

Foraco International S.A.

Management's Discussion & Analysis

Three and six-month periods ended June 30, 2008



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"). It has been prepared by management and should be read in conjunction with the Company's quarterly unaudited condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2008. These quarterly interim financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") rather than Canadian Generally Accepted Accounting Principles (Canadian "GAAP") on the basis that the Company is a "foreign issuer" as defined under NI 52-107. These quarterly interim 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, 2007. Except when otherwise stated, all amounts presented in this MD&A are denominated in Euros (€). The discussion and analysis within this MD&A are as of August 8, 2008.

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 thereon 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 June 30, 2008, which is filed with 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
- Condensed Interim Consolidated Financial Highlights
- Results of Operations
- Effect of Exchange Rate
- Liquidity and Capital Resources
- Related Party Transactions
- Capital Stock
- Critical Accounting Estimates
- Litigations
- Outlook
- Risk Factors

Business Overview

Headquartered in Marseilles, France, Foraco is a worldwide drilling service provider with operations in 18 countries. The Company operates 113 drill rigs throughout the world 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, which allows Foraco to tailor solutions to meet the specific conditions and drilling requirements of certain customers, such as mining companies, governmental organizations, and international development funds. From its operations on five continents, the Company services a range of industries including mining, energy, water, environmental and infrastructure.

Foraco specializes in drilling in harsh environments, isolated locations, arctic, desert and mountainous areas, and generally in circumstances where operations are challenged by logistic matters and geographic hurdles. The Company's engineers and technicians have developed special drilling methods where the geology prevents use of standard techniques and equipment. The Company has specialized equipment for, among other uses, helicopter-based drilling campaigns, combination rigs able to perform multi-drilling technique contracts, desert-suited rigs and large diameter core sampling systems.

FINANCIAL HIGHLIGHTS

(In thousands of €) (unaudited)	Three-month period ended		Six-month period ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenue	24,556	20,313	47,265	34,569
Gross profit	7,949	6,082	14,409	9,319
<i>As a percentage of sales</i>	<i>32.4%</i>	<i>29.9%</i>	<i>30.5%</i>	<i>27.0%</i>
Operating profit	5,270	3,289	9,376	4,939
<i>As a percentage of sales</i>	<i>21.5%</i>	<i>16.2%</i>	<i>19.8%</i>	<i>14.3%</i>
Profit for the period	3,332	1,922	6,028	2,934

- The Company reports revenue of €24.6 million for the three-month period ended June 30, 2008, a 21% increase compared to the three-month period ended June 30, 2007. Revenue for the six-month period ended June 30, 2008 totaled €47.3 million, a 37% increase compared to the six-month period ended June 30, 2007.

- Gross profit (including depreciation) amounted to €7.9 million for the three-month period ended June 30, 2008, an increase of 31% compared to the three-month period ended June 30, 2007. Gross profit (including depreciation) for the six-month period ended June 30, 2008 totaled €14.4 million, a 55% increase compared to the six-month period ended June 30, 2007.

Results of Operations

Comparison of the three-month periods ended June 30, 2008 and June 30, 2007

Revenue

The following table provides the breakdown of the Company's revenue for the three-month periods ended June 30, 2008 and 2007, by reporting segment and region:

(In thousands of €)	<u>Three-month period ended June 30, 2008</u>	<u>% change</u> <i>(unaudited)</i>	<u>Three-month period ended June 30, 2007</u>
<i><u>Reporting segment</u></i>			
Mining & energy	17,893	28%	14,012
Water, environmental & infrastructure.....	<u>6,664</u>	<u>6%</u>	<u>6,301</u>
Total revenue	<u>24,556</u>	<u>21%</u>	<u>20,313</u>
<i><u>Geographical region</u></i>			
Africa	13,875	27%	10,925
Europe	2,106	53%	1,381
Asia Pacific	1,925	-1%	1,939
Americas.....	<u>6,650</u>	<u>10%</u>	<u>6,068</u>
Total revenue	<u>24,556</u>	<u>21%</u>	<u>20,313</u>

For the three-month period ended June 30, 2008, revenue totaled €24.6 million compared to €20.3 million for the three-month period ended June 30, 2007. Foraco's Mining & Energy ("Mining") segment continued to benefit from the favorable general market conditions in the second quarter of 2008. The Company has capitalized on these favorable market conditions by selectively expanding its operations in key growth regions, investing in new drilling equipment and optimizing the allocation of its existing production capacity. In the Water, Environmental & Infrastructure ("Water") segment, revenue increased by 6%, primarily as a result of water drilling projects in Africa.

