# FORACO INTERNATIONAL S.A.

## MANAGEMENT'S DISCUSSION & ANALYSIS

## Three-month and nine-month periods ended September 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 nine-month periods ended September 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 October 29, 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 September 30, 2024, the company had close to 2,100 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$)<br>*(unaudited)* | Three-month period ended Septembre 30, | | Nine-month period ended September 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Revenue** | **77,656** | **95,060** | **232,629** | **283,503** |
| **Gross profit (1)** | **17,066** | **26,863** | **51,794** | **73,944** |
| *As a percentage of sales* | *22.0%* | *28.3%* | *22.3%* | *26.1%* |
| **EBITDA** | **16,142** | **25,002** | **50,106** | **67,945** |
| *As a percentage of sales* | *20.8%* | *26.3%* | *21.5%* | *24.0%* |
| **Operating profit** | **11,682** | **20,169** | **36,422** | **53,239** |
| *As a percentage of sales* | *15.0%* | *21.2%* | *15.7%* | *18.8%* |
| **Net profit for the period** | **7,733** | **12,366** | **24,007** | **31,421** |
| Attributable to: | | | | |
| Equity holders of the Company | 7,844 | 10,848 | 24,451 | 26,298 |
| Non-controlling interests | (111) | 1,518 | (444) | 5,123 |
| **EPS (in US cents)** | | | | |
| Basic | 7.88 | 11.00 | 24.80 | 26.61 |
| Diluted | 7.71 | 10.77 | 24.28 | 26.05 |

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

Three-month period ended September 30, 2024 – Q3 2024

*Revenue*

- Q3 2024 revenue totaled US$77.7 million, down from a record US$95.1 million in Q3 2023.
- For the second consecutive quarter, two main regions achieved record performance. More specifically:
  - North America delivered US$35.8 million (+ 11% compared to Q3 2023)
  - Asia-Pacific (Australia) delivered US$24.7 million (+27% compared to Q3 2023)
- Revenue increased by 2% primarily driven by tier-one clients notwithstanding a drop in demand from juniors customers, amounting to US$14.3 million and the strategic exit from the Russian market, which accounted for US$4.9 million.

*Profitability*

- Q3 2024 gross margin including depreciation within cost of sales was US$ 17.1 million (or 22.0% of revenue) compared to US$ 26.9 million (or 28.3% of revenue) in Q3 2023. Most projects generated solid operating performance which partially offset the under-absorption of fixed costs. The Company optimized its operational workforce as required and reduced its SG&A expenses by 19.6% compared to Q3 2023.
- During the quarter, EBITDA amounted to US$ 16.1 million (or 20.8% of revenue) compared to US$ 25.0 million (or 26.3% of revenue) for the same quarter last year.
- Net profit for the quarter amounted to US$7.7 million (10% of the revenue) compared to US$ 12.4 million (13% of revenue) in Q3 2023.

Nine-month period ended September 30, 2024 – YTD Q3 2024

*Revenue*

- For the nine-month period ending September 30, 2024 (YTD Q3 2024), the revenue amounted to US$ 232.6 million compared to US$ 283.5 million in YTD 2023.

*Profitability*

- In YTD Q3 2024, the gross margin, including depreciation within cost of sales, was US$ 51.8 million (or 22.3% of revenue), compared to US$ 73.9 million (or 26.1% of revenue) in YTD Q3 2023.

- During the period, EBITDA amounted to US$ 50.1 million (or 21.5% of revenue), compared to US$ 67.9 million (or 24.0% of revenue) for the same period last year.

