

FORACO INTERNATIONAL S.A.

Unaudited Condensed Interim Consolidated Financial Statements

**Three-month period ended
March 31, 2017**



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Unaudited condensed interim consolidated balance sheet - Assets

in thousands of US\$	Note	March 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	(5)	42,228	43,756
Goodwill	(6)	89,264	86,401
Deferred income tax assets		27,653	26,750
Other non-current assets		1,139	1,228
		160,284	158,135
Current assets			
Inventories, net	(7)	30,601	30,691
Trade receivables, net		23,933	21,889
Other current assets		13,436	13,215
Cash and cash equivalents		7,465	6,204
		75,435	71,999
Total assets		235,719	230,134

Unaudited condensed interim consolidated balance sheet – Equity and Liabilities

in thousands of US\$	Note	March 31, 2017	December 31, 2016
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,772	1,772
Share premium and retained earnings		168,281	171,661
Other reserves		(86,353)	(87,248)
		83,700	86,185
Non-controlling interests		5,243	5,253
Total equity		88,943	91,438
LIABILITIES			
Non-current liabilities			
Borrowings - Non-current portion of long term debt	(8)	32,725	31,270
Deferred income tax liabilities		2,124	1,953
Provisions for other liabilities and charges	(9)	344	332
Current liabilities			
Trade and other payables		28,331	24,446
Current income tax liabilities		42	167
Borrowings - Current portion of long term debt	(8)	23,193	23,934
Borrowings - Current portion of drawn credit lines	(8)	57,753	54,337
Provisions for other liabilities and charges	(9)	2,265	2,258
Total liabilities		146,777	138,697
Total equity and liabilities		235,719	230,134
Net debt		106,207	103,337

Net debt is a non IFRS measure and corresponds to the current and non-current portion of borrowings, net of cash and cash equivalents

Foraco International S.A.**Unaudited condensed interim consolidated financial statements as of March 31, 2017****Unaudited condensed interim consolidated income statement**

In thousands of US\$	Note	Three-month period ended March 31,	
		2017	2016
Revenue	(4)	30,324	24,128
Cost of sales	(12)	(28,819)	(26,919)
Gross profit		1,505	(2,792)
Selling, general and administrative expenses	(12)	(4,916)	(4,179)
Other operating income / (expense), net	(11 / 12)	(49)	(1,040)
Operating profit / (loss)		(3,460)	(8,010)
Finance costs		(1,057)	(847)
Profit / (loss) before income tax		(4,517)	(8,858)
Income tax (expense) / profit	(13)	731	544
Profit / (loss) for the period		(3,786)	(8,314)
Attributable to:			
Equity holders of the Company		(3,380)	(7,977)
Non-controlling interests		(406)	(337)
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US ¢ per share):			
- basic	(16)	(3.77)	(8.92)
- diluted	(16)	(3.77)	(8.92)

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Unaudited condensed interim consolidated financial statements as of March 31, 2017
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 and Retained Earnings	Other Reserves	Total		
Balance at January 1, 2016	1,772	189,505	(97,879)	93,398	5,717	99,115
Profit / (loss) for the period	-	(18,014)	-	(18,014)	(269)	(18,283)
Currency translation differences	-	-	10,636	10,636	931	11,567
Employee share-based compensation	-	-	293	293	-	293
Exercise of share-based compensation	-	170	(170)	-	-	-
Treasury shares purchased (see Note 10)	-	-	(128)	(128)	-	(128)
Acquisition of Servitec	-	-	-	-	(1,126)	(1,126)
Balance at December 31, 2016	1,772	171,661	(87,248)	86,185	5,253	91,438
Balance at January 1, 2017	1,772	171,661	(87,248)	86,185	5,253	91,438
Profit / (loss) for the period	-	(3,380)	-	(3,380)	(406)	(3,786)
Currency translation differences	-	-	877	877	395	1,272
Employee share-based compensation	-	-	29	29	-	29
Treasury shares purchased (see Note 10)	-	-	(11)	(11)	-	(11)
Dividend declared relating to 2016	-	-	-	-	-	-
Balance at March 31, 2017	1,772	168,281	(86,353)	83,700	5,242	88,943

