

FORACO INTERNATIONAL S.A.

Management's Discussion & Analysis

Three-month and nine-month periods ended September 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"). This report has been prepared by management and should be read in conjunction with the Company's quarterly unaudited consolidated interim financial statements for the three and nine-month periods ended September 30, 2008, including the notes thereto. 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 National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* ("NI 52-107"). These quarterly unaudited consolidated 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 November 10, 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 March 31, 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:

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Business Overview

Headquartered in Marseilles, France, Foraco is a worldwide drilling service provider with operations in 18 countries. The Company operates 117 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 and isolated locations, including, arctic, desert and mountainous regions, and generally in circumstances where operations are challenged by logistical matters and geographic barriers. 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.

Interim Consolidated Financial Highlights

(In thousands of €) (<i>unaudited</i>)	Three-month period ended September 30,		Nine-month period ended September 30,	
	2008	2007	2008	2007
Revenue	20,480	20,422	67,745	54,991
Gross profit	6,150	5,867	20,557	15,186
<i>As a percentage of sales</i>	<i>30.0%</i>	<i>28.7%</i>	<i>30.3%</i>	<i>27.6%</i>
Operating profit	3,799	3,648	13,174	8,587
<i>As a percentage of sales</i>	<i>18.5%</i>	<i>17.9%</i>	<i>19.4%</i>	<i>15.6%</i>
Profit for the period	2,404	2,386	8,431	5,320

- Revenue totaled €20.5 million for the three-month period ended September 30, 2008, (€20.4 million for the three-month period ended September 30, 2007). Revenue for the nine-month period ended September 30, 2008 totaled €67.7 million, a 23% increase compared to the nine-month period ended September 30, 2007.
- Gross profit (including depreciation) amounted to €6.2 million for the three-month period ended September 30, 2008, an increase of 5% compared to the three-month period ended September 30, 2007. Gross profit (including depreciation) for the nine-month period ended September 30, 2008 totaled €20.6 million, a 35% increase compared to the nine-month period ended September 30, 2007.
- On September 24, 2008, Foraco acquired Northwest Sequoia Drilling Ltd. (“NWS”), a Canadian company specialized in rotary drilling services (exploration, bulk sampling and coring) for the mining and oil sands industries. NWS made no significant contribution to consolidated revenue or gross profit for the three and nine-month periods ended September 30, 2008.

Results of Operations

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

Revenue

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

(In thousands of € (unaudited))	<u>Three-month period ended Sept 30, 2008</u>	<u>% change</u>	<u>Three-month period ended Sept 30, 2007</u>
<i><u>Reporting segment</u></i>			
Mining & Energy	18,390	8%	16,968
Water, Environmental & Infrastructure	<u>2,090</u>	<u>-40%</u>	<u>3,454</u>
Total revenue	<u>20,480</u>	<u>0%</u>	<u>20,422</u>
<i><u>Geographical region</u></i>			
Africa	8,468	11%	7,634
Europe	1,276	-38%	2,047
Asia Pacific	2,100	16%	1,818
Americas	<u>8,635</u>	<u>-3%</u>	<u>8,923</u>
Total revenue	<u>20,480</u>	<u>0%</u>	<u>20,422</u>

For the three-month period ended September 30, 2008, revenue totaled €20.5 million compared to €20.4 million for the three-month period ended September 30, 2007. The Company's 8.0% revenue growth in the Mining & Energy ("Mining") segment was achieved primarily through increased project activity in Africa and New Caledonia (Asia Pacific). Revenue in the Americas' decreased by 3% mainly due to the cancellation or postponement of certain projects in the Mining segment both in western Canada and the United States. In the Water, Environmental & Infrastructure ("Water") segment, revenue decreased by €1.4 million, primarily due to the phasing out of certain Water drilling projects in Europe.