- The Free Cash Flow for the period was US$ (2.7) 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 September 30, 2024 and September 30, 2023*

*Revenue*

The following table provides a breakdown of the Company's revenue for Q3 2024 and Q3 2023 by reporting segment and geographic region:

| (In thousands of US$) - *(unaudited)* | Q3 2024 | % change | Q3 2023 |
|---|---|---|---|
| *Reporting segment* | | | |
| Mining | 66,724 | -20% | 83,369 |
| Water | 10,932 | -6% | 11,691 |
| ***Total revenue*** | ***77,656*** | ***-18%*** | ***95,060*** |
| | | | |
| *Geographic region* | | | |
| North America | 35,817 | 11% | 32,164 |
| Asia Pacific | 24,724 | 27% | 19,440 |
| South America | 13,062 | -56% | 29,930 |
| Europe, Middle East and Africa | 4,053 | -70% | 13,526 |
| ***Total revenue*** | ***77,656*** | ***-18%*** | ***95,060*** |

Q3 2024 revenue totaled US$77.7 million, down from a record US$95.1 million in Q3 2023, the two main regions delivering second record performances in a row. The revenue in other regions is primarily affected by a drop in demand from the Juniors , amounting to US$14.3 million, and the strategic exit from the Russian market, which accounts for US$5.0 million. Excluding these two factors, our revenue, primarily driven by tier one clients, has grown by 2%.

Activity in North America reported its best quarter ever, with an 11% increase in revenue to US$ 35.8 million in Q3 2024, compared to US$ 32.2 million in Q3 2023. This increase is attributed to strong operational performance on ongoing long-term contracts.

In Asia Pacific, Q3 2024 revenue amounted to US$ 24.7 million, marking the best quarter ever with a 27% increase compared to Q3 2023. This growth is primarily attributable to increased demand and the acquisition and commissioning of new rigs.

Revenue in South America dropped to US$13.1 million, down from last year's record of US$29.9 million. This decline was mainly due to a lack of financing in the junior mining sector, particularly in lithium, which affected operations in Brazil. Additionally, an unusually cold winter in Chile and Argentina led to a significant seasonal slowdown, unlike in 2023, when projects operated year-round.

In the EMEA region, revenue declined to US$4.1 million, reflecting the Company's strategic decision to exit unstable jurisdictions, including Russia and certain West African countries.

Overall, rig utilization rate in Q3 2024 was 40% compared to 58% in Q3 2023.

*Gross Profit*

The following table provides a breakdown of the Company's gross profit by reporting segment for Q3 2024 and Q3 2023:

| (In thousands of US$) - *(unaudited)* | Q3 2024 | % change | Q3 2023 |
|---|---|---|---|
| *Reporting segment* | | | |
| Mining | 13,616 | -41% | 23,165 |
| Water | 3,450 | -7% | 3,698 |
| ***Total gross profit*** | ***17,066*** | ***-36%*** | ***26,863*** |

The Q3 2024 gross margin including depreciation within cost of sales was US$ 17.1 million (or 22.0% of revenue) compared to US$ 26.9million (or 28.3% of revenue) in Q3 2023. Most projects generated solid operating performance which partially offset the under-absorption of fixed costs. The Company optimized its operational workforce as required.

*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)* | Q3 2024 | % change | Q3 2023 |
|---|---|---|---|
| Selling, general and administrative expenses | 5,384 | -20% | 6,694 |

SG&A decreased 20% compared to the same quarter last year. As a percentage of revenue, SG&A remained stable at approximately 7.0% of revenue.

*Operating result*

The following table provides a breakdown of the Company's operating result for Q3 2024 and Q3 2023 by reporting segment:

| (In thousands of US$) - *(unaudited)* | Q3 2024 | % change | Q3 2023 |
|---|---|---|---|
| *Reporting segment* | | | |
| Mining | 8,990 | -48% | 17,294 |
| Water | 2,692 | -6% | 2,875 |
| ***Total operating profit*** | ***11,682*** | ***-42%*** | ***20,169*** |

The operating profit was US$ 11.7 million compared to US$ 20.2 million in the same quarter last year.

*Finance costs*

Net financial expenses were US$ 2.1 million in Q3 2024 compared to US$ 3.6 million in Q3 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 Q3 2024 amounted to US$ 1.8 million compared to US$ 4.2 million in the same period for the previous year.