Unaudited statement of comprehensive income

in thousands of US\$	Three months period ended	
	March 31, 2017	March 31, 2016
Net profit / (loss) for the period	(3,786)	(8,314)
Currency translation differences	1,272	6,115
Total comprehensive loss for the period	(2,514)	(2,199)
<i>Attributable to:</i>		
<i>Equity holders of the Company</i>	<i>(2,503)</i>	<i>(2,159)</i>
<i>Non-controlling interests</i>	<i>(11)</i>	<i>(40)</i>

Unaudited condensed interim consolidated cash flow statement

in thousands of US\$	Three-month period ended March 31,	
	2017	2016
Profit / (loss) for the period	(3,786)	(8,314)
Adjustments for:		
- Depreciation, amortization and impairment (see Note 12)	4,734	5,409
- Non-cash changes in provisions and considerations payable	-	25
- (Gain) / loss on sale and disposal of assets	-	(4)
- Share-based compensation expenses (see Note 12)	29	81
- Income tax expenses / (profit) (see Note 13)	(731)	(544)
- Finance costs, net	1,057	847
Cash generated from operations before changes in operating assets and liabilities	1,303	(2,500)
Changes in operating assets and liabilities:		
- Inventories	524	(1,315)
- Trade accounts receivable and other receivables	(1,866)	(2,393)
- Trade accounts payable and other payables	2,175	614
Cash generated from / (used in) operations	2,136	(5,594)
- Interest paid, net	(769)	(757)
- Income tax paid	(581)	(368)
Net cash flow from / (used in) operating activities	786	(6,719)
Purchase of property, plant and equipment (*)	(1,403)	(1,020)
Net cash generated from / (used in) investing activities	(1,403)	(1,020)
Proceeds from issuance of borrowings, net of issuance costs	538	2,254
Proceeds from (Repayments of) borrowings	(1,151)	(917)
Proceeds from / (Repayment of) short term credit facilities	2,385	3,186
Acquisition of treasury shares (see Note 10)	(11)	(62)
Dividends paid to non-controlling interests	-	(500)
Net cash generated from / (used in) financing activities	1,761	3,961
Exchange differences on cash and cash equivalents	116	262
Net increase / (decrease) in cash and cash equivalents	1,260	(3,516)
Cash and cash equivalents at beginning of the period	6,205	16,571
Cash and cash equivalents at end of the period	7,465	13,055
(*) Excluding acquisition financed through capital lease	-	-

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. Because 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, 2016.

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, 2016 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. At year end, 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. The first quarter tends to become weaker year on year, this trend being increasingly apparent in a context of restrictions in the budget of the Company’s clients operating in the mining industry. In West Africa, most of the Company’s operations are suspended between July and October due to the rainy season. In Canada, seasonal slow periods occur during the winter freeze and spring thaw or break-up periods. Depending on the latitude, this can occur anytime from October until late December (freezing) and from mid-April through to mid-June (break-up). Operations at mining sites continue throughout the year. Russia is also affected by the winter period during which operations are suspended. In Asia Pacific and in South America, where the Company operates exclusively in the Mining segment, a seasonal slowdown in activity occurs around year-end during the vacation period. Certain contracts are also affected in Chile in July and August when the winter season peaks.

2.3. Going concern

Current economic conditions make forecasting difficult, and there is the possibility that the Company's actual operating performance during the coming year may be different from expectations. Based on internal forecasts and projections that take into account reasonably possible changes in the Company's operating performance and the agreement reached with lenders as described in the following paragraphs, the Company believes that it will have adequate financial resources to continue in operation and meet its financial commitments for a period of at least twelve months. Accordingly, the Company continues to adopt the going concern basis in preparing its financial statements.