Revenue derived in Africa increased by 11% or €0.9 million, during the third quarter of 2008, primarily due to large mineral exploration projects in Guinea within the Mining segment. In Europe, revenue decreased by €0.8 million in the Water segment due to phasing out of certain projects and the reallocation of selected equipment to Africa. In the Americas, revenue decreased by €0.3 million primarily as a result of the postponement of certain projects in the Mining segment both in western 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 September 30, 2008 and September 30, 2007 by reporting segment:

(In thousands of € (unaudited))	<u>Three-month period ended Sept 30, 2008</u>	<u>% change</u>	<u>Three-month period ended Sept 30, 2007</u>
<i><u>Reporting segment</u></i>			
Mining & Energy	3,449	0%	3,461
Water, Environmental & Infrastructure	<u>349</u>	<u>86%</u>	<u>188</u>
Total operating profit	<u>3,799</u>	<u>4%</u>	<u>3,648</u>

For the three-month period ended September 30, 2008, operating profit increased by €0.2 million, compared to the three-month period ended September 30, 2007. In the Mining segment, the Company's operating profit was stable (18.7% of revenue) compared to the third quarter of 2007 (20.4% of revenue) where the Company benefited from a particularly strong operating performance on certain projects. In the Water segment, the Company's operating profit increased to €0.3 million in the third quarter of 2008 up from €0.2 million in the corresponding quarter a year ago.

Operating Expenses (Excluding Cost of Sales)

The following table provides a breakdown of the Company's operating expenses (excluding cost of sales), for the three-month periods ended September 30, 2008 and September 30, 2007:

(In thousands of €)	<u>Three-month period ended Sept 30, 2008</u>	<u>% change</u>	<u>Three-month period ended Sept 30, 2007</u> <i>(unaudited)</i>
Selling and marketing expenses.....	641	7%	689
General and administrative expenses	1,710	23%	1,394
Other (income) and expense, net.....	—	N/A	(65)
Share of profit from associates	—	N/A	—
Share based compensation expenses	—	N/A	<u>202</u>
Total	<u>2,351</u>	<u>-6%</u>	<u>2,220</u>

For the three-month period ended September 30, 2008, operating expenses (excluding cost of sales) increased by €0.1 million compared to the three-month period ended September 30, 2007. The increase in general and administrative expenses in the third quarter of 2008 reflects: increased business development activity; ongoing costs related to the public listing of the Company; and initiatives to further strengthen corporate organization and controls. In 2007, the Company granted certain warrants to underwriters in connection with the Company's Initial Public Offering ("IPO").

Financial Expenses

For the three-month period ended September 30, 2008, net financial expenses totaled €0.1 million compared to net financial expenses of €0.4 million for the three-month period ended September 30, 2007. This reflects an improvement in the Company's overall cash position during the quarter. The proceeds from Foraco's IPO were received in August 2007.

Income Tax

In the third quarter of 2008, the effective corporate income tax rate was 35%. In reporting interim financial information, the Company makes its best estimate of the effective income tax rate that is 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 Foraco 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 nine-month periods ended September 30, 2008 and September 30, 2007

Revenue

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

(In thousands of €) (<i>unaudited</i>)	<u>Nine-month period ended Sept 30, 2008</u>	<u>% change</u>	<u>Nine-month period ended Sept 30, 2007</u>
<i>Reporting segment</i>			
Mining & Energy	52,698	33%	39,552
Water, Environmental & Infrastructure.....	<u>15,047</u>	-3%	<u>15,439</u>
Total revenue	<u>67,745</u>	<u>23%</u>	<u>54,991</u>
<i>Geographical region</i>			
Africa.....	32,976	25%	26,455
Europe	5,777	31%	4,418
Asia Pacific	5,237	0%	5,249
Americas.....	<u>23,754</u>	<u>26%</u>	<u>18,869</u>
Total revenue	<u>67,745</u>	<u>23%</u>	<u>54,991</u>

For the nine-month period ended September, 2008, revenues totaled €67.7 million compared to €55.0 million in the corresponding period a year ago. Foraco's Mining segment benefited from favorable general market conditions in the first half of 2008. This trend slowed as a result of the cancellation or postponement of certain projects by some of the Company's junior mining customers in western Canada and the United States during the third quarter. In the Water segment, revenue decreased by 3%, mainly due to the phasing out of certain water drilling projects in Europe.

