US\$) - (unaudited)	<u>H1 2024</u>	<u>% change</u>	<u>H1 2023</u>
<u>Reporting segment</u>			
Mining	30,842	-24%	40,490
Water	<u>3,886</u>	<u>-41%</u>	<u>6,592</u>
Total gross profit	<u>34,728</u>	<u>-26%</u>	<u>47,082</u>

The H1 2024 gross margin including depreciation within cost of sales was US\$ 34.7 million (or 22.4% of revenue)

compared to US\$ 47.1 million (or 25.0% of revenue) in H1 2023. Most projects generated solid operating performance which partially offset the under-absorption of fixed costs.

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>H1 2024</u>	<u>% change</u>	<u>H1 2023</u>
Selling, general and administrative expenses	12,099	-14%	14,011

SG&A decreased by 14% compared to the same period last year. As a percentage of revenue, SG&A was stable.

Operating result

The following table provides a breakdown of the Company's operating result for H1 2024 and H1 2023 by reporting segment:

(In thousands of US\$) - (unaudited)	<u>H1 2024</u>	<u>% change</u>	<u>H1 2023</u>
<u>Reporting segment</u>			
Mining	22,149	-22%	28,424
Water.....	<u>2,591</u>	-44%	<u>4,647</u>
Total operating profit	<u>24,740</u>	<u>-25%</u>	<u>33,071</u>

The operating profit was US\$ 24.7 million compared to US\$ 33.1 million in the same period last year. On March 15, 2024, the Company finalized the sale of its 50 % stake in Eastern Drilling Company (EDC) Russia. This transaction generated a net profit of US\$ 2.1 million recorded in other operating income and expense within operating profit.

Finance costs

Net financial expenses were US\$ 3.6 million in H1 2024 compared to US\$ 7.1 million in H1 2023. This decreased is attributable to the more favorable interest rate of the new financing secured in Q4 2023.

Income tax

The income tax for H1 2024 totaled US\$ 4.8 million compared to US\$ 7.0 million during the same period in the previous year. This figure was calculated using management's best estimate of the annual average income tax rate for the full financial year, determined on a jurisdiction-by-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 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's operations span across a vast array of countries, each with their own functional currencies such as, Canadian Dollars, Brazilian Reals, Australian Dollars, Chilean Pesos, and Euros. The US Dollar has been adopted as the presentation currency for group reporting purposes. Over recent quarters, the US Dollar has experienced significant fluctuations in its value. This volatility has an impact on the Company's financial statements, due to the currency conversion required for financial reporting purposes.

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 Q2 2024	Average Q2 2023	Average Q1 2024	Average Q1 2023	Closing Q2 2024	Closing Q4 2023
€	0.93	0.92	0.92	0.93	0.93	0.91
CAD	1.37	1.34	1.35	1.35	1.37	1.32
AUD	1.52	1.50	1.52	1.46	1.50	1.47
CLP	933	800	946	810	947	879
BRL	5.21	4.94	4.95	5.19	5.59	4.85

Liquidity and Capital Resources

The following table provides a summary of the Company's cash flows for H1 2024 and H1 2023:

(In thousands of US\$)	<u>H1 2024</u>	<u>H1 2023</u>
Cash generated by operations before working capital requirements	33,964	42,943
Working capital requirements	(23,497)	(14,264)
Income tax paid	(6,264)	(5,636)
Purchase of equipment in cash	(9,978)	(14,162)
Free Cash Flow before debt servicing	(5,775)	8,881
Proceeds from / (repayment of) debt	1,796	5,328
Interests paid	(3,931)	(6,824)
Acquisition of treasury shares	(556)	(609)
Deconsolidation of EDC Russia	(2,076)	-
Dividends paid to non-controlling interests	(330)	(699)
Net cash generated / (used in) financing activities	(5,097)	(2,804)
Net cash variation	(10,872)	6,077
Foreign exchange differences	(1,458)	(595)
Variation in cash and cash equivalents	<u>(12,330)</u>	<u>5,482</u>
Cash and cash equivalents at the end of the period	<u>21,959</u>	<u>34,890</u>

In H1 2024, the cash generated from operations before working capital requirements amounted to US\$ 33.9 million compared to US\$ 42.9 million in H1 2023.

During the same period, the working capital requirements reached US\$ 23.5 million compared to US\$ 14.3 million for the same period last year, primarily to support the developments in North America and Australia.

During the period, Capex totaled US\$ 10.0 million in cash compared to US\$ 14.26 million in H1 2023. Capex primarily relates to the acquisition of rigs, major rig overhauls, ancillary equipment and rods. Three large rigs were added to the fleet during the period.

As at June 30, 2024, the maturity of financial debt can be analyzed as presented in the table below:

<i>In thousands US\$</i>	June 30, 2024	June 30, 2023
Credit lines	10,491	8,283
Long-term debt		
Within one year	13,005	13,731
Between 1 and 2 years	11,882	10,556
Between 2 and 3 years	47,999	75,051
Between 3 and 4 years	11,405	478
Between 4 and 5 years	167	84
Total	94,949	108,183
IFRS 16	5,699	7,155
Cash	21,959	34,890
Net Debt	78,690	80,448

As at June 30, 2024, cash and cash equivalents totaled US\$ 22.0 million compared to US\$ 34.3 million as at December 31, 2023. Cash and cash equivalents are mainly held at or invested within top tier financial institutions.

As at June 30, 2024, the net debt including operational lease obligations (IFRS 16) amounted to US\$ 78.7 million (US\$ 65.2 million as at December 31, 2023).

Cash Transfer Restrictions

Foraco operates in a number of different countries where cash transfer restrictions may exist. The Company limits its activities in countries where there are 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 June 30, 2024, 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 Officers and individuals in their capacity as members of the Board of Directors (*)	1,453,838
Common shares held by the Company (**)	658,133
Common shares held by the public	62,984,636
Total shares issued and outstanding	99,251,798
Common shares held by the Company	(658,133)
Total common shares issued and outstanding	98,593,665

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

**658,133 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>Q2 2024</u>	<u>Q2 2023</u>	<u>H1 2024</u>	<u>H1 2023</u>
Operating profit / (loss).....	12,116	18,857	24,740	33,071
Depreciation expense	4,173	4,866	9,020	9,692
Non-cash employee share-based compensation.....	102	90	204	180
EBITDA	<u>16,391</u>	<u>23,812</u>	<u>33,964</u>	<u>42,943</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.

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 7, 2024, under the heading "Risk Factors", which has been filed with the Canadian regulators on SEDAR (www.sedar.com).