On February 28, 2017, the Company announced that it reached an agreement with its existing and new lenders. The agreement consists in (i) providing for a new money injection of €23 million (US\$ 24 million) in the form of bonds with a 5 years term, including €18 million (US\$ 19 million) available at closing, and (ii) postponing the instalment of most of the Company's existing long-term financing which will take the form of 5-year term subordinated bonds. On May 3, 2017, all customary conditions precedent required to complete this new financing have been cleared.

2.4. Impairment testing

The current economic conditions in mining services are seen as an indicator of potential impairment of the carrying value of the Company's long lived assets. Accordingly an impairment test based on expected discounted cash flows was performed as at December 31, 2016 at the level of each business segment and geographic area. Taking into account the assumptions made, the expected discounted future cash flows exceeded the carrying values of the long lived assets considered for each business segment and geographic area and accordingly, no impairment was recognized as at December 31, 2016.

Based on the current activity trend, the Company considers that there is no requirement to revise the long term forecasted cash flows used for impairment testing as at December 31, 2016.

2.5. Deferred tax valuation allowance

The current economic conditions also impact the timing of the recognition of deferred tax assets. The Company's policy is to recognize deferred tax assets only when they can be recovered within a reasonable timeframe. Based on internal forecasts and projections, management has considered that the potential recovery timeframe for deferred tax assets in certain countries will be longer than previously estimated, thus creating a risk that deferred tax assets may be unused. As a general rule, the Company recognizes deferred tax assets only when they can be used against taxable profit within a timeframe of five years. On this basis, the Company has adopted a partial recognition based approach and has recorded a valuation allowance.

2.6. New accounting pronouncements

Standards, amendments and interpretations to existing standards that were adopted by the Company during the period with no material impact on the consolidated financial statements.

- · Amendment to IAS 12, 'Income taxes' regarding recognition of deferred tax assets for unrealized losses
- · Amendments to IAS 7, 'Cash Flow Statement' regarding the Disclosures initiative
- · Annual improvement 2014-2016 IFRS 12 'Disclosure of interests in other entities'

Standards, amendments and interpretations to existing standards that are not yet mandatory effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2017, but have not been early adopted by the Group:

- IFRS 9, Financial instruments - Classification of financial assets and financial liabilities (January 1, 2018)
- IFRS 15, Revenue from contracts with customers (January 1, 2018)
- IFRS 16, Leases (January 1, 2019)

The adoption of IFRS 15 is not expected to have a material impact on revenue recognition. The Company generally accounts for revenue on the basis of meters drilled, which corresponds to a right to payment for performance completed to date as specified by the new standard.

The adoption of IFRS 16 is not expected to have a material impact on the financial statements. The standard will result in the recognition of right-of-use assets and corresponding liabilities, on the basis of the discounted remaining future minimum lease payments. The Company rents certain facilities for its operations worldwide. The corresponding obligations are not significant.

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The impact of the application of the other standards and amendments is currently being assessed.

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 / re-investment risk, financial counter-party risk and credit risk.

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

4. Segment information

The business segment information for the three-month periods ended March 31, 2017 and March 31, 2016 is as follows:

Three-month period ended	Mining		Water		Group	
	March 31,		March 31,		March 31,	
	2017	2016	2017	2016	2017	2016
Revenue	28,008	19,784	2,316	4,343	30,324	24,128
Gross profit / (loss)	1,460	(2,814)	45	22	1,505	(2,792)
Operating profit / (loss)	(3,130)	(7,280)	(330)	(730)	(3,460)	(8,010)
Finance costs	n/a	n/a	n/a	n/a	(1,057)	(847)
Profit / (Loss) before income tax	n/a	n/a	n/a	n/a	(4,517)	(8,858)
Income tax profit / (expense)	n/a	n/a	n/a	n/a	731	544
Profit / (Loss) for the period	n/a	n/a	n/a	n/a	(3,786)	(8,314)

The following is a summary of sales to external customers by geographic area for the three-month periods ended March 31, 2017 and March 31, 2016:

Three-month period ended	March 31, 2017	March 31, 2016
Europe, Middle East and Africa	11,360	9,359
South America	7,404	3,671
North America	8,469	6,497
Asia Pacific	3,091	4,600
Net sales	30,324	24,128

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Property, plant and equipment (PP&E) consists of the following:

	Land & Buildings	Drilling equipment & tools	Automotive equipment	Office furniture & other equipment	Total
Year ended December 31, 2016					
Opening net book amount	2,412	43,357	7,810	494	54,075
Additions	133	6,104	585	127	6,949
Exchange differences	36	2,657	214	38	2,945
Disposals or retirements	(26)	(53)	(41)	-	(120)
Depreciation expense	(587)	(15,521)	(3,702)	(283)	(20,093)
Closing net book value	1,968	36,544	4,866	376	43,756
Period ended March 31, 2017					
Opening net book amount	1,968	36,544	4,866	376	43,756
Additions	9	1,245	134	16	1,404
Exchange differences	28	1,534	212	27	1,801
Disposals or retirements	-	(1)	(3)	-	(4)
Depreciation expense	(43)	(3,828)	(820)	(38)	(4,729)
Closing net book value	1,962	35,494	4,389	381	42,228

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

Period ended	March 31, 2017	March 31, 2016
Cost of sales	4,726	5,390
Selling, general and administrative expenses	8	19
Total depreciation and amortization	4,734	5,409

6. Goodwill

Goodwill can be analyzed as follows:

	March 31, 2017	December 31, 2016
Goodwill at beginning of period	86,401	77,239
Exchange differences	2,863	9,162
Goodwill at end of the period	89,264	86,401

Goodwill is allocated to the following geographic regions: South America (US\$ 66.4 million), North America (US\$ 8.5 million), Asia Pacific (US\$ 7.8 million) and Europe, Middle East and Africa (US\$ 6.5 million). The exchange differences are mainly generated by the variation in exchange rate between the Brazilian Real and the US Dollar.

7. Inventories

Inventories break down as follows:

	March 31, 2017	December 31, 2016
Spare parts and consumables, gross	30,601	30,691
Less inventory allowance	-	-
Inventories, net	30,601	30,691

The Company continually assesses spare parts and consumables and writes off obsolete inventories as soon as they are identified.

8. Borrowings

As at March 31, 2017, the maturity of financial debt can be analyzed as presented in the table below:

in thousand US\$	March 31, 2017	Proforma
Credit lines	57,753	10,393
Long-term debt		
April 1, 2017 and March 31, 2018	23,193	4,479
April 1, 2018 and March 31, 2019	15,619	2,422
April 1, 2019 and March 31, 2020	14,234	2,324
April 1, 2020 and March 31, 2021	2,697	1,606
April 1, 2021 and March 31, 2022	175	92,447
Total	113,671	113,671

As previously disclosed, the Company reached an agreement with its existing and new lenders. The agreement consists in postponing the installments of most of the long-term financing which will take the form of 5-year term subordinated bonds and providing for a new money injection of €23 million (US\$ 24 million) in the form of bonds with a 5 years term, including €18 million (US\$ 19 million) available at closing. The legal documentation is currently being finalized. The column “Proforma” in the table above presents the maturity of the financial debt assuming the legal documentation was finalized at March 31, 2017.

9. Provisions

Provisions comprise the following elements:

	Pension and retirement indemnities	Provision for tax uncertainty	Claims	Total
As at January 1, 2017	332	829	1,428	2,590
Charged to consolidated income statement				
- Addition to provisions	5	-	49	54
- Used amounts reversed	-	-	(116)	(116)
- Unused amounts reversed	-	-	-	-
- Exchange differences	7	15	59	81
As at March 31, 2017	344	844	1,420	2,608

A certain number of claims have been filed by former employees of the Brazilian subsidiary. These claims may result in a cash outflow for the Company. Given the uncertainty surrounding such claims, an amount of US\$ 1,420 thousand has been provided for.