Revenue derived in Africa increased by €3.0 million or 27% in the second quarter of 2008, primarily due to large mineral exploration projects in Guinea within the Mining segment. In Europe, revenue increased by €0.7 million both in the Mining and Water segments. In the Americas, revenue increased by €0.6 million mainly due to continued strong demand in the Mining segment both in Canada and the United States.

Operating Profit

The following table provides the breakdown of the Company's operating profit for the three-month periods ended June 30, 2008 and June 30, 2007 by reporting segment:

(In thousands of €)	<u>Three-month period ended June 30, 2008</u>	<u>% change</u> <i>(unaudited)</i>	<u>Three-month period ended June 30, 2007</u>
<i><u>Reporting segment</u></i>			
Mining & energy.....	4,026	74%	2,309
Water, environmental & infrastructure	<u>1,243</u>	<u>27%</u>	<u>980</u>
Total operating profit	<u>5,270</u>	<u>60%</u>	<u>3,289</u>

For the three-month period ended June 30, 2008, operating profit increased by €2.0 million, compared to the three-month period ended June 30, 2007. In the Mining segment, the Company's operating profit increased from €2.3 million in the second quarter of 2007 to €4.0 million in the second quarter of 2008, primarily as a result

of increased business activity and strong operating performance. In the Water segment, the Company's operating profit increased to €1.2 million in the second quarter of 2008 up from €1.0 million in the corresponding quarter a year ago. Increased operating profit in the Water segment was primarily attributable to deep water drilling projects in Niger which resulted in higher operating margins.

Operating Expenses Excluding Cost of Sales

The following table provides a breakdown of the Company's operating expenses, other than cost of sales, for the three-month periods ended June 30, 2008 and 2007:

(In thousands of €)	<u>Three-month period</u> <u>ended June 30, 2008</u>	<u>%</u> <u>change</u>	<u>Three-month period</u> <u>ended June 30, 2007</u>
		<i>(unaudited)</i>	
Selling and marketing expenses.....	740	9%	678
General and administrative expenses	1,751	27%	1,378
Other (income) and expense, net.....	188	N/A	—
Share of profit from associates	—	N/A	(44)
Share based compensation expenses	—	N/A	781
Total.....	<u>2,679</u>	<u>-4%</u>	<u>2,793</u>

For the three-month period ended June 30, 2008, operating expenses excluding cost of sales increased by €0.7 million compared to the three-month period ended June 30, 2007 (excluding share-based compensation expenses). This increase is mainly due to increased business activity, the strengthening of the Company's corporate organization and an exchange loss on Canadian dollars held in cash by Foraco International S.A., a Euro denominated entity, which were subsequently used to repurchase certain Foraco shares. Selling, general and administrative expenses as a percentage of sales remained stable at 10.1% in the second quarter of 2008 compared to the second quarter of 2007.

Financial Expenses

For the three-month period ended June 30, 2008, financial expenses, net of interest income, totaled €0.1 million compared to financial expenses, net of interest income of €0.3 million for the three-month period ended June 30, 2007. This reflects the improvement in the Company's cash position.

Income Tax

In the second quarter of 2008, the effective income tax rate was 36%. In reporting interim financial information, the Company makes its best estimate of the effective income tax rate expected to be applicable for the full fiscal year on a tax jurisdiction by tax jurisdiction basis. The effective income tax rate is affected by the related weight of income tax payable generated in the various tax jurisdictions where the Company operates.