### *Comparison of the nine-month periods ended September 30, 2024 and September 30, 2023*

*Revenue*

The following table provides a breakdown of the Company's revenue for YTD Q3 2024 and YTD Q3 2023 by reporting segment and geographic region:

| (In thousands of US$) - *(unaudited)* | **YTD Q3 2024** | **% change** | **YTD Q3 2023** |
|---|---|---|---|
| *Reporting segment* | | | |
| Mining | 205,087 | -17% | 245,820 |
| Water | 27,542 | -27% | 37,683 |
| ***Total revenue*** | ***232,629*** | ***-18%*** | ***283,503*** |
| | | | |
| *Geographic region* | | | |
| North America | 94,969 | 2% | 93,066 |
| Asia Pacific | 61,585 | 18% | 52,178 |
| South America | 56,892 | -43% | 100,088 |
| Europe, Middle East and Africa | 19,183 | -50% | 38,171 |
| ***Total revenue*** | ***232,629*** | ***-18%*** | ***283,503*** |

YTD Q32024 revenue amounted to US$ 232.6 million compared to US$ 283.5 million in YTD Q3 2023, a decrease of 18%.

Revenue in North America, the largest region, was US$ 95.0 million up from US$ 93.1 million, representing a 2% increase compared to the same period last year.

In Asia-Pacific, our second-largest revenue contributor, YTD Q3 2024 revenue reached US$61.6 million, reflecting an 18% increase. This growth was primarily driven by rising demand and the acquisition and commissioning of new rigs.

Revenue in South America totaled US$56.9 million in YTD Q3 2024, down 43% from US$100.1 million in the same period of 2023. This decline was due to several clients delaying the issuance of orders to remobilize long-term contracts, the impact of the withdrawal of junior companies due to financing challenges and an early winter season affecting high-altitude projects.

In EMEA, revenue decreased by 50%, reducing from US$38.2 million in YTD Q3 2023 to US$19.2 million in YTD Q3 2024. The Company sold its stake in Russia in Q1 2024 and continued to implement its plan to reduce exposure in unstable jurisdictions.

*Gross Profit*

The following table provides a breakdown of the Company's gross profit by reporting segment for YTD Q3 2024 and YTD Q3 2023:

| (In thousands of US$) - *(unaudited)* | **YTD Q3 2024** | **% change** | **YTD Q3 2023** |
|---|---|---|---|
| *Reporting segment* | | | |
| Mining | 44,458 | -30% | 63,654 |
| Water | 7,336 | -29% | 10,290 |
| ***Total gross profit*** | ***51,794*** | ***-30%*** | ***73,944*** |

The YTD Q3 2024 gross margin including depreciation within cost of sales was US$ 51.8 million (or 22.3% of revenue) compared to US$ 73.9 million (or 26.1% of revenue) in YTD Q3 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)* | **YTD Q3 2024** | **% change** | **YTD Q3 2023** |
|---|---|---|---|
| Selling, general and administrative expenses | 17,483 | -16% | 20,705 |

SG&A decreased by 16% compared to the same period last year. As a percentage of revenue, SG&A remained stable.

*Operating result*

The following table provides a breakdown of the Company's operating result for YTD Q3 2024 and YTD Q3 2023 by reporting segment:

| (In thousands of US$) - *(unaudited)* | **YTD Q3 2024** | **% change** | **YTD Q3 2023** |
|---|---|---|---|
| *Reporting segment* | | | |
| Mining | 31,139 | -32% | 45,717 |
| Water | 5,283 | -30% | 7,522 |
| ***Total operating profit*** | ***36,422*** | ***-32%*** | ***53,239*** |