The Company operates in various countries and may be subject to tax audits and employee related risks. The Company is currently facing such risks in certain countries. The Company regularly reassesses its exposure and accounts for provisions accordingly.

10. Share capital

Number of shares outstanding

As at March 31, 2017, the total common shares of the Company are distributed as follows:

	Number of shares
Common shares held directly or indirectly by principal shareholders	37,594,498
Common shares held directly or indirectly by individuals in their capacity as members of the Board of Directors	1,161,754
Common shares held by the Company	276,431
Common shares held by the public	50,919,115
Total shares issued and outstanding	89,951,798
Common shares held by the Company	(276,431)
Total common shares issued and outstanding	89,675,367

Treasury shares

As at March 31, 2017, the Company owns 276,431 of its own shares (233,512 as at December 31, 2016).

The common shares held by the Company can be used for potential future free share plans, bonus schemes and for other general purposes.

11. Other income / expense, net

Other income / expense, net break down as follows:

Three-month period ended	March 31,	
	2017	2016
Addition to provision for former employees of Servitec, net	(49)	(140)
Settlement with JND ex shareholders	-	(900)
Other income / (expense), net	(49)	(1,040)

In 2013, JND's former shareholders filed a claim against the Company as their assessment of the earn-out clause differed from that of the Company. Following several legal proceedings, in April 2016, the Company finally agreed on a settlement to terminate the costly procedures which had an uncertain outcome. The settlement amounting to US\$ 900 thousand was recorded in the first quarter of 2016 and paid in June 2016.

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 that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

12. Expenses by nature

Operating expenses / (income), net by nature are as follows:

	Three-month period ended	
	March 31,	
	2017	2016
Depreciation and amortization	(4,734)	(5,409)
Accruals increases / (reversals)	62	(25)
Raw materials, consumables used and external charges	(14,920)	(14,114)
Employee benefit expense	(13,620)	(11,224)
Taxes other than on income	(285)	(294)
Other operating (expenses) / profit, net	(287)	(1,072)
Total operating expenses	(33,784)	(32,138)

Share-based compensation expenses recognized within Employee benefit expense for the period ended March 31, 2017 amount to US\$ 29 thousand (US\$ 81 thousand in 2016).

13. Income tax expense

During the three-month period ended March 31, 2017, the Company recognized an income tax profit amounting to US\$ 731 thousand, i.e. an effective income tax rate of 16.2% compared to the profit / (loss) before income tax.

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The difference between the effective income tax rate of 16.2% and the income tax rate generally applicable within the Company is mainly explained by the non-recognition of certain tax assets in certain countries.

14. Commitments and contingencies

Guarantees given are as follows:

	March 31, 2017	December 31, 2016
Bid bonds	75	74
Advance payment guarantees and performance guarantees	2,278	2,960
Retention guarantees	1,581	1,552
Financial guarantees	13,012	13,303
Total	16,946	17,889

As part of the agreement reached with the lenders, new bank guarantee lines will be granted and certain financial guarantees will be reduced.

15. Related-party transactions

The Company accounted for certain related party transactions including lease rentals amounting to US\$ 61 thousand for the period ended March 31, 2017 (US\$ 66 thousand for the period ended March 31, 2016).

Compensation paid to key management for the three-month period ended March 31, 2017 amounted to US\$ 365 thousand (US\$ 350 thousand for the period ended March 31, 2016).

16. Earnings per share calculation

For the three-month period ended March 31, 2017, the weighted basic average number of shares was 89,696,372 (89,435,828 in 2016) and the weighted diluted average number of shares was 91,174,939 (90,108,993 in 2016).

Diluted earnings per share

Dilutive instruments cannot have an anti-dilutive effect in case of a net loss attributable to the equity holders of the Company. Therefore, the basic and diluted earnings per share are the same for the three-month periods presented.

17. Post balance sheet events

On May 3, 2017, customary conditions precedent required to complete the new financing described in note 2.3 have been cleared.