Seasonality

In Africa, where the Company generates a significant portion of its revenue in the Water segment, most of the Company's operations are halted between July and October, due to the rainy season. In Canada, seasonal slow periods occur during the winter freeze-up and spring thaw or break-up periods. Depending on the latitude, this can occur anytime from October until late December (freeze-up) and from mid-April through mid-June (break-up). Operations at mine sites continue throughout the year.

Comparison of the six-month periods ended June 30, 2008 and June 30, 2007

Revenue

The following table provides the breakdown of the Company's revenue for the six-month periods ended June 30, 2008 and 2007, by reporting segment and region:

(In thousands of €)	<u>Six-month period</u> <u>ended June 30, 2008</u>	<u>% change</u> (unaudited)	<u>Six-month period</u> <u>ended June 30, 2007</u>
<i><u>Reporting segment</u></i>			
Mining & energy	34,308	52%	22,584
Water, environmental & infrastructure.....	<u>12,957</u>	<u>8%</u>	<u>11,985</u>
Total revenue	<u>47,265</u>	<u>37%</u>	<u>34,569</u>
<i><u>Geographical region</u></i>			
Africa.....	24,508	30%	18,820
Europe	4,501	90%	2,371
Asia Pacific	3,137	-9%	3,432
Americas.....	<u>15,119</u>	<u>52%</u>	<u>9,946</u>
Total revenue	<u>47,265</u>	<u>37%</u>	<u>34,569</u>

For the six-month period ended June, 2008, revenues totaled €47.3 million compared to €34.6 million for the six-month period ended June 30, 2007. Foraco's Mining & Energy ("Mining") segment continued to benefit from the favorable general market conditions in the first half of 2008. The Company capitalized on these favorable market conditions by selectively expanding its operations in key growth regions, investing in new drilling equipment and optimizing the allocation of its existing production capacity. In the Water, Environmental & Infrastructure ("Water") segment, revenue increased by 8%, primarily as a result of water drilling projects in Africa.

Revenue derived in Africa increased by €5.7 million, or 30% in the first half of 2008, primarily due to water drilling projects in Niger in the Water segment and large mineral exploration projects in Guinea within the Mining segment. In Europe, revenue increased by €2.1 million primarily in the Mining segment. In Asia Pacific, revenue in the Mining segment decreased by €0.3 million due to phasing of activity. In the Americas, revenue increased by €5.1 million mainly due to continued strong demand and new additional drilling equipment put into operation in the Mining segment both in Canada and the United States.

Operating Profit

The following table provides the breakdown of the Company's operating profit for the six-month periods ended June 30, 2008 and June 30, 2007 by reporting segment:

(In thousands of €)	<u>Six-month period</u> <u>ended June 30, 2008</u>	<u>% change</u> (unaudited)	<u>Six-month period</u> <u>ended June 30, 2007</u>
<i><u>Reporting segment</u></i>			
Mining & energy.....	6,854	134%	2,926
Water, environmental & infrastructure	<u>2,521</u>	<u>25%</u>	<u>2,013</u>
Total operating profit	<u>9,376</u>	<u>90%</u>	<u>4,939</u>

For the six-month period ended June 30, 2008, operating profit increased by €4.4 million, compared to the six-month period ended June 30, 2007. In the Mining segment, the Company's operating profit increased from €2.9 million in the first half of 2007 to €6.9 million in the first half of 2008, primarily as a result of increased business activity and strong operating performance. In the Water segment, the Company's operating profit

increased to €2.5 million in the first half of 2008 up from €2.0 million in the corresponding period a year ago. Increased operating profit in the Water segment was primarily attributable to deep water drilling projects in Niger which resulted in higher operating margins.