Revenue derived in Africa increased by €6.5 million, or 25% in the first nine months 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 €1.4 million primarily as a result of solution mining projects. In Asia Pacific, revenue in the Mining segment was flat compared to the same period in 2007. In the Americas, revenue increased by €4.9 million, mainly due to continued strong demand and the deployment of additional new drilling equipment the Mining segment, both in Canada and the United States, during the first half of 2008, offset by reduced exploration activity by junior mining companies during the third quarter of 2008.

Operating Profit

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

(In thousands of €)	<u>Nine-month period ended Sept 30, 2008</u>	<u>% change</u>	<u>Nine-month period ended Sept 30, 2007</u>
<i>(unaudited)</i>			
<i>Reporting segment</i>			
Mining & Energy	10,303	61%	6,386
Water, Environmental & Infrastructure	<u>2,870</u>	<u>30%</u>	<u>2,201</u>
Total operating profit	<u>13,174</u>	<u>53%</u>	<u>8,587</u>

For the nine-month period ended September 30, 2008, operating profit increased by 53% or €4.6 million, compared to the nine-month period ended September 30, 2007. In the Mining segment, the Company's operating profit increased to €0.3 million in the first nine months of 2008 from €6.4 million in the first nine months of

2007. Increased operating profit was primarily as a result of increased business activity and strong operating performance. For the nine months ended September 2008, the Company's operating profit in the Water segment increased 30% to €2.9 million up from €2.2 million in the corresponding period a year ago. Increased operating profit in the Water segment was primarily attributable to deep water drilling projects in Western Africa which resulted in higher operating margins.

Operating Expenses (Excluding Cost of Sales)

The following table provides a breakdown of the Company's operating expenses (excluding cost of sales), for the nine-month periods ended September 30, 2008 and 2007:

(In thousands of €) (unaudited)	<u>Nine-month period</u> <u>ended Sept 30, 2008</u>	<u>%</u> <u>change</u>	<u>Nine-month period</u> <u>ended Sept 30, 2007</u>
Selling and marketing expenses.....	2,084	13%	1,840
General and administrative expenses	5,151	31%	3,936
Other (income) and expense, net.....	148	N/A	(65)
Share of profit from associates	—	N/A	(94)
Share based compensation expenses	=	N/A	983
Total	<u>7,383</u>	<u>12%</u>	<u>6,600</u>

For the nine-month period ended September 30, 2008, operating expenses (excluding cost of sales) increased by €0.8 million compared to the nine-month period ended September 30, 2007. Selling, general and administrative expenses as a percentage of sales increased to 10.7% in the nine-months ended September 2008, from 10.5% in the same period a year ago. This increase reflects: the Company's business development activity; ongoing costs related to the public listing of the Company; and initiatives to further strengthen corporate organization and controls. In 2007, Foraco granted certain free shares to employees and warrants to underwriters in connection with the Company's IPO.

Financial Expenses

For the nine-month period ended September 30, 2008, net financial expenses amounted to €0.1 million compared to net financial expenses of €0.9 million for the nine-month period ended September 30, 2007. This decrease in financial expenses reflects Foraco's overall improved cash position during the period. The proceeds from the IPO were received in August 2007.

Income Tax

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

Effect of Exchange Rate

Foraco reports its unaudited consolidated interim financial statements in Euros ("€"). During the three-month period ended September 30, 2008, the Company earned 54% of its revenue in € compared to 56% for the three-month period ended September 30, 2007. For the nine-month period ended September 30, 2008, the Company earned 62% of its revenue in € compared to 66% in the nine-month period ended September 30, 2007. The majority of the remaining revenue was generated in Canadian dollars ("C\$").

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

The average exchange rate between € and C\$ for the three-month period ended September 30, 2008 was 1.56. As of September 30, 2008, the closing €/C\$ exchange rate was 1.50.

Liquidity and Capital Resources

For the nine-month period ended September 30, 2008, cash generated from operations before changes in working capital totaled €17.4 million compared to €13.3 million for the nine-month period ended September 30, 2007.