The operating profit was US$ 36.4 million compared to US$ 53.2 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$ 5.8 million in YTD Q3 2024 compared to US$ 10.6 million in YTD Q3 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 YTD 2024 totaled US$ 6.7 million compared to US$ 11.2 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 Q3 2024 | Average Q3 2023 | Average Q2 2024 | Average Q2 2023 | Average Q1 2024 | Average Q1 2023 | Closing Q3 2024 | Closing Q4 2023 |
|---|---|---|---|---|---|---|---|---|
| € | 0.91 | 0.92 | 0.93 | 0.92 | 0.92 | 0.93 | 0.90 | 0.91 |
| CAD | 1.36 | 1.34 | 1.37 | 1.34 | 1.35 | 1.35 | 1.35 | 1.32 |
| AUD | 1.49 | 1.53 | 1.52 | 1.50 | 1.52 | 1.46 | 1.45 | 1.47 |
| CLP | 930 | 851 | 933 | 800 | 946 | 810 | 899 | 879 |
| BRL | 5.54 | 4.88 | 5.21 | 4.94 | 4.95 | 5.19 | 5.43 | 4.85 |

**Liquidity and Capital Resources**

The following table provides a summary of the Company’s cash flows for YTD Q3 2024 and YTD Q3 2023:

| (In thousands of US$) | YTD Q3 2024 | YTD Q3 2023 |
|---|---|---|
| **Cash generated by operations before working capital requirements** | **50,106** | **67,945** |
| Working capital requirements | (22,951) | (23,015) |
| Income tax paid | (10,629) | (9,601) |
| Purchase of equipment in cash | (13,863) | (20,719) |
| **Free Cash Flow before debt servicing** | **2,664** | **14,610** |
| Proceeds from / (repayment of) debt | (848) | (4,895) |
| Interests paid | (5,342) | (10,435) |
| Acquisition of treasury shares | (802) | (1,097) |
| Deconsolidation of EDC Russia | (2,076) | - |
| Dividends paid to Company’s shareholders | (4,544) | - |
| Dividends paid to non-controlling interests | (330) | (1,098) |
| **Net cash generated / (used in) financing activities** | **(13,942)** | **(17,525)** |
| **Net cash variation** | **(11,278)** | **(2,915)** |
| Foreign exchange differences | (531) | (854) |
| **Variation in cash and cash equivalents** | **(11,809)** | **(3,769)** |
| **Cash and cash equivalents at the end of the period** | **22,479** | **25,640** |

In YTD Q3 2024, the cash generated from operations before working capital requirements amounted to US$ 50.1 million compared to US$ 67.9 million in YTD Q3 2023.

During the same period, the working capital requirements reached US$ 23.0 million stable compared to the same period last year, primarily to support the developments in North America and Australia.

During the period, Capex totaled US$ 13.9 million in cash compared to US$ 20.7 million in YTD Q3 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 September 30, 2024, the maturity of financial debt can be analyzed as presented in the table below:

| *In thousands US$* | **September 30, 2024** |
|---|---|
| Credit lines | 9,519 |
| Long-term debt | |
| Within one year | 13,397 |
| Between 1 and 2 years | 12,369 |
| Between 2 and 3 years | 47,648 |
| Between 3 and 4 years | 11,960 |
| Between 4 and 5 years | 304 |
| **Total** | **95,198** |
| **IFRS 16** | **5,532** |
| **Cash** | **22,479** |
| **Net Debt** | **78,251** |

As at September 30, 2024, cash and cash equivalents totaled US$ 22.5 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 September 30, 2024, the net debt including operational lease obligations (IFRS 16) amounted to US$ 78.3 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 September 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 | 294,097 |
| Common shares held by the public (*) | 63,348,672 |
| **Total shares issued and outstanding** | **99,251,798** |
| Common shares held by the Company | (294,097) |
| **Total common shares issued and outstanding** | **98,957,701** |

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

***294,097 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)* | Q3 2024 | Q3 2023 | YTD Q3 2024 | YTD Q3 2023 |
|---|---|---|---|---|
| Operating profit / (loss) | 11,682 | 20,169 | 36,422 | 53,239 |
| Depreciation expense | 4,358 | 4,743 | 13,378 | 14,435 |
| Non-cash employee share-based compensation | 102 | 90 | 306 | 270 |
| ***EBITDA*** | ***16,142*** | ***25,002*** | ***50,106*** | ***67,945*** |

**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).