Operating Expenses Excluding Cost of Sales

The following table provides a breakdown of the Company's operating expenses, other than cost of sales, for the six-month periods ended June 30, 2008 and 2007:

(In thousands of €)	<u>Six-month period</u> <u>ended June 30, 2008</u>	<u>%</u> <u>change</u>	<u>Six-month period</u> <u>ended June 30, 2007</u>
		<i>(unaudited)</i>	
Selling and marketing expenses.....	1,444	25%	1,151
General and administrative expenses	3,441	35%	2,542
Other (income) and expense, net.....	148	N/A	—
Share of profit from associates	—	N/A	<u>(94)</u>
Share based compensation expenses	—	N/A	<u>781</u>
Total.....	<u>5,033</u>	<u>15%</u>	<u>4,380</u>

For the six-month period ended June 30, 2008, operating expenses excluding cost of sales increased by €1.4 million compared to the six-month period ended June 30, 2007 (excluding share-based compensation expenses). This increase is mainly due to increased business activity, the impact of the full integration of Foraco's Canadian operations, the strengthening of the Company's corporate organization and an exchange loss on Canadian dollars held in cash by Foraco International S.A., a Euro denominated entity, which were subsequently used to repurchase certain Foraco shares. Selling, general and administrative expenses as a percentage of sales decreased from 10.7% in the second half of 2007 to 10.3% in the same period in 2008.

Financial Expenses

For the six-month period ended June 30, 2008, financial expenses, net of interest income, represent an income of €0.05 million compared to financial expenses, net of interest income of €0.6 million for the six-month period ended June 30, 2007. This reflects the improvement in the Company's cash position.

Income Tax

The Company has assessed that the effective income tax rate expected to be applicable for the full fiscal year is 36%, a rate which applied to the six-month period ended June 30, 2008.

Effect of Exchange Rate

The Company reports its unaudited condensed interim consolidated financial statements in Euros (“€”). During the three-month period ended June 30, 2008, the Company earned 71% of its revenue in € compared to the three-month period ended June 30, 2007, when 70% of its revenue was earned in €. For the six-month period ended June 30, 2008, the Company earned 68% of its revenue in € compared to the six-month period ended June 30, 2007, when 71% of its revenue was earned in €. The majority of the remaining portion of revenue is generated in Canadian dollars (“C\$”).

The Company seeks to mitigate its exposure to currency fluctuations. In Canada, costs and revenues are denominated in C\$ resulting in a natural hedging. No hedging transactions were entered into in 2007 and 2008.

The average exchange rate between € and C\$ for the three-month period ended June 30, 2008 was 1.58. As of June 30, 2008, the closing € / C\$ exchange rate was 1.60.

Liquidity and Capital Resources

For the six-month period ended June 30, 2008, cash generated from operations before changes in working capital totaled €12.0 million compared to €8.1 million for the six-month period ended June 30, 2007.

During the first half of 2008, working capital requirements increased by €6.6 million. This is primarily attributable to the increase in business activity compared to the first half of 2007 and to increased inventories related to mobilization of new projects in Africa and Canada.

Net cash flow from operating activities after interest and income tax paid during the first half of 2008 amounted to €2.5 million compared to €3.4 million for the same period of 2007. The Company paid €3.1 million in income tax during the first half of 2008, compared to €0.4 million in the same period of 2007. This €3.1 million corresponds to 2007 income tax balance and advance payments for 2008.

For the six-month period ended June 30, 2008, cash purchases of operating equipment totaled €6.0 million, compared to €2.3 million in 2007. Capital expenditures included €4.1 million for five new drills and ancillary equipment delivered in 2008, one new drill under construction and €1.7 million related to the purchase of transportation equipment. Following the agreement reached during the period with the Vendors of the Canadian assets of Connors Drilling, the amount held in escrow in connection with the acquisition amounting to €0.7 million has been released to the benefit of the Company. There is neither remaining outstanding amount nor uncertainties related to Company's prior acquisitions.

Net cash used in financing activities amounted to (€1.7) million. €3.4 million was used to purchase 1.5 million Company shares to meet the Company's obligations under the free share plan and for the purpose of potential acquisitions by the Company. Principal repayments on capital leases and borrowings amounted to €0.9 million. A €0.014 dividend per share was distributed during the period (€0.8 million). The Company drew down €3.3 million from overdraft and short term loans to finance the increased working capital requirement.