For the nine-month period ended September 30, 2008, working capital requirements increased by €1.7 million. This is primarily attributable to the increase in business activity and to increased inventories related to commencement of new projects in Africa.

Net cash flow from operating activities after interest and income tax paid at the end of September 2008 amounted to €2.1 million compared to €0.1 million for the same period of 2007. The Company paid €3.5 million in corporate income tax in the period, compared to €1.6 million in the same period of 2007.

For the nine-month period ended September 30, 2008, cash purchases of operating equipment totaled €0.5 million, compared to €4.0 million in 2007. Capital expenditures included €6.8 million for six new drills and ancillary equipment delivered in 2008, and €2.4 million related to the purchase of transportation equipment. The acquisition of NWS net of cash acquired resulted in a cash disbursement of €4.3 million in September 2008. 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.

Net cash used in financing activities amounted to €5.6 million. €3.4 million was used to purchase 1.5 million Foraco shares to meet the Company's obligations under the free share plan and for the purpose of acquisitions; 1.150 million Company's treasury shares were used to pay NWS vendors. Principal repayments on capital leases and borrowings amounted to €1.4 million. A €0.014 dividend per share was distributed during the period (€0.8 million). The Company drew down €0.1 million from overdraft and short term loans to finance the increased working capital requirement.

As at September 30, 2008, cash and cash equivalents totaled €16.4 million compared to €23.3 million as at December 31, 2007. This decrease in cash and cash equivalents was primarily attributable to: cash consideration paid in the Company's acquisition of NWS; increased working capital requirements; and the purchase of 1.5 million common shares from a single non-resident shareholder, a portion of which were used to fund the NWS acquisition. 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 €10.5 million of short-term deposits denominated in €

As at September 30, 2008, the cash (net of debt) to shareholders' equity ratio amounted to 0.19 compared to 0.33 as at December 31, 2007, where net debt included short and long-term borrowings.

As at September 30 2008, bank overdrafts and short-term loans amounted to €3.5 million compared to €3.6 million as at December 31, 2007. The Company had a credit facility of €6.3 million as at September 30, 2008, compared to €6.3 million as at December 31, 2007.

Bank guarantees drawn down as at June 30, 2008 totaled €17.3 million, compared to €17.0 million as at December 31, 2007. Available bank guaranteed lines were €33.2 million as at September 30, 2008 and December 31, 2007.

As at September 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.....	529	—	—	529
Assignment of trade receivables with recourse.....	2,946	—	—	2,946
Bank financing.....	646	951	—	1,597
Capital lease obligations.....	611	801	—	1,412
Total financial debt.....	<u>4,733</u>	<u>1,752</u>	—	<u>6,485</u>

Exposure to the recent global economic slowdown

Although Foraco experienced some softening in its business activity in the third quarter of 2008, primarily as a result of project postponements or cancellations by junior mining customers, it maintained a steady level of revenue and operating profit. The Company considers that its strategy of focusing on the development of long-term relationships with top-tier mining companies, maintaining a diversified revenue split between various geographical areas and different commodities, will help mitigate the impact of the current economic conditions in its Mining segment. However, given the current economic situation, there is always a risk that additional projects could be cancelled or postponed. Foraco believes its Water segment is less cyclical in nature as the majority of its revenue is generated from large government agencies, such as the European Development Fund and the World Bank. The Company considers that it has a strong financial structure and 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

Foraco 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, Foraco pledged some of its Canadian assets, as described in Note 8 of the unaudited consolidated interim financial statements.

Related Party Transactions

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

Capital Stock

As at September 30, 2008 the capital of the Company consisted of €10,781 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	40,003	0.07%
Common shares held by the Company*	<u>350,000</u>	0.58%
Common shares within the public	<u>21,817,997</u>	36.52%
Total common shares issued and outstanding	<u>59,743,000</u>	

*350,000 common shares are held by the Company to meet the Company's obligation under the free share plan and for the purpose of potential acquisitions.

Critical Accounting Estimates

The unaudited consolidated interim 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 unaudited consolidated interim 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 have been no new material litigations nor any significant changes 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 service offering across geographical regions and industry segments, as well through the expansion of its customer base. 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).