As at June 30, 2008, cash and cash equivalents totaled €18.6 million compared to €23.3 million as at December 31, 2007. This decrease was primarily attributable to increased working capital requirement and to the purchase of the 1.5 million of Company shares. The Company's cash investment strategy aims to not take capital risks and to reach a global performance level equivalent to the reference free risk interest rate on the € currency market. Cash and cash equivalents are mainly comprised of €15.5 million of short-term deposits denominated in €.

As at June 30, 2008, net debt to shareholders' equity amounted to €(0.18) compared to € (0.33) as at December 31, 2007, where net debt includes short and long term borrowings net of cash and cash equivalents.

As at June 30 2008, bank overdrafts and short term loans amounted to €6.9 million compared to €3.6 million as at December 31, 2007. The Company had a credit facility of €18.5 million as at June 30 2008, compared to €16.3 million as at December 31, 2007.

Bank guarantees drawn down as at June 30, 2008 totaled €17.5 million, compared to €17.0 million as at December 31, 2007. Available bank guaranteed lines were €33.2 million as at June 30, 2008 and December 31, 2007.

As at June 30, 2008, maturity of financial debt can be analyzed as follows (€000s):

<u>Maturity</u>	<u>Less than one year</u>	<u>Between one and five years</u>	<u>More than five years</u>	<u>Total</u>
Bank overdraft.....	410	—	—	410
Assignment of trade receivables with recourse.....	6,456	—	—	6,456
Bank financing	645	1,228	—	1,873
Capital lease obligations	576	901	—	1,477
Bank loans and debts relating to acquisitions	—	—	—	—
Total financial debt.....	<u>8,087</u>	<u>2,129</u>	—	<u>10,216</u>

The Company believes that it will be able to generate sufficient cash flow to meet its current and future working capital, capital expenditure, and debt obligations.

Cash Transfer Restrictions

The Company operates in a number of different countries where cash transfer restrictions may exist. The Company organizes its affairs so as to ensure that the majority of the payments are collected in countries where there are no such restrictions. No excess cash is held in countries where cash transfer restrictions exist.

Off-Balance Sheet Items

In addition to bank guarantees provided, the Company pledged some of its Canadian assets as described in Note 8 to the Company's unaudited interim condensed consolidated financial statements.

Related Parties

For details on related party transactions, please refer to Note 12 of unaudited condensed interim consolidated financial statements of the Company.

Capital Stock

As at June 30, 2008 the capital of the Company consisted of €910,781 divided into 59,743,000 common shares. The share capital of the Company was distributed as follows:

	<u>Number of shares</u>	<u>%</u>
Common shares held directly or indirectly by principal shareholders	37,535,000	62.83%
Common shares held by individuals in their quality of members of the Board of Directors	20,003	0.03%
Common shares held by the Company*	<u>1,500,000</u>	2.51%
Common shares within the public	<u>20,687,997</u>	34.63%
Total common shares issued and outstanding	<u>59,743,000</u>	

*1.5 million common shares were acquired by the Company from a single foreign shareholder during the second quarter to meet the Company's obligation under the free share plan and for the purpose of potential acquisitions.

Critical Accounting Estimates

The interim unaudited condensed financial statements have been prepared in accordance with IFRS rather than Canadian GAAP and may not be comparable to the financial statements of other Canadian issuers. The Company's significant accounting policies are described in Note 2 to the annual and interim unaudited condensed consolidated financial statements. The Company has obtained from various applicable securities regulatory authorities in Canada a waiver from the technical requirements under the Canadian prospectus rules to reconcile its financial statements in accordance with Canadian GAAP on the basis that it is a "foreign issuer" as defined under NI 52-107.

Litigations

There has been no new material litigation nor any significant change to the Company's exposure to contingencies compared to the year ended December 31, 2007.

Outlook

The Company's business strategy is to continue to grow through the development and optimization of its services offered across geographical regions, industry segments and customers. Foraco expects it will continue to execute on its strategy through a combination of organic expansion and acquisitions of complementary businesses in the drilling services industry.

Risk Factors

For a comprehensive discussion of the important factors that could impact the Company's operating results, please refer the Company's Annual Information Form dated March 31, 2008, under the heading "Risk Factors", which has been filed with Canadian regulators on SEDAR (www.sedar.com).